



CINDY L. STEEB, JD, SENIOR MANAGING DIRECTOR, TRUST ADMINISTRATION SERVICES CLEARSTEAD

## TRANSITIONING WEALTH ACROSS GENERATIONS USING A FAMILY TRUST COMPANY

BY CINDY L. STEEB, JD, SENIOR MANAGING DIRECTOR, TRUST ADMINISTRATION SERVICES, CLEARSTEAD

Estate planning can be a daunting activity for many business owners and wealth creators. Creating trusts, which require the owner of the assets to give up dominion and control to a trustee who then makes decisions related to those assets, can stop estate planning from moving forward. With this in mind, the trustee decision is a difficult, yet critical, one.

In Ohio, one option families have is creating their own corporate trustee to serve trusts set up for their specific family lineage. A Family Trust Company ("FTC") must be "owned" and "controlled" by family members—even allowing the trust grantor (who sets up the trust)—to sit on the Board as well as certain committees.

An FTC can be a great tool for wealth transfer and building a strong future for younger generations within the family. In my book, *Preserving Multigenerational Wealth: How a Private Family Trust Company Can Promote Family Harmony & Positive Family Dynamics*, I provide numerous case studies and examples of how families are using FTCs to enhance their estate planning.

In this ClearPoint, I plan to share one specific example to demonstrate how an FTC can benefit families transitioning a family business or wealth across multiple

### IS A FAMILY TRUST COMPANY RIGHT FOR YOUR FAMILY?

As a successful business owner, you want to ensure that your assets and family business are maintained well into the future. Clearstead can help you decide if a private family trust company ("FTC") is a planning technique that works for you.

We can help you understand the nuances of an FTC, including:

- How an FTC can offer benefits based on your unique needs
- How FTCs differ from other financial planning and wealth transfer techniques
- How there are different types of parties involved and trusts to consider

You can find resources and articles about these topics on our website: <https://www.clearstead.com/family-trust-company-administration-services/>

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generations. We will look at the fictitious Garcia family—although based on a compilation of current client structures—to illustrate how the benefits of setting up an FTC come to life in real-world scenarios.

## FAMILY CASE: THE GARCIAS

The Garcia family members are owners of a commercial real estate company with the first-generation family members eager to begin transitioning ownership to the second generation. After careful consideration, they have set up an FTC to assist in their estate planning for the multigenerational transition of the real estate company. Each section below describes various reasons why they chose an FTC.

### ***A Seat at the Table***

In traditional trust arrangements, where family members are not always directly involved, beneficiaries may often feel like passive recipients of wealth, potentially leading to misunderstandings and strained family dynamics. However, in an FTC, beneficiaries are encouraged to be involved in various decision-making opportunities.

With their FTC in place, the Garcia children (part of the second generation) are on the Board that regularly meets to discuss stewardship of the family assets as trustee. They each serve on a committee aligned with their personal interests, such as the investment or education committees. This engagement not only ensures transparency within the family but also avoids conflicts that can arise when beneficiaries feel excluded. Family working together through the FTC also provides opportunities for them to build trust among each other as they meet regularly with the opportunity for open dialogue.

### ***Shareholder Transition Planning***

The Garcias also use their FTC to plan for the next generation's involvement. The FTC helps facilitate the smooth transfer of ownership to the younger members of the family. By setting up trusts, they have gradually transferred beneficial ownership of the shares over time, allowing the children to learn about the business without the burden of direct ownership. This structured approach ensured that the business continued to thrive as it was passed to the next generation.

### ***Family Control***

Since the FTC Board comprises family members, the Garcias make key decisions about the FTC's investments and shareholder matters, such as electing directors of the business board. Moreover, the Garcias established committees with family advisors and trusted individuals who understand the family's history and long-term vision.

### ***Estate Tax Mitigation***

The Garcias utilize their FTC to act as trustee for smart estate tax strategies, such as establishing Dynasty Trusts to hold ownership of the family business across generations without the burden of estate taxes. By developing a gifting plan of moving shares into trusts that utilizes valuation discounts such as lack of marketability and control for a family business, they significantly reduced their estate tax liabilities, ensuring more of their wealth stays within the family for generations to come.

### ***Trust Administration***

Managing multiple family trusts can be complex. But the Garcia's FTC streamlines trust administration, ensuring continuity and transparency. Plus, by pooling resources across family trusts, they reduce trustee costs. Since their FTC does not have a large profit motive, they can prioritize the family's best interests and maintain limited liability for family members and trusted advisors serving in the FTC.

### ***Trustee Succession***

With the help of trusted advisors, the Garcias have a well-thought-out trustee succession plan, ensuring seamless oversight of family member trusts over time. As the FTC acts as the perpetual trustee, they have standardized the family's trustee succession plan across individual family member trusts. This approach guarantees the ongoing stewardship of family wealth and assets by both family and advisors.

