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# How to Run the "Family Bank"

December 16, 2013, 5:12 P.M. ET

By Robert Milburn

Family can make life richer—unless, of course, it makes you poorer. That's the unmistakable message from a new Merrill Lynch retirement study, called "Family & Retirement: The Elephant In The Room." The findings suggest that wealthy individuals are often quick to help financially strapped members of their extended families—often at the expense of their own financial security. These generous souls can be left high and dry later on when their health-care bills start piling up.

The folks at Merrill gave Penta an exclusive look at its survey of 303 high net worth individuals—people with at least $5 million in investable assets—a group culled from a broader retirement survey by the firm. The results show that a significant number of people in this bracket act as the "family bank": About half say their extended family turns to them for financial help, versus 21% of the survey's total population.

Strikingly, Merrill Lynch's data suggests that America's wealthiest are two times more likely than others to be hit up for cash by struggling relatives. And the sums involved are hardly trivial: The average person in the study gave $313,200 to family members in the last five years. Many of the respondents saw such giving as a moral obligation— some 86% or respondents say that they provided financial support to their relatives because "it was the right thing to do."

Laudable as that may be, wealthy folks have a number of priorities that must be factored into their long-term plans—like philanthropy, passing wealth to the next generation or the cost of funding their grandkids higher education. All of that must be carried out in a tax-efficient manner, and if mishandled could seriously strain the family fortune. "It's important if you are the family bank to make sure it's well capitalized," says Andy Sieg, head of retirement solutions for Merrill Lynch. The costs can quickly eat into your other funding needs, he points out.

The study's findings should be a wake-up call for high-net worth wealth creators, many of whom have yet to open a real dialogue with their relatives about their wealth. For one-third of those surveyed, discussions of a family's finances were triggered by a death or illness of a loved one, while 32% have yet to discuss with their adult children issues like net worth, post-retirement living arrangements, inheritance or long-term care.

It's important, Sieg says, that the beneficiaries of the family's wealth be at the table, so they understand the consequences of over reliance on Mom and Dad. Instilling a sense of accountability for the family fortune can keep relatives at bay while the family sits down and properly assesses all the essential financial needs for their future.

One of these financial necessities is long-term medical care. Ken Dychtwald CEO of [Age Wave] and co-author of the Merrill study, points to a number of statistics perhaps underestimated by soon-to-be retirees. Only 37% of people think they will one day need long-term care, while studies show 70% do. Furthermore, the average cost of long-term care, including medical costs, for a typical couple older than 65 is about $300,000. By giving so generously to relatives, Dychtwald says, a wealthy individual may have unknowingly given away their funding for long-term care.

The study has forced Merrill Lynch to rethink how it interacts with its clients, says Sieg. The firm's advisors now ask a client if they have given money to their relatives in the past five years. The advisor then invests for these long-term cash flow needs, incorporating other priorities like philanthropy and medical care. It's a bucket-based approach that socks money into different portfolios for different needs—say, one for your conservative long-term portfolio, which may incorporate funding for your retirement or the grandchildren's college education, while a riskier bucket perhaps cashes in gains to fund charitable organizations. The practice is widely used, says Sieg, but it is most effective when it anticipates all a client's financial needs; hence the importance of planning to be the "family bank."

The key takeaway: Secure your own financial future before dolling-out cash to relatives. Rule #1 should be not to become victim #2.

Original URL: http://blogs.barrons.com/penta/2013/12/16/how-to-run-the-family-bank/