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The Dynasty Planning Primer

Legal Architecture for Generational Wealth

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The Dynasty Planning Primer
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This guide provides general educational information about estate planning concepts. It is not legal advice. Consult qualified legal and tax professionals for your specific situation.

Introduction

The 70-90-100 Problem

Here is the uncomfortable truth about family wealth: 70% of it is gone by the second generation. 90% is gone by the third. And by the fourth generation, the wealth has completely dissipated in 100% of cases studied.

This isn't speculation—it's documented research spanning decades and multiple countries. The Williams Group, a family wealth consultancy, studied over 3,000 wealthy families and found these statistics held regardless of the amount of wealth involved.

A fortune built over a lifetime evaporates in three generations.

Yet some families have maintained and grown their wealth across centuries. The Rothschilds, Rockefellers, and countless lesser-known families have passed wealth successfully through multiple generations. What do they know that others don't?

They understand that preserving wealth is a completely different skill than building it. And they use specific legal structures—dynasty trusts, family limited partnerships, private foundations, and coordinated entity structures—to protect what they've built.

This primer introduces those structures.

What This Guide Covers

- The real reasons wealth fails to transfer (it's not taxes)
- Dynasty trust fundamentals and how they work
- Entity structures for asset protection
- The family governance systems that make it all work
- When and how to work with professionals

What This Guide Doesn't Cover

This is a primer, not a comprehensive legal guide. We won't cover every variation, exception, or state-specific rule. The goal is to give you enough understanding to have informed conversations with qualified professionals and to ask the right questions.

Chapter 1

Why Wealth Fails

Before we discuss solutions, we need to understand the problem. Most people assume wealth dissipates because of taxes or bad investments. In reality, the Williams Group research identified different primary causes:

Communication Breakdown (60%)

The leading cause of generational wealth failure is the breakdown of communication and trust within the family. When heirs don't understand the family's values around wealth, don't communicate with each other, or don't trust the systems in place, wealth dissipates through conflict.

Unprepared Heirs (25%)

Heirs who receive significant wealth without preparation often lack the skills to manage it. They may make poor investment decisions, fall prey to predators, or simply spend through the principal without understanding the consequences.

No Mission or Purpose (10%)

Families without a shared sense of purpose for their wealth tend to fragment. Without a unifying vision, each branch goes its own way, assets get divided repeatedly, and the wealth dilutes into insignificance.

Taxes and External Factors (5%)

Taxes, lawsuits, and bad investments—the factors most people worry about—account for only about 5% of generational wealth failures. This doesn't mean they're unimportant, but it means that purely legal and financial solutions address only a small part of the problem.

The Implication

Successful wealth transfer requires both hard structures (trusts, entities, legal documents) and soft structures (family governance, communication, heir preparation). This guide focuses primarily on the hard structures, but we'll address family governance as well.

Chapter 2

Dynasty Trusts Explained

A dynasty trust is designed to last for multiple generations—potentially in perpetuity. Unlike a typical trust that terminates when assets are distributed to beneficiaries, a dynasty trust can continue indefinitely, protecting assets for your grandchildren, great-grandchildren, and beyond.

How It Works

You transfer assets into an irrevocable trust. A trustee (who can be a family member, professional, or institution) manages those assets according to the trust document you create. Beneficiaries can receive income or principal distributions based on standards you define, but they don't own the assets outright.

Because beneficiaries don't own the assets:

- Assets are protected from beneficiaries' creditors
- Assets are protected from beneficiaries' divorcing spouses
- Assets aren't included in beneficiaries' taxable estates
- Assets can't be seized in lawsuits against beneficiaries

The Rule Against Perpetuities

Historically, trusts had to terminate within a defined period (lives in being plus 21 years). Many states

have now abolished or modified this rule, allowing trusts to last 360 years, 1,000 years, or indefinitely.

States with favorable dynasty trust rules include: South Dakota, Nevada, Delaware, Alaska, Wyoming, and New Hampshire. You don't have to live in these states to use their trust laws—you just need a trustee or trust administrator there.

