The "Integration" in Integrated Wealth Management: *How Does It Work in Practice?*

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Close to a decade ago, a challenge was put forth to those serving wealthy families: in the future, the best advisers to families would be those who developed a cross-disciplinary expertise that would include at least the legal, tax, accounting, investment, fiduciary, lending, and insurance fields. Over the years, that list has expanded to include other services such as family succession planning, education of the next generation about their roles and responsibilities, business risk management, and concierge services, including private travel, security, and bill paying to mention a few. The exciting reality is that many individuals advising families have risen to that challenge posed so many years ago and are working holistically with families today—families of both entrepreneurial wealth and inherited wealth. Those advisers are the ones practicing what is now called "integrated wealth management." This article first will highlight the characteristics of the integrated wealth management adviser, then will explain how such an adviser goes about performing integrated wealth management from a practical standpoint, and finally will describe the team needed to implement integrated wealth management successfully over the long term.

THE INTEGRATED ADVISER

Not all advisers want to practice integrated wealth management.[1] Some are interested in simply being specialists and focusing on their respective areas of expertise. Others are initially intrigued by practicing integrated wealth management but soon lose interest after they understand the time and commitment required to do so effectively. To be what we have referred to as an integrated wealth management adviser requires both a number of innate characteristics and a commitment to acquiring and maintaining an extremely broad knowledge base and skill set.

Those who have become successful integrated advisers tend to exhibit certain common characteristics. These advisers possess

- a fundamental drive to solve problems
- a healthy dose of natural curiosity, so that fresh ideas are continually generated
- a broad range of interests, many in the areas commonly touching client families
- superior listening skills and empathy—integrated wealth management is about the client and doing what is best for him or her
- a good measure of jaundice and a lack of contentment with the status quo
- a willingness to make hard, thoughtful decisions
- a strong sense of self, so that when working as a team member, the adviser can admit to being off-base if necessary and can give others credit before himself or herself.

In addition to these innate characteristics, successful integrated advisers develop and

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maintain a wide range of managerial and professional skills. Foremost, these advisers possess superior organizational skills and are detail oriented, because advising wealthy client families requires managing voluminous amounts of deadlines and data produced by their structures, as well as keeping track of the activities of individual family members. Integrated advisers can also not only prioritize the normal daily flow of projects, client needs, and so on; more important, when certain bumps in the road are encountered (and bumps are always encountered regardless of how they arise), these advisers can separate "issues" from "problems."[2]

Additionally, integrated advisers possess material levels of competency in each of the following technical areas: state and federal income and transfer taxation; investment theory; lending practices; insurance; property laws, including marital rights; and accounting. Moreover, the integrated adviser likely has important experience in certain adjunct areas, including family governance, philanthropy, education, and performance reporting. Finally, integrated advisers often have had useful exposure to the structuring of commercial transactions and the litigation process, and almost all have substantial experience in dealing with trusts and estates, usually garnered through working with a few multigenerational families whose circumstances are truly complex.[3]

To those aspiring to be such an adviser, all this may seem somewhat daunting.[4] Indeed, individuals who possess the requisite personality traits are not common, and the necessary skills are usually developed only over a significant period of time—often not less than 10 years. However, becoming an integrated adviser is an attainable goal. It requires a commitment of time (measured in years) and a well-kindled desire to improve. It also likely requires an adviser to change how he or she approaches serving client families and to adopt a methodology that may be substantially different from how he or she currently operates. That methodology is described in what follows.[5]

THE FAMILY'S GOALS

Making a family's goals a reality is the primary charge of the family's team of advisers and the ultimate purpose of integrated wealth management. The first step on that path for the integrated adviser is to ascertain a family's goals, if those goals have already been developed, or to assist a family in developing those goals, if they are yet to be formulated.[6] (As discussed next, this process, of course, occurs with critical assistance from key family members and other members of the family's advisory team.) Then, the integrated adviser must assist the family in prioritizing those goals and, to the extent of conflicts, harmonizing them if possible.

Likely, there will be goals in common amongst the various families an adviser counsels, and we have found that a family's goals typically touch on several, if not all, of the following areas:

- current and expected annual cash flow requirements[7]
- wealth preservation
- tax planning—both minimizing current income taxes and reducing transfer taxes[8]
- financing capital needs
- developing human capital
- educating family members (about the family's history, goals, strategies, etc.)
- others, including philanthropy and risk management.

