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Learn Lead Legacy: Creating a Healthy Dynamic Around Family Wealth

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The case for family education and succession planning

- \$84 trillion is estimated to transfer in the next 25 years.
- 70% of all wealth transfers fail in one generation.
- 97% of all multi-generational wealth transfers fail within three generations.
- Why do 97% fail?
 - 60% of failure is due to a lack of communication and trust within the family.
 - 25% of failure is due to unprepared heirs.
 - 10% of failure is due to no clarity of family purpose and individual place.
 - Less than 5% of failure is due to failures in financial planning, taxes and investments.
- Less than 1/3 of family businesses survive the transition from 1st to 2nd generation...less than 10% survive to the 3rd

Sources: Williams and Pressier, Investor.com, and * according to the U.S. Small Business Administration

Session overview

Less than 5% of wealth transfer failure is due to failure in financial planning, taxes, and investments. It's the family dynamics that are more often to blame.

Successful families engage technical resources to assist with investing, tax planning, and estate planning.

They should also engage resources to advise on communication, governance, and philanthropy, and to navigate the more difficult conversations/transitions.

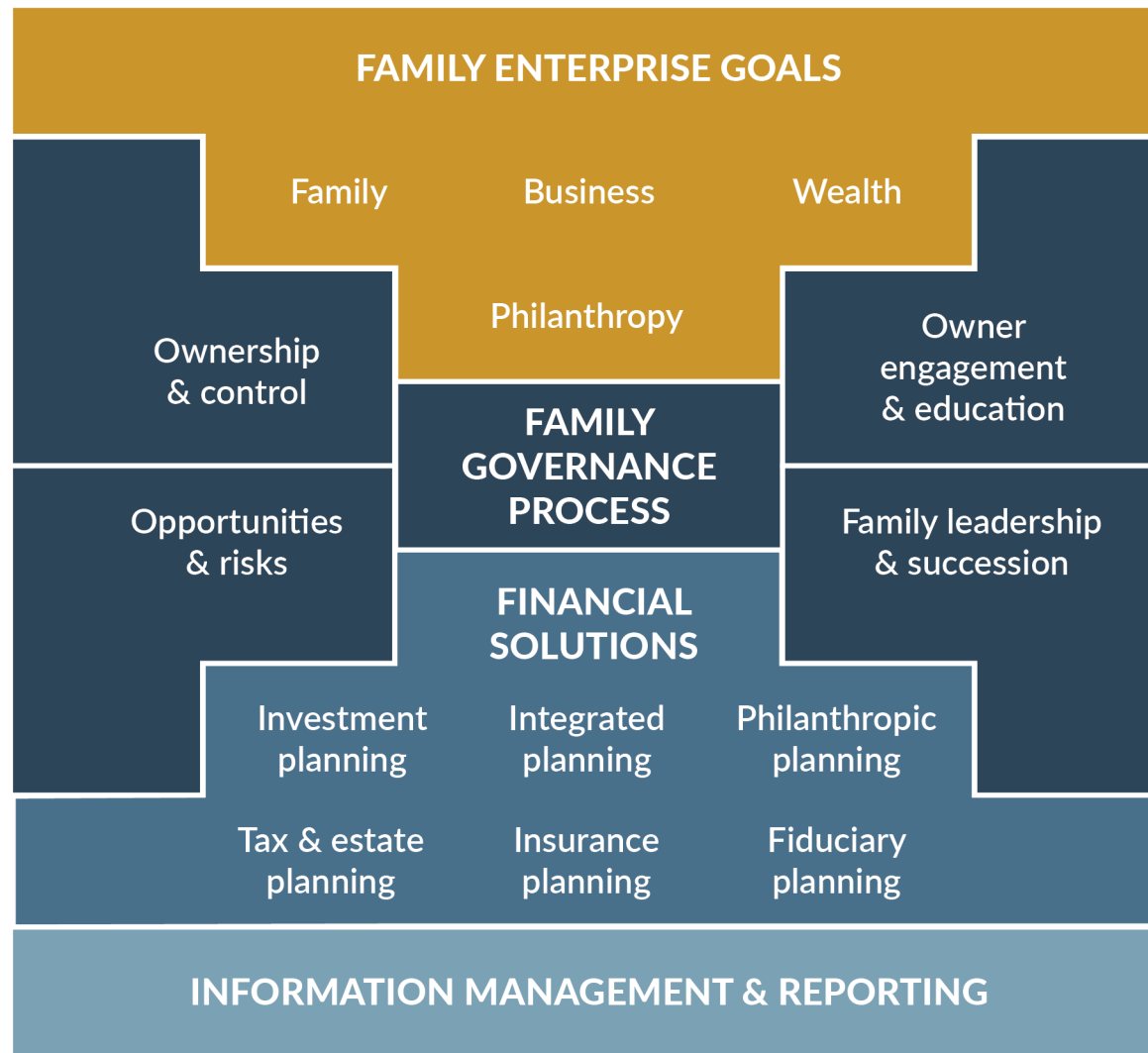
But do they?

