



## COMMITTEE REPORT: HIGH-NET-WORTH FAMILIES & FAMILY OFFICES

By **Dr. Richard Orlando**

### Preparing for the Assets

Help client-families understand their “why?”

**F**amily offices may be familiar with the Chinese proverb: “Wealth does not pass three generations.” “Shirtsleeves to shirtsleeves in three generations” is the American equivalent, and the same phenomenon is found throughout the world. In England, they say, “Clogs to clogs in three generations.” In Italy it’s, “From the stables to the stars to the stables in three generations.”

Interestingly, failure to transfer money (or a family business) to, and beyond, the third generation rarely results from the original wealth owners’ neglecting to put a solid financial and estate plan in place, as most people would assume. Nor does the failure usually stem from the fact that the wealth is dissipated by being passed into the hands of a larger group of people. Instead, it has everything to do with what I refer to as, “the business of the family.” (I’m not referring to the family business.) **The business of the family is how a family makes decisions together, how they communicate about important topics and how they prepare the next generation.** In other words, how a family prepares itself for their assets, rather than exclusively focusing on preparing the assets for the family.

The range of services offered by family offices varies greatly. On one side of the continuum, the focus is primarily on money management. On the other side, it may also include walking the dog, overseeing luxury purchases and providing family education. Those family offices that provide family education begin to address the business of the family. Although family education typically overly concentrates on financial topics, it’s

a good start.<sup>1</sup> Even though there’s more room for the development of family education programs that address the business of the family, the greater opportunity for family offices is to help their client-families know their “why?”

#### The “Why”

Simon Sinek, in his video on *TED.com*, titled “How Great Leaders Inspire Action,” offers a perspective on inspirational leadership, using examples such as Steve Jobs, Martin Luther King and the Wright brothers. He discusses the question “Why?” in the context of a “golden circle.” His golden circle consists of three-concentric circles, with the outer most circle reflecting the “what,” the next inner circle reflecting the “how” and the innermost circle, the “why.” In short, **he makes the case that most leaders focus on “what” they do and “how” they do it, but the great leaders who inspire action know and focus on the “why.”** Similarly, **family office leaders who want to inspire action in their clients need to help them clearly articulate their “whys”** (not to mention knowing the “why” of the family office).

#### Five Independent Capitals

Friedrich Nietzsche wrote: “He who has a Why to live for can bear with almost any How.” The “why” can be found in one of the five types of interdependent capitals, or resources, each of us possesses. The five capitals can be remembered by the acronym, FISHS (financial, intellectual, social, human and spiritual). Wealth, in the form of money, property and other tangible assets, is our financial capital. Our formal and informal educations contribute to our intellectual capital. Social capital refers to the resources found in our personal and professional networks. Our individual gifts, talents and passions make up our human capital. But, it’s in our spiritual capital where we find our “why.” Spiritual capital is



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comprised of our core values, purposes, faiths and legacy goals. Although spiritual capital doesn't consist of the tangible assets found in our financial capital, the irony is, the greater our financial capital, the greater the need to invest in our spiritual capital. Money is like a magnifying glass: With money, many issues—whether financial, relational or legal—are increased in scale, complexity and sophistication. **Spiritual capital balances out the complicating impacts of wealth or at least sets families on a course that's in alignment with what matters most to them.** I refer to spiritual capital as our "personal GPS."

You might ask, "How can we factor such intangibles like values, purpose and faith into financial and legal related decisions?" I'd ask, "How could we not factor our client-family's spiritual capital into their multi-generational planning process?" Think of the words "love," "passion" and "legacy." These words represent intangible assets, yet it's difficult to argue that these intangibles aren't responsible for much of human behavior. "Incorporating the Intangibles," this page, shows the vital relationship among the what, how and why in the estate-planning process.

The left column represents the techniques, rules and regulations that are quite clear and not negotiable—these are the "whats." And to some degree, there's flexibility to how they're applied to each family's situation—the "how." The right column represents the "how" and the "why." For example, how grantors answer questions, such as, "What are the terms of a trust?" "What's written in their letter of wishes?" or "How much and when should we transfer wealth?" are all personal decisions. And, what better way to help our client-families make these personal decisions than to base them on what matters most to the family and has the greatest multi-generational positive impact on them—their "why."

