LEGACY FAMILY OFFICE®

WEALTH CONTINUITY: *An Heir Raising Experience*

The transference of family wealth has long presented a challenge for families. Over time, and in many different cultures, it has been called many things. You may have heard the proverb, "Shirtsleeves to shirtsleeves in three generations." In Japan, the expression goes, "Rice paddies to rice paddies in three generations." The Scottish say, "The father buys, the son builds, the grandchild sells, and his son begs." In China, "Wealth never survives three generations." * Regardless of how you phrase it, only 30% of affluent families are able to transfer wealth to the second generation, and only 10% percent to the third. Worldwide, there is a 70% failure rate in wealth transitions – regardless of country, tax laws, or economic cycle.

This leads us to ask - what causes such an epidemic chipping away of family wealth?

- 60% caused by a breakdown in communication and trust within the family unit (lack of reliability, sincerity, competence and communication)
- 25% caused by inadequately prepared heirs
- 12% caused by other factors such as taxes, legal issues, etc.
- 3% caused by failure of financial professionals to correctly interpret taxation, governance, and wealth-preservation issues

Family dynamics – how family members interact with each other individually and with the family as a whole – is the largest single factor in the long-term success or failure of wealth transfer.

Over the next 50 years, we will experience the largest intergenerational transfer of wealth in history. In the coming decades, between $41 trillion and $136 trillion will pass from older Americans to younger generations, suggesting that roughly $1 trillion to $3 trillion in wealth will change hands every year.

These statistics are alarming for many reasons. In the coming decades, vast amounts of wealth will be transferred to family members who, by and large, are unprepared to manage it. This overwhelming failure to transfer wealth beyond the second generation represents an inability to preserve and pass on a family's legacy.

So, what can a family do to prevent this? Once a family understands the factors that contribute to a successful transfer, as well as those that contribute to failure, they can begin to focus their attention and energy to effect change. Initiating communication is the critical first step.

*Source: https://familylinevideo.com/family-documentaries-three-generations/

SUCCESSFUL FAMILIES ESTABLISH FAMILY MISSION

Many families who successfully sustain wealth over multiple generations embrace a family mission. In fact, research shows that the 30% of families who successfully transfer their wealth do so with broad and well-thought-out planning and intentional preparation for heirs. This includes identifying a family mission statement. A family who embraces a unified mission often has a clear understanding of the purpose of their wealth, and a connection to their legacy as a family. If a family's heirs understand and support the family's identified mission, they are more likely to protect and nurture their wealth, instead of squander it.

WHAT IS A FAMILY MISSION?

Many families have a collective legacy they wish to foster. Mission statements clearly verbalize a family's legacy, what they wish their wealth to accomplish, and how they wish to accomplish it.

For example:

We, the Goodrich family, will embrace education as the foundation for our family culture, and further educational opportunities for those who cannot afford education. We will do this via our family foundation, community involvement and mentorship programs.

Mission statements do not have to be specific. They can be more broad:

We, the Parsons family, will endeavor to use our family wealth to improve the lives of children in the state of Florida.

Whatever the mission statement, it should be a group effort. All family members should participate in the creation of the family mission.

SUCCESSFUL FAMILIES FOCUS ON COMMUNICATION AND GOVERNANCE

Communication among family members is extremely important. Establishing formal and informal platforms for communication both enhances trust between family members and allows all family members a way to contribute and voice concerns. In addition, families should establish a decision-making process and family governance structure. Successful businesses often have formal governance meetings and structures, so why shouldn't your family? There are many ways to establish communication, many of which are improved by technology.

