

*The*  
**3RD ELEMENT™**  
*of*  
**Planning**

A WHITE PAPER



*by*  
Ryan Zeeb, *President*  
The Heritage Institute

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The Heritage Institute • 7724 SE Aspen Summit Drive, Suite 202 • Portland, OR 97266 • 1-877-447-1659

# The 3RD ELEMENT™ of Planning

*In the current market and economy, fortunes will be made and lost. We have dealt with upheavals larger than this in our history, and during those times, some people failed, while others – particularly those who were prepared and who prepared their families – thrived!*

In the midst of all of the chaos, a rare opportunity exists for you to prosper by retaining your “A” clients and receiving introductions from them. In part, that is because in markets like these, clients want action. They want to do something – anything. Some are selling. Smart investors are finding great buys (i.e. Warren Buffett). And others are firing their advisors to feel better. Studies conclude that you will retain your “A” clients – and receive introductions from them – if you build deeper client relationships that go beyond the numbers. Deeper client relationships = client loyalty, and they foster both more business and more introductions from those clients.

*If you are the advisor that helps them through this difficult time, their loyalty to you will increase.*

You know how important it is to differentiate yourself from our competition. Right now, no one is going to differentiate themselves based on market performance. But you can differentiate yourself based on client relationships and helping your clients prepare and protect their families.

Work done by The Heritage Institute supports the results of the relationships studies in over two decades of experience working with clients at all income levels, from average incomes to billion dollar estates. If you have a deep relationship with a client, they will be loyal, bring you more business, and introduce you to more people. Or, stated another way, deeper client relationships result in making more money working with fewer people, and making a bigger difference in their lives.

*Studies confirm the importance of relationship*

In 1995, a Harvard study determined that ‘satisfied’ clients defect. Only ‘completely satisfied’ clients are loyal.

In 2004, Russ Alan Prince surveyed clients and determined that, on average, your clients have 8 core values. If the client perceives you know all 8 of their core values, they will entrust 100% of their assets with you and make 4.1 introductions. If they perceive you know 5 of their core values, they will entrust 72% of their assets with you and make 1.7 introductions. And, if they perceive you only know 2 of their core values, they will entrust 50% of their assets with you, but not make any introductions.

Then, in 2005, a study by Allianz found that leaving a legacy was far more important to clients than leaving an inheritance, and that 77% of both “boomers” and their parents rated “values and life lessons” as the most important legacy they could receive or leave.



*Studies show that memories are more important than money.*

Only 10% of boomers said that financial assets or real estate were important as an inheritance. The study concluded that money is a ‘minor’ component of legacy to parents and their heirs. “Many people wrongly assume that the most important issue among families is money and wealth transfer – it’s not,” said Ken Dychtwald, a gerontologist, and designer of the survey. “What we found was the memories, the stories, the values were 10 times more important to people than the money.”

Still, many financial professionals approach the client's situation from a purely financial perspective. "What is your net worth?" "How much money do you want to pass on to your children?" and "How should we plan to minimize your estate taxes?" Are those questions important in the context of the services the client needs? Of course. They always will be important. However, context is everything in building deep, meaningful relationships with clients, the kind that can help them to achieve the success that they really want for themselves and generations of their heirs. If we have learned anything from studies and experience, it is that planning for the future of the client's money is not the same as planning for the future of their family. And, when people define real success in the context of what they want for their children, grandchildren and generations to come, money is just about the last thing they mention.

*Two kinds of inheritance*  
We receive and pass on two kinds of inheritance, not one.



*The emotional inheritance is a powerful, multi-generational experience.*

The first, the financial inheritance, is the one with which we are most familiar. It is the one around which advisors have built their practices for centuries. But, the studies tell us (as hard-earned experience tells those of us who have been at this business for a few years) that there is a second, more important inheritance that we also receive and pass on. That is the emotional inheritance, the sum total of the values, stories, life lessons, and family traditions to which the Allianz study refers.

Emotional inheritances are different for every person, and unique to every family, but, they can be discovered, shared and folded into planning.

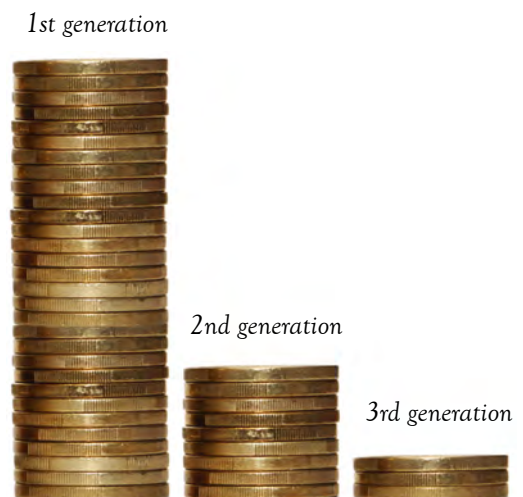
We know that passing values and life lessons to future generations is the key to success for families who have kept their family and fortunes together for generations. It has been the key for centuries.

*9 out of 10 plans fail. They always have.*

You have probably seen or heard about the studies that conclude that 90% of the time family fortunes are lost by the end of the 3rd generation. And, this is not new. Since ancient times, the majority of inheritance plans have failed. Two thousand years ago a Chinese scholar penned the adage: "*fu bu guo san dai*," or "*Wealth never survives three generations.*" In thirteenth century England they said "*Clogs to clogs in three generations*," and in nineteenth century America the expressions became "*From shirtsleeves to shirtsleeves in three generations.*"

And, over 200 years ago, Adam Smith - of "specialization and division of labor" fame - summed it up in "The Wealth of Nations" when he said: "*Riches, inspite of the most violent regulations of law to prevent their dissipation, very seldom remain long in the same family.*"

Many cultures. Thousands of years of history.  
One common tradition of failure.



