

STRATEGY PROFILE

CLIENT SUITABILITY

- Families trying to reward behaviors of beneficiaries that are consistent with the family's vision and values
- Settlers trying to foster distribution of trust funds in a manner that rewards gainful employment, realization of educational goals, involvement in appropriate charities, commitment to parenting children and/or other socially beneficial goals

HYPOTHETICAL RESULT

- Discourages excessive dependence on trust payments
- Encourages completion of college degrees, gainful employment, involvement in charities, etc.
- Helps give beneficiaries a spiritual and emotional inheritance before they receive a financial inheritance

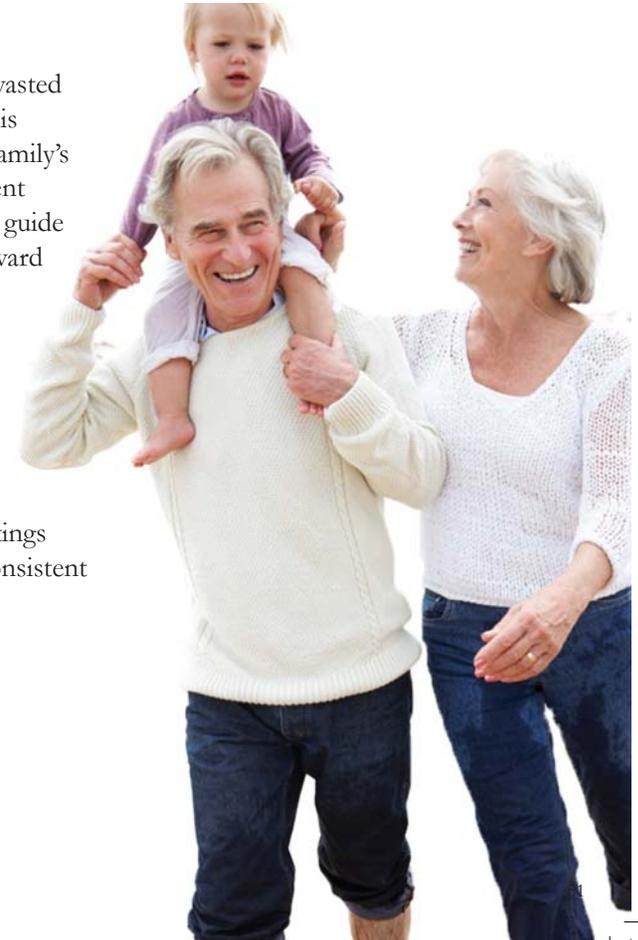
Incentive Trusts

OBJECTIVE: To motivate beneficiaries with incentive provisions in trusts.

Thomas and Virginia Smith are concerned about studies showing that 80% of the heirs of wealthy families will dissipate the family's wealth by the third generation. They fear that the age-old concept of "shirt sleeves to shirt sleeves in three generations" will still apply in their family. At their country club, they see how many first generation members have "fire in their belly" and great entrepreneurial zeal, but the second generation members seem content earning business degrees and merely maintaining the wealth. Of greater concern is the fact that the third generation often includes many individuals who are content to work as golf pros, artists, ski bums, creative types, perennial students, active vacationers, and others who will eventually consume the family's wealth.

The Smiths believe that they can beat the 80% odds of wealth being wasted if they pass on their values along with the value of what they own. This process begins with clarifying their values in a clear statement of the family's vision and mission. These statements can guide the wealth management process and provide clear character principles and written priorities to guide beneficiaries. Moreover, the trustees can use objective standards to reward responsible heirs and discourage heirs who do not uphold the family's values.

To unite families around clear values, and to help heirs appreciate the wisdom of honoring the family's core values, the Smiths hired a wealth counselor to lead annual meetings. In these gatherings, the family clarified which behaviors would be rewarded. While Thomas and Virginia, the patriarch and matriarch, were alive, these family meetings provided outstanding opportunities to affirm and reward behaviors consistent with the values that made the family successful.

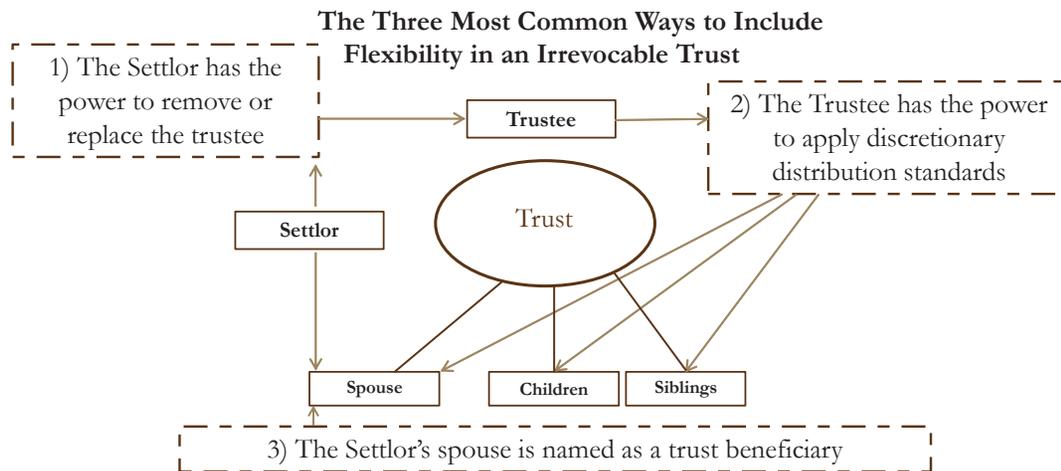


Motivating Heirs with Incentive Trusts

A wealth counselor attending the family meetings can affirm important values and establish a process for perpetuating the family's values in future generations. Ideally, this process involves crystallizing core values into a document that clarifies which values should be encouraged and which should be discouraged. Typically, a family will have a few paragraphs about promoting education, philanthropy, as well as savings. Likewise, the family should maintain a document that discourages misguided consumption, self-destructive behavior, and unfocused charity.

A wealth counselor can work with the family's attorney to add paragraphs about the above topics into trust documents that will guide trustees and heirs after the patriarch and matriarch are no longer able to preside over family meetings. Unlike traditional discretionary trusts, which provide for discretionary distribution decisions pursuant to broad or narrow standards, the incentive trust uses objective and inspiring language to encourage beneficiaries to meet designated standards of desirable behavior. An incentive trust is designed specifically, not only to provide funds to the beneficiary for one or more stated purposes, but to cause the beneficiary to carry on values consistent with the family's core values or the unique gifting of the beneficiary.

An incentive trust, if used improperly, can be legalistic and stifling for the beneficiaries. Wealth counselors, attorneys, and family leaders must guard against using rules rather than relationships to guide heirs. Fortunately, qualified wealth counselors know how to promote encouraging relationships during family meetings and then capture the essence of this encouragement in incentive trust document language. By working with a qualified wealth counselor, heirs can understand core values more clearly. Just as importantly, they can work with a wealth counselor to maximize the likelihood of the incentive trust provisions inspiring heirs across the generations.



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