CASE STUDY: INTEGRITY DEMANDS A FULLY INTEGRATED APPROACH

FACTS:

- Colony Family Offices, LLC has had a long-standing relationship with a client family with the following primary assets:

Investable Assets (1st generation):	$16.5M
Investable Assets (2nd & 3rd generation trusts):	$20.0M
Investable Assets (family charitable foundation):	$9.0M
Real Estate (1st generation primary residence and second home):	$3.5M
Business Value: (mostly owned by 2nd & 3rd generation trusts):	$35.0M
Total Family Wealth:	$84.0M
Lifetime/GST Exemption Utilized (1st generation):	All

- The family owns a successful, multi-generational family C corporation business. The matriarch and patriarch still own a small voting bloc but are retired. Most of the company value is represented by non-voting stock. They have four children—all of whom have worked for the company in the past but only two are still working in the company. The two children no longer working with the company have struggled with various personal issues over the years. Several grandchildren are involved in the business and hope to work their way up the company.
- The non-voting stock of the company is divided into four separate family trusts, one for each child and that child's family branch.
- In addition to the company stock, each of the family trusts owns a sizeable liquid investment portfolio because of significant advanced planning strategies initiated by the matriarch and patriarch through the years.
- Each of the four family trusts also became the owner of various term life insurance policies on the life of the child designated as the primary beneficiary of their respective trust. Those policies originally served as keyman policies to fund buy/sell provisions with certain subsidiary joint venture partners. At one point, each child was involved in those ventures with outside supply vendors. When the company exited those ventures, the term life insurance policies were assigned to that child's respective trust.
- Uncle Buck, the retired CFO of the company (age 76), has been serving as the named trustee over the four family trusts for many years. A year ago, he was diagnosed with early-stage dementia.
- The family also owns a private family foundation. Colony has worked with the family to help them administer the foundation, manage the underlying investments and facilitate board meetings to discuss various charitable grants and governance issues throughout the years.

ISSUES:

Fiduciary Services

- The trust provisions were dated and did not provide for trustee succession and trust protectors.
- The family wished to improve fiduciary risk management of children with substance abuse issues and mental health conditions.

Wealth Planning

- There were significant state income taxes at the trust level.
- The family wondered if there was a way to include the ability to appoint assets to the family foundation in the existing trusts upon a child's death.
- The children wanted to evaluate whether to let the existing term life insurance policies lapse or convert each policy to a permanent policy and analyze the impact of paying additional premiums in exchange for the projected death benefit on each trust's projected ending portfolio value at the insured's life expectancy.

Investment Management

- The first generation's lifestyle portfolio, the family foundation and each child's individual trust needed prudent investment management based on their own unique preferences, risk/reward parameters and time horizons.

SOLUTIONS:

Fiduciary Services

- We were able to help the family move the primary place of trust administration to a more tax-favorable state. The family named Colony Trust Company as the sole trustee or co-trustee of the family trusts.
- Further, we were able to assist the family in working with counsel to decant the trusts to add silent trust provisions with regards to beneficiary statements and notifications at the death of each child. Without these changes, statements and notifications would have been required to be given to the grandchildren upon the death of a child. Instead, all such statements and notifications can now be provided to a trust protector until such time as the trust protector determines a grandchild should begin receiving statements.
- Additionally, the family decanted and/or modified certain trusts to enhance provisions related to substance abuse and conditions for distributions.

Wealth Planning

- Colony worked with the family to convert the trusts from grantor trusts to make them non-grantor trusts so that each trust could mitigate state income taxes.
- We worked with the family's counsel to modify or decant each trust without court approval to allow the children to appoint assets to the family foundation if a child is not survived by descendants of their own.
- Colony is currently working with the matriarch and patriarch to transition the voting control of the company to the two children who are still active in the business with adequate safeguards for the other children's trusts that will continue to own only non-voting stock.

- Prior to the expiration of the term insurance periods, Colony Trust Company evaluated whether to allow each term life insurance policy to lapse or convert to permanent life insurance with $2 million of guaranteed death benefits before the conversion period expired.
    - *Colony analyzed the projected death benefits and the impact of a single additional premium to buy paid-up permanent policies on the trust's ending portfolio value based on reasonable assumptions and concluded that converting the policies produced a greater likelihood of achieving a higher ending trust balance at the insured's life expectancy when factoring in the additional death benefits versus not paying the additional single premium to convert the term policies. We worked with the family's life insurance carrier to implement the conversion.*

Investment Management

- We continue to analyze the first generation's lifestyle capital, including different spending and charitable giving aspirations to ensure that their portfolio is sustainable through their remaining lifetimes.
- We also monitor and analyze the family foundation's endowment model to ensure the portfolio continues to grow in perpetuity despite annual grants and distributions.
- Given the $2 million death benefit floor that was achieved by converting each term policy, Colony repositioned each trust's portfolio by reallocating up to $2 million from more conservative asset classes to more aggressive asset classes. These changes will reposition each trust's ability to achieve higher long-term risk-adjusted returns (with the added benefit of the life insurance death benefit serving as a "downside hedge" or floor).
- The above portfolio changes should enhance the potential future value of the trusts, yielding more capital to each child's descendants, or, in the alternative, to the family foundation.

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