WEALTH DE-ACCUMULATION

WHAT IT IS AND WHY NOBODY WANTS TO TALK ABOUT IT IN PUBLIC

WEALTH DE-ACCUMULATION DEFINED

- The decline of Net Worth of a High-Net Worth Family/Individual over their lifetime
- FOCUS: on wealth accumulation and on wealth transfer
- FACTOR # 1: estate/gift tax uncertainty
- FACTOR # 2: the “lost decade”
- FACTOR # 3: changes in life’s circumstances

1: Estate/Gift Tax Uncertainty

- Many families did substantial gifting in the 1990's when exemptions were much lower. This planning may no longer be relevant. The family may no longer have enough assets to live comfortably, given life expectancy.
- Further, continued estate/gift tax uncertainty makes it difficult for families to plan future wealth transfer

2 The "Lost Decade"

- Look at wealth accumulation projections from say 2000 or 2001. Then laugh or cry, your choice
- Also Life Insurance Product non-performance: Interest rate/investment performance assumptions on product purchased in 1990's up to early 2000's is typically way off the mark

3 Life's Changes

- Longer life expectancy
- Dramatic increase in health care costs
- Dramatic increase in managed care costs
- Effects on poor economy on children's financial circumstances
- Financial support of parents
- Underfunded pension obligations both public and private

What to do About Estate/Gift Uncertainty

- First if “over-gifted” in 1990’s, consider buying assets back using installments sales, paying FLP management fees, substituting other assets for house sin QPRT’s, etc.
- Second if uncertain about the future, utilize extremely flexible estate plans and constantly monitor

What to do About “The Lost Decade”

- Adjust performance and risk expectations
- Focus more on income and less on growth
- Including on dividend-paying equities
- “Alternative Investments;” oh, the promises, be very wary of illiquidity
- Down-size
- LIFE INSURANCE: re-visit relevancy. Also TRUSTEES be aware of your risk if no annual due diligence being performed.

What to do About "Life's Changes"

- "Alternative Investments:" due diligence should focus on counterparty risk, key party risk, succession plan risk, systemic risk. reliability of financial statements,
- Gain access to network of complimentary service providers so that "best of brand" access can be gained, especially in the non-financial sector
- Thus "collaboration" is the key

CONCLUSION

- Wealth De-Accumulation is difficult to talk about and especially to observe. Advisors have historically focused on helping families to build wealth and to transfer wealth/reduce estate tax. The “gap” is this place in between, where a Family has to “spend down” assets on the way to the finish line. Traditional compliance-oriented service models do no good here. Advisors need to gain access to very wide collaboration platforms to really help when wealth de-accumulation is happening.

Case Study

- Basis facts: 2 retired professionals both age 66
- Disability income ended in 2011
- Total net worth $ 18 m
- About $ 12 m liquid, 80% in Qualified Plans
- NEED: Income

Here is what happened all within 12 months

- Investment portfolio from $ 13 m to $ 11.5 m
- Existing RIA exits market into 100 % cash
- Get life insurance letter new premium $33k/yr
- Estate planning att’y says do QPRT
- Mom 103 goes into extended care (0 assets)
- Son 32 gets fired, mortgage exceeds UI
- Taxable benefit trust hasn’t filed in 7 years
- Cost/hassle of disposing of wood is a pain

Things that we did

- Put portfolio out to 6 bids (5 new + current)
- Dropped life insurance DB for guaranty
- Did not do QPRT: real good reason why
- Referred facility in Florida
- Referred 4 law firms + 1 analyst firm: hired!
- Hired CPA to handle, penalty reasonable cause
- Found resource, funny story

New Players

- New investment advisor (COMMENT: 1 candidate self-selected out said "would not take orders," 1 self-selected out ripped existing RIA & other candidates both verbally and in e-mails) with much greater emphasis on "income"
- New CPA to handle taxable trust non-filing
- New life insurance agent
- Same estate planning attorney: "connect" discussion
- Added self-directed IRA custodian
- Added FO that does TD investing (2.5 % of assets)
- Added high-end residence leasing expert
- Added college student who makes beautiful promotional pens from olive tree wood

THANK YOU (any questions?)

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