

Family Dynamics & Intergenerational Conflict: Family Governance as a Tool for Preserving Family Wealth & Harmony

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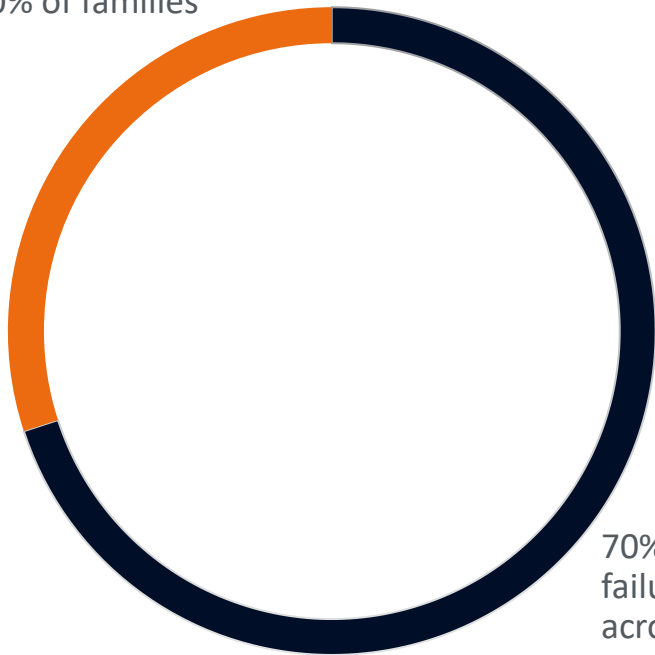
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The Landscape

Factors Predicting *Failure* in the Transition of Family Wealth¹

20-year longitudinal study of 3,500 families with average net worth ranging between \$15-70 million

Successful³ wealth transition achieved by 30% of families



70% wealth transition failure² rate observed across families

60% of transition failures were caused by a breakdown of communications and trust within the family

25% of transition failures were caused by inadequately prepared heirs

15% of transition failures attributed to ALL OTHER causes, including tax considerations, legal issues, mission planning, etc.

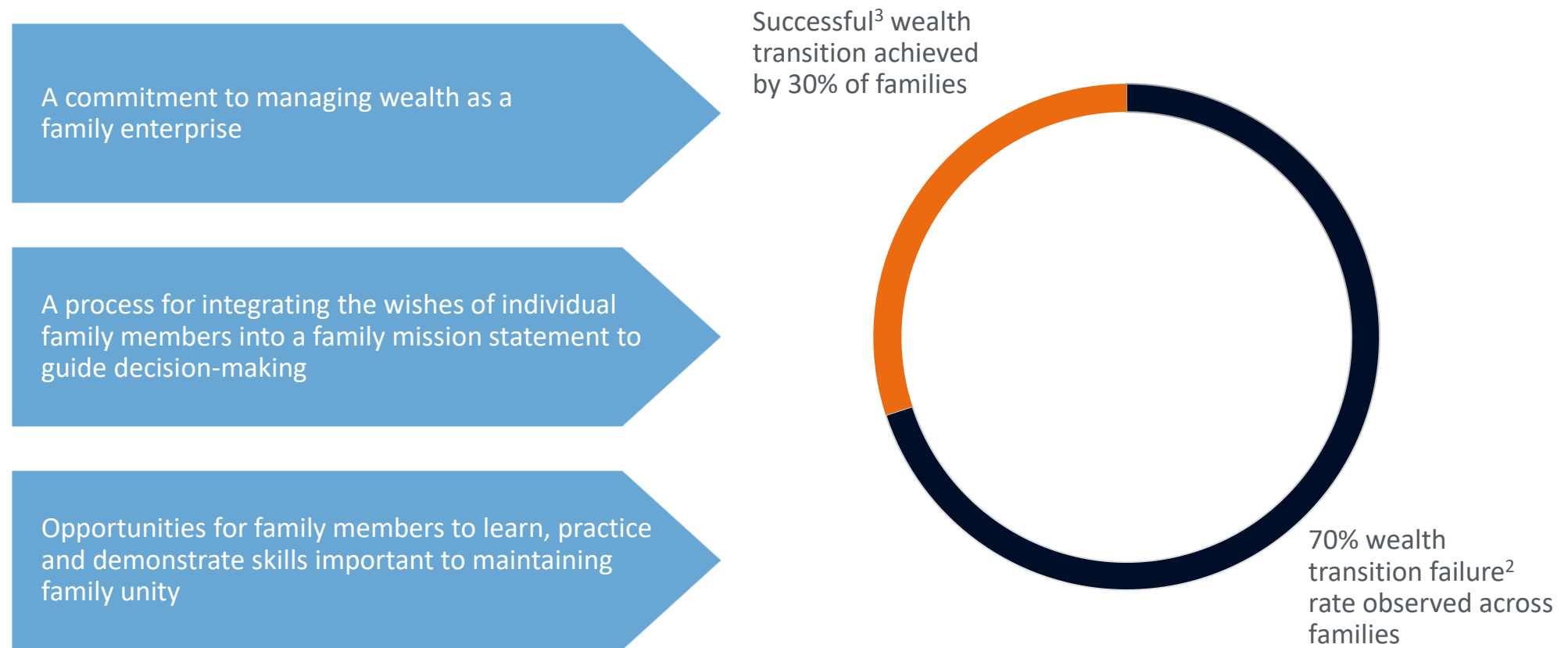
¹ Roy Williams and Vic Preisser, *Preparing Heirs*, (San Francisco, Robert D. Reed Publishers, 2003)

