

FAMILY-PROOF YOUR WEALTH

*Prepare your heirs, avoid conflicts, and preserve
your assets, business, or inheritance for
generations to come*

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Disclaimer

This book is intended to provide general information on family wealth dynamics, family business and wealth governance, legacy planning, and other aspects of preserving long-term jointly held family assets. It is not meant to be the reader's only source of information on these subjects. Readers are urged to seek and use information and advice from other sources, and to rely on their own judgment.

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Family-Proof Your Wealth: Prepare your heirs, avoid conflicts, and preserve your assets, business, or inheritance for generations to come

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Preface

*“You can screw up your kid pretty good
by leaving him even one million dollars.”*

At first, I was startled to hear that statement from a senior officer at a global trust company. But I saw his point. We had been discussing ways to prepare children to handle inherited wealth, and one million dollars is not a lot of money in his world. But, as he pointed out, it’s a lot of money to someone not prepared to handle it.

In our conversation, he noted that very few of his clients used his company’s family wealth preservation services. Those services go beyond those that simply help clients to increase their returns and reduce their taxes. They include various support and facilitation services that help parents to not “screw up their kids” with their wealth or assets.

This book explains the essence of those services in plain language. This book also gives you a new view of your wealth, your family, and issues that arise when family and wealth come together (or clash). Most importantly, this book helps you to deal with the problems *and* the opportunities that come with wealth.

How this book came about

I am a freelance business writer, author, and ghostwriter of 20 books from well-known publishers. Among my books are four in the *Complete Idiot’s Guides* business series. Don’t laugh! I’ve made a great living by translating

the frameworks, paradigms, and models of experts into advice that general readers can readily use.

Over the past 15 years, many practitioners who assist families with wealth have told me, “Nobody has written a clear and useful book on what we do.” Those practitioners work in family financial education, family wealth dynamics, family governance, family business succession, and allied areas. After reading most of the books out there on those topics, I had to agree. While those books have a lot to offer, most of them offer too much—long anecdotes, academic language, and deep analysis along with complicated programs rather than clear and easy to do’s. All of that limits the usefulness of those books.

The book those practitioners envisioned would not take long to read, but it would cover all the bases. It would simplify long-term family wealth preservation. It would help family members who are not the wealth creator or business owner to deal with *their* issues around wealth. It would also talk frankly about problems of wealth. While those practitioners work to address those problems, they admit that their approaches can be constrained by the organizations that employ them. They also often focus too much on rituals like the annual family meeting or retreat. Some even admit that their services mainly aim to “massage the ego of the wealth owner”—another statement from the trust officer I quoted above.

All of that is understandable. People working with wealthy individuals hesitate even to imply that their client may be, ah, screwing up their kids. Meanwhile, investment and legal advisors—as distinct from family dynamics and family governance practitioners—usually avoid discussing family issues at all, even when they see problems developing. Why delve into family matters when portfolio rebalancing and tax savings are so much easier to discuss (and measure)? Who wants to risk upsetting the client, or worse, the firm’s relationship with the client?

I am unencumbered by such concerns. So I have written the book those practitioners said should be written. As a ghostwriter, I’ve learned that experts often find themselves imprisoned by their expertise. Their deep knowledge

of complex disciplines makes it hard for them to simplify things. (That's why they need ghostwriters!) In this book, I simplify family dynamics, family governance, and so on, boiling them down to their essence. I also give you easy and explicit ways to get started on each aspect of long-term family wealth preservation.

Make no mistake. The authors of existing books on this subject have helped thousands of families.¹ I stand on their shoulders and on those of the many practitioners that I've met and interviewed over the years.

I am especially indebted to psychiatrist Howard Berens and trust and estate attorney John Ambrecht, who hired me in the 2000s to collaborate with them and psychiatrist Richard Goldwater on *For Love and Money*. That book provides an excellent and sophisticated way of thinking through family issues around wealth and inheritance. It also ignited my interest in this fascinating field. In addition, my work with Howard and John in two subsequent businesses related to family wealth preservation informs this book.

Also, as I explain in the introduction, this is the ideal time for this book. While relatively few people are concerned with problems of wealth, those problems are as real as the opportunities wealth presents. Yet both the problems and the opportunities often go unrecognized, even (or especially) by the wealthy. With the mind-boggling sums of money to be transferred from generation to generation over the next 30 years families need to know about both the problems and the opportunities and how to address them.