Here are a few successful strategies we've seen over the years:

- Yearly or semi-annual family meetings to address challenges, family decisions, investment strategy, or just to see each other
- Virtual Skype meetings to address a particular issue, challenge or question
- Conference calls
- Group emails
- Social media private family groups
- Group texts

SUCCESSFUL FAMILIES FOCUS ON CREATING VERSUS CONSUMING

When it comes to wealth, the family members who created it don't always consider the difference between creating and consuming wealth, or the impact of the latter on younger generations. Older generations in the family have spent lifetimes creating wealth. They have sacrificed, worked hard and focused on making sound, well-informed decisions. Often, subsequent generations have no experience with wealth, other than to consume it. Wealth creators should be asking some important questions about the potential impact of great wealth on younger heirs, and how best to prepare them to handle it:

- How much will help them?
- How much will hurt them?
- Will the wealth distract them or short-circuit their personal achievements and financial independence?
- What about enabling the underachieving heir?

For some families, leaving too much can actually impede the personal development of younger family members, depriving them of the reward of hard work, initiative, and self-sufficiency.

NURTURING ALL FORMS OF FAMILY CAPITAL

When looking at a family's entire wealth picture, we have to admit – it's not all about the money. There are several forms of capital a family has to nurture, protect and grow – here we take a brief look at all four.

HUMAN CAPITAL

What is human capital? Human capital refers to the non-monetary resources, knowledge, talents and inherent characteristics that define family members. While hard to measure and define, it is critical. Families who are able to effectively develop the human capital of their family members are often:

- Effective parents and grandparents
- Effective communicators
- Able to establish a consensus among family members for decision-making
- Practiced at conflict resolution
- Focused on values, morals, ethics, spirituality
- Able to display leadership and stewardship

INTELLECTUAL CAPITAL

Intellectual capital can be defined as the specific knowledge, professional experience, educational background and specific talent that enabled a family to develop wealth to begin with. Recognizing and developing intellectual capital is also important when it comes to successful wealth transition. This allows a family to harness and capitalize on these talents and knowledge – and most importantly – pass them on to the next generation.

In preparation, the most successful future stewards of wealth often undergo an additional level of education when they are young, including:

- Basic financial planning or accounting
- Investment education
- Coaching and mentoring
- Governance (group decision-making process)
- An overview of the trustee/beneficiary relationship

SOCIAL CAPITAL

While not often a focus, social capital is important to many affluent families. Social capital can be defined as the philanthropic mission, activities and long-term objectives of a family. A family's social capital can be a defining characteristic that binds family members together, and can be an anchoring point to connect the family with the capital they seek to sustain. When the family can rally behind a common cause, they are more likely to work together as a unit. The consistent, pervasive, and effective expression of generosity is one of the most common public characteristics of a "Legacy Family."

FINANCIAL CAPITAL

In most cases, financial capital is given the most emphasis, with good reason. The financial capital of a family includes how the family's finances function, streams of income and liability, all assets and liabilities, investments and taxes. Heirs should have a basic understanding of:

- Creating, managing and investing wealth
- Effective transfer strategies
- Next generation financial education
- Family business issues
- The psychology of investing

BRINGING IT ALL TOGETHER

Successful wealth transfer from one generation to the next is possible. Clearly, there are many moving parts to consider in raising heirs who will maintain family continuity and continue to focus on long-cherished family values. Naturally, each generation will want to make their own mark and contribute to the family legacy, at least in part, in its own way. However, those families who thoroughly prepare for the coming wealth transition will be well-positioned to raise and prepare heirs who can sustain the family's wealth while maintaining family continuity for future generations.

Here is a synopsis of the critical steps families can take to sustain wealth:

- Get buy-in: Hold a meeting for family leaders to discuss and decide on the family's mission and governance structure
- Openly, honestly and collectively assess the family's strengths and challenges
- Identify roles for family members within the governance structure
- Develop a family education curriculum
- Identify and share the family's legacy
- Align family values and wealth through family philanthropy
- Protect, nurture and grow the human, intellectual, financial and social capital of the family
- Evaluate your family's progress and refine the strategy

It's never too early to start, and it's also never too late. And it is the best investment a family will ever make!

If we may be of assistance to your family in your journey to becoming a "Legacy Family," please contact our office.

LEARN MORE HERE: http://www.legacyfamilyoffice.com

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