² Failure was defined as "involuntary loss of control of the assets"

³ Successful wealth transition was defined as "wealth remaining under control of the beneficiaries"

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Fundamentals of Family Dynamics

Fundamentals of Family Dynamics



Money Beliefs and
Associations



Money Skills



Communication Skills

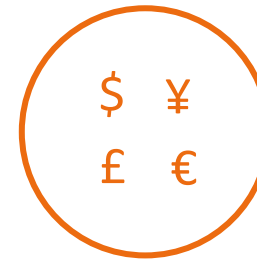
Money Beliefs and Associations

- Money is _____
- Wealth is _____
- Wealthy people are _____
- My greatest fears and concerns about money are _____
- The worst thing about money is _____
- The best thing about money is _____

Money Beliefs and Associations

Negative beliefs held by some may include:

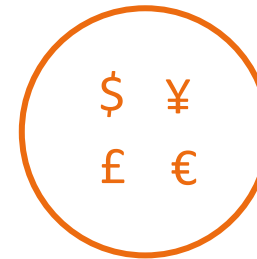
- Money is the root of all evil
- They are filthy rich
- They are just wallowing in money
- Rich people did something bad or dishonest
- A lot of money will make me less spiritual
- I'm not "good enough" to be rich
- Taking care of money is full time job – no time for other things



Money Beliefs and Associations

Negative beliefs held by some may include:

- Money corrupts creative endeavors
- It's not right to be rich, some have nothing
- Rich people are not happy
- If wealth comes easily, it is not worthwhile
- I resent extremely wealthy people
- I am a good giver, but not a good receiver
- Money creates substance abusers
- If I take more, others will have less



Money Beliefs

- We carry unconscious beliefs about the role of money
- Money beliefs drive behavior
- Money beliefs are a major source of conflict
- Money beliefs are the foundation of money skills
- To manage a relationship, you need an accurate sense of a client's money beliefs and money skills



Top 10 Money Skills

- 1 How to save
- 2 How to keep track of money
- 3 How to get paid what you are worth
- 4 How to spend wisely
- 5 How to talk about money
- 6 How to live on a budget

Top 10 Money Skills

- 7 How to invest
- 8 How to be entrepreneurial
- 9 How to handle credit
- 10 How to use money to change the world

- Raising Financially Fit Kids, Joline Godfrey

3

Communication Skills and Providing Information to Trust Beneficiary

Communication Skills

Four Content Types in any Interaction

- 1 Technical Content
- 2 Client's Emotional Content
- 3 Advisor's Emotional Content
- 4 Emotional Content in the Relationship

Communication Skills

Common advisor reactions

- Judging client's choices with money
- Judging the way clients made the money
- Feeling intimidated by the client
- Afraid to antagonize the client
- Advice affected by own career and salary
- Defensive if client criticizes work or fees
- Defining own success by clients' wealth



- Adapted from J. Bronfman

Communication Skills

Good Communication

- Fosters problem solving
- Promotes client loyalty
- Keeps ownership of problem with client
- Defuses strong feelings
- Prevents lawsuits
- Promotes client trust
- Preserves relationship in stressful times



What should we tell the children, Dear?