**And, how equipped are we to
navigate on their behalf?**

Today's roadmap

- Family enterprise goals
- Family meetings with a purpose
- Concepts that resonate
- Roadblocks and deal breakers
- The family business
- Our role

Putting it all together



Attributes of successful families

Purpose: Alignment
and clarity

Values: Clearly
defined guiding
principles

Leadership: Distinct
leaders for the
business, family and
philanthropy

Governance:
Robust and specific
governance
structures

Communication:
Healthy
interactions

Education: Striving
for growth and
fostering a learning
culture

Relationships:
Strong
interpersonal
connections

Pillars of family legacy building



Family principles



Family education



Preparing the next gen

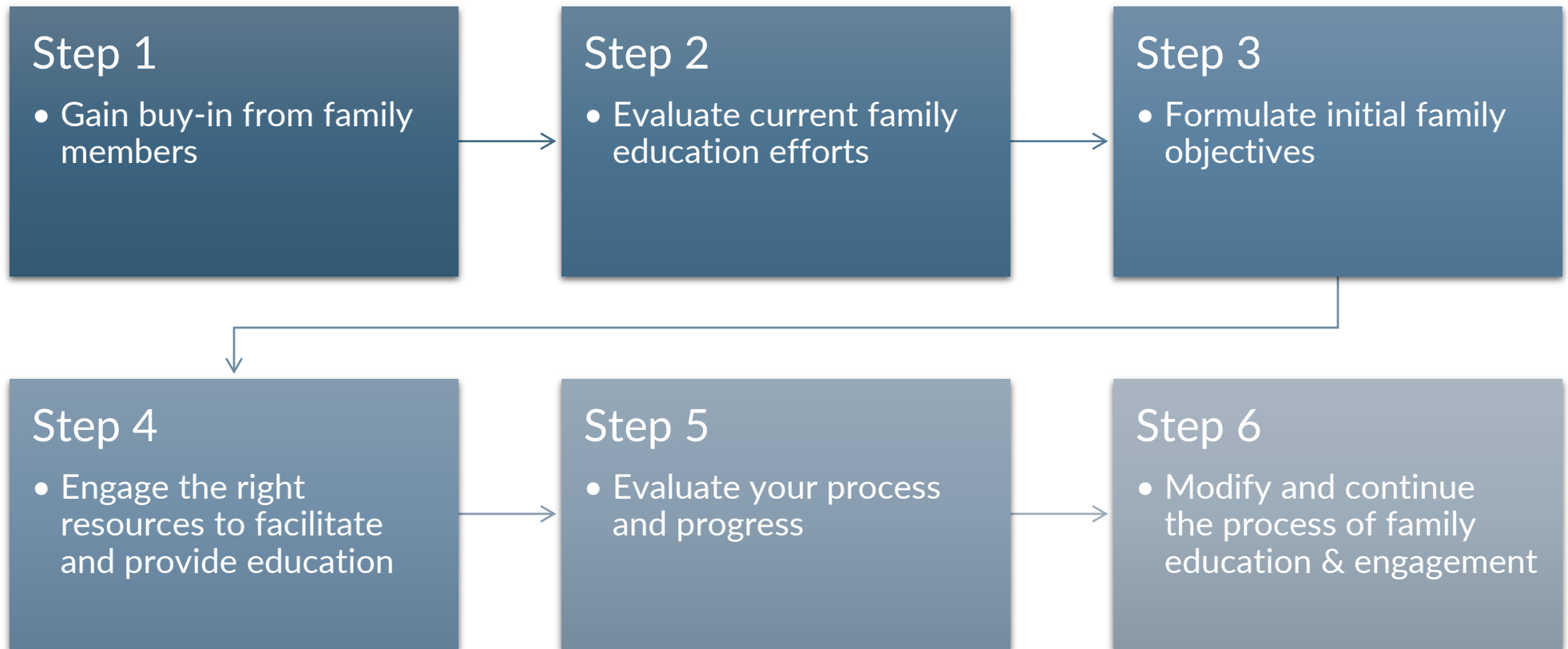


Stewardship

Family meetings with purpose



Simplifying the process



Family meetings with purpose

- Better communication
- Focused education
- Defined and share values
- Success defined
- Clear expectations
- Governance practice
- Fun!