Generation-Skipping Transfer Tax

The GST tax is designed to prevent wealthy families from avoiding estate taxes by skipping generations. However, each person has a GST exemption (currently over \$12 million) that can be allocated to dynasty trusts. Assets in a properly structured dynasty trust, funded within this exemption, can grow and pass through generations without further transfer taxes.

Trust Protectors

A trust protector is a person or committee with specific powers to modify the trust as laws or circumstances change. This flexibility is crucial for a trust intended to last centuries. Typical powers include:

- Changing trust situs (moving to a more favorable state)
- Modifying administrative provisions
- Removing and replacing trustees
- Adding or excluding beneficiaries
- Converting to a grantor or non-grantor trust

Chapter 3

Entity Structures

Trusts don't operate in isolation. Sophisticated wealth planning typically involves a coordinated structure of entities—LLCs, family limited partnerships, holding companies—each serving specific purposes.

Limited Liability Companies (LLCs)

LLCs provide liability protection between assets and owners. A rental property owned by an LLC can't expose your other assets if someone is injured on that property. LLCs also provide operational flexibility and can be owned by trusts.

Common uses:

- Holding real estate (one LLC per property)
- Operating businesses
- Holding investment portfolios
- Separating risky assets from safe assets

Family Limited Partnerships (FLPs)

FLPs allow senior generations to retain control while transferring economic interests to junior generations. The general partner (often a parent or their LLC) controls the partnership, while limited partners (often trusts for children) receive economic benefits.

Key benefits:

- Valuation discounts for gift/estate tax purposes

- Retained control by senior generation
- Creditor protection for limited partners
- Centralized management of family assets

Holding Company Structures

A family holding company (often an LLC) can own interests in operating businesses, investment LLCs, real estate LLCs, and other entities. This creates:

- Centralized management and reporting
- Clear separation between operating and holding entities
- Flexibility for future restructuring
- Multiple layers of liability protection

Coordinated Structure Example

A typical structure might look like:

- Dynasty Trust owns 99% of Family Holding Company LLC
- Family Holding Company owns: Investment LLC, Real Estate LLC #1, Real Estate LLC #2, Operating Business LLC
- Trustee has governance role; beneficiaries receive distributions from the trust

This structure provides asset protection at multiple levels, keeps operating risk separate from investment assets, and allows the dynasty trust to grow across generations.

Chapter 4

Asset Protection

Asset protection is the practice of structuring ownership so that assets cannot easily be seized by creditors. It's not about hiding assets or evading legitimate debts—it's about placing assets in structures that provide legal protection.

Legitimate vs. Fraudulent

Asset protection planning must be done in advance of any known or reasonably anticipated claims. Transferring assets to avoid an existing creditor is fraudulent conveyance—illegal and ineffective. The time to protect assets is when you have no creditors, not when you're being sued.

Protection Layers

Layer 1: Insurance

The first line of defense. Umbrella policies, professional liability, property coverage—insurance handles most claims and keeps asset protection structures from being tested.

Layer 2: Entity Separation

Risky assets (real estate, operating businesses) are held in separate LLCs. If someone is injured at a rental property, only that LLC's assets are at risk.

Layer 3: Charging Order Protection

In most states, a creditor who wins a judgment against an LLC member can only get a "charging order"—the right to receive distributions if and when they're made. They can't seize the LLC assets or force a sale. Multi-member LLCs often have stronger protection than single-member LLCs.

Layer 4: Trust Protection

Assets in an irrevocable trust aren't owned by the beneficiary, so they're generally not reachable by the beneficiary's creditors. Domestic Asset Protection Trusts (DAPTs) in certain states provide this protection even for the person who created the trust.

Jurisdictional Planning

Some jurisdictions offer stronger protection than others. Nevada, Wyoming, and South Dakota have particularly favorable LLC laws. Delaware, South Dakota, and Nevada are popular for trust situs. For maximum protection, some families use offshore trusts in jurisdictions like the Cook Islands, though these add complexity and cost.