Settlor should decide what, when, and how much to tell

- ✓ **Less**—Concern that bennies will not be productive members of society
- ✓ **More**—Desire to bring next gen in early to “carry the torch”



If wealth is in trust, state law is default

Intent of grantor can't be followed if document is unclear, or silent on a point

A given state may require that more, rather than less, information be provided sooner, rather than later

Settlor should establish a beneficiary communications model which dictates the who, the what, and the when

Beneficiary Communications

- Currently a huge variation among states and trust law is often “thin”
- Uniform Trust Code drafted as a remedy
- Trend towards providing more information
- UTC requires trustee to furnish entire trust doc
- Contrast Uniform Probate Code—only terms of trust affecting the beneficiary's interest



Beneficiary Communications

UTC ADOPTED in 36 STATES:

Alabama, Arizona, Arkansas, Colorado, Connecticut, District of Columbia, Florida, Hawaii, Illinois, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Utah, Vermont, Virginia, West Virginia, Wisconsin, and Wyoming.

INTRODUCED: New York

<http://www.uniformlaws.org/>

- As default rule trends toward requiring more info, trustees may automatically send out all info required in a “worst case” scenario



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Family Governance

Benefits of Family Governance

- Families become more diverse and increase in number
- Forum to address difficult issues
- Accountability and professionalism
- Candid communication
- Important **structure** during crisis times
- Reduce propensity for destructive disagreement

Components of Family Governance



Clearly defined roles, responsibilities, goals & accountability



May include an independent board, a group of trustees, financial planner and other advisors.



Responsibilities vary based upon activities undertaken



One vs. several structures based on need



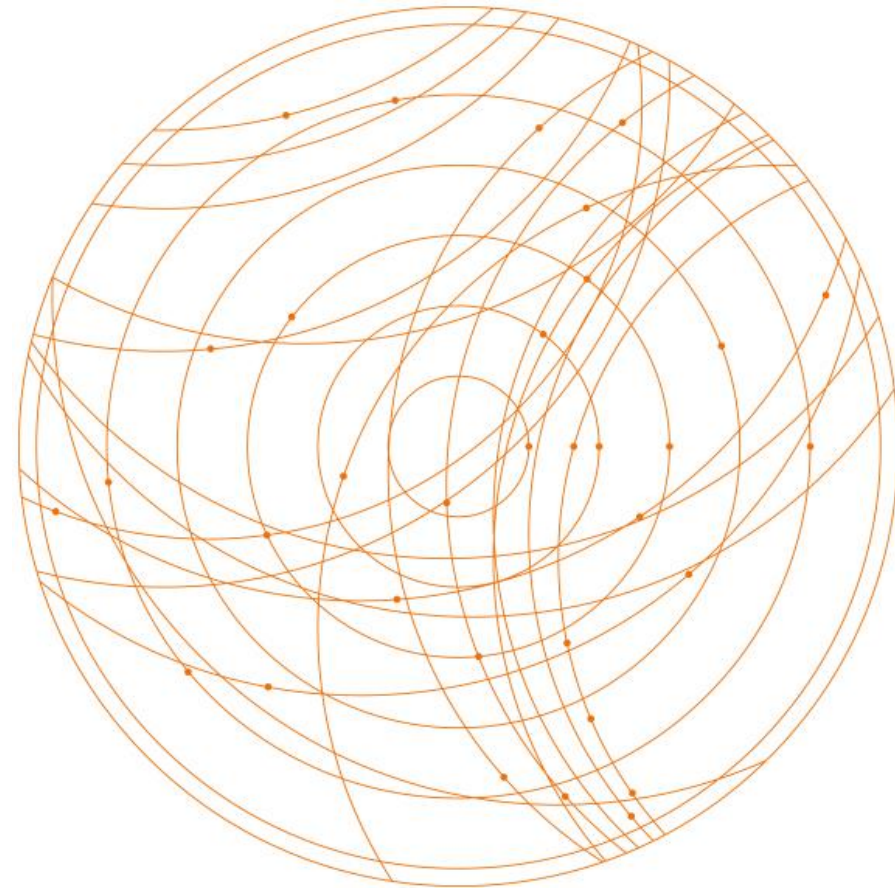
Match the complexity of the family

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Art and Architecture of the Family Meeting

What Is a Family Meeting?

- Formal multi-generational gathering
- Business meeting to discuss issues affecting or concerning the family
 - ✓ Finances
 - ✓ Relationships
 - ✓ Legacy
- Not a family reunion



How Can I Help My Clients With This?

