BERNSTEIN

Wealth Beyond Measure

Insights from Global Families

Introduction

We are thrilled to present Wealth Beyond Measure, a deep dive into the complex world of family, wealth and purpose. Bernstein's UHNW Team has worked extensively to bring you this in-depth study, drawing on our decades of experience helping families navigate the transfer of wealth-related values and knowledge.

During our interviews, we had the privilege of speaking with 40 families from every major US region as well as all corners of the globe. Through these conversations, we gained invaluable insights into the challenges and opportunities faced by families as they manage their wealth, business and family dynamics. We listened intently to their stories, perspectives and concerns, and we are honored to share their wisdom with you.

Our in-depth study is not just a collection of quotes and anecdotes. It is a thoughtful analysis of the issues that matter most to UHNW families, complemented by our own expertise and advice from nearly 60 years of managing private wealth. We hope that these insights will offer you a meaningful glimpse into some of the world's most successful families.

At the heart of this special report is a desire to foster learning and connections among our clients. We know that many of you are eager to learn from each other, and we are honored to facilitate this exchange through Wealth Beyond Measure.

We would be remiss if we didn't express our deepest gratitude to the families who shared their stories with us. We recognize that these are deeply personal subjects, and we are humbled by the trust you have placed in us to report with discretion, neutrality and emotional intelligence. Thank you for your partnership and for helping us create thought leadership that we hope will be of great value to families for years to come.

Very best regards,

Anne Bucciarelli, CFA
Senior National Director, Family Engagement Strategies

Rick Meyers
Executive Managing Director, Head of Client & Advisory

Aaron Bates
Senior National Managing Director, Head of UHNW & Growth Strategies

Bernstein's UHNW team consists of a dedicated group of professionals with experience and training in helping families explore the transfer of wealth-related values and knowledge. Through directed exercises, the team helps uncover what matters the most, and the least, to the families with whom we work. Our experts conduct facilitated conversations and family meetings, ensuring that voices are heard, expectations are managed and key findings are incorporated into strategic plans—including family governance, business succession, educational programs and wealth strategies.

Global Families

Global families navigating generational wealth face additional complexity given the unique set of challenges and opportunities they face:

- Multiple jurisdictions for assets (investments, operating companies and real estate) that impact the creation of a comprehensive strategy that meets the needs of various branches and family members.
- Reporting issues stemming from tax and regulatory compliance that may influence relocation decisions. One family member's reporting obligations may trigger inclusion of shared family assets, heightening the need for consensus prior to residency changes.
- Logistical considerations that complicate communications or the ability to gather across geographies and time zones (e.g., making it difficult to hold regular family assemblies). Family members raised or living in different countries may hold different cultural views that shape their priorities. This can make uniting around a shared vision for the family's wealth more challenging.
- Heightened geopolitical risks and volatility, driving concerns around risk management and diversification. This can be seen in several ways—whether in a tilt toward a home bias in investing or even the location of family offices.

These factors compound the complexity ultrahigh-net-worth families face around successful family governance, trust and estate planning, philanthropy and investments.

Multiple Jurisdictions

A persistent theme that arose in our interviews was the need to manage wealth for beneficiaries—whether current or future—across multiple jurisdictions. What's more, most families are not static and existing structures may be impacted by changing domiciles of individual family members. Issues can often arise when a trust established in one jurisdiction isn't recognized in another, or when the tax status of a trust's current beneficiaries differs from that of future generations.

> A persistent theme was the need to manage wealth for beneficiaries across multiple jurisdictions.

One family in its 4th generation spoke to its creeping geographic scope, and the resulting needs and challenges that have arisen as a result. *"Some people are migrating—many, many years ago to the US. But there's some of the third generation that are in the States and Europe."* With several operating businesses, geographic complexity has complicated ownership in the business. *"One of the shareholders lives in the States—he's a US citizen nowadays. The rest of the shareholders are all Costa Ricans, but in the next generation there are going to be more shareholders in other countries and with other nationalities as well."* What's more, many of the family's estate planning structures were established over a decade ago, and the family conceded that a review was long overdue—especially given changing tax jurisdictions for members of rising generations.