Which raises the obvious questions:

- If 90% of families fail to keep the family and its fortune together for more than 3 generations, what do the other 10% do differently? And,
- What would it mean to your relationship with your clients (and your practice) if you could help your clients be part of the 10% who succeed?

The difference for the 10% is not in their financial or estate planning. The difference is that they have a 3rd element to their planning, described by Jay Hughes and others as **heritage planning**.

They prepare their family for their inheritance.

In our own situation, we studied what has worked in successful families for centuries and put it into what we call The Heritage Process;<sup>™</sup> a 6-step process that advisors use to guide their clients through heritage planning. This process allows them to build deep relationships (the kind the experts talk about) with their clients, and provide what they want most, which in turn increases the advisor's client retention, increases the business they receive from their existing clients, and increases the number of quality introductions they receive from those clients.

#### Where Heritage Planning Fits

In the early 1980's, nearly all estate planning was done with Wills. (Which by the way, had not changed substantially in form or purpose since the year 1540, when King Henry VIII of England codified estate planning and inheritance custom into the system that would be used for nearly 400 years!)

Trusts were generally believed to be applicable only to very large and complicated estates.

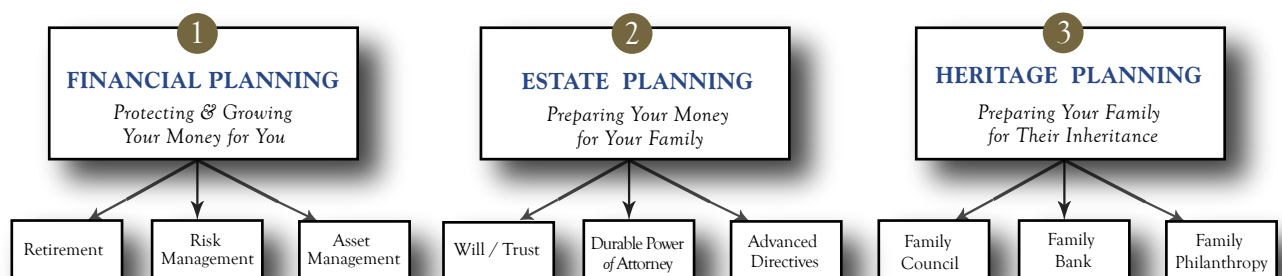
In the mid-1980's, Bob Esperti and Renno Peterson formed the National Network of Estate Planning Attorneys with a goal to "Change how America Plans" to use Living Trusts and avoid probates in even modest estates. The group grew quickly; in the late 1980's, there were less than 90 members. Within 10 years, the Network had grown to over 1,500 members, and Living Trusts were becoming the norm in all estate plans.

The National Network of Estate Planning Attorneys helped change the way America did its estate planning; which was a wonderful accomplishment. But, we still didn't complete how America plans. Now, with the increasing recognition of the importance of better relationships between advisor and client, and bolstered by numerous studies and practical experience validating the 90% inheritance failure rate, it is clear that there are not 2, but 3 elements to successful planning:

- **Financial Planning**, which prepares and protects the assets for the client;
- **Estate Planning** which prepares the assets for the client's family; and
- **Heritage Planning**, which prepares the client's family to receive their inheritance.

All are vital to successful planning. You and your clients have probably done a great job of financial and estate planning. But, have you helped your clients prepare their families for the inheritance they will receive as a result of the financial and estate planning you have done?

### HOW THE 3rd ELEMENT FITS INTO THE CLIENT'S PLANNING



*A powerful question*

Here is a wonderful idea for a client conversation. Ask them, “if you could look 50 years into the future and see a gathering of your family, what would you like to see going on, and what would you like to hear them talking about?” Most people know what they would like to see: healthy, independent, successful individuals for whom family unity and a common vision are paramount values. (As you can imagine, it’s also easy for them to envision what they wouldn’t want to see—family strife, individuals struggling with divorce, addiction, business failure, etc.)

Once they have answered the question, ask, “So, where in the planning documents that you have done to date have you made provisions for those outcomes?” Expect a moment of silence. The fact is, most people (90%, according to the studies!) have made no such provision as part of their planning. I would argue, therefore, that the better you are at financial and estate planning, the more important it is that you help prepare your client’s inheritors for the inheritance they will receive.

As the Allianz study points out, this is the most important outcome that people want from their planning. It is also what has helped the ‘successful’ 10% keep family and fortune together across generations, including through war, depressions and every other kind of economic and political upheaval—including times so rough that today’s market and economy rollercoaster looks tame by comparison.

Providing your clients with the 3rd element of planning has nothing to do with rates of returns or the latest, greatest flavor-of-the-month product, tool, or strategy. It is about building relationships with those you want to work with.

By adding this 3rd element to your planning – the element of preparing the inheritors for their inheritance – you are giving your clients and their inheritors what they want the most.



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The Heritage Institute  
7724 SE Aspen Summit Drive, Suite 202,  
Portland, OR 97266  
1-877-447-1659  
[ryan@theheritageinstitute.com](mailto:ryan@theheritageinstitute.com)