- Assist the family in developing strategic direction
- Design meetings so family members will:
 - ✓ Establish and understand family lore
 - ✓ Identify shared values
 - ✓ Develop a common vision
 - ✓ Establish family governance
 - ✓ Understand each individual's role
 - ✓ Feel safe discussing difficult issues
 - ✓ Instill good financial stewardship in next-gen

Why Should We Do This?

- Important tool to preserve and perpetuate a healthy legacy
- Method by which the family can develop, grow and maintain itself across time
- Family Goals
 - ✓ Identify as a unique and united entity
 - ✓ Share significant information
 - ✓ Plan for the future
 - ✓ Assign family duties to members

Why Should We Do This?

Objectives

- Understand Family wealth
- Management and distribution of wealth
- Family business and succession
- Family history, traditions, vision
- Family governance
- Charitable legacy
- Learn about and from each other

The Family Meeting as an Event

- A turning point in a family's development
- Include a social component
- Include downtime
- Guard the privacy of the family
- Select neutral location
- Provide Childcare

Who Gets a Seat at the Table?



Participation should be dictated by the issues to be discussed

Invite all those who will be affected by the decisions made at the meeting

Who Gets a Seat at the Table?

- Multi-generational members
- Spouses and in-laws
- Trustees
- Financial planner
- Investment advisor
- Attorney, CPA
- Family business executives
- Family foundation executives
- Family business consultant
- Psychologist and other advisors

Rules of the Road

- Ground rules are critical
- Once established, they must be upheld
- Skillful Management of the Process
- Considerations
 - ✓ Elected leaders should treat all as equals
 - ✓ Safe forum for all to speak
 - ✓ Meeting agenda
 - ✓ System of record keeping
 - ✓ Consider a family historian
 - ✓ Point person to handle calls from childcare providers
 - ✓ Subcommittees for selected issues

How Much Time Will This Take?

- The family's current needs and state of development dictate frequency
- Timing within the meeting
 - Time limits
 - Rest breaks
 - Check on children

What Should We Talk About?

- Provide a road map for the course of the meeting
- Relevant topics
 - ✓ Wealth
 - ✓ Business
 - ✓ History
 - ✓ Legacy
 - ✓ Inheritance/Estate Planning Objectives
 - ✓ Next Gen Education
 - ✓ Family Career Development
 - ✓ Difficult Issues

Specific Issues to Address

- Family and/or family business succession
- Set limits on control of family
- Establish operating agreements for partnerships
- Selecting board members or trustees
- Legacy goals
- Philanthropic and Private Foundation issues
- Current and future liabilities
- Skill sets of family members
- Review/alter investment policy
- Selling family business and non-business assets

Sample Agenda

- ① **Balance Sheet**
 - Assets
 - Liabilities

- ② **Risk Management Tools**
 - Insurance
 - Legal Matters

- ③ **Philanthropic Update**
 - Lifetime charitable contributions
 - Testamentary charitable bequests

- ④ **Wealth Transfer and Legacy**
 - Distribution plans
 - Desired outcome of the estate plan
 - Other issues

How Do You Spell Success?

- Goals should match the family's needs at the time
- Meeting preparation—pinpointing the relevant issues
 - ✓ Major challenges faced this past year?
 - ✓ Successes this past year?
 - ✓ What did you learn?
 - ✓ What are you passionate about?
 - ✓ How do you differ from other members?
 - ✓ How are you the same as other members?
 - ✓ What is the single most important issue family will face this year, in 10 years, 20?

How Do You Spell Success?

- Reports, materials and research
- Format
- Subcommittees

Summing Up


- Expect to synchronize soft and hard issues
- Be ready to:
 - ✓ Meet family members beforehand
 - ✓ Prepare advisors
 - ✓ Identify a reasonable outcome
 - ✓ Surface challenges and conflicts
 - ✓ ID any difficulties with locale
 - ✓ Assist with topics and alternatives
 - ✓ Manage complex discussions
 - ✓ Pinpoint privacy issues

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The Family Mission Statement

Family Mission Statement

A mission statement should make the family stronger, more cohesive and enduring, so that the successes of one generation can pass to the next generation.