Concepts that resonate

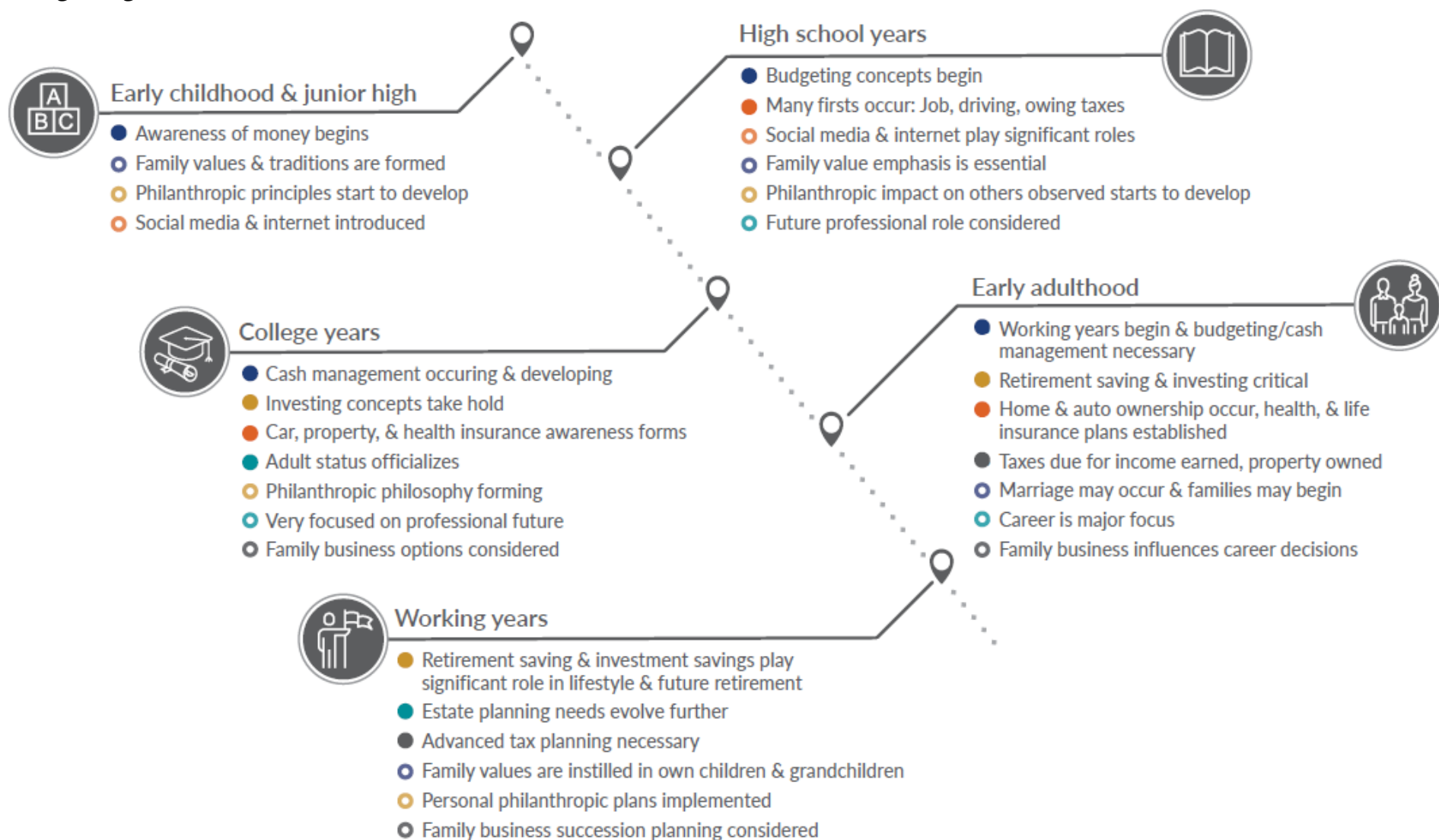


Concepts that resonate

- Ages, stages and educational topics
- Exponential growth of families over generations
- Translating values into financial goals
- Example, theory, application
- Finding common ground while respecting personal views
- Transparency and connecting the dots

Family education

Stages, ages and life events



Family education topics

CASH MANAGEMENT

- Budgeting
- Banking
- Checking/savings accounts
- Evaluating banks/private banks
- Establishing credit
- Evaluating credit cards
- Buy vs. rent/lease

INVESTING

- Personal balance sheet
- Time value of money
- Basics of investing
- Cash, stocks, bonds, & alternatives
- Mutual funds & ETFs
- Asset allocation
- Diversification
- Saving for education
- Saving for retirement

ESTATE PLANNING

- Power of Attorney (PoA) documents
- Pre/post-nuptial agreements
- Asset protection
- Wills
- Revocable trusts
- Irrevocable trusts
- Trustees
- Gifting/inheritance
- Guardianship

INSURANCE

- Life insurance
- Long-term care insurance
- Disability insurance
- Health insurance
- Property insurance
- Auto insurance

TAXES

- Income taxes
- Estate tax
- Gift tax
- Property taxes
- Business tax basics

PHILANTHROPY

- Charitable giving basics
- Developing a philanthropic framework
- Stewardship
- Social impact
- Charitable vehicle overview
- Grantmaking/charity research
- Governance/operations

FAMILY BUSINESS

- Business economics
- Family governance
- Business succession
- Owner vs. operator
- Tax-entity structure
- Understanding financial statements

