MONEY TALKS

Talking about money

Money, religion, and politics—this trifecta of inappropriate discussion topics can create shaky dinner party conversations. But what about with family? When we discuss with each of our client families what they want to achieve with their wealth, an interesting challenge often arises. When our clients describe retirement goals, the picture is often fairly clear: more travel, more time with the grandkids, the freedom to choose their own schedule. However, after quantifying these goals into a financial plan, successful families often find they have more money than they need for retirement. As we contemplate what to do with this excess capital, goals get much fuzzier.

How much should we leave to the children, to the grandchildren, to charities?

Money can be a difficult topic for many families to discuss. While these basic estate questions help start the conversation, too often we find that this discussion unearths more questions than answers.

Will the children understand all of the hard work that went into creating the wealth? How do we ensure the children are motivated to build their own happiness? Can the family work together to manage the wealth, or will it create anxiety and strife?

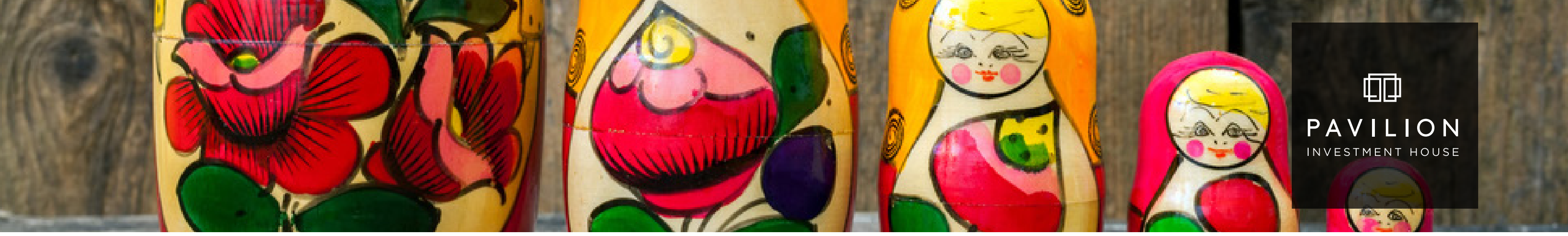
Communication breakdown: the primary reason for poor wealth succession

The Williams Group—a family wealth transfer research organization in the United States—has spent over 20 years interviewing families after wealth has been transitioned to the next generation. Their findings show that 95% of wealth transitions within families fail for three reasons:

- 60% of failed transfers are the result of "an internal breakdown of trust and communication". This is a disturbing statistic as it implies that the very act of transitioning wealth can cause issues among family members.
- 25% of transitions break down due to a "failure to prepare heirs". While a number of issues go into preparing children to take over the family wealth, this is fundamentally a communication problem.
- 10% of transfers are unsuccessful as a result of "a lack of an agreed-upon mission for the family wealth". At the heart of creating a common mission is also communication.[1]

The very act of not effectively speaking about wealth—and especially the purpose of wealth—creates the seeds

[1] "Retaining the Family Assets after Wealth Transfer" article. Investment Management Consultants Association 2013. Carol A. Sherman. References: The Williams Group interviews and field work 1975-2001 referenced and cited in Williams and Preisser (2003, 167-174, Appendix 1).



for failure. Unfortunately, this can lead to not just the destruction of wealth, but to the potential failure of healthy family relationships.

Four ideas for foundational family meetings

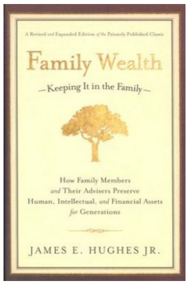
If excellent communication is the foundation for ensuring the health of a family's wealth and relationships, what can we do to plant the seeds of success? Here are four ideas that families can implement to start conversations around building money management knowledge for an effective wealth transition. These recommendations, however, are starting points and will not address all of the challenges that a family can face. Our hope is that by adapting at least one of these ideas to your family, you will develop a healthier dynamic and eventually a more successful wealth transition.

