Planning for the future: strategies to overcome challenges of family governance

By Kate Leppard, Deputy Head of UK Wealth Management

A common theme for many of us is the desire to plan for the future. Whilst most perceive this as taking action to grow and protect the value of their assets (financial or otherwise), another very important, but less well documented area is how to successfully introduce the next generation to their ▶

family wealth without having any negative outcomes. The very existence of trusts since the 12th Century is testament that many wish to transfer assets to those that may not be ready or able to manage such finances themselves. Whilst the use of trusts may not be as tax-efficient as they once were, they can still play a useful role in inter-generational planning.

If you look at some of the wealthiest families with multi-generational wealth, the traditional family office has been actively dealing with this challenge for many years and we can learn from their past experiences. 'Family governance' and 'family charters' are paraphrases that may sound complex or onerous in name, however in practical terms they could greatly simplify the process of introducing the next generation (G2) to the family wealth without creating a burden or taking away their own sense of personal fulfilment.

It is clear from our research and discussions that there is no 'one size fits all' solution and families' needs and requirements are all different. How a family's wealth has been created and when it was made are both major influences.

It is critical to have access to good quality wealth planning advice from planners who work as part of a team with the family's other professional advisers. It is only after a family has thought about their long-term goals and objectives combined with shorter-term demands that an effective strategy can be implemented. The key is finding a flexible and pragmatic approach which can coincide with other activities that the family may be undertaking such as business interests, property or philanthropy.

The recent changes to pension regulations relating to inheritance tax is an excellent example of how many families have had to reconsider longer-term planning – and for once this is a positive reason to reassess.

The wealth education of G2, namely the obligations and consequences of wealth, is very important. Family governance helps to find out what the family wants to achieve in the long-term future, which varies between different generations and for each family. For some families, there will be obligations; the trick is not letting them become a burden. Getting the balance right when introducing and giving wealth to G2 is difficult; too early could have negative consequences for a child, whereas too little as an adult can impact important decisions. Many large families have formal trustees or board meetings with family members, non-family members and external advisers. Most children will have realised they live privileged lifestyles and might start to attend these meetings without needing to know the extent of the wealth. Non-family members and external advisers can play an important role in mentoring and explaining – being one-step removed brings some degree of independence.

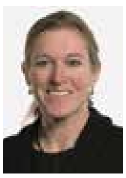
Many clients have used charitable giving as a method of gradual financial engagement for G2. Either by bringing the individuals into the decision-making process for family giving, or allowing them to determine their own giving strategy. Charitable giving may instigate direct involvement with a charity, allowing the individual to follow a different and personally fulfilling career path. Either route, be it personal to the family or wider in nature can be beneficial as it allows G2 to reflect on individual areas of interest and helps them grasp the responsibility of possessing wealth. Furthermore, they can also benefit from working as part of a group by having to receive backing for individual decisions they wish to make.

Larger families often use a family board to agree how members may be treated at certain stages of their lives – this might be formalised in a family charter. It can be tricky to determine the procedures which will inevitably evolve over the generations, but for most families, establishing these guidelines embeds a set of values that can then be adhered to. Where we have seen this most recently is the pre-requisite that all family members have pre-nuptial agreements on marriage.

We have found each generation has different outlooks, rooted in the same values. The millennial generation proving to be entrepreneurial and interested in social impact ventures as well as the stewardship of the family wealth to the next generation.

The process of engagement is not a simple one, however, in our experience there is much to be learned from the family office approach to this issue, even for those who view themselves as being a long way away from that wealth bracket. d

Who's who?



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