

Family Governance & Education – The Importance of Family Meetings

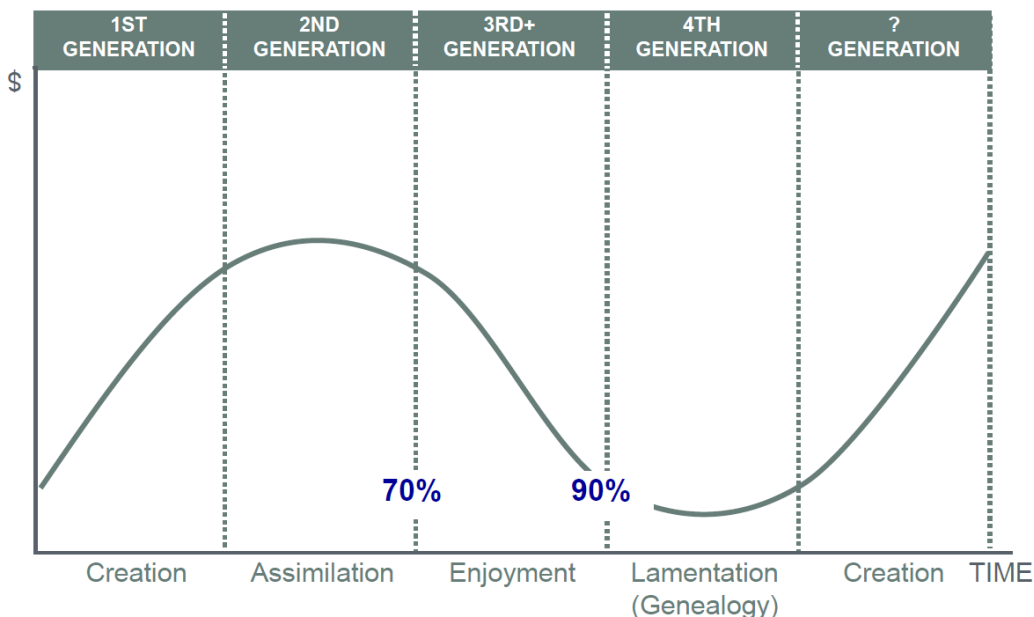
“I want to leave my children enough money so that they feel they could do anything, but not so much that they could do nothing.” – Warren Buffett

Many successful families with significant financial means feel the same way as Mr. Buffett. They ask themselves how they can raise their children without spoiling them or taking away the incentive to be financially productive on their own. How much is enough? When do I tell them about it? When do I give it to them? Unfortunately, these answers are not generally straightforward as they depend on the family’s unique circumstances and level of preparedness.

You may have heard the saying “shirtsleeves to shirtsleeves in three generations”, which describes the inability of grandchildren to manage the wealth they’ve inherited from their grandparents and parents. Many would think this occurs from making poor financial decisions, such as paying too much in income or estate taxes or making bad investments. However, this frequently results from a lack of communication, shared family values, and preparedness of the next generation.

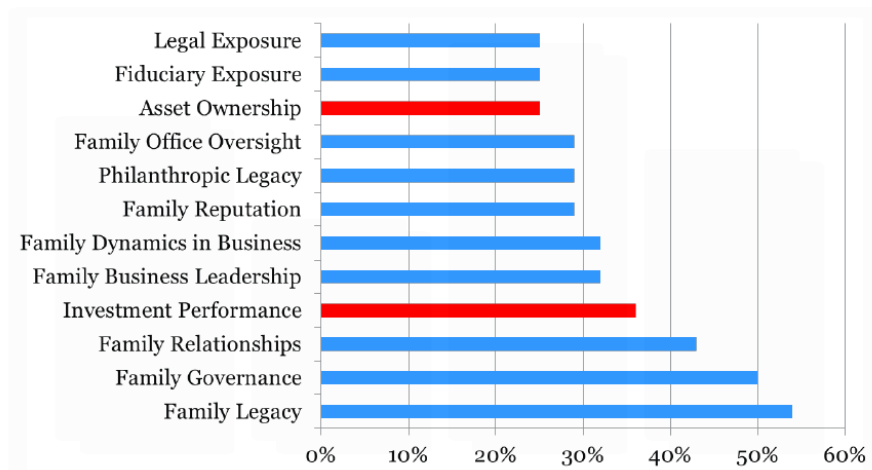
CLIENT STUDY: FAMILY PROSPERITY

“SHIRTSLEEVES TO SHIRTSLEEVES?”



Consequently, at Wellspring, we believe preparing the family for money is just as important as preparing the money for family (e.g. proper estate planning, strategic investment allocations, and long-term forecasting).

WHAT KEEPS YOU UP AT NIGHT?



Source: Family Office Exchange Research and Benchmarking

So how does a family, and their financial advisor, prepare the next generation for future wealth? One way to achieve this is through family meetings.

What are family meetings?

