Navigating the Complexities of Family Wealth Conversations

The values that make a strong business also make a strong family – and vice versa

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Like a successful business owner who can't find the time to develop a succession plan, wealthy families all too often simply don't go any further than having the best of intentions. More often than not, the plan is to pass wealth on to future generations, yet the vast majority of people don't take the time to formalize the process. Through years of helping families navigate this journey, we at Intercontinental Wealth Advisors have found that one of the most common causes for hesitation is that families simply don't know where to start. They are really good at creating the wealth, but the idea of having robust and emotional conversations with family members about money is daunting. Although family wealth conversations are complex, they are incredibly important and can become manageable with an organized and well thought out approach.

"There are only two ways to influence human behavior: you can manipulate it, or you can inspire it."

~ Simon Sinek, TEDx speaker and Best-selling author, *Start with Why: How Great Leaders Inspire Everyone to Take Action*

Benefits of Family Wealth Conversations

Let's start with the benefits of family wealth conversations. People like Martin Luther King Jr., Steve Jobs, and the Wright Brothers had little in common, but they all started with WHY. They realized that people won't truly buy into a product, service, movement, or idea until they understand "the why" behind it. In fact, the most popular TED Talk of all time was Simon Sinek's "Start with Why."

This principle – start with why – is as true for multigenerational wealth transfer as it is for business purposes and/or the general population. It's human nature to be more motivated and purpose-driven if we clearly understand the mission and motivations behind a certain set of actions.

As we continue to move into the most significant period of wealth transfer in the history of the United States, with Baby Boomers estimated to transfer up to $68 trillion, researchers are focusing in on the longevity or lasting power of wealth from generation to generation. And the results are stunning: 90% of family wealth is lost by the third generation.*

This is what typically happens when the proper foundation has not been laid:

- Generation 1: Creation of the Wealth
- Generation 2: Spending of the Newly Created Wealth
- Generation 3: Family Wealth is Lost

The lost wealth is not typically a result of poor financial advice, inadequate legal assistance, nor improper tax planning. It has been suggested that two thirds of Americans who have at least $3 million in investable assets have not talked to their children about their wealth and never will.**

**According to 2014 statistics from WealthCounsel*
***According to a 2019 Merrill Private Wealth Management study of 650 families*

It is interesting to note that parents feel compelled to talk with their children about drinking and driving, using drugs, bullying and mental health and yet a surprising number of them don't talk to their children about wealth and inheritance. There are many reasons people report for not wanting to talk about wealth ranging from not wanting to create a sense of entitlement with their children all the way to the other end of the spectrum with reasons centered around not ever having those kind of money related conversations themselves when they were children. Other families simply believed that their children "would just figure it out over time."

So beyond the sheer desire to maintain the family wealth through generations, the benefits of family conversations help explore and navigate many common issues of family wealth, including:

- Current resources, investments, and goals
- Shared values
- Attitudes toward charitable giving
- Passing knowledge on to the next generations
- Preparation of children and grandchildren

Things that we consider and discuss as we get to know a family include:

- What are your family's current resources, investments, and goals?
- What are your family's shared values?
- What are your attitudes toward charitable giving?
- How will this knowledge be passed on to the next generation, and the one after that?
- Are your children and grandchildren fully prepared to take on your responsibilities?

"When your values are clear to you, making decisions becomes easier."

~ Roy E. Disney, longtime senior executive for the Walt Disney Company, which was founded by his father, Roy O. Disney

So How Do We Talk to Our Children About Family Wealth?

The beauty of discussing family wealth is the ability to lean into the entire concept of family. Some of the most enduring, authentic, and iron clad bonds are held between members of the same family. And one of the most important drivers of this is the fact that they are based upon the foundation of family values. Whether we believe it or not, every family has values. They most definitely differ in what they consider important, but make no mistake about it, families create and share robust value systems. So when it comes to "how" to talk to your children about family wealth, try to center your discussions around your particular family values.

- What's important to your family?
- What do you believe in?
- Do you want to leave the world a better place?
- Do you embrace that old adage about the importance of giving back to those less fortunate?

> ***"To begin with the end in mind means to start with a clear understanding of your destination. It means to know where you're going so that you better understand where you are now and so that the steps you take are always in the right direction."***
>
> ~ Stephen R. Covey, TEDx speaker and best-selling author, *The Seven Habits of Highly Effective People*

Discussing and documenting what matters most to families is the first step. Next, we seek to interpret from the perspective of the creators of the wealth how they perceive their family can best approach the issues of clear and effective communication, planning for the future and approaching decisions attendant to that planning. Ideas about how to approach this process can differ greatly.

Gathering with the family around the table in a business-like setting to talk through these issues is a good place to start. That is where family wealth governance often begins. Collaborating on a mission statement is a good idea. Establishing policies for handling complex situations. Educating younger family members so they can effectively manage their own finances and at some point in the future take over primary responsibility for the family's wealth.

As the family discussions progress, keep coming back to those family values. How can the family wealth reinforce and align with the family values? Think of the power and speed a team of rowers produce when all paddling in unison. With family values serving as the foundation or "oars" in the rowboat, discussions around money and the eventual transfer of wealth can be incredibly meaningful.