### ***Privacy and Confidentiality***

Protecting their financial affairs and asset details is a top priority for the family. Their FTC offers privacy and shields them from public probate proceedings by ensuring family members place ownership of the family business in trusts. Unlicensed

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(or unregulated) FTCs like theirs are not subject to state-government oversight or audits by banking regulators, which ensures a confidential and secure environment for managing sensitive information.

## ***Institutionalized Fiduciary Management***

The Garcias understand that removing administrative burdens from individual family members serving as trustees is vital. Their FTC does just that, allowing family members to focus on other priorities. Formal policies and procedures standardize the beneficiary experience, ensure proper documentation of fiduciary decisions, and protect the integrity of trust planning. By getting comfortable with giving up dominion and control of the family ownership, since they trust that the FTC is aligned with their vision, grantors like the first-generation family members avoid potential estate-tax complications.

## ***Safeguarding Family Values***

For the Garcias, integrating their family's values into both the trustee and beneficiary relationship is essential. Their FTC's wealth strategies align with the family's core principles, including facilitating philanthropic endeavors that reflect their charitable goals. This ensures that their wealth is used not just wisely, but also in a way that reflects their deeply held values.

## ***Increasing Transparency***

The Garcias have established formal governance structures within their FTC, fostering communication and collaboration among family members. This proactive approach encourages transparency around trust structures and promotes unity and consensus around shared objectives, ultimately having the potential to reduce conflicts that can arise from misunderstandings or disputes.

## ***Facilitating Multi-Generational Involvement***

With their FTC, the Garcias actively engage the rising generations in wealth management. They provide educational opportunities for financial responsibilities, knowledge about the family business, and introduce trusted or long-term advisors across generations, ensuring the preservation of institutional knowledge. New advisors can have a seat at the table to learn about the senior generation's values and intentions for the trusts they have created ensuring continuity across generations.

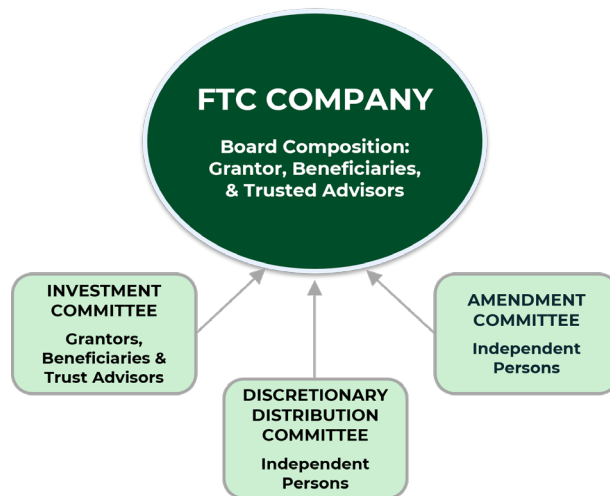
## ***Flexibility with Wealth Strategies***

The Garcias value the flexibility that their FTC offers. It allows them to customize investment strategies, adapt to changing economic conditions, continue family beneficial ownership of the family business, and accommodate evolving family needs. With varying perspectives on the family and its wealth, their FTC ensures that everyone's input can be considered, offering opportunities for alternative investing options, and maintaining closely held assets.

## PROMOTING FAMILY HARMONY

As you can see, FTCs offer an array of advantages, ensuring the smooth transition of assets across generations, reducing estate tax liabilities, and safeguarding family values. FTCs can bring clarity to governance structures and encourage multi-generational involvement. Like for the Garcia family, FTCs can become guardians of family legacies, promoting unity and continuity across generations.

Additional information about FTCs and case studies showing how they can help families preserve wealth can be found in my book. Please reach out to us if you would like to request a copy of the book. If you want to discuss if an FTC may be an appropriate solution for you and your family's wealth strategy, be sure to reach out to your Clearstead advisor to learn more.



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## MARKET BENCHMARK RETURNS

May 31, 2024		1M	3M	12M	YTD
US Large Cap	S&P 500	5.0%	3.9%	28.2%	11.3%
US Small Cap	Russell 2000	5.0%	1.1%	20.1%	2.7%
Developed Intl	MSCI EAFE	3.9%	4.5%	18.5%	7.1%
Emerging Intl	MSCI Em Mkt	0.6%	3.5%	12.4%	3.4%
Real Estate	NAREIT	5.2%	-1.2%	9.4%	-4.3%
Core Fixed	BarCap Agg	1.7%	0.0%	1.3%	-1.6%
Short Fixed	BarCap 1-3Yr	0.7%	0.8%	3.9%	0.8%
Long Fixed	BarCap LT G/C	2.8%	-1.2%	-1.9%	-5.1%
Corp Debt	BarCap Corp	1.8%	0.5%	4.0%	-1.1%

Source: Bloomberg

The performance data shown represents past performance. Past performance is not an indicator of future results. Current performance data may be lower or higher than the performance data presented.