Idea #1: Goal setting with young children

In his seminal book "*Family Wealth: Keeping it in the Family*", James Hughes lays out a framework for effective family governance and wealth preservation. In a particularly innovative approach, he recommends that families stop looking at their balance sheets as a means for tracking the wealth of family finances. Instead, he suggests focusing on the long term health of families by tracking the growth of each family member's **financial**, **intellectual**, and **social capital**.[2]

> *"The very act of not effectively speaking about wealth—and especially the purpose of wealth—creates the seeds for failure.*

Family Wealth is an exceptional book and we recommend it to many clients. However, through our experience we have developed two refinements to Hughes' family plans. Firstly, we have added two more categories that we feel round out



Family Wealth: Keeping It in the Family by James E. Hughes Jr.

a rich, full life: **spiritual capital** and **health capital**. In addition, we have split Hughes' original category of social capital into two sub-categories: **internal**, which reflects the need to build healthy social relationships *within* the family, and **external**, which highlights the importance of building connections with the community.

If families can grow in these six areas, all members of the family should have more successful and fulfilling lives.

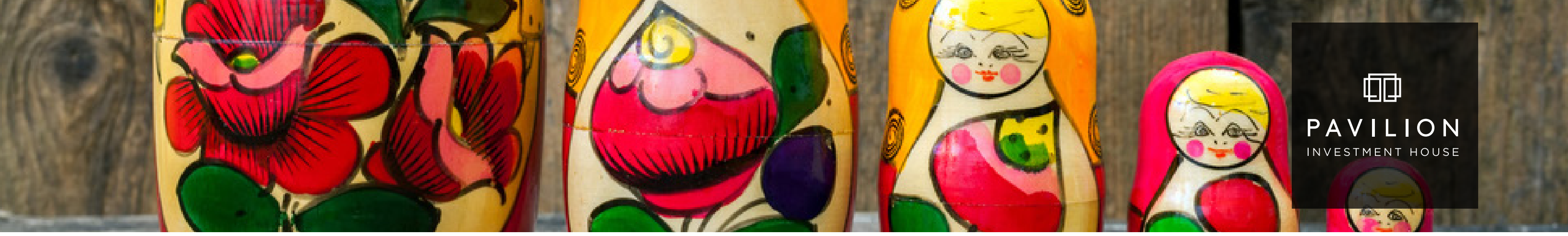
As with most things, starting to develop good financial habits is easiest when children are young. However, many parents do not give their children enough credit when it comes to setting and achieving goals. Children as young as four years old can articulate goals. If you have young children in the family, try asking them this question: "If you could do anything this year, what would you do?"

It is amazing what kids can develop if we give them the tools. You will almost certainly get an interesting goal that the family can work together to achieve, thereby proving the power of articulating and fulfilling goals. As children get older, this basic approach to goal setting can be transitioned to the six key areas of financial success.

For a family with young children, applying goals to the balance sheet categories might look similar to those illustrated in the table below (see Table A).

The various goals for the children can be refined by Mom and Dad, but it is important that most of the goals are developed by the children themselves. Having children create the goals is the only way to get buy-in and the resulting formation of successful habits. Documenting the goals into a family plan like the one above ensures that the family can review and celebrate their accomplishments together over time.

[2] Family Wealth: Keeping It in the Family. James E. Hughes Jr. Expanded edition 2004. Pages 57 – 60.



MONEY TALKS (CONT'D)

Table A: Sample family balance sheet

	Mom	Dad	Son (age 4)	Daughter (age 8)
Financial Capital	Pay additional 20% on to mortgage	100% of bonus deposited to RRSP	Start chores and toy savings jar	Start education savings jar
Intellectual Capital	Read Malkiel's A Random Walk Down Wall Street	Finish Master's thesis	Music Together	Science camp
Social Capital—External	Organize charity golf tournament	Raise $80,000 for community league	50% of lemonade stand to charity	Selling Girl Guide Cookies
Social Capital—Internal	Couples yacht trip in Turkey	Couples yacht trip in Turkey	Disneyland trip with cousins	Disneyland trip with cousins
Spiritual Capital	Stress management workshop	Meditation 3x per week	Sunday school	Sunday school
Health Capital	Pilates 3x per week	Nutritionist meetings quarterly	Karate	Gymnastics

Idea #2: Instilling values with grandchildren

One of the best suggestions in James Hughes' Family Wealth comes under the discussion of the role of grandparents. Because of the non-parental relationship they have with their grandchildren, grandparents have a unique ability to teach and instill values.[3]

One way this can be done is through a grandparent charitable fund, or what Hughes refers to as "Grandchild/Grandparent Philanthropy". In this instance, the grandparents (who are typically the original wealth creators) set aside capital to fund their charitable giving goals.