Moreover, the coronavirus pandemic and its economic impact, as well as social and political changes underway in the United States and globally, will make the years ahead uncertain and difficult for everyone. So, this is a time to reassess the value of all that we do, have, aspire to, and neglect. It is also a time when each of us needs to understand ourselves, our wealth, and what it's all about.

1. The Resources section at the end of this book lists the volumes I have found to be most useful.

INTRODUCTION

WHAT'S IT ALL ABOUT, REALLY?

This book is probably not about what you think it's about. It's not about how to lock up your assets in restrictive trusts, wall off your wealth, and exclude rogue children from your estate plan. While those steps to family-proofing your wealth are sometimes necessary, they should not be your go-to moves for preserving your family's assets. Nor should you keep family members in the dark about your finances, try to control their lives, or use your money or position to pave their paths in this world.

Such moves come naturally to many people of wealth. And that is why most wealth does not wind up being handed down through families for generations. It is why inherited wealth often fosters insecurity, waste, and underachievement. It is why most family-owned businesses fail to survive to the third generation. And it is why many families of wealth wind up in lawsuits that destroy their assets and relationships.

The title of this book may conjure images of grasping ex-spouses, conniving children, no-account in-laws, and other home-grown enemies of wealth. It may lead you to think that family-proofing your wealth means lawyering up, tightening up, and clamming up when it comes to your money, business, and other assets.

That is not what it means.

Family-proofing your wealth means proactively addressing the problems and opportunities of wealth. It means calibrating the impact of your

wealth on your spouse, children, and other family members. It means preparing your beneficiaries for their future responsibilities while you are still alive. It means positioning your family to not only preserve wealth but to build upon it.

The practices in this book family-proof your wealth by ensuring it will be there for generations to come. Oddly, most wealth owners and business owners do not regularly engage in these practices. Nor do most investment advisors, who focus mainly on maximizing returns and minimizing taxes. As a result, many wealth creators and owners eventually see things that they would like to change as they age and their families grow.

For example, consider the possibility that, while working to build wealth, you may have neglected a few things on the home-front that you would now like to address:

- You may have set some expectations among your children that you would like to change.
- You may have sent some messages about what you value in life that you would like to revise.
- You may have seen signs that your wealth could create trouble in your family, and would like to help them avoid that trouble.
- You may realize that certain family members are partly or wholly unprepared to handle an ownership stake in the family's income-producing assets.
- You may be considering your actual legacy—that is, how you will live on in others' lives and memories—and would now like to shape that legacy.

If any of these are true for you, then you are going to find this book interesting and useful.

What this book does—and for whom

This book makes practices that preserve long-term family wealth accessible to everyone. I did not invent these practices. Rather, I've simplified them and translated them into practical, enjoyable activities. These practices are used in various ways by “old-money” families to preserve and develop their wealth over generations. They are also provided as services to high net worth and ultra-high net worth clients by the world's leading trust companies, private banks, multifamily offices, and other institutions for the wealthy.

If you inhabit the market segment that financial institutions designate as high net worth or ultra-high net worth, you have probably heard of family wealth education, family dynamics, family governance, family business succession, and similar services. Perhaps you have even used some of them. But whether you are new to these practices or not, you will find ideas in this book that will help you preserve your family's long-term wealth.

Although you can start reading whatever chapter sounds most interesting to you, this book takes a building-block approach. So we begin with the problems of wealth, then examine family dynamics and then ways to develop wealth-preserving family values. We then turn to child-rearing and Wealth Literacy and move on to family wealth and business governance, before wrapping up (fittingly) with family-focused estate planning.

While this book is directed primarily to the wealthiest 5 percent of families in a given country, the need for these practices has become widespread. That's good news and bad news. It's good news because it reflects the unprecedented wealth creation driven by technological and financial innovation, social change, and global prosperity over the past 40 years. In 2015 the United States was home to more than 15 million millionaires or about 1 in 20 Americans.² Estimates of total assets to be transferred from

2. 1 Out of Every 20 Americans Is Now a Millionaire: Report by Rob Wile, November 14, 2017, *Money*, < <http://money.com/money/5023038/millionaire-population-unit-ed-states-world/> >.

U.S. Baby Boomers and their parents to Generation X and Millennials over the next 30 years range from \$30 trillion³ to \$68 trillion⁴ to \$84 trillion.⁵

The bad news is that wealth minus wisdom equals waste. Assets entrusted to those unprepared to handle them are ultimately destroyed. In the process, individuals are damaged and families are torn apart.