Another Singapore-based family noted that their two sons live in the UK. *"Singapore's very easy…there's no capital gains tax, there's no tax on interest, there's no inheritance tax. But my youngest son who is about to get married and has a child has been in the UK since he went away to school in 2009. He is going to become a resident, and that raises issues for the trust. It's not a particularly effective way to give people money in the UK anymore—he would be taxed at 45% on any distribution from the trust. So, we're actually going through a process…relooking at the trust in light of some beneficiaries likely to be UK-based."* Regarding several entities that are in place—a Singapore company, a BVI company or the trust—the father observed, *"I'm actively thinking through here's what we've got. Are they worth the hassle anymore? Yeah, you get some divorce protection and credit protection…So it makes me think."*

Ultimately, the family was questioning the overall plan in light of changes in the tax policy in the UK.

Reporting Issues

Compliance with global tax reporting obligations can be challenging for families with shared assets. Collaboration is key to avoiding unintended outcomes—especially as the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS) have heightened the need for transparency. For instance, when a global family with business interests and investments acquires a US beneficiary, a range of complexities may arise for the family and its fiduciaries.

Consider one of the Latin American families we interviewed, who operated a business based in the region. One of the family members, Louisa,[6] held an ownership interest in the enterprise while attending graduate school in the US. She considered staying in the US after graduation and marrying her partner, a US citizen. If she became a US taxpayer, she would be subject to US reporting requirements on her worldwide assets.

The family considered restructuring the ownership of the company to remove Louisa's voting control and reduce her ownership stake below the US reporting thresholds. However, the matter would resurface when she eventually inherited her family's share of the enterprise. Ultimately, she decided to leave the US after graduating though she did marry her US citizen partner. Because their children will be US citizens, these issues will likely need to be revisited in the future.

A family whose members are subject to differing tax and reporting requirements would be well advised to put a structure in place to monitor changes in the relevant landscape, along with an approach to navigate these decisions and their impact on the family dynamic.

Communication

Logistical challenges can arise when communicating across geographic boundaries and time zones, making it difficult to hold regular family assemblies. Additionally, family members raised or living in different countries may have different cultural perspectives that shape their priorities. This can make uniting around a shared vision for the purpose of a family's wealth more challenging.

At the same time, many families share similar concerns when approaching their first intergenerational wealth transfer. Often, the wealth creator worries that their guiding principles—such as self-reliance, hard work and innovation—may not manifest in the next generation, who benefited from growing up with the newly created wealth. Geographic or cultural differences between generations can amplify these questions.

Consider Armin,[6] a wealth creator who emigrated to Dubai during the Iranian revolution. After years of struggle, personal sacrifice and hard work, Armin made his fortune in oil. He is now preparing his sons–both of whom went to school in the US and currently live in California–to take on new responsibilities within the family structure. However, he is now facing an 11-hour time difference, making meaningful conversations around the family business challenging. One of his sons has married a US citizen and is planning to start a family. How can Armin effectively communicate his values about the family wealth and where it came from despite such starkly different life experiences?

With the help of his trusted advisors, Armin began sharing the family's rich history through facilitated conversations. While not practical for every meeting, Armin traveled to California for the initial sit-down with his sons. He realized that to date, he had kept his experience in the revolution very private, focusing mainly on the success of his company–rather than the important life lessons learned during his struggles.

The family also engaged in a values exercise to articulate the guiding principles that each held most dear. This two-way communication enabled the sons to share their own values. Through governance–and engaging in a dialogue around shared values–the family raised awareness on both sides, established a shared mission statement and laid the foundation for regular family meetings. While several meaningful decisions remained outstanding, such as the family's business succession plan, establishing more open communication in a structured environment provided a path to enhanced governance.

