

What is Legacy Planning?

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The interest among social scientists, philosophers and now the community of family business advisors, about why some families implode, and others flourish, is not a new inquiry. Italian philosopher, Giambattista Vico (1668-1744), astutely noted:

“People first sense what is necessary, then consider what is useful, next attend to comfort, later delight in pleasures, soon grow dissolute in luxury, and finally go mad squandering their estate.”

I often get asked by clients some form of the following two questions:

“Why is it that many families fulfill the proverb of shirtsleeves to shirtsleeves by descending into intra-family conflict or plundering the wealth bestowed on the family by an earlier generation?”

And, “Why is it that some second and third generations of other families are able to perpetuate their core values staying united by the fabric of their family’s shared values and whose next generations are flourishing into thought leaders in their businesses and philanthropic endeavors?” These multi-generational families are called Legacy Families, and they have a few characteristics that clients and their advisors need to be mindful of.

My answer to the first question is this: Some research suggests a deep failure of family communications, but quite frankly, I really don’t know. The reasons are complex and different for all families – greed, consumptive behavior, a lack of shared values to sustain some type of union. Take your pick.

My non-scientific answer to the second question about why some families flourish into Legacy Families is simple – because they want to become one and they work hard at being one. The commitment to begin such a long term family journey or to preserve being a Legacy Family allows all advisors to peek through the family’s front window and to get a glimpse of their behavioral thinking surrounding subtle family issues, their values concerning wealth and money and the advisory services they value.

Luckily there is a growing body of research for family advisors working in this area to get a better understanding of the common characteristics of Legacy Families. Understanding their characteristics has important value to families that are beginning this journey and to a wide audience of family advisors who seek to help families navigate this terrain.

So, what are the common threads of these Legacy Families?

First, Legacy Families understand that the true wealth and health of a family is not measured by the size of its balance sheet. The real assets of a family are its highly cherished individual members. Collectively they are the petrol in the tank propelling the commitment, innovation and growth for their collective enterprises.

Next, Legacy Families have taken the time to collaboratively think through their family's mission. These families understand that they must form a social compact reflecting their shared values and visions. Different generations will have behavioral traits and different visions making this process of listening to different voices critical. Mission is not defined in the traditional estate planning sense of how little is paid in estate taxes. Death and estate transfer taxes are indeed important to understand and plan for. Rather, Legacy planning asks a broader set of questions that these families want to explore related to the best practices, including governance strategies, family organization and goals to sustain its members, its businesses and its philanthropic enterprises over many generations.

“These generative families have discovered that having family wealth is only the beginning. The question to be answered by each successive generation is, 'What do we want to do with the Family Wealth?' Each generation develops a shared purpose that motivates family members to become more than passive, disinterested consumers of the family wealth”. (FN 1)

Many have observed that Legacy Families work very hard at thinking through these family issues: they understand that their chances of succeeding are directly proportional to the level of planning and execution. They hire the right attorneys and other advisors skilled and schooled in this area of family advisory work.

Another important element needs to be addressed in legacy planning – it is called “pruning”. Not every family member may want to be part of this journey. Not every family member wants to share their assets – especially illiquid (non-voting) assets like family business interests whose value, if one is not working in the business, may be hard to quantify. This author's belief is that a family member's ability to monetize illiquid interests at a fair value is critical not only to the overall health of the entire family but also to reducing the likelihood of long term conflict. Too much time is spent by professionals in a one directional linear manner of planning – that of how to get something off your balance sheet to reduce taxes. But attention also needs to be paid to how a beneficiary (or trustee) can monetize the illiquid or business interests if they choose not to be part of the family's enterprise.

Finally, studies have also revealed a unique common thread to most Legacy Families: the critical importance of their philanthropic contributions and missions, not only to their communities but also to their heirs. Giving back is an important element to sustain a Legacy Family. They are deeply and collectively compassionate. Philanthropic planning provides a unique gateway to bringing a family collectively together.

It might seem counterintuitive that a decision to give away hard earned family capital actually helps keep a family together, but my mentors point out an astute and subtle point:

“When a wealth creator makes the decision to allocate a portion of the accumulated wealth to philanthropy in general and a family foundation in particular, an underlying message to the family is that beneficiaries will only be receiving a limited portion of the family wealth. It changes the expectation that all the wealth created in one generation will automatically pass to the next. It reinforces the expectation that each generation be responsible for its own lifestyle and economic success. By managing the expectations of the next generation, parents will have done more to liberate them than to restrain them and will have done more to encourage self-sufficiency and counter overindulgence.” (FN2)

So here is my expanded answer to the first question noted above. A family’s fabric is as strong as its collective belief in the well-being and flourishing of its members. If these ingredients are absent, the fabric will begin to fray.

Footnotes:

1. Good Fortune: Building a Hundred Year Family Enterprise, by Dennis T. Jaffe, PH.D. August 2013.
2. The Legacy Family, Lee Hausner and Douglas K. Freeman, 2009.