Planning for Your Financial Future

A Quick Guide to Getting Started

It’s never too early to start planning for your financial future. Whether you are starting your first job, starting a family, embracing a new role at your company or trying a new career path, having a plan to achieve your short- and long-term financial objectives is a wise investment in your future.

Planning is a dynamic and complex topic, especially because financial matters are interwoven with your values, relationships, interests and goals. This is particularly true in the context of family wealth, where financial circumstances and decisions may impact the wealth of multiple generations. This quick guide will help you get started on thinking about and planning for your financial future.
What to Focus On

As you map out a financial plan for your future, consider how your priorities and values fit into a framework that may include both personal and family goals. Exploring your answers to the following questions may help you make decisions about the strategies you utilize to achieve your unique objectives:

What values and goals are most important to you?

Do you feel comfortable talking about money with your family?

How much do you know about your parents’ estate planning?

What would you do if you received a substantial gift?

If your family owns a business, to what extent do you wish to be involved?

Is philanthropy part of your financial plan? If so, how do you make it meaningful?
Defining Value

The first step in building a financial plan is defining your values, priorities and goals. Consider what you care about most, whether it is buying a home, participating in the family business, getting married, advancing in your career, contributing to your first 401(k), supporting charitable causes or something else. Once you have identified your individual priorities, you can begin to build a strategy with your Financial Advisor that helps you achieve your objectives.

EXERCISE
Thinking About the Next 30 Years
Beginning with the end in mind will help you develop a framework for your financial future. The objective is to clearly articulate what you want and how you plan to attain it.

What are the five things you value most in life?

How do you and/or your family enjoy spending your time?

Where do you see yourself in five or 10 years?

What does being wealthy mean to you?

What is the best way to build your wealth?

How would you like to help your community?

What do you envision your retirement to be like?

What would you like your legacy to be?
Talking About Money With Your Family

Money is a taboo topic in many families. Parents might be reluctant to talk about money with their children because they are afraid that knowing too much will put their children’s ambition or values at risk.

Adult children with aging parents might hesitate in broaching the topic of money out of worry that their parents will take offense or misinterpret their motives.

Overcoming this reluctance and having meaningful family conversations about money can mean the difference between success and failure. These conversations may also influence your long-term wealth management strategy, especially as an increasing number of people are sandwiched in the role of caring for both their children and their parents. Families that succeed in having effective discussions about money are better equipped to find ways to leverage their financial capital to increase the value of their human, intellectual and social capital. In addition, having conversations about money in advance of a crisis event — such as a medical emergency for an aging parent — can not only relieve stress and anxiety, but also help to build trust and peace of mind.

EXERCISE
Preparing to Talk About Money

Before you engage your family in a conversation about money, identify clear answers to the following questions.

What does money mean to you? Meaningful conversations about money focus less on how much you have and more on what money means to you as a family and what you hope to accomplish with it.

How much do you know about your parents’ finances? There are many dimensions to the conversation you need to have with your parents about money, including legal issues, health care matters and finances. Making a list of questions you want to ask may facilitate the discussion.

Are you and your siblings aligned on money issues related to your parents? It may be helpful for you, your siblings and any other family members who might share caretaking, financial or legal responsibility for your parents to discuss the right approach for broaching the subject.

If you have a family of your own, do you and your spouse see money issues related to your children in the same way? It may be a good idea for you and your spouse to each take stock of your own values and actions around wealth to ensure that they are aligned. The more successful you and your spouse are in harmonizing your values, the more successful you will be in managing conversations about money with your children and living your lives consistently with what you say.

How will you start the conversation? Think about how to make the conversation a positive one.

What will you do if your family tries to steer the conversation away from money? Make a plan to overcome objections.
Talking to Your Parents About Their Estate Plans

Many people procrastinate when it comes to estate planning. For some, this procrastination stems from a reluctance to confront their own mortality or their potential for future disability or incapacity.

For others, delay is due to the perception that planning is associated with complicated — and expensive — legal and tax issues. As a result of this aversion to the task of estate planning, people often wait until after a crisis event to act.

What do you know about your parents’ estate plans and how they might affect you or your siblings? Understanding what an estate plan is and talking to your parents about their planning creates an open channel of communication that can help to reduce, or even eliminate, the risk of family discord, resentment or conflict.