- 
- Provides the foundation for a sound legacy plan
 - Inspire and motivate
 - Achievable and believable
 - Realistic but still visionary

Family Mission Statement

Effective mission statements encompass key areas



1) Values

The values and system of beliefs the family shares

1) Communication and information

How the family shares financial and other information among its own members

2) Action

How family members will manage the family's wealth, business interests, and charitable activities


3) Legacy

Hopes for the future of the family and family legacy

Identify Common Values

Themes:

history, family unity, trust, love, respect, harmony, education and personal development, tradition, charitable commitment, personal empowerment”

- 
- **Wealth:** To what end will the family manage and build its wealth? What is the meaning and purpose of the family wealth?
 - **Business:** how should the family business operate? In what industries?
For what purpose(s)?
 - **Philanthropic:** does the family as a whole desire to play a role in the community?
 - **Interpersonal:** how should family members behave toward each other?
How should disputes among family members be resolved?

Communication and Information

- Communication is critical to family unity
- How will the family share financial and other information among its members?



- **Governance:** how will the family "govern" itself? Will there be a designated leader, or will family interests be managed by consensus?
- **Meetings:** does the family need to meet on a regular basis? If so, what should the structure of such meetings be?
- **Discussion:** what subjects should the family discuss at these meetings?
- **Membership:** will these meetings include advisors?

Action

In order to effectively implement the family's values, there must be a system for managing its various interests.



- **Decisions:** how decisions will be made regarding family wealth.
- **Responsibilities:** who is in charge of what when it comes to managing family wealth, family business, and family charitable efforts.
- **Accountability:** how family members report back to the group with findings, results, or other information.

Legacy

Who had the most positive influence on you over the course of your life?

- What are your hopes for the future of the family?
- What legacy do you want to leave?
- What top three values are the most important to the family's long-term success?
- What values do you want to pass on to future generations?

Family Mission Statement

- Does not have to conform to any set of rules
- Can be prose or even poetry
- A phrase, a sentence, a page, or multiple pages
- May incorporate a picture, symbol, or motto
- Treat as a living document—adapt as time passes and circumstances change



Sample Mission Statement

Our family mission is providing the means to support and enhance family values; to provide freedom to pursue one's dreams and pursue what will make one happy; to provide independence to each generation through independent wealth; to educate each family member to the utmost; to serve as competitive capitalists, because this is the mechanism to sustain wealth; to serve as active stewards for the wealth of future generations; and for philanthropic purposes, to contribute some amount of time, talent and wealth to improving society.

Sample Mission Statement

From Preparing Heirs, Williams and Preisser, V. (2003)

- “To use our resources to strengthen our family and to support causes in which we believe.
- 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 in the larger community.
- To maximize the equitable transfer of my assets in a way that will enable and encourage my heirs to work for the benefit of humanity.”

Sample Mission Statement

From: Tom Chappell, Co-founder and CEO of Tom's of Maine

“We believe that responsible human beings and societies are

- Structured around the following commonly held values:
- Respect and appreciation for the natural world
- Service and stewardship
- The necessity for work and productivity
- An intentional commitment to goodness
- Family and community responsibility”

Sample Mission Statement

The Halls of Hallmark ("You care enough to send the very best.")

“Enriching people's lives and enhancing their relationships. Creativity and quality in products. Distinguished financial performance is a must, not as an end in itself, but as a means to accomplish our broader mission.”

Sample Family Mission Statement

The Bella Family Council was established to recognize that we have a stewardship responsibility for our business, our family and charity. The main goal of the Council is to have the family unit work together to carry on the tradition, values, goals and establish a clear path for the family's future on all objectives.

We are proud of our growth and accomplishments. We will continue to provide for the long-term success of the Bella family by demonstrating viable, honest communications, love, respect, trust and responsibility to both the business and the family. We will foster these values in our children and ourselves. We will always look for the best leadership for the family and the business, and they may be mutually exclusive.

We undertake the commitment to provide for the perpetuation and growth of Bella as a family owned business by:

- 1 Providing for a highly professional board of directors that is committed to the growth and improved financial strength of the diverse assets. We will expect the board to insure that Bella has a responsible strategic plan directly related to the mission, value and purpose of the family.
- 2 Committing ourselves to continued personal and professional growth.
- 3 Living the values of our family. Our actions will reflect these values and be evident to the employees, family members, customers and the community at large.
- 4 Taking the necessary steps to provide for the transfer of the business from generation to generation in a financially sound manner.

We believe that the family is important and we will support one another. All members of our family are encouraged to develop their abilities, intelligence, and talent as far as they are able through hard work, study and application.

We seek to provide all family members with the opportunity to fulfill their interests and capabilities, but not at the hurtful expense of the business.