Establishing Rules, Setting Boundaries, And What Family Meetings Actually Entail

As Stephen Covey, author of The Seven Habits of Highly Effective People, famously said, “Begin with the end in mind.” When significant resources and income are involved, effective family wealth governance is the key to family harmony. Rules must be established, and boundaries set for managing and meeting shared financial goals. Structure must be created around who makes decisions, how those decisions are made and, very importantly, how they are discussed and debated. Protocol and discipline must frame and surround emotional discussions.

Intercontinental Wealth Advisors works closely with families, their accountants, and their estate planning attorneys as they establish the necessary plans, documents, and procedures for managing this process. From the outset it is important that regular family meetings be scheduled and conducted. These meetings are essential to creating and maintaining family unity around an agreed-upon plan, reviewing progress against that plan, airing concerns, and evaluating potential changes in strategy.

Transitioning wealth to subsequent generations is complicated, and it can quickly become emotional. While including a mediator in family meetings is not the norm, it is a practice often employed.

In truth, we anticipate occasional and sometimes stringent conflict in the management of our family relationships, even in families that get along well. Divorces, remarriages, career choices and interpersonal disagreements can all strain relationships. In addition to emotional upheaval, these strains can upset the balance in family meetings and necessitate the inclusion of a mediator from time to time.

“The best time to plant a tree was 20 years ago. The second best time is now.”

~ Ancient Chinese Proverb

The Right Time to Talk to Your Children About Family Wealth

There's a popular Chinese proverb that says: “The best time to plant a tree was 20 years ago. The second best time is now.” So wherever you are in the process, the best time to formulate a plan and to thoughtfully act is now.

First things first: let’s put the term “children” in perspective. As we think about passing wealth from one generation to the next, the term “child” can span the spectrum from a newborn all the way to someone in their 70s and beyond. So is it better to discuss finances and wealth with adolescent children or should these important conversations be directed more towards adult children? The answer is both! It’s always a good time to talk to your children about family wealth.

Granted, the depth of conversations and topics explored with adolescents may be more elementary, but nevertheless there are immense benefits of establishing the lines of open communication around family wealth early and often.

Much like a child's belief system is formed and molded by parents over the years, so too can their attitude and appreciation towards money.

Why is this important? With history as a guide, we have seen time and time again that a family's ability to successfully harness the power of wealth can create some of the most impactful outcomes. Conversely, history also shows us that an ill-prepared "child" when it comes to handling wealth can often create more trouble than good.

Skipping forward a decade or few, family discussions with grown children tend to take on more complexity. That in itself is not a negative, simply an aspect that should be properly addressed. By this point in their lives, adult children have typically formed their own viewpoints on the world they live in. Embracing these different perspectives brought forth by multiple generations can, and should be, an incredibly powerful tool. Family discussions around wealth are not necessarily meant to achieve agreement. The goal most often is communication, not consensus.

Another interesting and often explored subset of the "when" to discuss family wealth topic is the timing of the actual transfer of wealth itself. A question we often hear is, "Is it best to transfer wealth during lifetime or at death?"

There is no wrong answer to this common question, but the good news is there are benefits for both approaches. For many adults, the idea of seeing the joy and benefit of shared wealth during their children's lifetime is very appealing. Acknowledging the family wealth would eventually transfer to the children, the happiness seeing their children being able to start that new company, buy that dream home, or pay for their children to go to college provides a compelling reason to at least begin the wealth transfer process during lifetime.

Historically, the more common approach involves wealth transfer occurring at death, typically resulting in a life changing, or at least life-altering, liquidity event. Along with this windfall being appreciated by the younger generation, there is a great deal of satisfaction by parents knowing that the financial results of their hard work and dedication over the years will eventually be passed at death.

"There are really three parts of this question of the right people. The first is the right people on the bus. Second is the wrong people off the bus. But third is the right people in the right seats."

~ Jim Collins, TEDx speaker and best-selling author, *Good to Great* and *Built to Last*

Partnering with Your Advisors to Help Facilitate Family Wealth Conversations

Several years ago, business expert and motivational speaker Jim Collins popularized the phrase, "Get the right people on the bus and the wrong people off the bus."

Families with significant resources have much to be thankful for, but there is so much at stake, especially when sharing wealth across multiple generations. The goals of the creators of the wealth, their children and their grandchildren rarely align perfectly, and there is great diversity of thought regarding the path to achievement of those goals. When wealth is intended to support multiple generations, the challenges families face are many and great. Among the most compelling of those challenges, we have learned, is determining how best to share and pass along the values that were inherent in the generation that created the wealth.

One of the most rewarding aspects of our job as wealth advisors is to receive the opportunity to get to know, and ultimately establish new client relationships, with the children of existing clients. As part of this journey and ongoing relationship with multiple generations of the same family, we are uniquely positioned to be able to share and reinforce family values. If we go back to the old adage of family wealth being created in the first generation and then shared and put to use in the subsequent generations, we are well positioned to serve as this intergenerational bridge. The stories of the struggles and successes of the wealth creators over the years, as seen through the eyes of the wealth advisor, are recounted and reaffirmed for the younger generations.