**A WELL-CONSTRUCTED ESTATE PLAN MAY INCLUDE:**

- **Selection of fiduciaries.** A fiduciary is a person who is legally appointed and authorized to act on your behalf. Fiduciary roles that may be relevant in estate planning include executor, trustee, guardian, durable power of attorney and health care proxy.
- **Special planning issues.** Blended families, children with special needs, and pets may require special consideration when putting together an estate plan.
- **Planning for aging parents.** As the population ages, an increasing number of children are being called upon to provide care for aging parents. Engaging parents, siblings and other family members in a proactive discussion about caregiving before a personal or medical crisis occurs preempts, the possibility that care decisions will be driven by emotion in a time of emergency.
- **Long-term care.** Arranging for long-term care can help to ease some of the burden placed on children and younger generations.
- **Burial instructions and last wishes.** Leaving detailed burial instructions and last wishes with surviving family members makes the task of arranging a funeral easier.
- **Organization of financial information.** The settlement of an estate has the potential to become a contentious issue among family members. Organizing personal and financial records can help to minimize family discord, as well as the cost associated with settling the estate.
EXERCISE

Understanding the Responsibilities of a Fiduciary

Are you ready to be a fiduciary? Begin by learning about the responsibilities associated with different fiduciary roles and then ask yourself if you are ready, willing and able to take on the task.

<table>
<thead>
<tr>
<th>Role</th>
<th>Responsibilities/Powers</th>
<th>Questions to Ask</th>
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<tbody>
<tr>
<td>Executor</td>
<td>Settling the affairs of an estate following death</td>
<td>Do you have the skills and expertise to serve as an executor? Most executors will retain the services of an attorney to carry out many of the associated tasks.</td>
</tr>
<tr>
<td>Trustee</td>
<td>Managing and investing trust assets in compliance with tax requirements</td>
<td>Do you have the skills and expertise to serve as a trustee? Family members who serve as trustees may hire an expert to assist.</td>
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<tr>
<td></td>
<td>Making decisions on the distribution of trust income/assets to beneficiaries</td>
<td>If the trust lasts a long time, is there a mechanism for choosing successor trustee(s)? What about selecting an institutional trustee? Institutional trustees offer perpetual existence and neutrality, but are associated with a cost. If an institution serves as a trustee, it is important for beneficiaries to be given the power to remove and replace the trustee, usually with a similar institutional trustee. What about choosing co-trustees? Having a family member and an institution serve as co-trustees may be a good compromise.</td>
</tr>
<tr>
<td>Guardian</td>
<td>Caring for minor children</td>
<td>Are you able to care for the children in the same manner and with the same values as their parents? Do you have sufficient space and resources to provide for the children? Are you willing to accept the role?</td>
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<tr>
<td>Durable Power of Attorney</td>
<td>Acting on behalf of a person who is unable to act for himself/herself. Typically, a Durable Power of Attorney is expansive, allowing the agent to “do anything” the person could otherwise do</td>
<td>Are you able to execute this role? Are you aware of that person’s priorities, values and goals? Do you feel comfortable making decisions, including financial decisions, on another person’s behalf?</td>
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<tr>
<td>Health Care Proxy</td>
<td>Making medical decisions for a person who is unable to make those decisions himself/herself</td>
<td>Are you aware of that person’s wishes regarding his/her health care? Do you feel comfortable making medical decisions on another person’s behalf?</td>
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Receiving a Gift

During their lifetime, your parents or other family members may choose to make a gift to you of cash or other assets. It is important for you to understand the implications of the gifts you receive and to have a plan for utilizing or investing them.

**WHAT CONSTITUTES A GIFT?**
A gift can be in the form of cash, real property, business interests, insurance policies, annuities, etc. Support from your parents or guardians while they can still claim you as a dependent does not constitute a gift. However, if you were to sell something you own for considerably less than its actual value, the difference in price could be considered a gift.

**ARE GIFTS SUBJECT TO TAX?**
As the recipient of a gift, you will not need to pay any federal or income tax. However, depending on the size of the gift, the gift giver may be subject to tax. In 2015, a taxpayer can give up to $14,000 per person per year without being taxed on the gift. This annual exclusion can be used to gift an unlimited number of individuals. There is also a basic exclusion — which does not include any annual exclusions — that allows each person to transfer up to $5.43 million during life or at death tax-free.

Unlimited gift tax exclusions apply to the following gifts:
- Gifts between spouses
- Charitable gifts
- Gifts to political organizations
- Gifts to educational or medical institutions, provided that they are given directly to the institution

**HOW CAN A GIFT BE USED?**
In addition to benefiting from potential tax advantages, people who gift assets during their lifetime may choose to do so because they enjoy seeing their wealth put to good use or want to teach their children about generosity and responsible stewardship. In some cases, gift givers opt to place a gift in trust in order to retain some control over the process and use of those assets during his/her lifetime. In other cases, it will be up to you as the recipient to determine how the gift will be used.
Putting a Gift to Good Use

If you received a gift, what would you do with it? Exploring your answers to the following questions is a good first step in putting a gift to good use:

How important are the values or intentions of the gift giver in your decision-making around how to use the gift?