Chapter 5

Family Governance

The best legal structures fail without family governance. As noted earlier, communication breakdown and unprepared heirs cause most wealth dissipation—problems that legal documents alone cannot solve.

The Family Constitution

A family constitution (or family charter) is a non-binding document that articulates the family's values, mission, and expectations around wealth. It typically addresses:

- Family history and values
- Purpose of family wealth
- Expectations of beneficiaries
- Decision-making processes
- Conflict resolution mechanisms
- Involvement in family governance

Family Meetings

Regular family meetings—annual at minimum—maintain communication and alignment. Meetings should include:

- Financial updates (appropriate to age and role)
- Discussion of family investments or enterprises
- Educational components
- Time for concerns and questions
- Relationship building

Heir Preparation

Preparing heirs is a multi-decade process:

- Childhood: Values, work ethic, basic financial literacy
- Teen years: More detailed financial education, summer jobs, small responsibilities
- Young adult: Involvement in family meetings, internships in family enterprises, limited distributions
- Adult: Graduated responsibility, potential trustee or committee roles, full participation in governance

Incentive Trusts

Some families use trust provisions to encourage desired behaviors:

- Matching distributions for earned income
- Education funding tied to completion
- Distributions for starting businesses or buying homes
- Restrictions on distributions for substance abuse

Use these carefully—overly rigid incentives can backfire.

Chapter 6

Working with Professionals

Dynasty planning requires a team of coordinated professionals. No single advisor has all the expertise needed.

The Core Team

Estate Planning Attorney

Drafts trusts, coordinates entity structures, ensures documents work together. Look for attorneys who specialize in high-net-worth estate planning, not general practitioners who occasionally draft wills.

Tax Advisor (CPA or Tax Attorney)

Ensures structures are tax-efficient, handles compliance, coordinates with estate attorney on valuations and gift tax returns.

Wealth Advisor / Family Office

Manages investments, provides reporting, often coordinates the overall team. May be a private bank, multi-family office, or registered investment advisor.

Insurance Specialist

Reviews coverage needs, places life insurance (often owned by irrevocable trusts), coordinates with overall plan.

Selecting Professionals

Key questions to ask:

- What percentage of your practice is high-net-worth estate planning?
- How many dynasty trusts have you drafted?
- How do you coordinate with other advisors?
- How do you stay current with changing laws?
- Who would handle my work if something happened to you?

Coordination is Key

The biggest failures in estate planning come from lack of coordination. Documents drafted by different attorneys that don't work together, insurance policies owned incorrectly, entities that conflict with trust provisions. Ensure someone is quarterbacking the entire plan.

Chapter 7

Getting Started

Dynasty planning can seem overwhelming. Here's a practical path forward.

Immediate Steps

- Take inventory: Document all assets, liabilities, existing entities, and current estate planning documents
- Identify goals: What do you want wealth to accomplish for future generations?
- Assess family dynamics: Are there communication issues to address?
- Review current plan: Have an estate planning attorney review what you have

Short-Term (3-6 Months)

- Assemble your team of advisors
- Develop overall strategy
- Create or update basic estate planning documents
- Establish appropriate entity structures
- Review insurance coverage

Medium-Term (6-18 Months)

- Implement dynasty trust if appropriate
- Fund entities properly
- Begin family meeting practice
- Start heir education process

- Document family values and history

Ongoing

- Annual reviews with advisors
- Regular family meetings
- Continuous heir preparation
- Adjust for changing laws and circumstances
- Update documents as needed

About IntroAlignment

IntroAlignment provides legal architecture for sovereign living—the structures that protect what you've built and ensure it lasts.

We specialize in dynasty planning, asset protection, and entity architecture for families who think in generations rather than quarters. Our work is thorough, personalized, and designed for the long term.

Build a legacy that lasts.

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