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WEALTH OF KNOWLEDGE

NEWSLETTER COVERING THE WEALTH CONTINUUM

3 Key Considerations for Multi-Generational Planning

The desire for heads of family to preserve and continue wealth for future generations face challenging odds. According to studies by Victor Preisser and Roy Williams, in their book "Preparing Heirs," almost 70% of family wealth transference and business succession plans fail. However, it does not have to be this way. With proper planning and focusing on three key things—communication, documentation, and initiation—families can strengthen multigenerational relationships and increase chances of continued family legacy.

The most essential factor to facilitating successful transference of wealth is communication. In order to have healthy conversations, a foundation of trust needs to be established. Ideally, it is advised to hold family meetings to facilitate these conversations. Ground rules should be established to ensure every family member will be listened to and that differences in opinions will not be judged. This applies not only to younger generations but for family leaders as well. When families create structured discussions with an agenda or pre-determined discussion points, there is less chance of catching a family member "off guard," as this allows family members time to process information beforehand.

Family conversations should be meaningful and include discussions on the values shared by the family as well as traditions and family history. Education is a critical component of the conversation. Education can take on many forms, whether it is basic financial literacy, an understanding of how family wealth is invested, a better understanding of the family business, or the philanthropic goals of the family. For younger family members, understanding their role and expectations for them going forward will help develop good stewardship of future wealth and less breakdown in communication and misunderstandings.

Family meetings have been an integral part of the Rockefeller family. Twice a year, all family members aged 21 and older, and their respective spouses, participate in the family meeting. According to David Rockefeller Jr., "The family talks about its direction, projects, new members and any other family news related to careers or important milestones. It's important that everyone feel a part of the family, even if they married into it."

Yet you need not be a Rockefeller to benefit from multigenerational planning. According to a Cerulli Associates study, "U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2018: Shifting Demographics of Private Wealth," aging generations are expected to pass on $68 trillion in assets within the next 25 years. With notable inheritances to pass on to descendants, a real need for generational wealth planning exists.

In conjunction with the family meetings, it is important for things to be documented. I encourage families I work with to memorialize the key aspects of the family legacy. As time passes, it can be difficult to recollect information or stories that occurred years prior. Having it documented provides a gift for future generations to be able to share with their offspring.

Key discussion points should also be documented, especially related to estate planning. Estate planning documents include wills, durable powers of attorney, and advanced medical directives. Families have evolved from years ago to reflect a modern view of the family entity, including blended families from previous marriages. With that said, it is often desirable to have strategies in place to ensure family wealth flows the way the family wishes. Trusts can be an effective means to help facilitate desired estate planning outcomes. Trusts are also helpful with minor children, family members who need assistance with spending and budgeting, as well as those with disabilities or addictions. Lastly, a letter of instruction, which is not a legal document, can accompany a will to provide instruction and a reflection of personal thoughts and wishes.

Lastly, in the words of the behemoth footwear and apparel company Nike: "Just do it." Yet as simple as this sounds, a small percentage truly give their children a full picture of what they stand to inherit. There are a variety of reasons for this, ranging from the anxiety of broaching the subject, determining the appropriate age to have financial conversations, not wanting to create entitlement, to the stigma of the discussion of death itself. The impact of not having the conversations can create negative consequences, such as family discord or even financial ruin in some circumstances.

Leveraging your trusted partners, such as your Wealth Advisor, Financial Planner, CPA, and Estate Attorney, can help structure and facilitate these meetings and conversations. Having guidance from professionals can help initiate difficult conversations, provide objectivity, and provide effective and creative strategies that are appropriate for the family's specific situation.

With statistics revealing the dismal odds of passing family wealth on to generations beyond grandchildren, the importance of proper multigenerational planning cannot be over emphasized. It begins with conversations that encompass candid conversations around family values, goals, and objectives. By engaging in family meetings where education and honest dialogue can be conducted on a regular basis, the odds ever increase in favor of the family. Leaning on trusted advisors to help facilitate meetings and conversations, as well as developing a good estate plan, are crucial steps to making family wealth last.