Family meetings are shared experiences within a family, typically facilitated by an unbiased external partner, such as a financial advisor, that can provide a forum for education, awareness, financial transparency, and life-long learning.

In order for meetings to be productive, there are certain absolutes that should be agreed to and followed by all. Everyone involved needs to be respectful, open and, most importantly, honest. While everyone may not have a choice, everyone should have a voice, and those voices need to be heard.

For many new client families, when we suggest having a family meeting, several questions arise from the next generation, such as “who is in trouble?” or “is someone sick?”. Disarming these concerns before the meeting is important so everyone understands the purpose. In addition, prework may need to occur before the meeting to uncover any significant issues that might arise, especially if emotions are expected to be at play.

We suggest family meetings are held at least once a year, but quarterly is ideal. While in-person meetings are best, video conferencing technology, such as Zoom, allows family members to connect while being physically distanced.

What is discussed at family meetings?

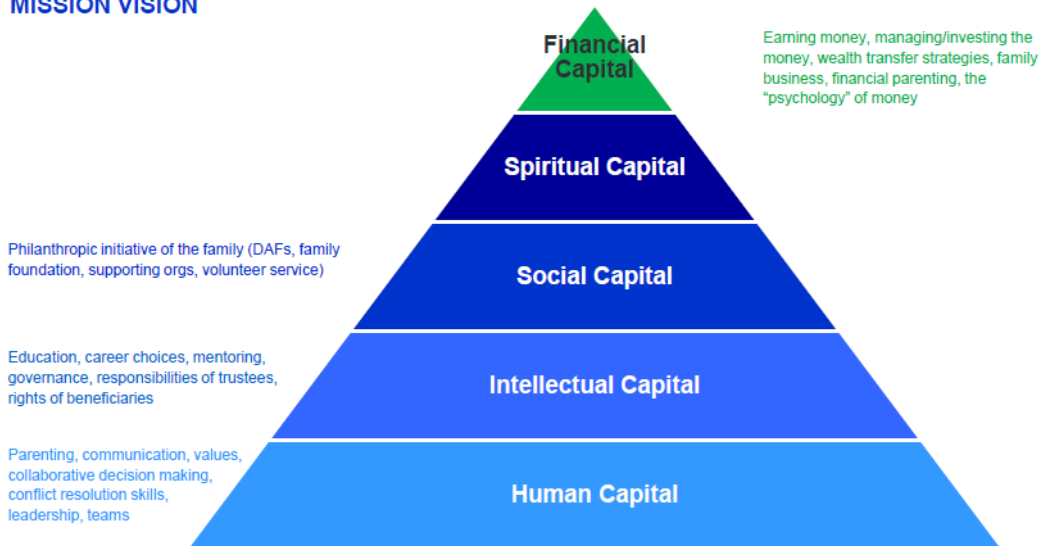
It is important to separate the business of the family, and business of the business.

We believe the first family meeting should focus on the family – not the numbers. Far too often we see advisors in our industry review legal documents, the family’s net worth, and investments in the initial meeting. Leading with the money conversation puts the importance on money, not family. The true purpose of financial capital is to enhance the other forms of capital. Starting here could be a recipe for failure, especially if the family is not ready for it.

At Wellspring, we find that delaying the deeper financial discussion, until there is an understanding of the business of the family, is worth the investment of time.

WEALTH IN FAMILIES

MISSION VISION



Source: Jay Hughes

How does a family have a conversation about money without focusing on the numbers?

Quite often, as we facilitate family meetings, we use various exercises to break the ice and explore financial issues in a nonfinancial way, such as:

- Understanding and appreciating the differences in generations
- Determining shared family values
- Reviewing communication styles and conflict resolution
- Discussing messages about money (both growing up and now) that impact financial decisions
- Talking about philanthropy and how the family allocates their resources (time, talent, treasure, and ties)

As the family continues to learn and become more prepared, we introduce more complex financial topics, such as their operating business, real estate, or philanthropy (private foundation or donor advised fund).

Preparing for family meetings

Before a family meeting, it is important to ask family members what they would like to cover to help ensure everyone is engaged in the conversation. At subsequent meetings, we recommend beginning by briefly reviewing what was discussed at the prior meeting. Experts say it takes seven times of hearing something to remember it, so a review is always helpful. After discussing prior topics and any lingering questions or open issues, the new topics planned for that meeting can be addressed.

These meetings should be educational for all generations as this will further life-long learning. For example, at a recent family meeting we used the current talk of a recession as the educational topic so the family could understand what a recession is, its impact on the economy and financial markets, how to be better prepared, and what planning actions to take advantage of the recession's end.

Preparing your family to receive significant wealth is not easy. It takes a commitment of time, dedication to an educational process, transparency, and vulnerability (from each generation). Families that take the leap and commit to routine family meetings can see the benefits of the collective family experience and begin to answer those difficult questions regarding when the next generation is ready to learn about or receive their family's wealth.

Author: Michael Novak, CPA/PFS, AEP®, President & CEO, Wellspring Financial Advisors, LLC
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