In our experience, three of these areas are (or should be) paramount: cash flow, tax planning, and developing human capital. Of these, cash flow (including budgeting) is likely the most important initial goal for client families and their advisers. From the adviser's perspective, cash flow has a significant impact on a family's wealth over time and is one of the primary factors in determining how much risk should be taken in a family's portfolio when that portfolio is designed.[9] From a client's perspective, personal budgetary needs or cash flow requirements can be entirely different depending on various family dynamics: whether the client family is one of entrepreneurial or inherited wealth; whether the cash flow requirements are high or modest relative to the current asset base; and whether the cash flow is derived from safe, stable sources such as liquid assets or more reliant on distributions from a potentially cyclical family-operated business.

For example, the entrepreneur may still be working and capable of generating sufficient current income to support his or her family's lifestyle. In contrast, a family accustomed to meeting their needs with trust distributions and assets passed down from previous generations may evaluate the situation differently. The family balancing assets in their taxable estate and assets in irrevocable trusts that will escape transfer taxes might consider (usually at the adviser's suggestion) where they can minimize or eliminate distributions from those trusts and look

to other sources for their needs. The ability to accumulate income and compound growth more rapidly within a trust that will pass to future generations can be very appealing to certain families. Still other heirs may take the opposite view: the next generations are already going to receive ample assets, and therefore we (the other heirs) should enjoy all trust distributions to which we have access. Thus, even though cash flow planning is a goal for all families, the integrated adviser stands in a central position to assist client families in designing their cash flow goals to be as efficient as possible given each family's unique circumstances.

When it comes to wealth appreciation versus preservation, again different families adopt different priorities. Families who have lived with a concentrated holding for generations may feel strongly about retaining that legacy asset. In our experience, families who have grown up with wealth of that type may believe it will always be there, because it has been in the past. In the case of those families, the task of the integrated adviser is more challenging because it means assisting (or convincing) a family to develop a goal of diversifying out of its legacy asset. However, a freshly minted multimillionaire in the Silicon Valley or Seattle is more than likely counting the days until the end of the lock-up period on his company stock when he can sell his first shares in the open market. Innovators who have earned financial rewards for their determination or creativity often seek ways to more deliberately preserve their asset once it has been liquefied. For these families, the task of the integrated adviser is easier in the sense that these clients are typically already inclined to diversify their assets.

Tax planning is another common goal. Assisting a family in developing a goal of minimizing income taxes is a relatively easy task for the integrated adviser. We have found that savvy clients are already highly aware of income tax planning (likely because that tax has the most immediate impact on them) and have already learned to adapt to changing income tax environments: they are aggressively harvesting long-term capital gains while the rate is only 15% to diversify their historic, low-basis portfolios; they are enjoying the benefits of a 15% tax rate on qualified dividends to finance more expensive projects or purchases during this fiscally favorable window; they are encouraging advisers to avoid recognizing short-term capital gains unless circumstances absolutely warrant it; and they are using appreciated securities for personal charitable giving.

Similarly, entrepreneurs who may have experienced the benefits of leverage in their business may look to translate that experience into personal lending practices, simply to take advantage of an income tax deduction. They will typically borrow a $1 million mortgage to avail themselves of the home mortgage interest deduction and also borrow against portfolio securities to invest in other assets assuming the spread on returns is sufficiently advantageous. On the other hand, those of inherited wealth may seek the peace of mind of owning their homes outright, despite the tax advantages of deducting mortgage interest. Again, assisting client families in setting their goals with respect to income tax planning will depend in large part upon the personalities of individual family members, and the goals developed may vary widely.

In any event, reducing income taxes should not be the only tax planning goal of client families. The integrated adviser must also assist client families in planning to reduce transfer taxes.[10] For example, well-advised entrepreneurs plan carefully where to "house" their wealth as they are accumulating it or anticipating the possibility of financial success.[11] For younger family members, they set up trusts and partnerships early so that they can own assets whose growth potential has yet to be fully realized. Moreover, they often have the pertinent documents drafted so that the entrepreneurs personally, rather than younger generations, can shoulder any income tax burden generated by those assets.[12] Because reduction of transfer taxes is not foremost in most clients' minds—after all, death is not a pleasant topic—this issue usually must be raised (and re-raised) by the family's advisers as a goal worth pursuing.[13]

Finally, human capital development and the related topic of family education are rightly becoming a higher priority for most families, regardless of whether those families are of entrepreneurial wealth or inherited wealth. Preparing families to deal with their wealth, enabling younger generations to find ways to be productive and lead meaningful, satisfying lives, and teaching the next generations to be stewards of wealth are all serious topics on the minds of many matriarchs and patriarchs. However, because the focus on these topics is relatively new to families of wealth, family advisers are well situated to ascertain what services the marketplace can provide to address these topics and, by leveraging their experience, can share with client families what strategies have been successful for other families in educating and developing the human capital of their family members.