INTERNET ESSENTIALS

- Cybersecurity basics
- Social media management
- Privacy
- Digital footprint

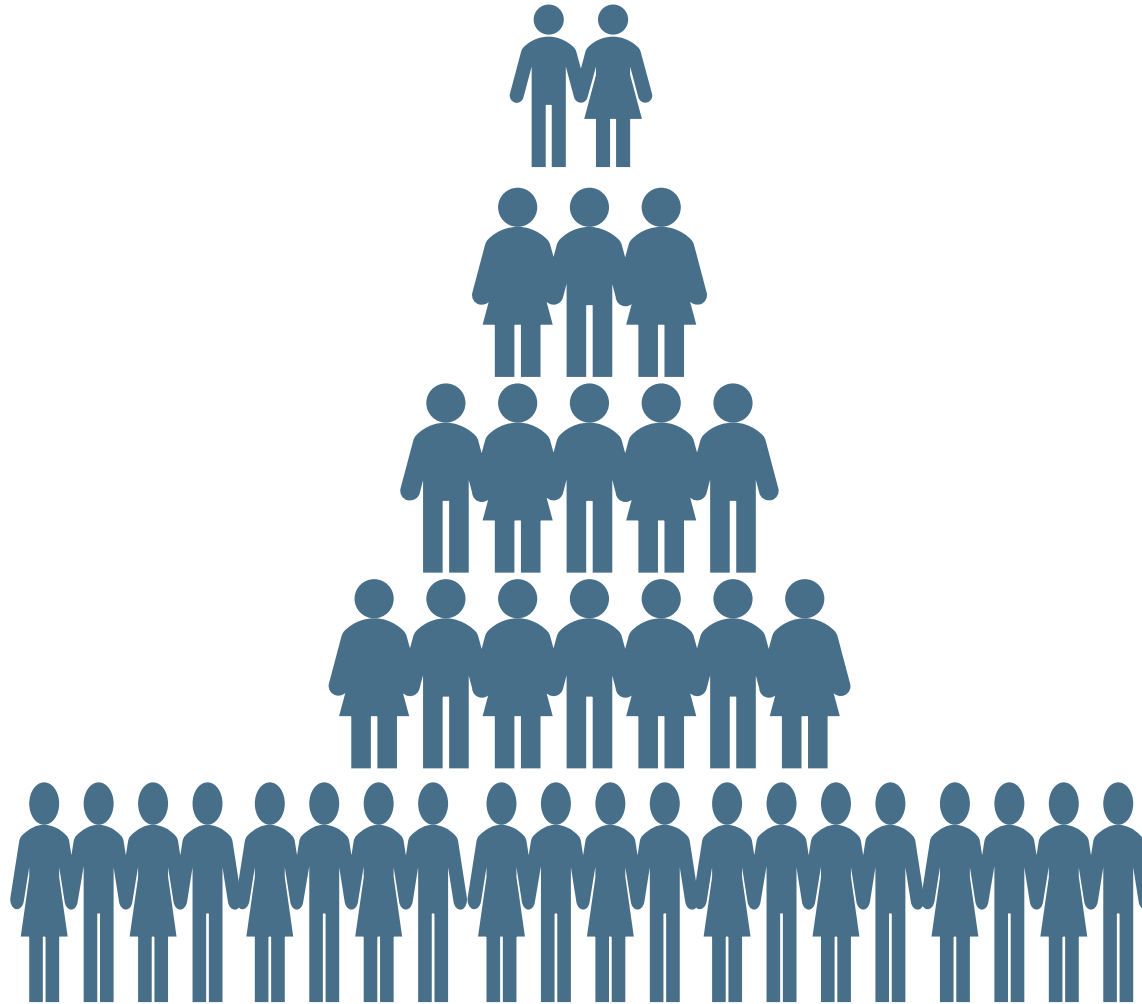
FAMILY PRINCIPLES

- Family history
- Family values defined
- Family mission/vision statement
- Multi-gen collaboration
- Reputation risk

