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Family Wealth Continuity

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Many wealth creators and business owners share the dream of perpetuating family relationships and family wealth for many generations to come. That's no easy task. Despite numerous structures, plans and processes designed to ensure the sustainability of a family's wealth, many estate plans and business succession plans fail to achieve a family's desired outcomes.

Family Wealth: Assets and Relationships

In my recent book, *Family Wealth Continuity: Building a Foundation for the Future*, I define family wealth continuity as: success at preserving both a family's material assets (such as a family business, a family foundation or other financial assets) and good family relationships.

It is certainly possible to create financial or legal structures that are likely with a high degree of probability to preserve financial assets over time. They can be locked up in trusts, family involvement can be minimized, and long-term growth can be emphasized without regard for short-term benefits to family members. This approach may be good for the assets, but it's probably not good for the family! When families do take this approach, I imagine family members sitting around a conference table with "The Money" at the head of the table demanding: "Grow me! Grow me!" as though that was the most important immediate task for all to accomplish. When The Money has such a significant role in the life of the family, family members may see little purpose in spending time together, may lose positive feelings about a legacy they share, and indeed may even come to resent the role of The Money in the life of the family.

On the other hand, families might do everything necessary to ensure peace and harmony among family members and to secure good relationships across generations, but an emphasis on "peace at all costs" can prevent relevant matters from being discussed openly, and may thereby lead to a breakdown of both, wealth continuity plans AND family relationships.

Aligning Dreams and Reality

In my view, the key to successful wealth continuity (i.e., preserving both family relationships and family assets) lies in ensuring that the structures created to preserve family assets are aligned with the hopes, dreams and capacities of family members.

Preserving family relationships and wealth across generations must start with a dream – a dream of wealth preservation and family engagement. But that dream must not be a fantasy – that is, it must be rooted in the reality of the family.

> *An entrepreneur in his late sixties requested my advice in establishing a family office. He and his sister had inherited significant wealth from their parents and he was intent on keeping their money invested and growing together, and on securing the entire family as active partners. He viewed a family office as a vehicle for achieving both goals. Further,*

he thought his 35-year-old son would be a natural leader of the family office. [1]

"This sounds like a good idea. What is your son doing now?"

"Well, he's unemployed. But he's studying for his MBA."

"Oh. How much longer until he graduates?"

"He hasn't quite started yet."

"And what does your sister think of this plan?"

"I'm not sure."

"Why not?"

"We had an argument a year ago and we haven't spoken since."

The entrepreneur I describe above dreamed of wealth continuity, but he lived in a fantasy world. He wanted to preserve something that may never have existed!

While a family office might have been an excellent structure for preserving this family's wealth and keeping the family together, the absence of any meaningful communication between the two principals, and the lack of preparation of the anointed leader of the family office are clear indications that this man's dream of wealth continuity may not be properly rooted in reality.

Although somewhat extreme, this is not an uncommon scenario. Wealth creators and family members dream of continuity and are frequently advised to create structures such as estate plans, dynasty trusts, family offices or family foundations. However, the family itself – the family culture, family history or family capabilities – may not support the financial structures.

Is Wealth Continuity the Right Choice?

The vignette above illustrates the need for a fundamental first step in developing a plan for family wealth continuity: deciding whether in fact continuity across generations makes sense for the family. Because sometimes the best path for a family – and this may seem anathema to some family members and their advisors – is to NOT pursue a plan of continuity for the family as a whole, but to separate individuals and their assets.

The second-generation leader of a 75-year-old family business had hoped to keep the business in the family for at least another generation. The business was financially successful and two cousins were active in the company. But historical conflicts in the family, divergent careers of the third-generation cousins, and geographic dispersion (some lived in the US, others lived in the UK) led him to the conclusion that the family would be better served if the business was sold and family members were free to deploy their wealth individually, rather than on a communal basis. Although some family members initially objected because they valued the legacy of the business, they all eventually agreed to this plan. Today, most family members enjoy comfortable lifestyles and continue to attend annual family gatherings where their only tasks are to discuss joint philanthropy and enjoy their time together.

Is family wealth continuity right for your family? This decision should be one that is carefully considered, over time, with all options – staying together, divesting, or some combination – on the table.

Here are a few questions that should be addressed in considering the viability of a wealth continuity plan for your family.

What is the purpose of our wealth?

Preserving wealth and family relationships across generations is a noble undertaking, but not necessarily the only or the best undertaking for a family. Supporting future generations is one possible purpose of a family's wealth, but it's not the only one. And even if supporting future generations is the purpose, there are different ways to get there.

