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March 2015

Family Banking 101

"A Family Bank is a strategy to keep wealth in your family and keep it growing… from generation to generation." -Kim Butler, Partners for Prosperity, Inc.

From the Family Business to the Family Bank Alternative[1]

Once upon a time in a not-too-distant past, the family business was used to teach financial skills and success habits, help give heirs a "leg up" on a successful life without giving them a handout, and transfer wealth through business equity, assets, and know-how. However, as families have become more mobile and as career paths have become more fluid, the concept of the family business is, well, going out of business.

A November 5, 2013 article in the *New York Times* detailed why "Family Banks" are becoming the new family business. Like a family business, they provide opportunities to teach financial skills and transfer experience, wisdom and know-how. Best yet, Family Banks don't require a business to implement, and they work with families of diversified interests and career paths, which seem to be most families nowadays!

The Family Bank is not a *real* bank. Rather, it is an informal agreement among family members to organize family assets in such a way that their growth, safeguarding, and accessibility closely resembles those features characteristic of a real bank, and it also provides opportunities for family members to participate in growing or borrowing against those family assets. While establishing a family trust is typically believed to be at the core of the Family Banking concept, other financial tools, including whole life insurance, can in many ways supplement or achieve the same goals. Although it is assumed the primary purpose for buying whole life insurance is to secure a death benefit, other benefits such as the tax-deferred cash value pair strongly with the Family Banking concept.

While the exact reasons may be as different as families themselves, some common motivations for creating Family Banks backed by whole life insurance are:

1. **Growth of assets.**

Family Banks that include whole life aren't simply a way to track, manage, loan and repay assets, they are also a reliable growth strategy for tax-deferred cash value build-up. Unlike savings accounts or certificates of deposits that incur taxable interest.

2. **Strong financial flexibility.**

Oftentimes seniors with assets are hesitant, as well they should be, to use irrevocable trusts and other financial instruments that could limit their OWN use of and access to their own money… after all, who knows how long they will live? What sort of health they will enjoy? What kind of assistance they might need?

Financial flexibility is key and actually allows people to save more when they know that the money is not locked up in "money jail." Whole life can provide many of the advantages similar to trusts, but with additional flexibility and benefits.

3. **Create a source of lending for family members.**

The most common uses for Family Banks include funding higher education, down payment for buying a house, and starting businesses. As policy loans do not have to fit within narrow bank or mortgage guidelines, constructive uses for policy loans are only limited by one's imagination and the Family Bank's approval process.[2]

Family Banking allows for money to be put to USE, while also maintaining a level of CONTROL over the money. It is an excellent structure to teach children how to utilize money in a productive, responsible way, and to train them that "mom and dad" (or ATM machines) are not the source of all money.

4. **Permanent protection for all generations.**
The structure of a Family Bank helps to ensure that every generation is adequately protected by whole life with no risk of losing that protection for reasons of health or insurability. One of the advantages of a Family Bank is that oftentimes children are given a “head start” on their whole life policies by a parent or grandparent. This prevents a child from being turned down for reasons of insurability and also insures that a term price hike won’t put life insurance suddenly out of reach.

5. **Additional estate planning benefits.**
Families have used whole life for generations to hold, grow[3] and pass income tax-free assets[4] along to heirs. This should be no surprise, as whole life insurance was designed to do just that!

6. **Teaching valuable financial skills.**
Helping your children learn the habit of saving (whether they are in 4th grade or whether they have families of their own) is perhaps the most important financial lesson one can teach their children and grandchildren!

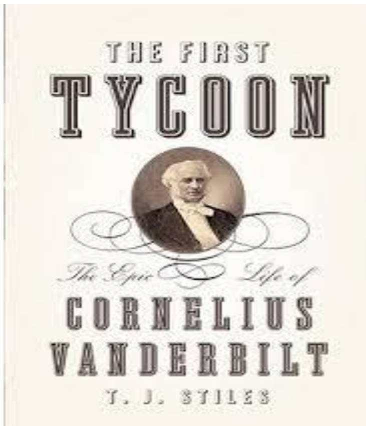
There are other valuable financial skills that Family Bank participants learn, such as:

- Learning to talk about money.
- Observing the value of a long-term wealth strategy.
- Learning to apply for, obtain, and payoff loans according to established Family Bank guidelines.
- Writing a business plan or doing investment analysis.

7. **Leaving a legacy of more than money.**
A Family Bank like whole life prevents unnecessary taxation and puts those tax savings to use in a way that supports the values and priorities that are important to your family. Family banks can be used for charitable donations, family projects and travel, and they can prove invaluable when true family emergencies strike.

But a Family Bank is much more than a financial strategy, asset, or method for passing assets generationally and providing funding… it is a compelling opportunity to pass along values, priorities, habits, stories, traditions, and more.

Family Bank Philosophy: A Tale of Two Fortunes



Instead of *giving* money to children and grandchildren, a Family Bank can provide money in ways that can help *increase* their success and independence. Adult children can take on the role of *stewards* and *producers* of family wealth, rather than *consumers* of it. This distinction is critical.

When railroad and shipping magnate Cornelius Vanderbilt died, he was the richest man in the United States by a good margin. Upon his death in 1877 his heirs inherited the largest fortune ever accumulated – reportedly greater than the sum of money held in the U.S. Treasury at the time.

However, his children and his grandchildren lived lavishly, building huge, extravagant mansions on New York City's Fifth Avenue and elsewhere. Some consumed their fortunes completely.

In 1972, the 120 Vanderbilts gathered for a reunion at Vanderbilt University, named for their patriarch who had provided the school its initial $1 million endowment. According to Klepper and Gunther's book, *The Wealthy 100,* there wasn't a millionaire among them. The greatest fortune in American history had all but vanished in 95 years.

Contrast the Vanderbilt story with that of the Rothschild family.

In the late-18th and early 19th centuries, Mayer Amschel Rothschild established five family banks, in Frankfurt, London, Paris, Vienna, and Naples, and assigned one to each of his sons. His action put his family in the position of great wealth and influence and preserved his descendants' power over their assets and affairs for generations. Although Mayer Amschel Rothschild passed away 200 years ago, the Rothschild dynasty remains one of the wealthiest families in the world today.

One of the secrets to growing wealth is controlling wealth. Too many Americans let banks control their money for them – instead of building and utilizing a Family Bank that allows them to keep control of and protect their own wealth.

Family Bank also provide a structure for mentorship and guidance. Who cares more about the family's money than those who have been contributing to it? They help guide and direct younger family members, and encourage family members to live up to certain standards.

The influence of a Family Bank goes far beyond finances. They can be causes for family reunions, instruments for charitable giving, and vehicles which carry the family values from generation to generation.

[1]The Family Bank Alternative is not insured by the FDIC or any other government agency and is not deemed a deposit or other obligation of any depository institution.

[2]Policy benefits are reduced by any outstanding loans and loan interest. Dividends, if any, are affected by policy loans and loan interest. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½, any taxable distribution from the policy may also be subject to a 10% federal tax penalty.

[3]Cash value growth in a whole life policy comes from premiums, guaranteed cash values and dividends. Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors. All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims paying ability of the issuing insurance company. Policy loans and withdrawals affect the guarantees by reducing the policy's death benefit and cash values.

[4]Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

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2014-16083 Exp 12/16

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