There's a larger issue as well. In the past 20 years, it has often occurred to me that the United States—as a nation—may be enacting the well-known “shirtsleeves to shirtsleeves in three generations” adage on a national scale. The adage means that the first generation in a family cycle earns wealth, the second generation may (or may not) preserve it, and the third generation either loses it or has no substantial wealth left.

Is it possible that Americans—and America—are undergoing that cycle? Our current cycle may have started with the World War II generation, who left wealth to the Baby Boomers, who will leave it to Gen X and Millennials. Even if you take the Boomers as the first generation in this cycle, do you believe that U.S. wealth preservation practices at the national level are robust enough to ensure prosperity for generations to come?

For the first time in my seven decades I, personally, have grave doubts about that. And I know I am not alone.

Bringing things back closer to home, this book is for you if you possess what wealth managers call dynastic wealth or intergenerational wealth. While definitions vary, such wealth is generally considered enough to ensure that your children and grandchildren and several future generations do not have to work for a living (say, *at least* \$3 million to \$5 million in investible funds). I've also directed this book to families with a successful

3. *The Millennial Wealth Transfer: I Don't Think You Are Ready For This*, by Adam Bakhash, August 28, 2018, Forbes CommunityVoice < <https://www.forbes.com/sites/forbesbusinessdevelopmentcouncil/2018/08/28/the-millennial-wealth-transfer-i-dont-think-you-are-ready-for-this/#678b5744687f> >.

4. *U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2018: Shifting Demographics of Private Wealth*, Cerulli Associates, November 29, 2018 < <https://info.cerulli.com/HNW-Transfer-of-Wealth-Cerulli.html> >.

5. *Tax the Rich and Their Heirs*, by Lily Batchelder, Op-Ed, *New York Times*, June 24, 2020.

business, farm, or ranch, or income-generating real estate, or copyrights, patents, licenses, or other intellectual property. You will also find this book interesting if you lack dynastic wealth but want to develop practices that lead to it.

If you fall into the *ultra*-high net worth market segment—with financial assets ranging from \$25 million to \$50 million into the billions, you may see these practices as unnecessary. You have quite possibly been exposed to them and either embraced them or chosen not to use them. If you see these practices as unnecessary or have abandoned them, I urge you to learn more about them and to adopt them. Even if you view your wealth as impossible to deplete, it can still seriously damage your beneficiaries if they are not prepared for it. Recall too that the value of many assets can rapidly erode under adverse social, political, economic, and institutional conditions. In such cases, your family members' resourcefulness and resilience will become their most important assets. This book is as much about using your wealth to cultivate those internal assets as it is about preserving financial assets.

This book will also be useful to trust officers, wealth managers, investment managers, and multi- or single-family office executives who want to extend their offerings to include family wealth preservation services or refine their current offerings in that area. A desire to offer these services often begins with an advisor's recognition that wealth management differs from investment management. Wealth management goes beyond rebranding yourself a wealth manager and adding estate planning services and guidance around philanthropy. It covers more ground. It engages clients in qualitative as well as quantitative aspects of wealth and enriches the relationship with the client and, usually, the client family. If you are an advisor, this book will at a minimum enable you to consider offering some level of family wealth preservation services, help you to understand client concerns in this area, and position you to have cogent conversations when clients present a problem related to assets that are or will be jointly owned by family members.

Note that this book is an *introduction*. I encourage you to read more about these practices here and elsewhere. I also encourage you to contact a few practitioners in family financial education, family wealth dynamics, or family governance and commit to working with one or more of them. This book will give you an overview (and my view) of the thinking and activities those practitioners engage in. With that, you can consider where to begin family-proofing your wealth and who to engage.

Please know that you can make the impact of your wealth on your loved ones truly positive. You can teach them the value and power of money. You can help them use it to test their talents, create opportunities, and build fulfilling lives. You can show them how wealth can enhance—rather than provide—purpose and meaning in their lives. As you age and approach death, you can know that you have prepared them for their responsibilities and that they will perpetuate your values and honor your memory.

Finally, let me answer the question I opened with: What's it all about, really?

It's really about whatever you decide it's about.

Whether you decide to divide your assets equally or unequally, distribute them now or after you're gone, adopt some, all, or no family wealth practices is entirely up to you. This book simply presents ideas. You decide which ones make sense for you and your family. You decide what the purpose and meaning of wealth is for your family. You decide what to do with it. You decide what its impact will be.

You decide what it's all about.

Just as with life itself.