

Money and Meaning

By David Lansky

How to Not Transfer a Legacy

A Family's Legacy Is More Than Financial

Paul is a client of mine. He is 45 years old, married with two children, and he is a successful professional. He is one of three siblings. His grandfather founded a manufacturing company which his father eventually took over. Paul's parents, who are in their 70s, have a net worth over \$15 million. His father is still CEO of their company, and there are no other family members who work in the business. The family has always accepted that Paul's mother required a high level of liquidity to maintain a sense of financial security; as a result, his parents have been reluctant to transfer assets out of their estate. Paul is emotionally very connected to his parents, he is comfortable talking with them about difficult issues and he is financially savvy. For years, he pleaded with his parents to improve their estate plans and to engage in succession planning for the business—to no avail. Paul and his siblings never even considered discussing with their parents other issues related to their legacy, such as the values they want to see reflected in their grandchildren, or the role of philanthropy in the family's future, as they assumed that these conversations would occur when the financial plans were formulated.

Unfortunately, it is now getting to be very, very late.

Paul's father was diagnosed with a chronic debilitating illness several years ago. When his father was first diagnosed, Paul and his siblings were reluctant to press for more sophisticated estate and succession planning because they thought their parents should have time to adjust to the disease and to the demands it made upon them. Soon, however, his father's health began to cascade downward. What was initially seen as a *choice* to



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not impose legacy conversations at a difficult time in his parents' lives, has now become a *requirement*: His father is barely capable of the necessary conversations, and his mother is so preoccupied with her husband's care that she will not take the time or energy to devote to the planning that is needed. Paul and his siblings are now struggling to discern their parents' wishes, to develop an estate tax strategy and to implement a business succession plan. They are agonizing over the looming failure of their parents' legacy transfer.

What Went Wrong?

It is possible to identify a number of factors that mitigated against a successful transfer of Paul's parents' legacy: father's chronic illness; mother's security needs; all other planning contingent on the family's financial plans; no independent board of directors to manage strategic and succession planning for the business; putting off family meetings and legacy conversations until "the time was right"; parental shortsightedness not challenged by a trusting and competent child.

While Paul and his family arrived at their current dilemma through a unique history and set of circumstances, the genesis of their situation is actually inherent in the behavior of many high-net-worth Baby Boomer families.

The next few decades will witness what some people (e.g., Paul Schervish of the Boston College Center on Wealth and Philanthropy) have called the largest intergenerational transfer of wealth that this country has seen. Allianz Life Insurance Company of North America recently commissioned a study of the emotional and financial implications of the coming wealth transfer. The study's findings reveal a stunning lack of preparedness for this transfer:

- 71 percent of the senior generation and 68 percent of the younger generation stated that they were comfortable discussing legacy and inheritance issues, but only 31 percent of the seniors and 29 percent of the successor generation reported that they actually had discussed all the elements of their estate planning.
- Seven percent of the seniors and 21 percent of the successors reported that they had discussed none of the elements of their estate planning.

- 77 percent of seniors and 77 percent of successors agreed that "values and life lessons" were "very important" elements of an inheritance.
- 39 percent of seniors, but only 10 percent of successors thought that "financial assets or real estate" were "very important" elements of an inheritance.
- 40 percent of seniors stated that they had a designated child with whom they were comfortable discussing their plans (such as Paul in the case above).
- Successors often did not know who in the family was the designated child, and the designated child was no more likely to know the monetary value of his or her parents' estate than his or her siblings.

In concluding, the study's authors noted that:

- "non-financial leave behinds" were 10 times more important to seniors with children and to successors than the financial aspects of a legacy transfer; and
- fulfilling last wishes and distributing personal possessions were five times more likely to be the greatest source of family conflict during a legacy transfer than the distribution of finances.

The results of this survey suggest an answer to the question "How to Not Transfer a Legacy": While it is tempting to think that illness or external factors can lead a family to the dilemma that Paul is now facing, *the best way to not transfer a legacy for many families is to continue doing things as they are now being done*: no thorough discussion of legacy issues; lack of alignment between generations as to what constitutes a valued legacy; a focus on maintaining the peace rather than upsetting family members with difficult conversations.

But for those families who wish to transfer their legacy, the recommendations are clear:

- Be proactive in scheduling family meetings.
- Don't wait. What seems like an inopportune time may be more timely than you know.
- Don't overestimate the importance of financial conversations. If family members do not wish to discuss money, there are other issues to be discussed which are at least as important, including articulating the role of philanthropy in the family's plans, designating next generation leadership, and instilling a set of family values.
- Don't value peace and harmony over open communication.