Will you use the gift for a single purpose or for multiple purposes?

Do you have student loans or other outstanding debts you would like to pay off or pay down?

How are your assets currently allocated? Does this gift change your investment or asset allocation strategy?

Have you started saving for retirement?

How can this gift help you achieve a short- or long-term financial goal?
Getting Involved in the Family Enterprise

Family enterprise is a broad term that extends beyond the family business to include philanthropy, investing and other joint family undertakings. Pursuing a common enterprise can be a natural and powerful opportunity for multiple generations of a family to engage in something together.

It can also be a challenge, as family members may have different levels of participation in the family enterprise or may need to juggle multiple roles with responsibilities that occasionally come into conflict. Open communication is key to overcoming these challenges and striking the balance between maximizing the benefits of the family enterprise and minimizing the potential for family conflict.

Addressing and achieving continuity in the family enterprise is one of the most difficult issues business-owning families will face. When deliberating the future of the family enterprise, there are two separate components to business succession planning that must be considered:

- **Ownership Succession.** This addresses who will be the owners and what strategies will be used to transfer ownership.
- **Management Succession.** This addresses who will be the future leaders of the business and how the family will ensure that those individuals are qualified to be effective leaders.

A recent PricewaterhouseCoopers survey of family business owners revealed that 76 percent of business owners intended to pass the family business on to the next generation. However, more than one-third of these business owners indicated that they expected the next generation to continue to own, but no longer manage, the business.1

The matter of succession is also affected by how you wish to participate in the family enterprise — some family members may want to have hands-on involvement, while others may view the business as a financial asset. If your family owns a business:

- How will your involvement in the family business affect your siblings?
- Effective succession planning should include preparation around the possibility that the differing interests of those who own and/or manage the family enterprise may come into conflict. Creating and structuring a family council is one strategy for building a framework that enables both the family and the family enterprise to manage conflict.

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Purposeful and effective philanthropy can result in invaluable returns, but you may find it intimidating to get started, particularly if you aim to practice philanthropy as a family. Most individuals and families who are successful in their philanthropy invest time and effort in creating a vision and mission statement that helps them to focus their giving. A philanthropic mission statement is particularly important for families with a family foundation or donor-advised fund, as these vehicles can continue from generation to generation.

When you give, you want your giving to count. To maximize the impact of your philanthropy dollars, you may want to consider:

- **Making It a Team Effort.** Joining with others can help your funds go further.
- **Clarifying Goals.** Decide whether you want to support immediate needs, long-term solutions or even endowments, which support causes in perpetuity.
- **Staying Engaged.** Request reporting or communicate with the nonprofit’s leadership to monitor progress.
- **Measuring Success.** Tying gifts to specific programs or initiatives enables you to determine your impact.

If your family already has a family foundation or donor-advised fund, you may want to find an opportunity to integrate your personal interests into your family’s philanthropic efforts.

Engaging in philanthropy — as an individual or as a family — can be a meaningful and transformational experience. When giving is connected to issues and values that are important to you and/or your family, it becomes more than just a gesture or a transaction — it becomes part of the fabric of your life.
Creating a Philanthropic Mission Statement

As you draft a philanthropic mission statement, the following questions may help to clarify your philanthropic priorities and goals and ensure that your giving is guided by a consistent set of values, whether you are giving as an individual or as a family:

**What Are Your Values?**
- Do family traditions and/or religious beliefs influence your philanthropy?
- Are there family events or volunteer activities that have had a profound effect on you?
- What do you ultimately hope to accomplish by giving?

**What Are Your Interests?**
- Are there particular issues or causes that interest you?
- Do these same causes resonate with your parents or other family members? If not, how will you share your passions?

**What Guidelines Will You Use to Achieve Your Goals?**
- How are you planning to implement your vision?
- How important is family involvement?
- Does geography matter?
- How much and how often do you want to give?
- Do you want to make nonmonetary contributions (e.g., volunteering your time, taking a philanthropic trip, joining the board of a nonprofit)?
- What criteria will you use to identify organizations you want to support?
The Role of Your Morgan Stanley Financial Advisor

Personal circumstances, evolving family situations, policy changes and capital market developments may require adjustments to aspects of your financial plan, or even your overall wealth management strategy. Your Morgan Stanley Financial Advisor can help you carefully review every aspect of your plan in the context of your personal values, needs and goals. Based on an understanding of what matters to you, your Morgan Stanley Financial Advisor can assist in managing your lifestyle, controlling your risks and adopting a strategic approach to wealth management that is flexible enough to adapt to changing priorities.