FAMILY SAVINGS

Wealthy Families Need More Than a Financial Succession Plan: They Need a Process

A true succession plan is about much more than an estate plan. It's about fostering open communications and getting your family on the same page about your values and your goals.

by: **Sara Montgomery** - July 15, 2020

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Wealthy families can have balance sheets as large and complex as sizable businesses.

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But when it comes to planning for the future, they usually don't employ the same depth of resources that a CEO calls on to make informed, collaborative decisions.

This can lead to poor decision-making processes that not only hurt the family financially but are also detrimental to establishing strong communication and building trust.

The head of a family will often have the technical structure in place for estate planning, a business sale or other types of major wealth events. If the rest of the family members aren't privy to these plans, they'll likely be ill-prepared to understand and meet the expectations of executing said plans.

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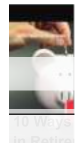

Families in these scenarios need a process to build and execute a robust and durable succession plan. It should be an ongoing, multiyear process that encompasses the varied personalities, goals and tensions in the family. Successful strategies consider wealth in terms of both human and financial capital.

When a major event or change occurs, a family that has educated itself in this way will be better prepared emotionally and financially. They'll appreciate the sacrifices and intentions of the older generation and be more motivated to take responsibility.

The following are three pillars that should be central to a family's planning process.

1. Establish identity and mission

Families should set out the core principles, values and goals for which they stand. This provides a guiding light for all future decisions. It also helps individual family members identify with whom the family was, is today and will be.

This could take the form of a family mission statement or a broader statement of purpose. Families and wealth coaches may use values cards or other exercises that generate discussion and help build consensus. Others start by capturing their family history and key family decisions that exemplify a family's core principles.

2. Educate

Identify the gaps in family members' knowledge that affect their ability to understand and participate in the process. Adult children, for example, may need help to understand a trust and a trustee's responsibilities or the legal framework around wealth transfer taxes. If one child is an artist and another a banker, they may have very different educational needs.

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It's important to acknowledge individual interests and strengths when families go down the path of formal education. Diversity of thought and expertise is beneficial to the family. For group discussions, it's often easier to start with less technical topics to level the playing field.

Philanthropy is an easy place to start. Family members can practice voicing their opinions, listening to one another and even disagreeing on grants to organizations. If the family is using a donor advised fund or foundation, participants will also gain exposure to investment and finance concepts.

3. Engage the next generation

It helps when older generations are open to understanding the values of their children while holding true to their own values. Rather than trying to come to an agreement, the goal is to have an understanding and appreciation for differing values and perspectives.

Parents often come into the process thinking it's all about the money, only to find that their children are more interested in discussing what's relevant to them and their stage in life, such as major life events like purchasing a home or changing jobs.

We recently worked with a family that's been having an annual family meeting for the past three years. The adult children are now driving the agendas and have requested that time be carved out for personal learning and development discussions as well as investing their own portfolios and 401(k)s. These topics will serve the family's long-term objectives well while being immediately relevant and applicable to individual participants, likely increasing participation and engagement.

Before these steps are taken, families need to lay the groundwork by opening up communication and getting buy-in for the process from all involved. Values, goals and concerns need to be aired and addressed before getting to the nuts and bolts of a plan.

Expect some tension, but work through it

This often will be the first time that succession matters have been shared and discussed in any depth, so tensions and insecurities may arise, which is OK. This stage of the process isn't about getting everyone to agree; it's about learning to disagree in a constructive manner and understanding that love doesn't equal agreement.

One common obstacle is a reluctance by parents to kick things off because they feel their children aren't ready for the discussion (although they usually are). They may be wary of sharing every detail of their balance sheet with their family. If so, this can be done in a limited way without making the process less effective without making the process less effective.

Family members will have different skill sets, experiences and personalities that need to be accommodated. Others may feel they don't have a full seat at the table. For example, if one spouse has traditionally had more control over financial issues, there may be work to do to reassure the other partner they now have an equal voice in the process.

One way to engage the whole family and to support buy-in is for family members to utilize any variety of personality trait tools, such as **CliftonStrengths**, **MPVI** or **DiSC**. This may sound intimidating but in actuality, it breaks the ice and helps to start the conversation in a way that's often light-hearted. Family members start to think in new ways about their different strengths and motivations.

Once you've opened up lines of communication, set your goals

It also naturally leads to another important part of the process: identifying family goals and priorities. For example, an overarching goal might be for the eldest child to take over a business, with others participating. Or it could be to create a family office with all the children responsible for overseeing the assets. The plan might include stewardship and philanthropic endeavors as well.

The next step is figuring out what tools and resources the family needs to achieve those goals. Do they have a trusted attorney and accountant? Would it help to bring in a third-party facilitator skilled in family dynamics and multigenerational wealth transfer to facilitate discussions and navigate any tensions or disagreements?

Take your time, and realize it's a process

It should be clear by now this isn't something that can be ticked off in a three-hour workshop. It requires regular check-ins and meetings, perhaps once a quarter at first and then less frequently. Families may already be getting together for vacations. so it might be a case of setting aside some extra time for this type of conversation. Families also look to the holidays, but that generally isn't an ideal time to go down this path.

Once the groundwork is laid, families can tackle the more detailed elements of planning on much firmer footing. The family should emerge from the process better equipped to sustain all forms of its capital for generations to come, through good times and bad.

Intrafamily Loans: The Good, the Bad and the Ugly

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