



FAMILY GOVERNANCE



**HOW PROFESSIONAL
SERVICE ADVISORS CAN
HELP WEALTHY FAMILIES
SLEEP BETTER AT NIGHT**

3 Themes



- **FAMILY GOVERNANCE** is how wealthy families make decisions together and take accountability for the decisions they make together
- Family Governance evolves over family wealth stages
- Advisors must evolve over family wealth stages as well, at risk of becoming commodity/cost provider v. value provider if they do not
- If “legacy” is indeed the glue, why not also “community” and “transcendence”

6 Family Wealth Stages



- **Wealth accumulation and growth**
- **Liquidity and/or succession events**
- **Introduction of fiduciary management**
- **Life-time transfer events**
- **Post-death inheritance events**
- **Legacy**

Wealth Accumulation and Growth



- **Decision making model is typically “vertical”**
- **Asset is typically family-owned business and/or real estate**
- **Use of Mission Statement limited to business**
- **Philanthropy usually nominal/not present**
- **Outside board, if, any, is business focused**
- **ADVISORS: typically historical/compliance**

Liquidity/Succession Events



- **SUCCESSION:** move from vertical to horizontal model. Ideal time for outside advisors/board
- **LIQUIDITY EVENT:** as above, but further in advance, and here a “Family Office” forms
- **Mission Statement?**
- **Vertical v. Horizontal?**
- **In-house v. outsource/upsource?**
- **ADVISORS:** ability to see the future

Fiduciary Management



- **TRUSTS** require independence/objectivity
- **FOUNDATIONS** require even more of same
- **GOAL:** objective clearance and oversight of all important recommendations
- Thus “vertical” model high risk here
- **Mission Statement** critical here
- **Investment Policy Statement(s)** as well
- **ADVISORS:** collaboration imperative

Life-time Transfer Events



- As per previous slide, but in addition...
- Through what entity is the family centered?
- Foundation to community to transcendence
- Risk of becoming insular
- Risk of using structures that are not clear
- Risk of not understanding beneficiary expectations
- ADVISOR: see 3 Common Challenges soon

Post-death Inheritance Events



- See life-time transfer previous slide
- Absent a clear roadmap, budget for attorneys
- If beneficiary expectations and reality have not been aligned by now, well good luck...
- Financial risk (and other systemic risk) increases dramatically as assets pass to more and more beneficiaries and loss of control accelerates
- ADVISORS: holistic, forward-looking, listen

Legacy



- **Multi-generational**
- **Philanthropy to community to transcendence**
- **Perpetuate family values**
- **Foster financial maturity**
- **Family meetings, advisory committees, etc.**
- **ADVISORS: listen well and ask many questions. Do not answer questions and talk.**

1st Common Challenge



- People aka “Family” & “Human Capital” 60 %
- Knowledge aka “Intellectual Capital” 30 %
- Financial Assets aka “Money” not # 1 just 10 %
- CHALLENGE # 1: 90 % of time/energy spent on 10 % piece that is money
- Positive orderly change, community improvement, thriving, meaning come from the 60 % and 30 % pieces (which also contain “risk”)

2nd Common Challenge: Advisors



- **Hyper focus on Money**
- **Especially on the Expense (Income Taxes) and Liabilities side (Estate Taxes)**
- **Weird billing methods: hourly, AUM**
- **Use of complicated entities and structures**
- **Focus on NEEDs not WANTS: this is backwards**
- **Focus on FEATURES not BENEFITS: ditto**
- **Technical Speak**
- **No collaboration**
- **CATALYST is the marketplace, not the provider**
- **It is about YOU (Customer) not ME (Provider)**

3rd Common Challenge



- “Legacy” typically discussed only up to point of “philanthropy”
- Again, 90 % of time/energy on 10 % money
- CHALLENGE: many family members have been isolated from typical outside human interaction
- Participation in one’s community: time, talent, knowledge and network is much more scalable than money

Family Governance Keys



- **Clear Mission and Values Statements**
- **Clear definition of “wealth” (more than just \$)**
- **Clear definition of ‘risk” (more than just financial) and how to measure/monitor**
- **Progress from “vertical” to “horizontal”**
- **Clear/understandable entities/structures**
- **Philanthropy to community to transcendence**
- **Connection and collaboration: not insular**

Advisor Keys



- Progress from compliance to advisory
- Access to large, safe network to foster...
- Connection and collaboration...
- Where “needs” are handled and “wants” are the focus
- Where someone facilitates as concierge/hub
- Use of non-traditional pricing models
- Understanding of “non-traditional” assets
- Listen, listen, listen and ask questions
- GOAL: independent and objective clearance and oversight of all important recommendations in a collaborative manner with a degree of skepticism

CASE STUDY: The Farm



- **WEALTH ACCUMULATION:** successful grower who assumed management upon father's passing, using very vertical decision-making model. Some siblings in the business, some siblings not. Advisor compliance based.
- **LIQUIDITY/SUCCESSION EVENTS:** Use of life insurance on Mom (not active in business) to handle siblings in v. out issue. No succession plan beyond son who was running the business. No outside board/committees. Advisor becomes consultative in context of business planning only.

CASE STUDY continued



- **FIDUCIARY MANAGEMENT:** Dad's Trust, Life Insurance Trust "trustee-ed" by family members not by truly independent trustees. Estate plan does not evolve as estate tax exemption increases. No advisory committee to represent other siblings. Advisor is focused on success of the business.
- **LIFE-TIME TRANSFER:** as above, no evolution.

CASE STUDY continued



- **POST DEATH:** Mom dies, she was the “glue.” Beneficiary expectations are out of alignment with reality. But reality has never been adequately disclosed. Attorneys get retained. No outside Board or advisory committee has ever been put in place giving other family members representation. Advisors have been focused on growth/success of the business (which is different than the growth/success of the family)

CASE STUDY continued



- **LEGACY:** none, or should we say “negative.” 2,000 + employee company files for bankruptcy amid 7 figures of legal fees. Liquidity is gone, only land remains. Family members shun one another. Business no longer operates. If you want to buy some land real cheap in North County, let me know.

THANK YOU (any questions?)



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