Currency

High-net-worth families with members spread across the globe tend to face a unique challenge with currency exposure, as they regularly spend in multiple countries. Compounding the issue, investors often favor familiar assets. After all, "invest in what you know" is a common refrain. And in certain cases, there are valid reasons for sticking close to home—such as when all future expenses will be incurred in your local currency. But those who reside in emerging or frontier markets, while avoiding investments in developed markets, must brace for a trade-off: typically, a lower return per unit of risk.

The challenges of multiple jurisdictions, tax and regulatory reporting requirements, currency differences and communication across geographies and cultures make a cohesive governance strategy imperative for successful global families. By maintaining flexibility, working with specialized tax and legal experts and establishing a framework for communication and decision-making, global families can leverage their unique circumstances to achieve multigenerational success.

Keeping track of the jurisdictions and laws that impact family members and family wealth is essential for global families. See our Mapping the Global Family Worksheet for help creating a road map of your family's situation.

6 Names and other small details have been changed for privacy purposes.

Mapping the Global Family Worksheet

Global families face an additional layer of complexity when navigating generational wealth, yet figuring out where to start can be challenging. Keeping track of the jurisdictions and laws that impact family members and family wealth is essential to proper planning and preparedness. This will allow families, through governance and wealth planning, to preemptively address issues before they arise. Without communication and governance, the actions of individual family members may inadvertently subject the broader family to added complexity and tax exposure. But before a family can agree on the appropriate governance mechanism, they must understand the various factors at play.

A good place to start is by mapping out the exposures and subsequent requirements stemming from various jurisdictions.

1. Starting with a family tree, for every individual family member, consider the questions below around citizenship, residence and/or immigration status.
2. Once completed, focus on the family assets and existing structures. Compile a professional advisory team to address local issues for each jurisdiction, including related reporting requirements, relevant local laws (forced heirship, matrimonial regimes) and tax exposure.

Mapping out the Family Tree by Citizenship and Residence

For each family member, note:

- Country of origin—Where is the family member from?
- Current tax residence?
- Do they hold multiple citizenships?
- What are the citizenships of the spouse and children (if applicable)?
- If US connections, see US Immigration Status.

US Immigration Status

Note Any Permanent Residents/Green Card Holders:

- If the family member has a green card, when was it first issued?
- What are the family member's intentions regarding the US? Is there a plan to leave at some point or is the intention to remain indefinitely?
- Is the family member in the process of applying for a green card?

Note Any Immigration Visas:

- What type of visa does the family member in the U.S. hold (i.e., L-1 professional visa, EB5 foreign investor visa, F-1 student visa, etc.)? How long has the family member held it?

Note Any Expatriate—Has the family member given up his/her citizenship or green card? If so,

- Did the family member need to pay an exit tax?
- Does the family member know whether s/he is a "covered expatriate"?

Mapping Out Assets

For each asset, note:

- Location.
- Ownership structure:
  - held directly in a family member's name or via an entity (trust, partnership, LLC, corporation)?
  - If an entity, where is it located?
  - Is there any debt or margin financing?
- For every Trust/Company, note the relevant jurisdiction and who are the fiduciaries/directors controlling the entity.

Source: Bernstein

Quantifying Trade-offs for US-Connected Families

Global families, along with their fiduciaries, must understand the unique tax and legal regimes applicable to the same structure across jurisdictions—and plan holistically to optimize the family's global wealth.

Consider Emilia and Katherine,[7] two sisters in their 70s who both live in the UK. The family's assets are held both in the UK and in an offshore trust created by their grandfather, the first-generation wealth creator. While each branch had sufficient UK wealth to handily sustain their spending, they still received all the trust's annual net income, subjecting it to UK income taxes.