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Pandemic Relief Measures and Your Tax Return

Two emergency relief bills passed in 2020 in response to the COVID-19 pandemic will make this an unusual tax season for many taxpayers. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed in March, and a second relief package was attached to the Consolidated Appropriations Act, 2021, in December.

The following provisions may affect many households when they file their personal tax returns for 2020. You might consult a tax professional who can explain the changes and recommend strategies to help reduce your tax liability for 2021.

Recovery Rebate Credit Most U.S. households received two Economic Impact Payments (EIPs) from the federal government in 2020. They are not taxable because technically they are advances on a refundable credit against 2020 income taxes.

The CARES Act provided a Recovery Rebate Credit of $1,200 ($2,400 for married joint filers) plus $500 for each qualifying child under age 17. The second bill provided another $600 per eligible family member.

Any individual who has a Social Security number and is not a dependent generally qualifies for the payments, up to certain income limits. The amounts are reduced for those with adjusted gross incomes (AGIs) exceeding $75,000 ($150,000 for joint filers and $112,500 for heads of household) and phase out completely at AGIs of $99,000 ($198,000 for joint filers and $112,500 for heads of household).

In order for the money to be delivered quickly, eligibility was based on 2019 income tax returns (or 2018 if a 2019 return had not been filed). Eligible taxpayers who did not receive two full payments, possibly due to errors or processing delays, may claim the money as a Recovery Rebate Credit on their 2020 tax return. Households that reported a lower AGI in 2020 (or added a dependent) might be eligible for additional funds. To calculate the credit, filers will need to know the amounts of any payments they already received. The credit amount will increase the refund or decrease the tax owed, dollar for dollar.

Taxpayers who received two full payments don't need to fill out any additional information on their tax returns.

Coronavirus-related distributions Another measure in the CARES Act allowed IRA owners and employer-plan participants who were adversely affected by COVID-19 to withdraw up to $100,000 of their vested account balance in 2020 without having to pay the 10% tax penalty (25% for SIMPLE IRAs) that normally applies prior to age 59½.

Still, withdrawals from tax-deferred retirement accounts are typically taxed as ordinary income in the year of the distribution. To help manage the tax liability, qualified individuals can choose to spread the income from a coronavirus-related distribution (CRD) equally over three years or report it in full for the 2020 tax year, with up to three years to reinvest the money in an eligible employer plan or an IRA.

Taxpayers who elect to report income over three years and then recontribute amounts greater than the amount reported in a given year may "carry forward" the excess contributions to next year's tax return. Taxpayers who recontribute amounts after paying taxes on reported CRD income can file amended returns to recoup the payments.

Qualified individuals whose plans did not adopt CRD provisions may choose to categorize other types of distributions — including those normally considered required minimum distributions — as CRDs on their tax returns (up to the $100,000 limit).

Last year was unpredictable, and your financial situation may have been far from normal. As always, CNB Wealth Management's financial planning team is here to answer any questions you may have.

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Welcoming Charles Cox to CNB Wealth Management

Charles joined CNB Wealth Management in January 2021 as Vice President, Planning Advisor. He brings over 10 years of experience in the financial services industry. Prior to his current role, Charles served CNB in various retail banking capacities, most recently as Vice President, Financial Advisor serving the Rochester region.

Charles is located at Basin Park Financial Center and may be reached at (585) 419-0670, ext. 41033 or at CCox@CNBank.com.

1180 WHAM Ask the Experts

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Our professionals are featured on radio talk show, "Ask the Experts", to discuss a variety of financial topics. The show is broadcast on WHAM 1180 in the Western NY region, Saturdays at 8:00 pm. Those who reside outside of the region can listen online at wham1180.com.

CNC Shareholder Corner

Virtual Annual Shareholder Meeting

Wednesday, April 21, 2021 at 1:00 pm

For login information, please refer to your Proxy arriving later this month.

Documents can also be found at CNBank.com/ShareholderRelations.