# Estate Planning Alpha: The Quiet Counterpart to Investment Outperformance

## The Alpha Opportunity Hiding In Plain Sight

In the investment world "alpha" is a measure of outperformance—those precious extra risk-adjusted returns that skilled managers generate above benchmarks. Investment firms and family offices dedicate enormous resources to finding it by vetting public and private managers, sourcing direct deals, and constructing complex portfolios.

But here's the uncomfortable truth: investment alpha is extraordinarily difficult to achieve, especially in public markets. A recent study by S&P found that 94% of domestic public equity managers underperformed the market over the 20 years ending Dec. 31, 2024. Even in private markets, where outperformance is more achievable, results vary widely, and success is far from guaranteed.

I'm not suggesting investment alpha isn't worth pursuing—but there's no guarantee you'll ever achieve it. And all too often, pursuing investment alpha results in underperformance and significant fees.

## Estate Planning Alpha: The Power Of Certainty

Like investment alpha, "estate planning alpha" is a measure of outperformance; it is the money that would have gone to taxes but stays in the family instead. Unlike investment alpha, which is elusive and market-dependent, estate planning alpha is far more certain. Investing time with skilled advisors and properly implementing strategies will materially reduce the bite of taxes.

Yet many wealthy families fail to give estate planning the attention it deserves. Some families may have set up a few trusts and made some gifts—but still face significant estate tax exposure. Others treat estate planning as a one-time transaction rather than an ongoing process that must evolve as wealth grows.

Meanwhile, these same families typically invest far more energy chasing investment returns that may never materialize—while leaving substantial tax-saving opportunities untouched.

## A Real Life Example

Last year, a dear client passed away at age 91—and despite her substantial wealth, no estate tax was due upon her death. Her story illustrates the power of prioritizing estate planning alpha.

When we began working with her and her husband (as well as their children and grandchildren) just before the

Great Financial Crisis, they faced a large potential estate tax bill. Even though they had already used most of their estate and gift tax exemptions, more than $75 million remained in their taxable estates. At a 40% estate tax rate, they would owe around $30 million in taxes, and that number would only increase as their assets appreciated.

The problem wasn't a lack of planning. They had worked with advisors and implemented various estate planning strategies. But those strategies, while technically sound, were too conservative and too small to make a meaningful dent in their future estate tax liability.

Over the next 15-plus years, we worked closely with them and their legal and tax advisors to combat the magnitude of their future tax bill. We employed strategies tailored to the size and structure of their wealth and designed to reduce their estate tax exposure materially:

- We unlocked valuation discounts through investment limited partnerships, fractionalized real estate ownership, and a split-dollar life insurance discounting strategy.
- We implemented "freeze" transactions, including installment sales to intentionally defective grantor trusts. Plus, they paid the income taxes on those trusts, further reducing their taxable estates.
- They fully used gifting opportunities, providing annual exclusion gifts to trusts for children, in-laws, and grandchildren. They also paid education and medical expenses directly for family members.
- We restructured trust distributions across the entire family, turning some on, turning others off. We also used loans in place of distributions where appropriate to avoid increasing estate values.
- We rebalanced asset location. High-growth investments were held outside the estate, while more conservative assets remained inside. We moved vacation homes to trusts outside their estates, so the rent they paid to use them reduced their estates.

We coordinated closely with their advisors as a unified team throughout the process. These strategies were implemented over time and, importantly, we continually stress-tested the plan to ensure the matriarch's financial security. As she aged and her in-estate assets depleted, we turned off specific strategies, re-ran projections, and built-in safety valves to ensure she wouldn't run out of money.

The outcome? At her death (which was about a decade after her husband passed), no estate tax was due. Her taxable estate ended up under $1 million even though she and her husband's $75 million had more than doubled since we began working with them. Compared to the path they were originally on, the family saved over $60 million in estate taxes.

That's $60 million of estate planning alpha.

## A Three-Pronged Approach to Growing and Keeping Wealth

Building and preserving wealth across generations requires more than just investment acumen. It takes a coordinated, three-part strategy:

1

## Investment Strategy

Thoughtful asset allocation, manager selection, and risk management remain critical but they're only part of the equation.

2

## Estate Planning Strategy

Reducing estate taxes and transferring assets efficiently requires proactive, ongoing planning, not just one-off structures, but a long-term mindset and commitment to implementation.

3

## Income Tax Strategy

Day-to-day cash flow, business income, and investment structures all offer opportunities to reduce tax drag, especially when coordinated with estate and investment decisions. Advisors should also plan for optimal step-up of basis on assets at death.

When these three strategies are aligned, the impact is powerful. When they're disconnected or handled in silos, value is lost

## Build the Right Team to Reap Estate Planning Alpha

Generating meaningful estate planning alpha requires a well-coordinated team. Success comes not just from technical expertise—but from collaboration.

### Wealth Management / Family Office Professionals

Family office personnel are the connective tissue required to achieve estate planning alpha. They oversee execution, administer the various entities, track gifts and distributions, model cash flows, and ensure the client's needs are never lost in complexity. This type of centralized, strategic administration is what makes it all work in multigenerational families with multiple households, trusts, and operating entities.

### Expert Estate Planning Attorneys

Not just any attorney but those with deep experience handling large estates and the resources and desire to stay on top of evolving law and strategy.

### Investment Professionals

What investments you place where matters enormously (i.e., entity selection). Asset location strategies, considering tax efficiency across different account types and structures, and step-up basis planning significantly impact overall results.

#### Tax Accountants

Creative, proactive accountants are essential for modeling, structuring, and ensuring compliance across all strategies.

#### Other Specialists

This might include insurance advisors, philanthropic strategists, and family business consultants, depending on the situation.

The magic happens when these professionals work as a true team, not as individual service providers operating in silos.

## Don’t Leave Millions on the Table

The world of investing is exciting. It’s dynamic, competitive, and glamorous. Chasing the next great investment or outperforming the market scratches an intellectual itch and offers the thrill of potential upside.

Estate planning, by comparison, doesn’t exactly quicken the pulse. It’s technical. It’s slow. And by contrast, it’s boring. But boring estate planning might create a more lasting financial impact than a market-beating investment.

The families that build the most wealth across generations are the ones that look beyond just investment alpha. They commit the same attention, expertise, and discipline to estate planning alpha and minimizing income tax drag. They recognize that being a good steward of family wealth means focusing not just on how much they can earn but on how much they can keep.

Chasing returns is exciting. Keeping wealth in the family for generations? That’s powerful.

*The example provided in this article is for illustrative purposes only and reflects the experience of one client. Results will vary based on each family’s circumstances, planning strategies, and future tax laws. The comparison is based on planning assumptions and analysis at the time.*


## John Jennings

*President and Chief Strategist of ArchBridge Family Office*


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