

# FAMILY GOVERNANCE

## Foundations of Estate Planning

**Creating an estate plan is an important part of managing your wealth.** To help simplify the process, we have created a series of frameworks to help clients work through the process.

In this guide, we address the structure, goals, and benefits related to creating a system of **family governance**.

While this educational tool is not intended to provide tax or legal advice, it can help investors prepare for wealth transfer issues and decisions commonly faced by families.

The list below should be viewed as a framework and may be completed or reviewed based on your specific situation.

### 1. What is family governance?

**Put simply, family governance is making sure members of your family have discussed and are aware of the values, purposes, and wishes that will guide a family's wealth into the future.** Family governance has no single definition and can mean different things for different families. A solid family governance framework allows for open discussions, joint decision making, clarity around asset control, and a means for peaceful resolution of potential differences of opinion.

### 2. Why is family governance important?

**70% of wealth transfers fail, mostly due to a lack of trust and communication among family members.** Creating a family governance plan helps to guard against failure as well as promote and further a family's wealth transfer plan. Families, no matter their level of wealth, can use a family governance plan to educate the next generation, provide historical context, set expectations, and prepare all parties involved for the future transfer and management of wealth. Most importantly, it serves as an important way to increase communication and trust as well as reduce conflict and litigation.

### 3. Establish a governance structure

Every family is different and as time goes on, the growing number of family members and generations can lead to both financial and familial complexities. Families can use the questions below to create a **"Family Mission Statement"** to articulate a common future goal.

- What is our family's composition? (consider second marriages, children, grandchildren, family friends, unknown family members, and others that the estate may affect or benefit)
- What values are important to pass on to recipients of wealth?
- How does our family interact at its "best"? How does our family interact at its "worst"?
- What is it like to talk about money with each other?
- How did our family come to have our wealth?
- What are the ongoing sources of our wealth?
- How would we like children and descendants to view this wealth?
- What important values/traditions do we hope will live on within future generations?
- What would you like your legacy to be?
- What do you hope your family remembers about you?
- Are there money lessons you'd like to pass on to the next generation?



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#### 4. Examples of conflict resolution structures

**Decisions regarding the management, use and transfer of wealth can sometimes lead to disagreements.** A family governance plan can help create a process for how these disagreements will be handled. Below we offer several ideas on how a family might create a structure to work through issues and come to resolutions. However a family chooses to resolve differences, it is important that those who are brought into the process are notified of their responsibilities and a process has been created to replace members as time goes on.

- 🕒 Matriarch and/or patriarch
- 🕒 Board of directors/family council
- 🕒 Super or simple majority
- 🕒 Voting shares based on age, ownership, or some other criteria

#### 5. Resources available for the creation/maintenance of a family governance structure

While we may make every effort to reach a resolution within the family governance structure, **having a third party take part in the process can help provide clarity or a new, useful perspective on a topic.** There are several individuals and groups around the country that can assist families with the many issues that may arise. These professionals can provide expertise, guidance, and perspective in a number of areas. Below is a partial list of groups that may serve as resources:

- 🕒 Aging Life Care Association
- 🕒 Association for Conflict Resolution
- 🕒 Alzheimer's Association
- 🕒 Exponent Philanthropy
- 🕒 National Center for Family Philanthropy
- 🕒 National Elder Law Foundation

#### 6. Next steps: The family meeting

A family governance plan is the beginning of an ongoing process. A central part of that process is what we call the **"Family Money Meeting."** These periodic meetings allow families to come together to discuss and activate their wealth transfer plan. Below are a few questions and considerations:

- 🕒 How will meeting agendas be created?
- 🕒 Who will be invited to these meetings?
- 🕒 What are the financial topics that should be discussed?
- 🕒 What are the non-financial topics that should be discussed?

<sup>1</sup>Institute for Preparing Heirs; "Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values", Roy Williams and Vic Preisser.

### NEED MORE INFORMATION?

If you have additional questions or need further guidance, contact your financial professional.

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