



LEGACY FAMILY OFFICE™

## Five Ways Wealthy Families are Preparing Their Heirs to Take the Financial Wheel

*We all know the proverb – shirtsleeves to shirtsleeves in three generations.* Families of substantial wealth rarely transfer their wealth beyond the third generation. In fact, only 30% of wealthy families are able to successfully overcome these wealth transfer odds. And yet...the 30% of families are doing something right. What are the best practices used by these successful families to sustain their wealth to subsequent generations? What can we learn from them? Here, we discuss the challenges and the best practices used by wealthy families all over the world to pass on their wealth – and their legacy – to the generations that follow.

### CHALLENGE 1

#### MY “HEIRS” HAVE NO CLUE HOW TO MANAGE THEIR OWN FINANCES. HOW CAN I PREPARE THEM?

#### SUCCESSFUL FAMILIES EMBRACE NEXT-GENERATION PREPARATION

Wealthy families have often worked for decades to build wealth. They have knowledge, skills, talents, business practices and often an entrepreneurial spirit that has led to their success. So, when it is time to pass their wealth on to their heirs, why is it assumed that the subsequent generations of family members will have these same talents? Often times, the second generation is involved (at least in some capacity) in the wealth creation, while the third is not at all. This can lead to a total disconnect from the family culture that led to the wealth creation in the first place.

How can a family prepare for these challenges? How and when should families include their heirs in the planning? The answer is that families should start early. Heir preparation should be woven into a family’s culture so that when it is time to discuss wealth transfer, a family’s heirs are prepared to make good financial decisions.

#### SUCCESSFUL FAMILIES EMPLOY SOME OF THESE BEST PRACTICES:

*Investing in basic financial education for all of its members*

*Encouraging a sense of entrepreneurship from a young age, including small allowances for “start up investments” to provide them with safe, yet educational, experiences*

*Allowing children to “apprentice” in the family business*

*Teaching young children the concept of saving, spending, sharing*

*Carving out time at each family meeting for financial education*

*Maintaining a strong family culture that respects and encourages individual achievement and self-actualization*

*Fostering a culture where all understand and accept the challenges and responsibilities of significant economic wealth*

There are some great educational materials to support and guide families – please contact our office for a list of books that can be helpful for parents and grandparents.

## CHALLENGE 2

### HOW DO WE INSTILL A “FAMILY CULTURE”? WHERE ARE WE HEADED AS A FAMILY? WHAT DO WE WANT OUR WEALTH TO ACCOMPLISH?

#### SUCCESSFUL FAMILIES FOSTER FAMILY UNITY BY ESTABLISHING A MISSION AND VISION

A mission statement is a relatively brief statement that encapsulates your family’s purpose, goals and standards. Ideally, all members of the family should have a hand in articulating these values and agree to live by them. When the family is spread out across the country – or the world – and communicates in different ways, it can seem nearly impossible to pass the family’s culture, purpose and values on to the next generation. Factoring in generational differences makes the challenge even more daunting. The problem is that without a common mission and vision for the family’s wealth, it can be easy for a family to splinter, for communication to break down, and for each family member to pursue his/her own objective instead of the family’s mission.

How can a family establish a mission statement? How do you identify the shared values that will anchor the family?

#### HERE ARE SOME WAYS A FAMILY CAN BEGIN:

*Gather together.* Families who are able to regularly meet are typically able to discuss critical issues easier than ones who never see each other. Take initiative to schedule family meetings with advanced notice and provide funding to attend.

*Create a family mission statement.* It might include such topics as how the wealth was achieved, the life experiences that have shaped your financial philosophy, what the wealth means to you (how it is important to you) and the values you wish to pass on to future generations.

*Incorporate education/financial preparation* into the family’s mission statement and provide resources to accomplish this.

*Establish philanthropic priorities.* Family philanthropy is a cornerstone of most successful families.

## HERE ARE A COUPLE OF EXAMPLES OF FAMILY MISSION STATEMENTS:

“The Goodrich family mission is to strengthen our family and use its assets wisely; to enable our family and others to realize their fullest potential; to value and encourage love, work, self-sufficiency, and cooperation within the family and the larger community.”