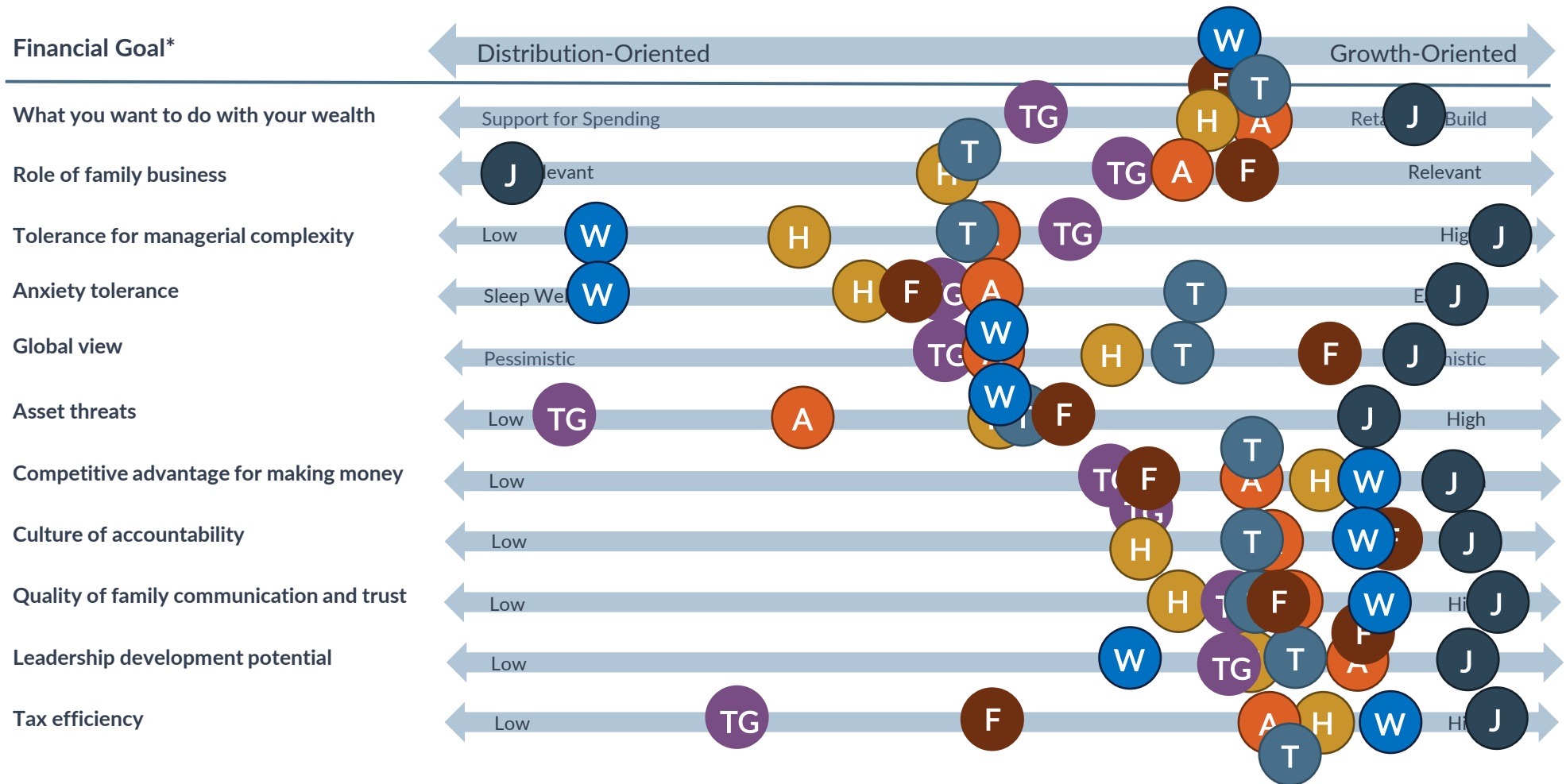
PERSONAL DEVELOPMENT

- Personality testing
- Talent optimization
- Career guidance
- Family business succession planning