A recent article discussed the observation that an inheritance of $1000 could be made to last in perpetuity, providing annual distributions of $100 a year, rather than being spent all at once. The author concluded "… given the choice, …a lot of grandparents would prefer that scenario compared to the check and oblivion."[2] Although these are modest sums, the implication is clear: money that lasts a lifetime is preferable to a one-time gift. That may be true in some, or even many scenarios, but is that always the case? Is a budding scientist really better off with annual $100 distributions than having the capacity to purchase a $1000 microscope one time? Indeed, a one-time gift of a microscope to a young beneficiary might one day result in the creation of far more wealth than yearly distributions – and bring far greater satisfaction to the life of the beneficiary.

There is really no "one size fits all" when it comes to family wealth continuity. If you are planning to perpetuate wealth over generations, you should have a deep understanding of the plan's purpose and goals and to be able to communicate the these expectations to the family members affected. A good way to do that is by asking questions and getting to know one's beneficiaries.

In one family, two brothers who were second-generation owners of a successful business were convinced that their children would be happier and better off if the business was sold. "After all, only one of our kids is working in the business," one brother said. "Even though we don't need the money, a sale could enrich everyone." So they decided to hold a family meeting and the first question they asked their children was: "What's the purpose of an inheritance?" To their surprise, the cousins all agreed that keeping the business in the family would be the greatest gift they could receive. The brothers voiced their utter surprise at how little they understood the goals of their children!

Whose dream is it?

As discussed above, wealth continuity begins with a dream. But if it's only one person's dream, then there is relatively little likelihood of the dream persisting over time.

Some time ago, the owner of a 500-miillion-dollar company asked whether I might assist with business succession planning.

"Of course," I replied. "What's the situation?"

"Well, our company has been a wonderful success. Our customers and employees love us. Our family have grown rich both financially and spiritually and I want this to continue after I am gone. I've been planning and preparing and dreaming for years that my oldest son will take over after me. He is terrific."

"That sounds great. What's the problem?"

"He just quit to become an investment banker."

In the above scenario, the son had his own dream that the father neglected or was unaware of. Wealth continuity is most likely to be successful if the dream is shared by others – among members within a generation, as well as across generations. There are many ways to share this dream, here are a few:

- Regular and open communication about individual and family goals.
- Sharing stories about the origins of family wealth.
- Asking questions of family members and inheritors about their dreams and wishes for the future.
- Identifying areas of joint interest across the family where the wealth can be deployed through philanthropic giving, investment, etc.

Do family members have any choice?

I worked with a fourth-generation, multibillion-dollar family business where multiple trusts had been created providing distributions to five cousins. The distributions were held in individual investment accounts and the family patriarch had made it very clear that the only acceptable investment for the cousins was in the family business. The cousins were responsible beneficiaries and were concerned about concentration in the single stock of the family business. However, they understood their grandfather's view of diversification – not OK! – and were reluctant to raise the issue with him personally or in family meetings. Nevertheless, they talked about the issue amongst themselves at great length and this led to significant unrest in the family.

I have seen this many times. The lack of choice often leads people to crave freedom of choice, resulting in displeasure and opposition.

When, finally, family advisors encouraged the cousins to put this issue on the agenda at a family meeting, their grandfather surprised everyone by agreeing to the principle of diversification!

Perhaps not surprisingly, once the cousins knew they had a choice, the issue went away and they all continued to purchase stock in the family company. However, by reaching an agreement with regard to a wealth management approach, the family was able to arrive at a joint purpose that was inclusive within and between generations. The process of collaborating in managing financial assets in turn strengthened family relationships. It created buy-in and ownership of the outcome and generated a feeling that all contributions were valued and respected.

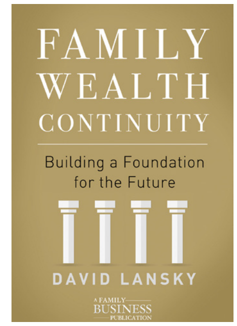
Many wealth continuity plans lock people together providing few options for how money is to be managed, by whom and with which co-beneficiaries. While there are of course certain basic requirements of any effective financial structure, to the extent that options are available – to make personal financial decisions, to align with certain others or not, or even to exit – the structures will be strengthened and relationships enhanced. This increases the likelihood of preserving both, family relationships and financial assets.

[1] The vignettes are based on real families, with identifying information disguised.

[2] Martin, Scott. *Easy Come, Easy Go: Why 35% of Americans Squander Their Inheritance* November, 2015

Thanks to my colleague Jennifer Pendergast for her comments on an earlier version of this article.

More information about this topic can be found in David Lansky's book: *Family Wealth Continuity.*



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