This discussion provides a flavor of some common goals that families will likely develop with assistance from their advisers. For the integrated adviser, regardless of the

goals finally developed by a client family, the adviser's focus should be on the process of developing and prioritizing a family's goals. Like so much else, the success of making family goals a reality depends in large part upon creating and following a thoughtful process that facilitates not only developing goals but evaluating how those goals are being achieved or are going to be achieved.

EVALUATING A FAMILY'S STRATEGIES AND METHODS

Once an adviser has ascertained a client family's goals or has assisted the family in developing its goals, it is the adviser's role to survey the strategies and methods employed or to be employed by the family to accomplish the goals set out. By "strategies," we refer to the "game plan" that, if successful, will enable a family to realize its goals. For example, if one of the family's goals is wealth preservation in light of increasing risk of litigation, then asset protection planning may be one strategy utilized to achieve that goal. By "methods," we are referring to the mechanisms or tools that are used to implement a strategy. Continuing with that example, if the strategy to be implemented is one of asset protection, then the methods of doing so could be the creation of an offshore asset protection trust, retitling assets into joint names of husband and wife, or gifts to family members engaged in lower-risk activities.[14]

Surveying the strategies and methods employed or to be employed in achieving a family's goals is a necessary step in the process of integrated wealth management. Note that this process should be carried out regardless of whether the adviser is serving a new client family whose goals, strategies, and methods were established long ago and need to be reconstructed or whether the client family has expressed a new goal to its advisers and has charged them with the responsibility of designing new strategies and methods to accomplish that goal. Such a survey enables the adviser to locate each strategy and method in the context of the goal it is designed to accomplish.

When surveying a client family's strategies and methods, one seeks to understand the salient characteristics and features of those strategies and methods. Because new strategies and methods are being invented in the marketplace with increasing rapidity, any checklist of features one would want to review would be quickly outdated, and thus we have not endeavored to provide one. Nevertheless, at the end of the survey process, one should be able to identify the goal to be accomplished, the strategy designed to accomplish that goal, the method(s) employed to effect that strategy, and the important characteristics of those methods.[15]

EXHIBIT 1

Family's Goal	Strategy	Method	Important Features
Wealth Preservation	Asset Protection Planning: Create a Nest Egg	Offshore Asset Protection Trust	Creator: client husband (for example) Income tax status: grantor trust during husband's life; may need to return to United States after death of husband because of accumulation trust status Gift tax status: incomplete gift Distribution recipients: spouse and descendants only Distribution standards: best interests only in Trustee's discretion Assets: fully diversified portfolio of equities and fixed-income securities

For example, continuing with the wealth preservation goal of the family that is concerned with a general increase in litigation risk, in conducting his or her survey, the integrated adviser would produce the equivalent of Exhibit 1. Armed with information such as this, the integrated adviser would be able to evaluate a strategy and the methods that have been (or will be) employed to accomplish the client family's goals—evaluation, of course, being the end-product of the entire exercise. Only once each strategy and method has been surveyed and located in the context of the goal it was (or is being) designed to accomplish can the adviser perform a proper evaluation of the strategy and its methods.

Let's review a family who recently became a client. In the early 1990s, the matriarch of this family had created a charitable lead annuity trust (CLAT). After confirming with the matriarch that the intention of creating that trust was to fund the activities of the family's private foundation and to make a gift

ultimately to her children, we dissected the strategy.[16] From the trust document and the matriarch's gift tax returns, we determined that the CLAT was funded with $2.5 million in November 1993, when the AFR was 6%; it was to pay $100,000 to charity twice a year (i.e., $200,000 annually) for 20 years, and any remaining assets at that time were to pass to the children. From this, we determined that the matriarch was deemed, at the time of the trust's creation, to have made a gift to charity of 96% of the trust assets ($2,400,000) and a gift to her children of 4% ($100,000). We also knew that the current value of the CLAT was $3,600,000, that 50% of the trust's portfolio was concentrated in two highly volatile asset classes, and that only $1,600,000 of annuity payments remained. Accordingly, we concluded that even if the CLAT were to convert all of its assets to cash and experience no real growth over the next 8 years, it would still pass approximately $2,000,000 ($3,600,000 less $1,600,000) to the matriarch's children in today's dollars—well in excess of the $200,000[17] projected by the IRS.