Exponential growth of families over generations



Translating values into financial goals



*Taken from: WEALTH - GROW IT AND PROTECT IT, STUART E. LUCAS

Theory, example, application

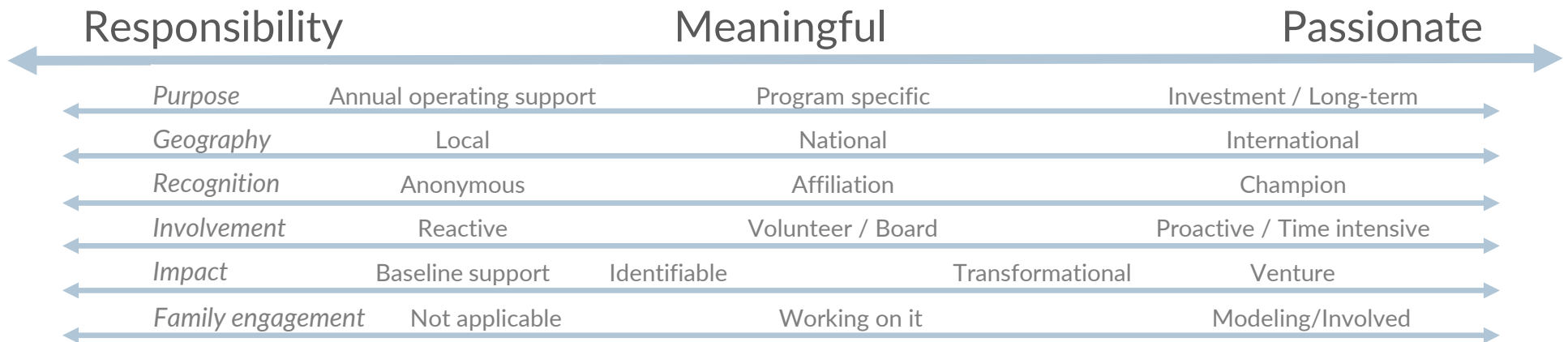
Family Asset Project

Asset Type

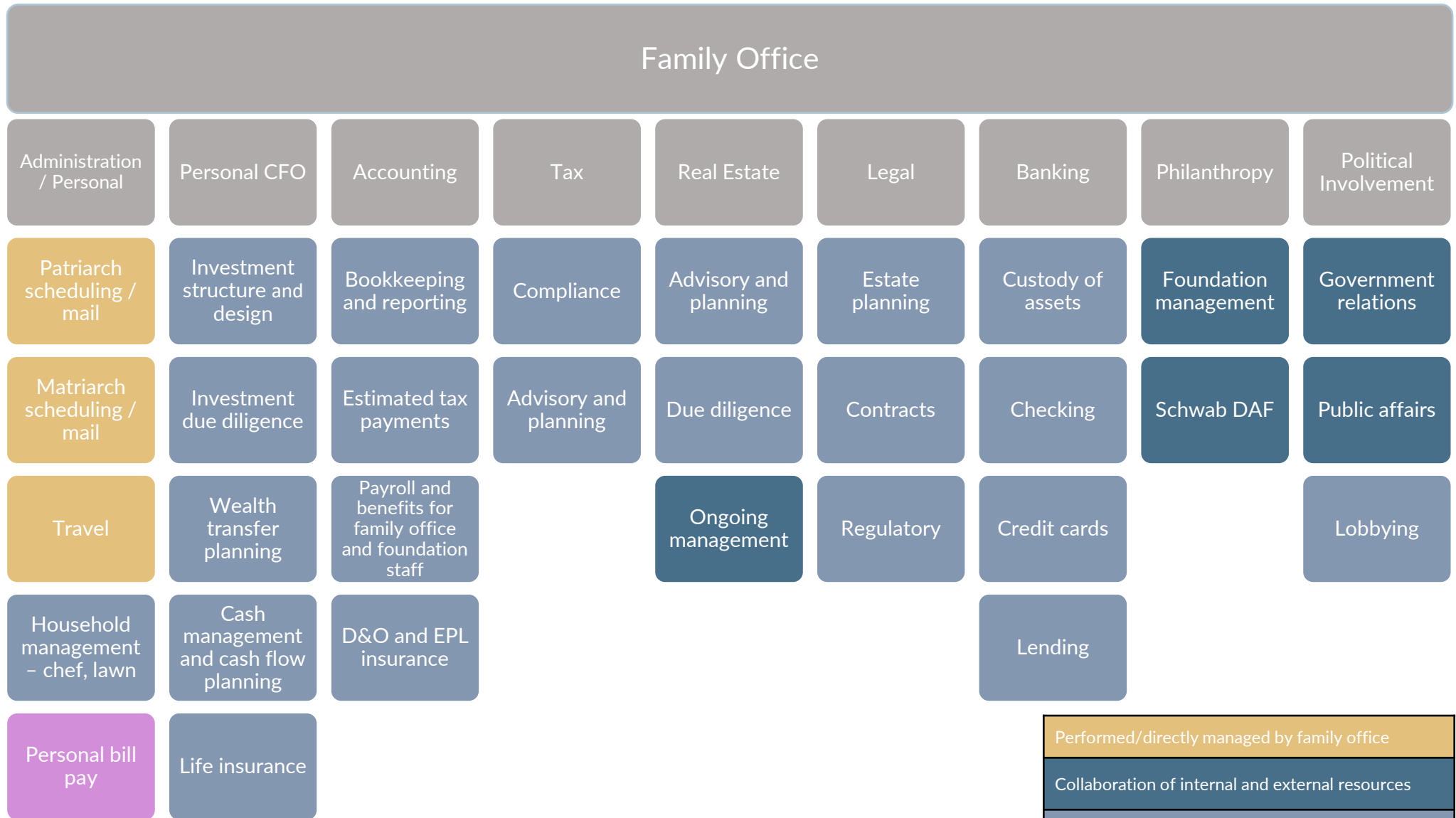
- Family – Investment portfolio
 - Business – Family business unit
 - Rental – Land Holdings LLC
 - Farmland – Various LLCs
 - Philanthropic – Donor Advised Fund
- Purpose/role: What value does this asset serve on the family balance sheet? Why does the family own it?
 - Estimated value: Approximate market value.
 - Financial stats: Approximate annual revenue, income, expenses (including taxes), and any debt.
 - Ownership structure and tax treatment: What individuals/entities own it? Are there multiple owners? How did the current ownership structure come to be (e.g., gifting, notes, outright purchase)?
 - Ongoing management responsibilities: Who provides ongoing management and oversight?
 - Opportunity for family engagement: Is there an opportunity for ongoing family member involvement – management, reporting, etc.?
 - Interesting fact: What else did you learn that would be helpful to share?