Emilia's daughter had recently married an American citizen and relocated to Florida. As a member of the fourth generation, she would not become a current trust beneficiary until her mother's passing. In the meantime, the sisters sought to enhance the family's access to wealth over time. In order to do so, we considered both the US and UK tax implications of the trust in our holistic planning.

Given that the trust lacked detailed records from inception, the family's tax advisors concluded that distributions from the trust exceeding the trust's distributable net income (DNI) would be treated as previously accumulated but undistributed net income (UNI). As such, they would be subject to throwback taxes and interest charges going back to the trust's inception if distributed to a US beneficiary. Practically speaking, this meant tax efficient access to the trust by members of the US branch of the family would be limited to DNI.[8]

After exploring each side of the family's unique circumstances and values, we determined that Emilia and Katherine could sustain their lifestyle by spending their UK situs assets without support from the trust. Their UK legal advisors agreed that any funds not repatriated would not be taxable to them in the UK.

To help the sisters gauge the economic and financial implications, we used Bernstein's Wealth Forecasting System to illustrate the potential after-tax spending the trust could support if income was accumulated in the trust for a period of twenty years. The analysis helped the family to assess how accumulating income now would impact the US beneficiaries' access to future wealth.

By agreeing to cease distributions to the UK beneficiaries during Emilia and Katherine's lifetime, we projected that the $10 million earmarked for Emilia's daughter would grow to $34.1 million over 20 years, at which point the trust's DNI would be able to sustain $271,000, in today's dollars, in after-tax annual spending. The foreign trust could distribute the DNI to a domestic US trust for Emilia's daughter's benefit after 20 years, which would provide access to $52.3 million of onshore wealth for the US beneficiaries by year 40 with $44.3 million remaining in the trust and available for distribution to the UK beneficiaries.

If the family waits 30 years to begin distributions, the foreign trust would grow to $65 million—which would sustain a level of spending that is 26% higher. Waiting an additional 10 years (to year 40) would increase sustainable spending by 59% to $432,000. Notably, these figures only continue to grow with time (*Display*).

The family ultimately agreed that the accumulation of wealth outside of the UK (i.e., not paying annual UK taxes on income that wasn't needed in the UK) would allow the wealth in the trust to grow, eventually giving the US beneficiaries tax-efficient access to more wealth through DNI distributions. In the end, this proved to be a much better economic strategy for all branches of the family.

GROWTH OF TRUST ASSETS OVER TIME

Median Outcome*
Initial Assets—USD 10 Million (100% Equities)

*Assumes Foreign Nongrantor Trust (FNGT) accumulates for 20 years, then distributes DNI (realized income and capital gains) to US Trust each year. US Trust is subject to top marginal federal taxes and Foreign Trust is not subject to any taxes. To the extent that there are US sourced dividends in FNGT, withholding would apply, which would reduce the benefits of the FNGT from what is illustrated.
Based on Bernstein's estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of future results. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here.

HOW MUCH SPENDING CAN THE FOREIGN TRUST SUPPORT IN THE FUTURE?

Sustainable Annual Spending from Foreign Trust, Assuming in the Future*
USD Thousands, After-Tax and Inflation-Adjusted with 90% Confidence

*Sustainable spending on projected growth of the portfolio prior to spending, assuming 90% confidence levels and 40 years of spending once spending commences (e.g., in 20 years means from year 20 to 60). Assumes 100% global equity allocation in accumulation and spending phases. Spending is after-tax and adjusted for inflation. Assumes DNI distributions are made to a US Trust each year where taxes are paid, and after-tax proceeds are available for spending. To the extent there are funds left over after spending each year, funds are assumed to be invested in the US Trust and used for potential spending shortfalls in future years. Amounts depicted do not reflect annual DNI; they reflect sustainable spending that could be sourced from the US Trust that receives annual DNI distributions. See Notes on the Bernstein Wealth Forecasting System for further details.