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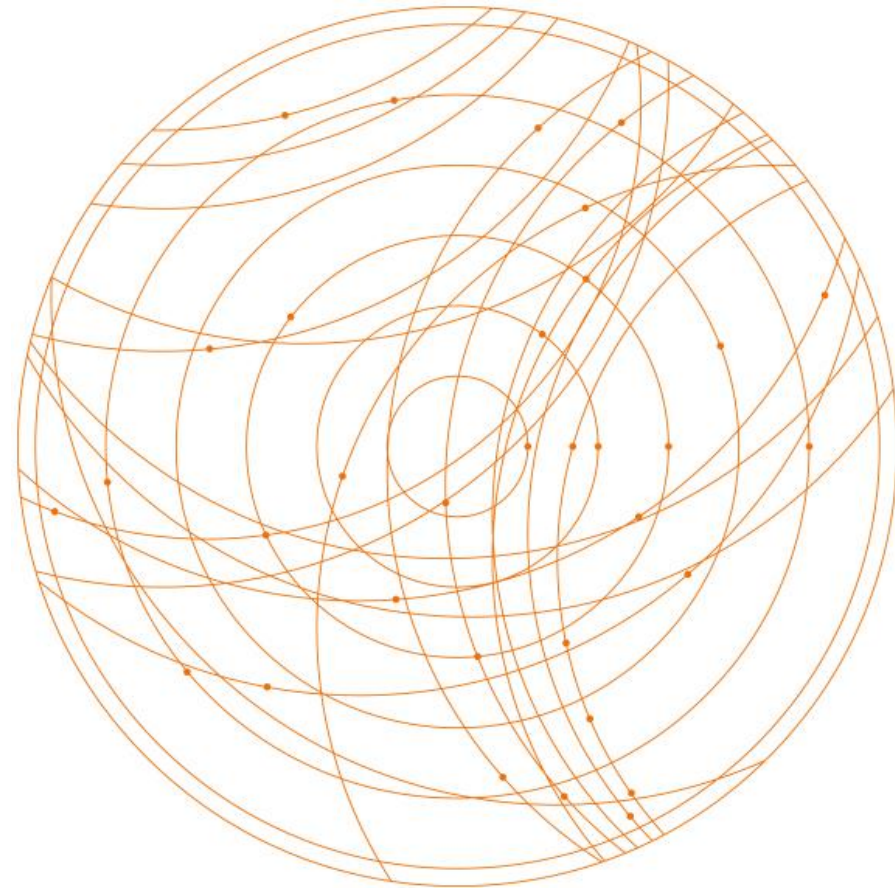
Addendum Resources and Best Practices

Suggested Reading List

- *Beyond the Grave: The Right Way and Wrong Way to Leave Money*, Condon
- *Wealth in Families*, Collier
- *Family Wealth: Keeping it in the Family*, Hughes
- *Silver Spoon Kids*, Gallo
- *Preparing Heirs: Five Steps to Successful Transitioning of Family Wealth and Values*, Williams
- *Navigating the Dark Side of Wealth*, Willis
- *Children of Paradise*, Hausner
- *The Ultimate Gift*, book and video, Stovall
- *Perpetuating the Family Business: 50 Lessons Learned from Long-Lasting, Successful Families in Business*, Ward