OR

“The Goodrich family mission is to use our resources to strengthen our family and to support causes in which we believe.”

### CHALLENGE 3

## DO WE HAVE ENOUGH MONEY TO ACCOMPLISH OUR LONG-TERM FINANCIAL GOALS?

### SUCCESSFUL FAMILIES FOCUS INTENTLY ON LONG-TERM, STRATEGIC FINANCIAL PLANNING

It may sound basic, but a sound financial plan can perform modern-day miracles. Families can start by asking the question, “Do I have enough money to live comfortably until I die?” From this initial conversation, a whole host of developments should emerge, including a comprehensive list of a family’s goals and financial objectives. Whether those goals include paying for all G3 and G4’s education, buying a third family vacation home, or keeping a family farm, the financial objectives can be mapped out.

A comprehensive financial plan can reduce uncertainty and anxiety about future needs and resources necessary to meet those needs. The first step is to determine your current financial situation and develop a list of financial goals. As you evaluate alternative courses of action to help you achieve your goals, the best ideas become clear, allowing you to create and implement a plan of action. Having a knowledgeable, independent financial advisor walk you through the process can be quite beneficial. You should continue to reevaluate and revise your plan regularly in light of changing factors like the birth of children or grandchildren, marriage of family members and other significant life transitions.

### CHALLENGE 4

## HOW CAN WE KNOW OUR PLANNING STRUCTURES ARE RIGHT FOR OUR FAMILY?

### SUCCESSFUL FAMILIES GO BEYOND THE BASIC TRUST AND ESTATE PLANNING

While most wealthy families understand the need for estate planning, they often do not understand the need for it to be integrated into their broader wealth objectives. In addition, estate planning is often led by the matriarch or patriarch, without consulting other family members, and intentions are not communicated...until it’s too late.

In order to avoid unintended consequences, we encourage families to discuss long-term planning in advance of an emergency and communicate intentions during their lifetime. When planning includes a family business, succession planning should be addressed early, and the process should be as inclusive as possible.

After decades of working with wealthy families, we've learned that the successful families understand it's never too early to begin planning. The family who plans in advance is able to manage challenges, and make changes when necessary. And when the time comes to pass the torch, the outcome will not surprise anyone. This can significantly protect families from conflict arising from miscommunication.

#### IN ADDITION TO STARTING FAMILIES EARLY, FAMILIES CAN:

*Work to educate beneficiaries and trustees regarding the terms of trusts*

*Openly communicate regarding the roles and responsibilities of both trustees and beneficiaries*

*Openly discuss the selection of trustees and family advisors*

## CHALLENGE 5

### HOW DO WE MAKE DECISIONS AS A FAMILY? WHO'S IN CHARGE?

#### SUCCESSFUL FAMILIES ESTABLISH DECISION-MAKING AND GOVERNANCE SYSTEMS

Family governance strategies can make a significant difference in a family's ability to overcome the challenges associated with wealth. Making decisions collectively as a family can be difficult. Without a way to channel feedback, achieve a consensus and implement changes, a family can splinter and become divided. These rifts can last years, crippling a family's opportunity for long-term success.

A family governance structure allows families to learn how to set expectations and effectively make group decisions. A family board of directors or family council focuses on the succession of leadership and the next generation's development and education as well as establishing more formal processes and/or rules for how the family will operate. With leadership roles clearly defined, all family members are informed and able to voice opinions, express concerns and participate in the process.

#### HOW CAN A FAMILY BEGIN THIS PROCESS?

*Schedule regular family meetings with a structured agenda to address challenges in a neutral, professional way*

*Consider using an experienced third-party facilitator to lead family meetings*

*Draft family policies to address conflict*

*Elect a family board of directors or family council*

*Gather as a family to discuss succession planning*

*Commit to resolving conflict in a fair, equitable way*

We know the odds are daunting, but starting with these tried and true best practices can help a family beat the odds and become a flourishing multi-generational family.

If you would like to discuss these and other best practices, please feel free to contact our office.

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