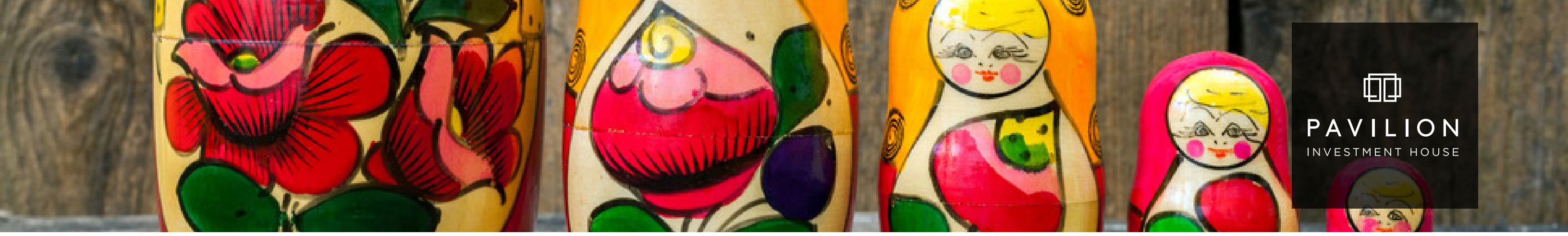
However, instead of deciding which charities to fund, they bring the grandchildren on board to help with the decision-making process. While initially the grandparents need to be more hands-on in the process, as the grandchildren get older, the grandparents can just provide the dollar amount available for donation each year. They can then sit back as the grandchildren put together their case as to which charity they believe deserves this year's donation, and how they will follow-up to ensure that the donation is being put to good use. To help with the management and administration of charitable funds, clients have found significant benefit from the relationship Pavilion has developed with the Edmonton Community Foundation (ECF). ECF has a tremendous number of resources to help families achieve charitable giving goals. Having an exceptional Foundation like ECF involved has allowed these families to focus on what is important, namely conversations on family values like community involvement and charitable giving.

Idea #3: Investment principles for adult children

In discussing this topic with clients, it has become quite clear that developing clear communication habits around money and wealth-building is more difficult with adult children. Parents are concerned that their heirs may not be prepared to take over significant family wealth, and also do not want their adult children to feel they are interfering. If our children have their own lives, careers and finances, how can we ensure that they are prepared for the complexities of an inheritance?

One option is to bring in a third party to facilitate the education and succession process. In family businesses, this is frequently a business coach or board of directors. In family wealth planning it can often be a wealth counsellor.

[3] Family Wealth: Keeping It in the Family. James E. Hughes Jr. Expanded edition 2004. Pages 74 – 78.



MONEY TALKS (CONT'D)

We have a number of clients that have gifted excess capital to their children under the direction that the children must meet regularly with a wealth counsellor to review the investments and get information on effective wealth management techniques. In particular, we are seeing a number of clients topping up TFSA or RRSP accounts for children, and sometimes funding a larger non-registered account. Both options have their pros and cons but the most important thing is that the conversation and education process begins.

Idea #4: A bigger purpose—Family Mission Statement

In *Family Wealth*, Hughes includes the Family Mission Statement as the very first topic in his chapter on "Family Practices" for good reason.[4] While a Family Mission Statement takes much more time and work than our first three ideas, for families prepared to get serious about effectively employing their wealth to drive happiness across multiple generations, potentially there is no greater tool.

The Family Mission Statement should reflect "…the purpose, vision, values, and goals of a particular…family…".[5] As with the mission statement for a well-managed business, a Family Mission Statement can be a powerful force in uniting members around the common goals of growth and happiness. But beware: as with a dictatorship, a mission imposed by a patriarch or matriarch can lead to false allegiance and increased disinterest.

It is the act of collaborating across the generations to formalize the family's common values that makes the Family Mission Statement so powerful. This collaborative process is lengthy and may require outside coaching and guidance, but can bring the family together like nothing else.

Conclusion

By this point it should be clear that the foundation for effective family relationships is communication. Complex family issues can arise when family wealth is added into the mix. However, for families prepared to practice open communication and implement effective family governance, the hard work of the family's wealth creators not only can be preserved but also can enable the pursuit of happiness and success for future generations.

[4] Family Wealth: Keeping It in the Family. James E. Hughes Jr. Expanded edition 2004. Pages 43 – 50.

[5] Family Wealth: Keeping It in the Family. James E. Hughes Jr. Expanded edition 2004. Page 43.

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