About the Respondents

40
interviews

60%
have family businesses

$100 Million to $4 Billion
net worth

2/3
have a family office structure in place

1/4
organized around an operating business

Spanning from wealth creators and small family branches to 8th-generation families with **400+** family members

Demographics

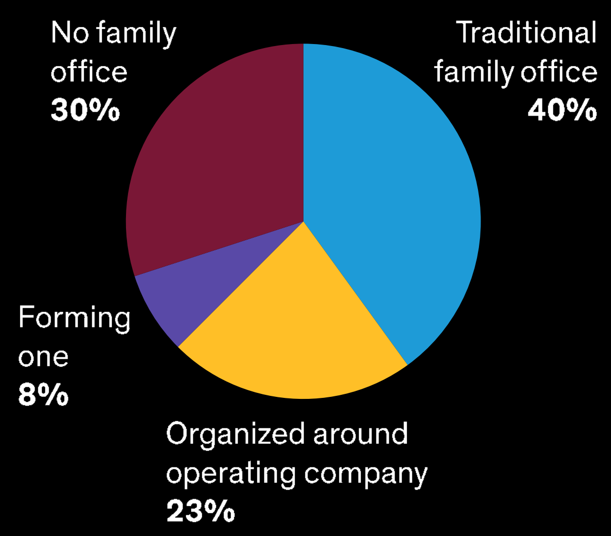
General	Value
# Interviews	40
Total Net Worth	$23.5 Bil.
Average Net Worth	$586 Mil.
Median Net Worth	$1.0 Bil.

Location	People	Percent
North America	27	67.5
Latin America	6	15.0
Europe, Middle East, Africa	5	12.5
Asia	2	5.0

Source of Net Worth	People	Percent
Consumer	7	17.5
Manufacturing & Industrial	6	15.0
Technology	5	12.5
Financial Services & Investments	5	12.5
Real Estate	4	10.0
Logistics	3	7.5
Government Contracting	2	5.0
Oil & Gas	2	5.0
Agribusiness	2	5.0
Automotives	1	2.5
Entertainment	1	2.5
Pharmaceuticals	1	2.5
Diversified	1	2.5

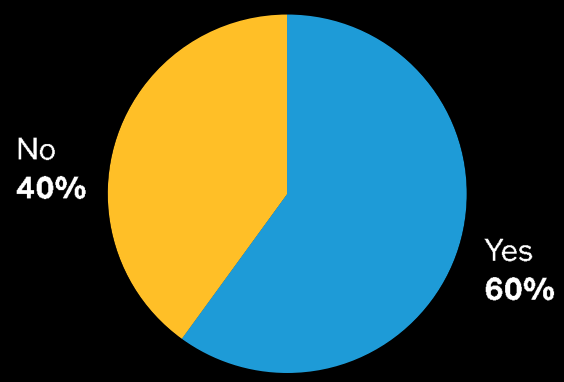
HOW IS YOUR FAMILY ORGANIZED? IS THERE AN ESTABLISHED FAMILY OFFICE?

Is there a family office in place?