Sadly, but not surprisingly, from time to time we have clients who created the wealth pass away. Very fortunately for us, in virtually all instances, we have had the opportunity to become acquainted with the clients' children, and often the grandchildren as well. One client who knew he was terminally ill asked his three adult children to leave their individual investment accounts with us for at least a year after he passed away and the account division was made. That gave us the opportunity to get to know the children better and to become acquainted with the grandchildren, who had also inherited directly from their grandparents. It is gratifying to report that three years later, the children and grandchildren – all of whom live out of state – remain our clients. That same client had asked that his children make individual contributions to his church from their inheritance. Facilitating those transactions was particularly rewarding for us, as we knew how important their church was to the grandparents, and we had facilitated their annual stock gifts to the church for a number of years. As a footnote to this story, one of the couples is using some of the funds in their inherited accounts to put a son through medical school. More than once, the parents have observed to us that this use of their inheritance would be particularly pleasing to the grandparents.

In another instance, a client who died more recently left a directive to her adult children to make individual gifts to her church and to the private school her children had attended growing up. As the gifts to the school were made, the children were not only honoring their mother's request, but were also contributing to the school that influenced their youth so meaningfully. Working with multiple generations of the same family, as well as facilitating philanthropy after the wealth creators have died, add richly to our enjoyment of the work that we do.

"The best ideas emerge when very different perspectives meet."

~ Frans Johansson, TEDx Speaker and author of *The Medici Effect*

Multi-Generational Wealth Advice from Multi-Generational Wealth Advisors

At Intercontinental Wealth Advisors, we have found more often than not that when families involve multiple generations, perspectives are broadened and diversity of opinion is more appreciated.

As a multi-generational wealth management team, it is very common for us to both communicate with and receive updates from different members of the same family. And it is amazing how many times we compare conversations and can identify differing perspectives. We actually think that is healthy and an important part of the work we do as advisors. It is not our place to take sides; instead, our goal is to help make sure the entire family doesn't lose sight of the family values and the mission that truly define them as a family.

If the ideas expressed in this narrative resonate with you, we would be happy to schedule an initial conversation to explore a potential working relationship.

About the Authors and Intercontinental Wealth Advisors

Howard Lutz and **Charlie Lutz** are one of three father-son pairings at Intercontinental and truly walk the talk when it comes to multi-generational planning. At Intercontinental, they believe that ***the values that make a strong family also make a strong business.***

Howard Lutz joined Intercontinental in 2018 as Senior Vice President, bringing 20 years of diverse banking experience to the firm, including leadership roles in the international and domestic sectors. Early in his career, Howard managed Bank of America's Military Banking operations in England and Iceland. Before joining Intercontinental, he spent the previous 10 years of his career leading the Private Banking division in prominent Texas banks, giving him enhanced insight into the needs of high-net-worth individuals and families.

Howard holds an MBA in International Business from The University of the Incarnate Word and an undergraduate degree in Spanish from the University of Texas at Austin. Howard is a life-long resident of San Antonio and graduated from Alamo Heights High School in 1994. His pride in his hometown is evident in the leadership positions he's held in numerous nonprofit and educational organizations. Howard currently serves as a Vestry member of St. Luke's Episcopal Church, a member of the University of the Incarnate Word Development Board and an advisor for Child Advocates San Antonio's capital campaign. He was recognized as a 2011 San Antonio Business Journal "40 under 40" award winner. Howard is a member of Leadership San Antonio Class 35.

Howard has been featured in Financial Advisor Magazine and ThinkAdvisor discussing multi-generational planning.

Charles Lutz III joined Intercontinental in 2005 as Director and Chief Operating Officer. Previously, he had enjoyed a thirty-five-year banking career, with his last position being President and CEO of Bank One's Central and South Texas Region. In July 2013, he became President of Intercontinental.

A graduate of Trinity University and the Southwestern Graduate School of Banking at Southern Methodist University, Charlie has been active in many facets of community life in San Antonio, serving as Chairman of the Boards of Trustees for the University of the Incarnate Word, the Alamo Heights Independent School District, the YMCA of San Antonio & the Hill Country, the San Antonio Symphony, the Ecumenical Center for Religion and Health, and the World Affairs Council of San Antonio. He currently serves on the board of United Way of San Antonio and Bexar County.

Charlie has been profiled in ThinkAdvisor discussing multi-generational planning.

As global wealth advisors since 1981, Intercontinental customizes strategies to help clients reach their financial goals. The firm's relationships with clients are cultivated through listening and understanding. Intercontinental is in the business of understanding its clients' goals, risk tolerance, and vision for the future, and they use that knowledge to craft customized solutions to meet clients' investment challenges and financial objectives.

Intercontinental Wealth Advisors, LLC (IWA) develops, implements, and monitors customized investment plans that can be adjusted as the market and clients' life situations change. Strategies seek to reduce income and capital gain taxes to efficiently transfer wealth to future generations or charitable causes. Clients include high-net-worth individuals, corporations, and non-profits. IWA is registered and regulated by the Securities & Exchange Commission (SEC).

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