The analysis we performed for the trustees of the CLAT was whether, given the success so far achieved in meeting the family's goals for the trust,[18] the trustees wished to reduce the amount of risk inherent in their portfolio in order to "lock in" more of that success. In other words, we ascertained the client family's goals when they created the CLAT; we then surveyed the strategy and methods used to achieve those goals, and from this we assisted the trustees not only in evaluating the progress they had achieved so far but also in reevaluating one of the methods they had chosen to implement the strategy, namely holding 50% of the portfolio in two volatile asset classes. In the end, the trustees determined to fully diversify that 50% portion.

It is important to note that an integrated adviser performs such an evaluation first in the context of the particular goal that the strategy and its methods are designed to accomplish and then within the context of all of the client family's goals. The purpose of an evaluation in that larger context is to determine whether a particular strategy and its methods (even if they are accomplishing the goal for which they were designed) conflict with or potentially complement another of the family's strategies or goals. Moreover, an evaluation—in both the narrow and broader contexts—should be revisited periodically to establish whether changed circumstances or the passage of time have caused the strategy or methods employed to become less effective or even counterproductive.

Finally, as one can surmise, surveying a strategy and its methods and then performing an evaluation like that detailed here requires a solid grounding in various substantive areas: tax and charitable planning as well as investment theory. It requires working knowledge of charitable lead trusts—how they function mechanically, what they are designed to accomplish, and their tax characteristics—as well as knowledge of modern portfolio theory and how to apply Monte Carlo simulations to specific client cases. However, as knowledgeable as any of the advisers in that case were, the evaluation described here was a collaborative effort among key family office members who had institutional knowledge of the facts, in-house tax counsel, the family's investment advisers, and key family members who were willing to spend time understanding the issues and making an informed decision. In other words, surveying and evaluating a family's strategies and methods is a team effort.

THE FAMILY'S TEAM

Until now, this article has discussed the practice of integrated wealth management as if it were conducted by a single (almost mythical) "integrated adviser." However, as noted, as talented as a single adviser may be, the complex family nevertheless requires a strong, deep team of experts in a variety of fields, and most often a family looks to the following professionals for advice: attorney, accountant, banker, investment adviser, insurance broker, trustee, family office staff, and bookkeeper. For example, the role of attorney may be filled by a lawyer specializing in corporate law or estate planning. The trustee may be a corporate fiduciary, family member, or trusted business colleague. The bankers may be comprised of lenders, custodians, trust administrators, and possibly portfolio managers, and the investment adviser could be a consultant, portfolio manager, or broker.

As important as professional training and deep technical skills are to a successfully operating team, equally important, if not more so, are the personalities of the team members. Like the integrated adviser discussed earlier in this article, certain common personality traits are exhibited by members of the best teams. For example, those members are problem solvers and can separate "issues" from "problems." Those members are also self-confident and can allow others to take charge if necessary and not be threatened by loss of control. Importantly, strong organizational skills are required by all team members. If one team member is weak in this regard, that weakness affects

the workflow and thus the quality of the work product of the other team members, whose schedules may be thrown into disarray.

With this number of potential players on the stage, and given the importance of team members providing work product when promised, one can see how such a team could quickly become unwieldy and potentially unmanageable if someone is not in place to coordinate all the participants and divergent disciplines. Indeed, in many situations where integrated wealth management is practiced effectively, there is one individual or firm that serves as "conductor" (or "Master & Commander" as Duncan [2003] recently put it) to coordinate client details, deadlines, data, etc. In our view, this "conductor" or "Master & Commander" role is a necessary one. That person will endeavor to work closely with family and team members to keep them apprised of all work being done, deadlines being met, and goals yet to be fulfilled.

Note that the teamwork required for successful integrated wealth management is not the sole province of the professional advisers. Key family members also need to be part of the team. Their participation is not limited to goal setting but also includes meeting with team members on a regular basis so that the entire team is kept apprised, for example, of developments and changes in a family's circumstances. Moreover, those key family members serve as important liaisons between the professional team and other family members, so that those family members will have a better understanding of what is happening and of the collective thinking process of the team members who are striving to make the best decisions.