Using my GPS metaphor, the left column represents a paper roadmap and the right side, a GPS. Paper roadmaps can help us in our travels, but they're one-dimensional and don't tell us which roads to take, just what roads exist. If our map is outdated and not reflective of a new highway or street, it may even send us in the wrong direction. Despite their limitations, paper maps provide a tangible benefit in addition to information: They give us a sense of security. We can hold them in our hands, and they've been our guides for centuries.

GPS brings the paper map to life and adds multiple dimensions of value. But, it requires faith, at least initial-

ly, to allow a voice you're not familiar with tell you which way to go. A GPS takes the travel experience to a whole new level. After selecting your intended destination, a course is charted for you, a colorful linear or topographical map appears on your screen and a voice begins to guide your navigation. It also tells you what time you can expect to arrive at your destination. Not only does the system help you get from point A to point B, but also it has other features, like finding nearby points of interest, gas stations and hospitals at the touch of a finger.

I recently read a flyer from a car dealership that read:

Your navigation system is designed to show you the right route to your destination. That can save you time and fuel costs all season long. It can also minimize wear and tear on your vehicle. As roads change, an updated map ensures you're navigating as efficiently as possible. And with the latest map, you'll also discover new points of interest as you drive: restaurants, ATMs, and more.

It reminded me that **when we have our personal GPS updated and programmed with our values, purpose and faith, it minimizes the wear and tear on our families, ensures we navigate our important decisions more efficiently and may even lead us to discover new points of interest in our lives that we weren't actively looking for.** We make our best decisions when we allow ourselves to be guided by the things that matter most to us.

My recommendation isn't about negating the

### Incorporating the Intangibles

*The what, how and why in the estate-planning process*

Estate/Tax Planning (What and How)	Legacy Planning (How and Why)
Taxes	Health, education, maintenance and support
Gifting	Letter of wishes
Limited liability corporation, S corporation	Guardian / trustee
Wills / trusts	Fair versus equal
Estate and gift tax exclusion	To whom, when and how much

— Richard Orlando



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foundational decision-making technologies of wealth decisions related to tax, law and finance. Instead, it's about integrating them with our "why."

### An Unaligned Plan

Here's an example of how using our GPS facilitates decisionmaking and results in a more positive outcome that's aligned with our "why." I was working closely with the parents of two adult children. The parents already had an estate plan in place, whose overall terms they shared with me. Their plan reflected that their wealth was going to be distributed to their children at three different points in time, determined by the children's ages: 25, 30 and 35.

It's imperative that family offices integrate their clients' spiritual capital into their offering of solutions.

After learning what the parents valued most and listening to them describe their wishes for their children and their beliefs about the purpose of wealth, I quickly realized that their estate plan was unintentionally out of alignment with their intended legacy. The parents said they wanted to preserve their wealth across generations and that they wanted their wealth to support their children's passions and well-being. Yet, they described their children as having low financial IQs and being somewhat directionless. One child was also struggling with an addiction.

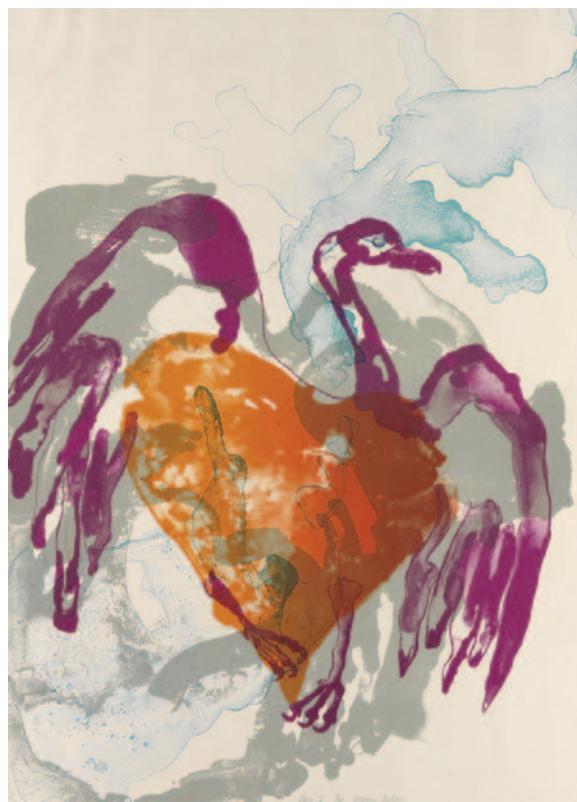
After our conversation, they decided to update their estate plan to better align with their intended family legacy. They decided not to transfer their wealth at those ages. Instead, they would give their children access to assets that would cover their physical and emotional well beings, educations, health care needs and the like, as well as set a plan into motion for raising their financial IQs.