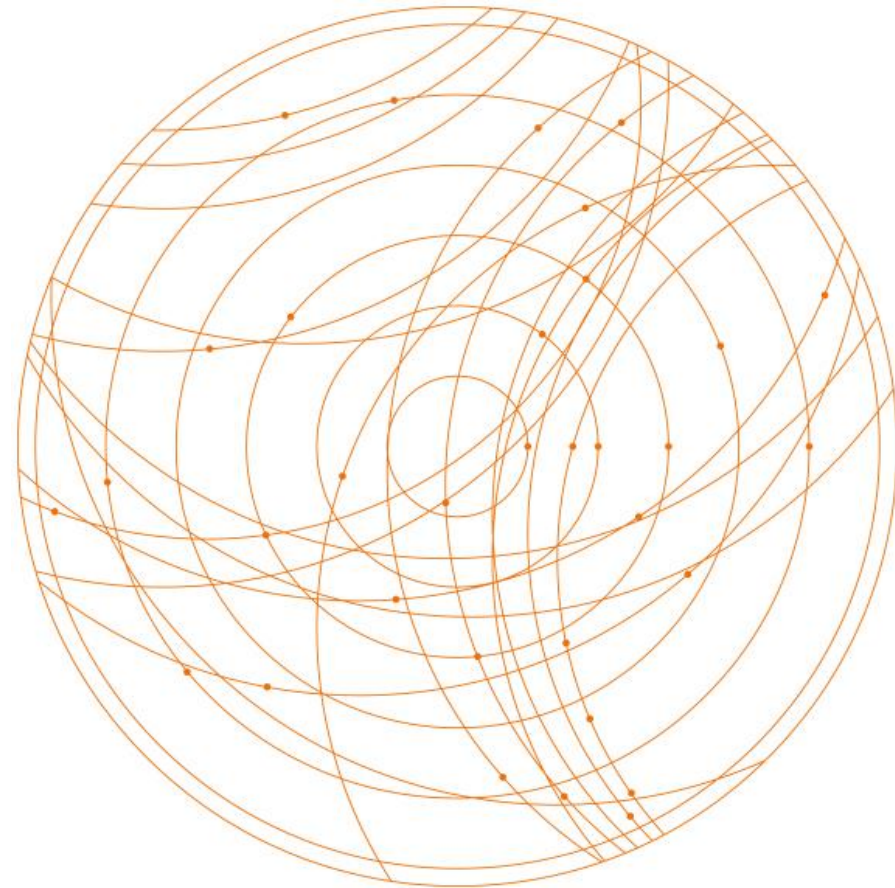
Best Practices

- Center around active listening
- You have to care
- Listen to the client
- Pay attention to body language



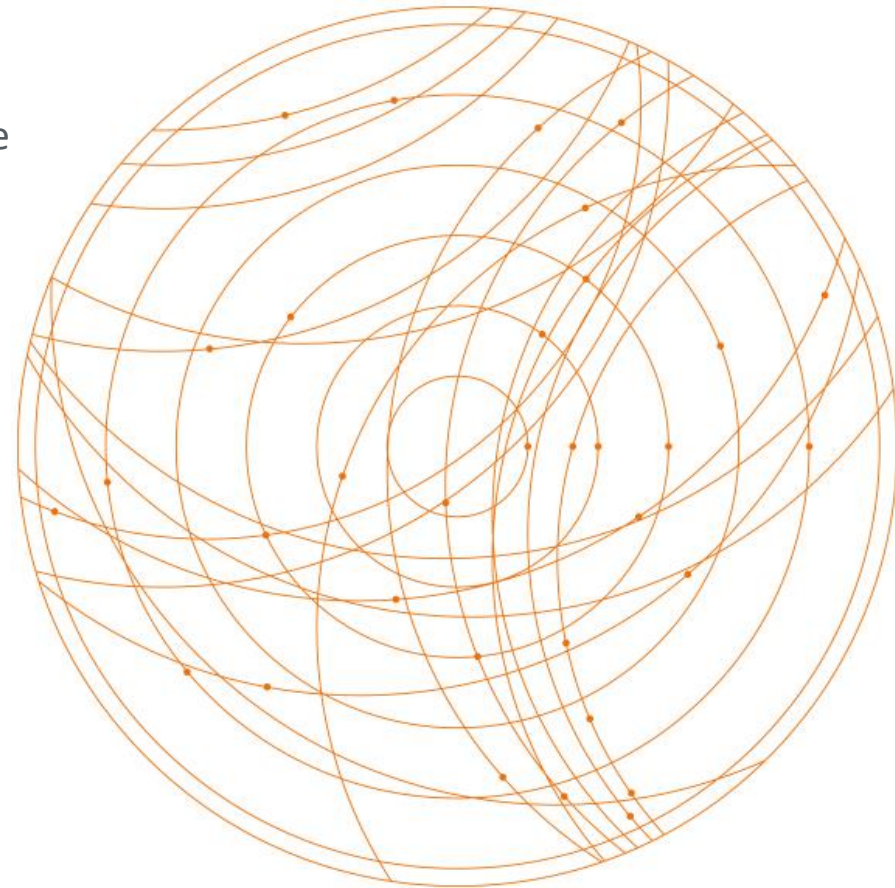
Best Practices

- Understand family dynamic first
- Find out what “gets ‘em juiced”
- Don’t let other advisors run away with the plan
- Watch for different behavior and professed goals at different times