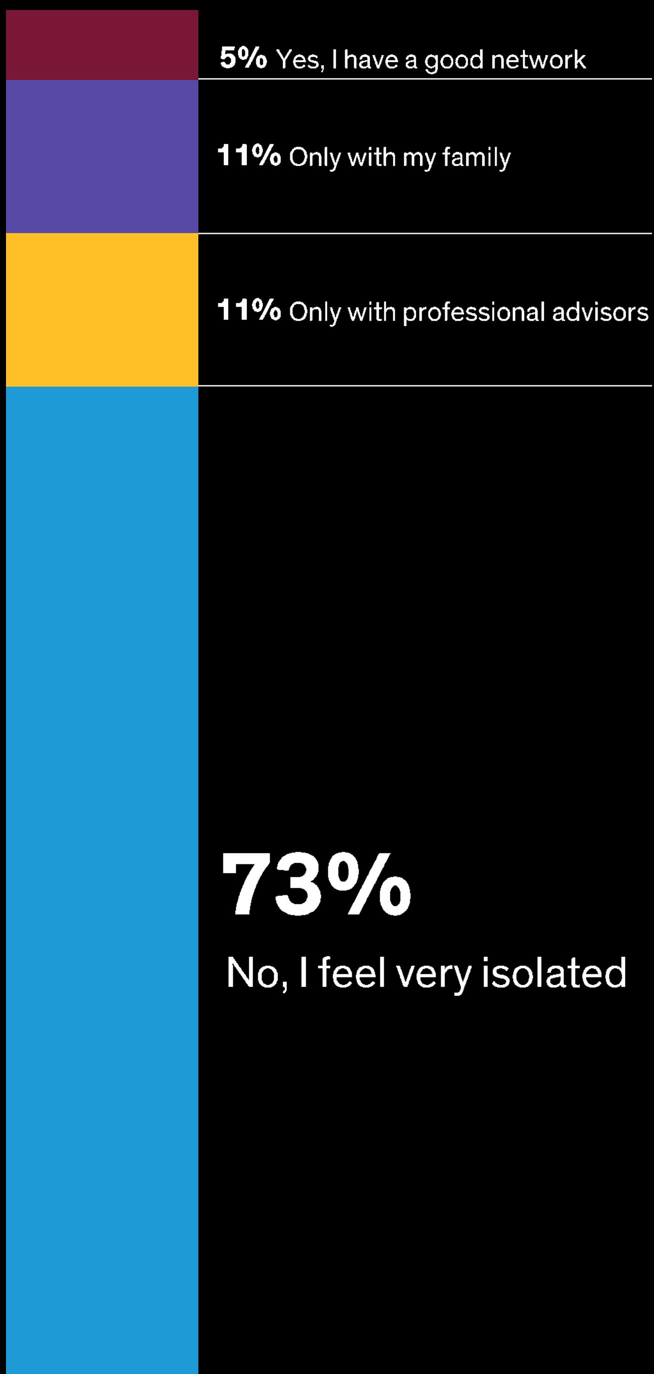
May not total 100% due to rounding.

Is there a family business?

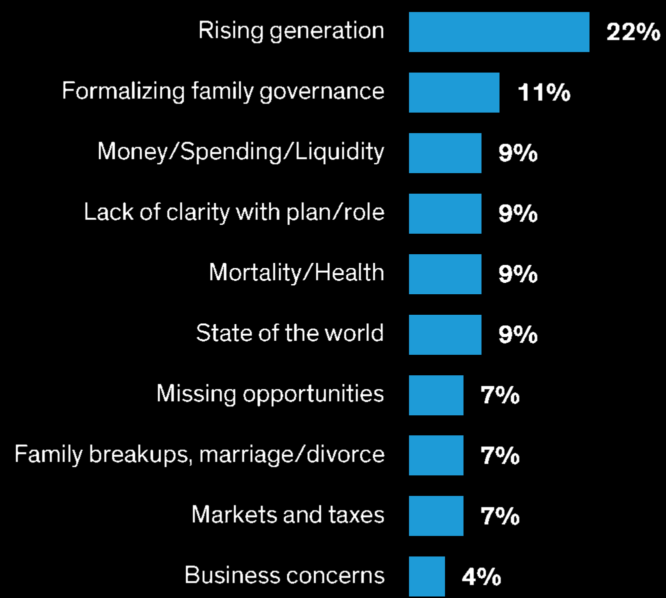


Insights

Do you feel you have people you can speak to about the complexities of wealth?



What is your top concern today?



What do you feel most excited about?

Money may bring comfort and security, but it cannot replace the warmth and connection that comes from sharing our wealth-related concerns and joys with others. To help overcome the often isolating nature of wealth, we’re letting readers hear from their peers in their own words—and giving them the tools to act on what they’ve learned.

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