In their new plan, this couple was more intentionally guided by their values and purpose.

### How Family Offices Can Help

It's imperative that family offices integrate their clients' spiritual capital into their offering of solutions. Helping families be clear on their "whys" will take the technical and family aspects of the planning process to a more successful and significant level. Knowing their "whys" will help answer questions, such as:

- Why should each member of our family have a lasting positive impact in his relationships, work and environment?
- Why should I transfer my wealth to future generations?



### SPOT LIGHT

#### Heart Takes Wing

"Ibis I" (30<sup>3</sup>/<sub>4</sub> in. by 22<sup>1</sup>/<sub>4</sub> in.) by Suzanne Jackson, sold for \$1,875 at Swann Auction Galleries' African-American Fine Art Sale in New York on June 10, 2014. Jackson's works can be found in public and private collections nationally and internationally. She also spends a great deal of time guest lecturing at various colleges around the country.



- Why shouldn't we sell the family business?
- Why should we select trustees who align with our values and wishes?
- Why should our company's legacy be much more than just making a profit?
- Why shouldn't I purchase additional luxuries (even though there isn't anything intrinsically wrong with luxury) and, instead, give more money to those less materially fortunate than I?
- Why should I take a moment to stop and be present with those I live and work with, even though there are a lot of demands on my time?
- Why shouldn't we give our son and daughter everything they want, even though we have the resources to do so?

### Four Steps

Here's a process to help family offices help their clients clarify their spiritual capital. It's important to keep in mind that, depending on the nature of the multi-generational family and the decision(s) that needs to be made, the process can be implemented one family member at a time or with the whole family together during a family meeting.

**Step 1: Identify values.** As the late Roy Edward Disney, former senior executive and board member of the Walt Disney Company, once remarked, "It's not hard to make decisions when you know what your values are."<sup>3</sup> This step involves identifying the individual's values or the family's shared values. Your clients can do so by using a deck of cards, each reflecting a different value, selecting from a written list of values or through a conversation. It's important to note that it's rare for every family member to have the same exact values. Therefore, when working with the whole family, identify the shared values.

**Step 2: Identify purpose.** You can help an individual or family to identify their purpose by creating a mission statement. Ask:

"What impact do you want your wealth to have on future generations, your community and the world?"

"What do you want your family to be known for across the generations?" and

"What do you believe you are called to do in this world as individuals and as a family?"

The answers to these questions will help clarify their legacy goals.

**Step 3: Identify faith.** This step isn't about any particular religion, or even religion at all, although there could be a correlation; it's about identifying the family's life and spiritual perspective(s). Do they have an optimistic view of others and the world? Some believe there's a force in the universe that guides and teaches them. Others trust a personal God. Whatever it may be, knowing this will help families make important decisions.

**Step 4: Identify additional intangibles.** It's also important to ask the family if there are any life experiences or lessons that have had a significant impact on them and, as a result, influence their decisions and actions today. Ask them if there are any messages that their parents or grandparents shared with them that they live by and how they would define success.

When family offices walk their client-families through this process, it helps the family office and the family assess how much investment is needed in their spiritual capital; for example, are they underinvested, somewhat invested or fully invested? This investment will significantly enhance the family governance process, as well as provide the "why" necessary to navigate the business of the family, which is desperately needed to avoid preventing the wealth from transferring beyond the third generation. 

### Endnotes

1. See Richard Orlando, *Legacy: The Hidden Keys to Optimizing Your Family Wealth Decisions*, Chapters 5 and 7, for a broader discussion on the topic of family education.
2. Friedrich Nietzsche, as quoted by Viktor E. Frankl in *Man's Search for Meaning* (Boston: Beacon Press 2006) at p. 76.
3. *ThinkExist.com*.

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