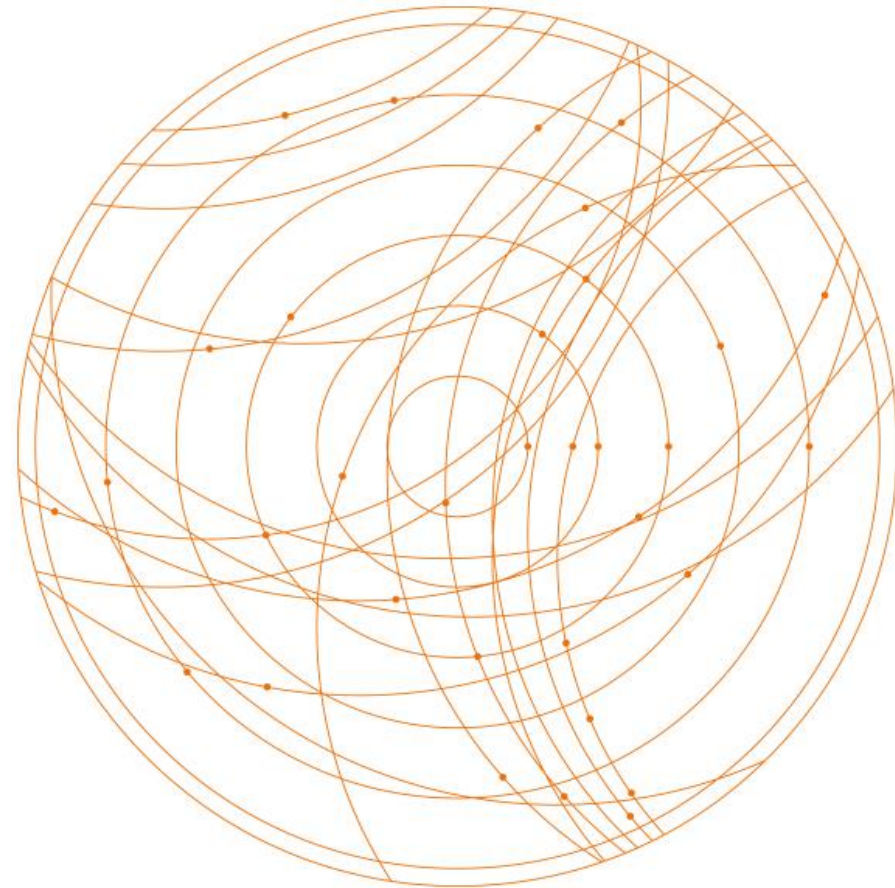
Best Practices

- Be sure everyone is on the same page
- Ask questions
- Listen to the answers
- Watch for this mindset: “I’ll tell you what we want to do – you figure out what it costs—and we’ll figure out how to pay.”



Best Practices

- Meet 'em where they are
- Establish plan for family communication and dialogue
- Family Meeting, Family Mission Statement as tools
- **Passing GO**





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Susan P. Rounds is Director, Head of Wealth Planning for the Western Region, Deutsche Bank Wealth Management – Americas.

Based in Los Angeles, Ms. Rounds specializes in providing services and solutions to clients in the areas of tax and estate planning, business succession, risk management, philanthropy, family governance, intergenerational wealth transfer and legacy planning. In a career spanning 25 years, Ms. Rounds has advised ultra-high-net-worth individuals, families, and privately-held business owner clients during her tenure in Big Eight Accounting, global financial institutions and private legal practice. Ms. Rounds was inducted into the NAEPC Estate Planning Hall of Fame® Class of '22.

As a noted national speaker, author and commentator, her articles have been featured in leading publications such as Trusts and Estates Magazine, The Journal of Practical Estate Planning, and The Journal of Private Wealth Management. Ms. Rounds makes frequent presentations at national seminars such as the Hawaii Tax Institute, as well as to Estate Planning Councils and other professional groups across the country.

Ms. Rounds sits on the Editorial Board for Opportunity Zone Magazine and has been named as one of the Top 25 Opportunity Zone Influencers in the country for 2018, 2019 and 2020. Ms. Rounds served on the board of directors for the National Association of Estate Planners and Councils for seven years and edited the NAEPC Journal of Estate and Tax Planning for nine years.

Ms. Rounds taught Federal Estate and Gift Tax at the University of Georgia School of Law, both Federal Income Tax and Principles of Accounting at the University of Georgia Terry College of Business, and all sections for the National CPA Examination, including Financial Reporting, Income Tax and Regulatory Reporting, Business Law, and Audit. She also served as a faculty member for the NYU Summer Institute on Taxation.

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