CONCLUSIONS

Fortunately for families of wealth and complexity, and for those of us who endeavor to be integrated advisers, the wealth management industry is moving in the direction of holistic wealth management, and all involved are recognizing the value of becoming more knowledgeable and a greater resource. For example, brokers are becoming more focused on the tax implications of their trading practices; lawyers are becoming more educated about asset allocation, diversification techniques, and asset location; and investment advisers are seeking professional designations in areas concerning the issues faced by the families they serve. Over time, the integrated adviser will become someone who can read (and understand) trust and partnership agreements; has a strong working knowledge of the current income and transfer tax codes; understands a variety of different investment strategies, as well as asset allocation theory, so that he or she can recommend suitable strategies for planning vehicles; discuss risk from a personal and business perspective; and coordinate the goals the family has set out to achieve, as well as the details involved.

Nevertheless, integrated wealth management is a process, and that process cannot be achieved by a single person, no matter how talented. In addition to plain hard work and time, it requires the focus and cooperation of multiple family members and a team of diverse and dedicated professionals all contributing to the process.

Ultimately, the practice of integrated wealth management will prove its worth one family at a time. However, for the integrated adviser, and for each family with whom an adviser has the opportunity to work, their knowledge and experience will accumulate over time. It will be the leveraging of this knowledge and experience in a thoughtful, creative, and objective manner that will differentiate the integrated adviser from the sea of wealth management professionals serving families today and, more important, that will improve the quality of service experienced by client families.

ENDNOTES

[1]This term was popularized by Jean Brunel [2002] in his work *Integrated Wealth Management*, and advisers such as Cliff Quisenberry and Scott Welch [2005] are applying that discipline, for example, in the context of concentrated stock positions.

[2]By this we mean not engaging in hyperbole or being alarmist but, at the same time, not sugar-coating serious matters and instead being blunt when necessary.

[3]A colleague once said: "You are only as good as your clients are demanding and complex." That statement has proved true over time.

[4]It may also seem daunting to those clients seeking to engage such an adviser.

[5]Others have offered similar methodologies for integrated wealth management. For example, Brunel [2002: 15] describes the process as understanding opportunities and issues, planning a strategy, implementation, and supervision. Regardless of the terminology used, all methodologies can be distilled into three questions: Where do I want to go? How do I get there from here? And (after a period of time has passed) am I progressing?

[6]Assisting clients in developing goals often requires assisting clients in understanding what opportunities are available to them.

[7]Contrary to historical practice, the integrated adviser is primarily concerned with cash flow, rather than "income." The integrated adviser understands that the client is concerned only

with "spendable" dollars in his or her checking account, and, therefore, the integrated adviser is concerned with raising cash in the most tax efficient manner possible. "Income" and "principal" (even though they are concepts that must still be addressed—especially in the trust context) are fundamentally out of place in the world of total return.

[8]By transfer taxes, we are referring to federal estate, gift, and generation-skipping taxes. States, of course, may also impose a transfer or inheritance tax.

[9]Using Monte Carlo analysis, advisers can illustrate for clients the impact that various cash flows have on the family's wealth, especially during times of poor performing markets. See generally Peterson and Welch [2000].

[10]Again, this collectively refers to federal estate, gift, and generation-skipping taxes.

[11]This, along with other strategies, is often referred to as "asset location."

[12]This is in effect a tax-free gift of the income taxes paid.

[13]Given that the estate tax is not likely to be repealed, then the highest estate tax duty may still be imposed at a rate of 40% or above. A 40% ultimate tax undermines a great deal of portfolio return.

[14]For an in-depth discussion of devices to be employed in achieving asset protection, see Spero [2005].

[15]One should be cognizant of the fact that with the passage of time what is important may change. One of the functions of such a survey is to enable the efficient and periodic reevaluation of a strategy. Thus, the survey needs to provide the adviser and the team with quick access to what is important.

[16]In this case, the CLAT was a non-grantor trust for federal income tax purposes. From this, we knew that a charitable deduction for the grantor against income tax was not part of the rationale for creating the trust (as it would have been in the grantor trust context with, of course, recognition of income by the grantor over the life of the trust).

[17]A sum of $100,000 in 1993 dollars is approximately $200,000 in 2013 dollars, inflated at 3.5% annually.

[18]Recall that those goals were to provide funding to the client family's private foundation and to give excess assets to the matriarch's children at the end of the trust term.

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