Prioritizing focus areas

Health	Human Services	Education	Environment	Arts	Religion	Animals
<ul style="list-style-type: none"> • Access • Education • Research • Hospitals • Advocacy • Children • Women • Seniors • Rehabilitation • Mental 	<ul style="list-style-type: none"> • Youth • Hunger • Addiction • Elderly • Homeless • Abuse • Emergency services • Disability • Family stability • Housing 	<ul style="list-style-type: none"> • Literacy • Early childhood • Scholarships • Public schools • Private Schools • College and universities • Sports • Extra-curricular activities 	<ul style="list-style-type: none"> • Advocacy • Education • Research • Land / easement purchases • Water • Solar • Renewable energy 	<ul style="list-style-type: none"> • Visual • Museums • Performing • Theater • Music • Dance / ballet • Education 	<ul style="list-style-type: none"> • Local church • Missionary • Advocacy • Access • Persecution 	<ul style="list-style-type: none"> • Shelter • Sanctuaries • Zoos • Endangered species



Family office functional areas and key responsibilities



- Performed/directly managed by family office
- Collaboration of internal and external resources
- Mostly outsourced
- To be determined

Roadblocks and deal breakers



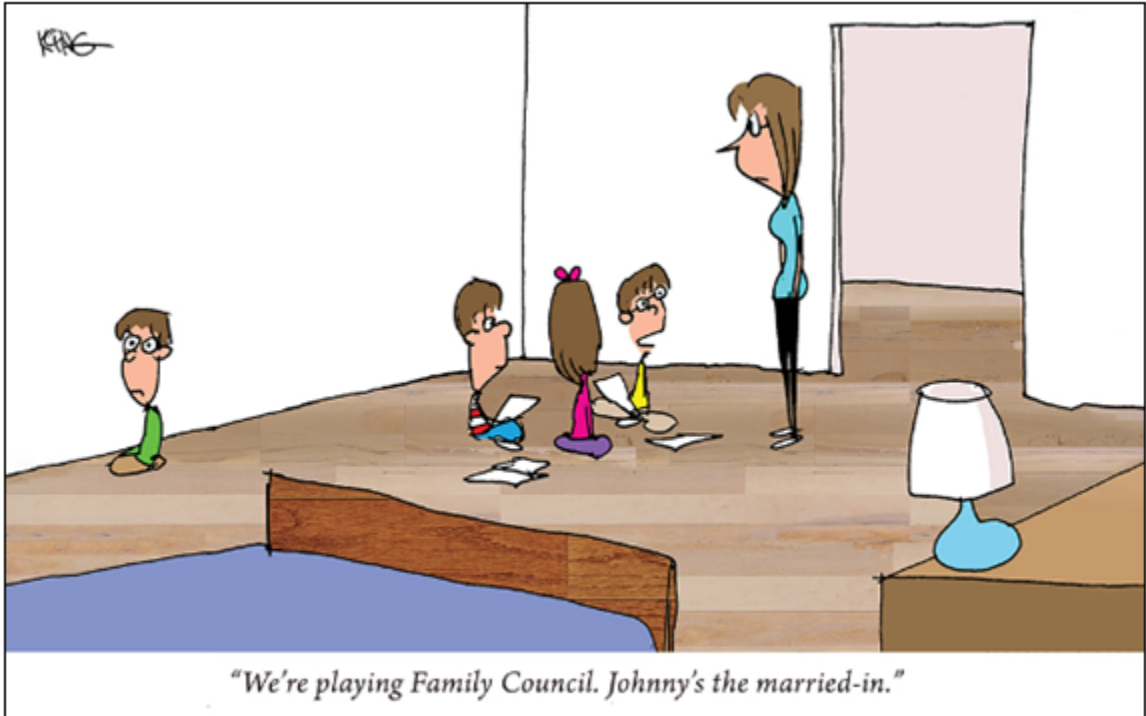


Illustration by Jerry King

Roadblocks and deal breakers

- Time and geography
- Stage of life and age differences
- In-laws
- Afraid of demotivating
- Differing perspectives and opinions

What hasn't worked for our clients

- Starting with the numbers
- Having a family meeting over a holiday
- Having a single (and random) family meeting
- Expecting children to keep information from their spouses

Less than 1/3 of family businesses survive the transition from 1st to 2nd generation...less than 10% survive to the 3rd.

Change in a family business

Reasons change is easier in a family business than a public company

- Smaller and more entrepreneurial than most public companies
- Ability to move quickly – less bureaucracy, fewer decision makers
- Few or no outside shareholders
- Less dissatisfaction with change because owners' jobs are secure
- Owners have more influence on company culture

Reasons change is harder in a family business than a public company

- Longer tenures of CEOs – may lead to stagnation
- Fear of seeming disloyal to incumbent or outgoing CEO if you change things
- Tradition and past success – the attitude of “Why change when we’ve been so successful?”
- Family culture may be resistant to business change
- Family members' anxiety over financial security
- Everyone has grown up in the same culture so it's difficult to see things differently

Source: Make Change Your Family Business Tradition, Craig E. Aronoff, Ph.D. and John L. Ward, Ph.D.

Contrasting realms of family and business

Family goals

- Opportunity for all members
- Pay to support well-being
- Equality
- Hire family
- Family leadership succession
- High dividends
- High profit
- Safety and security

Business goals

- Hire and promote on merit
- Pay for performance
- Meritocracy
- Seek best-qualified applicant
- Open to non-family executives
- Reinvest capital
- Rapid growth
- Risk-taking for growth

How do you find common ground through shared values to address differing family and business goals?

Does the family serve the business or does the business serve the family?

Source: Family Business Values: How to Assure a Legacy of Continuity and Success, Craig E. Aronoff, Ph.D. and John L. Ward, Ph.D.

Meshing the business' and family's goals and objectives to enhance overall success

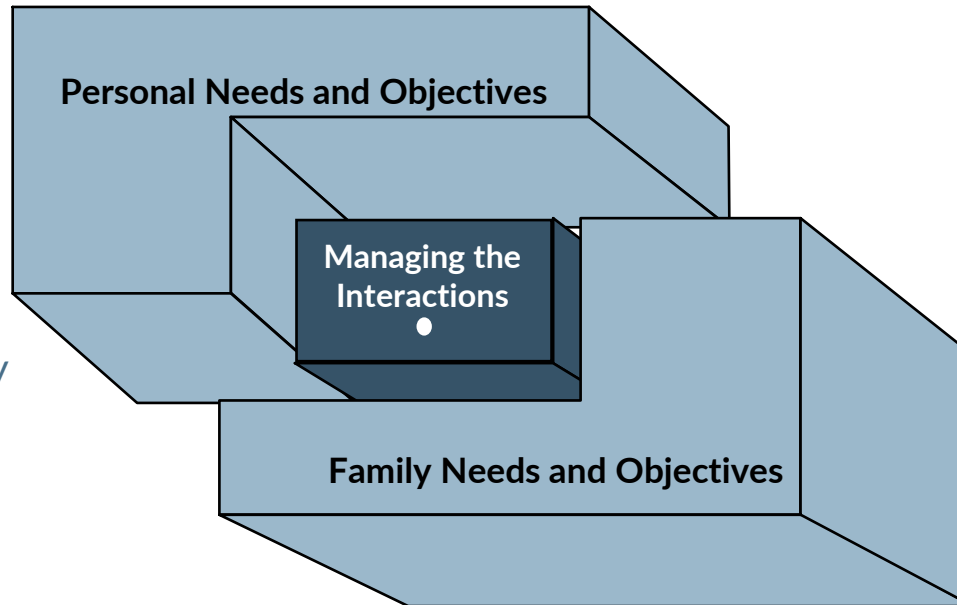
Personal Goals

Cashflow

- Lifestyle
- Financial Planning
- Investment Strategy

Control

- Assets
- Income
- Timing



Family Goals

Wealth

- Preservation
- Protection
- Enhancement

Philosophy

- Family Values
- Standard of Fairness
- Communication

How family meetings change as the business evolves

Business Phase	Participants	Typical Issues
Founding / entrepreneurial	Nuclear family	Family participation, succession, leadership transition, “letting go,” cultivating family skills
Sibling ownership	Second generation family members and spouses	Teambuilding, establishing common goals, stressing mutual interests, family harmony, family education
Family dynasty	Members of the third and subsequent generations, including cousins, in-laws and other relatives, both active and inactive in the business	Shareholder issues such as liquidity and allocation of capital; fostering family commitment to the business; family tradition and history; family projects

Corporate governance overview

Governance

- Oversee the company's management and business strategies to achieve long-term value creation
- Select well-qualified management team to lead the company, monitor and evaluate management's performance, oversee succession planning process
- Delegates to management the authority and responsibility for operating the company's business
- Oversight of ABC's affairs, including key areas such as strategy and risk

Management

- Responsible for setting, managing and executing the strategies of ABC
- Keep the board informed of the status of the company's operations
- Responsibilities include strategic planning, risk management and financial reporting
- Effectively manage with a focus on executing the company's strategy over a meaningful time horizon and avoid undue emphasis on short-term metrics

Shareholders

- Investor in ABC who owns stock and receive economic benefits in return
- Not involved in the day-to-day management of ABC
- Has the right to elect (directors) and to receive information material to investment and voting decisions
- Should expect corporate boards and managers to act as long-term stewards of their investment in the corporation
- Shareholders should not expect to use ABC as a platform for the advancement of their personal agendas or for the promotion of general political or social causes



We need to help our clients

- Take the first “formal” step
- Acknowledge their successes to date
- Start to imagine what they’d like this to look like in their family
- Leverage best practices and utilize advisors/resources
- Recognize this process is a marathon not a sprint

Some of my favorite reads for families

- Entitlementania
- Intentional Wealth
- Preparing Heirs
- The Psychology of Money
- Wealth of Wisdom
- Wealth, Grow it and Protect It



“Leading a life that is consistent with your values is the greatest predictor of happiness”.
- Dr. R. Kelly Crace

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