

# Building a Lasting Wealth Legacy

October 2021

Most families hope that the wealth built by one generation will last for multiple generations, and it will form the foundation of further success for future generations. Through education, creativity and entrepreneurial spirit, future generations should be inspired to fulfill their goals, having the advantages this wealth can bring. Yet, we often see that wealth is short lived; hence the adage “shirtsleeves to shirtsleeves in three generations.” This refers to the risk that inheritors will not be prepared or able to manage their wealth, leading to declining family wealth across generations.

This article focuses on fundamental principles to consider in order to prepare the next generation to manage the family wealth successfully, and provides a roadmap that outlines considerations to help build a lasting wealth legacy.

## Foundations for a lasting wealth legacy

Building a lasting wealth legacy is more challenging than most families expect or would care to admit. The answer to a lasting wealth legacy while complex, lies in how we define “wealth,” its purpose to the family and, most importantly, how members of the family communicate and interact with one another when wealth is central to the family. Addressing these issues requires families to be more open about discussing wealth. When this occurs, the likelihood is greater that these families will form a trusting relationship, which is critical in binding families to a common cause. Unfortunately, families are often reluctant to discuss the topic of family wealth for fear that such discussions could lead to misconceptions, family disputes, and even a loss of sense of purpose for those who will inherit it. Bridging this communication challenge that families may have about wealth is the first step to wealth preservation – if you can’t talk about, you likely won’t agree on it; and if you can’t agree on it, you likely won’t preserve it.

Here are some basic principles on family wealth to consider that may help in discussing and preparing the next generation about wealth:

- **Wealth of a family consist of its members**

Financial wealth is important because it funds the family’s living; however, its ultimate wealth are the members of the

family. It is difficult to imagine how a family can be successful in preserving their wealth if the well-being of its members is not addressed.

- **Preserving wealth is about human behaviour**

Families are typically made up of a group of individuals either related by bloodlines or by affinity. When these individuals share the same goals and vision on how wealth is viewed and used, wealth is preserved in a cloak of stewardship with the notion that it should be preserved and accessible by multiple future generations. These shared goals and vision, which are expressed in simple and short sentences in a family mission statement, are preserved in a social pact that is affirmed in family governance.

- **Wealth is not only quantitative but qualitative**

We often equate wealth as financial capital, that is the family’s “balance sheet.” While financial capital can be quantified and comprehended, it is only one form of capital. Importantly, there are also other forms of capital that can be more important and may be the ultimate form of capital. There are three other forms of capital: human, intellectual and social. As noted above, the true assets of the family are its members and their well-being — this is referred to as the family’s “human capital.” Closely associated with human capital is a family’s “intellectual capital,” that is the family’s ability to grow its wealth using its knowledge base. Finally, “social capital” refers to how a family interacts with its community, contributes to building a sense of purpose and fosters family values, as the family gives back to their community.

- **Wealth preservation is a dynamic process that requires commitment**

Families are dynamic and everchanging. New members are born, some are added (through marriage for example), some choose to leave, and of course all eventually pass away. As the composition of the family changes, so must the vision of what the family's wealth stands for. Furthermore, as the family's environment evolves, so must their vision of wealth.

- **Education is an integral part of wealth legacy**

Many renowned wealthy families have invested in the education, training and grooming of their inheritors to preserve and expand the breadth of their family's wealth. While formal education is important, the greatest form of education may come via experiences.

## A roadmap to building a lasting wealth legacy

Building a successful business requires vision and a set of core values that owners and employees can identify with and adhere to. The same holds true when building a cohesive family, except that you generally don't choose your family. Family cohesiveness is foundational in building a lasting wealth legacy in a family.

Creating a wealth vision and a set of family values that defines your family, requires effective communication and close collaboration. An example of a wealth vision might include defining what wealth means to your family, and an example of values might include characteristics such as honesty, integrity and generosity. Once developed, adherence to the vision and values is managed through strategic planning and governance.

## Begin with developing your family's wealth vision and values

Developing your family's vision and identifying what core values your family upholds, will require an exercise of discovery within the family. There are trained professionals who work with families to provide a level of objectivity in holding these discovery meetings, as it is sometimes difficult to achieve if only family members are involved in the meeting.

Here is a broad outline of considerations to engage family so you can work towards building a lasting wealth legacy:

- **Understand through a self-discovery, what type of legacy you wish to leave:**
  - Who do you consider "family?"
    - Is it only bloodlines that inherit wealth or do you have a more inclusive view?
  - What type of family are you?
    - Are you sharing, inclusive, respectful of others, or are you fiercely independent?
- What does wealth mean to you and your family?
  - How important is wealth as a symbol of your family?
  - How important is it to maintain your current lifestyle given your wealth?
  - Is wealth a utility to other endeavours?
- What type of relationship does your family have with one another?
  - Loving and caring.
  - Respectful of one another's thoughts and opinions.
  - Collaborative.
- What values bind your family?
  - Honesty and integrity.
  - Respect for others.
  - Giving and sharing.
- **Engage the family through effective family communication**

Effective communication is achieved when a family can communicate openly, honestly and without worrying that what is said will lead to conflict. If a family's wealth is to last through generations, then effective communication must be at the core of the family's activity. It is only then that the family can develop a unifying vision and a set of core values they can uphold and identify with. These are the attributes that bind the family towards a more cohesive wealth legacy.

Effective communication comes with practice and coaching. Here are some guidelines to develop effective family communication:

  - Every member of the family that may receive or would be impacted by the wealth should have a voice, but not necessarily a vote. Someone who feels they should have been part of the process if they were excluded, may develop resentment and become a source of distraction.
  - Miscommunication of information can have an immense impact on members receiving it – communication of such impactful information should be shared carefully to avoid confusion or disharmony.
  - Avoid unnecessary information and only communicate on matters that are aligned with the common vision.
  - Maintain a code of confidentiality amongst members where required or necessary.
  - Consider using an intermediary or facilitator to manage conversations, especially those discussions that may be ambiguous and/or potentially misinterpreted. Determine whether the conversations should be conducted individually or in a family meeting.
  - Establish guidelines on how meetings are to be conducted, including:
    - A clear agenda;

- Punctual attendance;
- Expectations that all participants are prepared and ready to contribute;
- Be prepared to listen and not interrupt others;
- Have an open mind; and
- Consider a chairperson and a person to take minutes and rotate the roles.

## Develop a mission statement

A mission statement is an expression of the family's vision, values and goals expressed in a short but meaningful statement that every family member can identify with. The statement addresses members of the family, what the family stands for, its purpose and the goals of the family.

Many families express their wishes in their mission statement so the wealth that has been built by one generation will be used to benefit several generations, and that it will be a source of funds that future generations can access to fund their personal development.

The following is a short example of a mission statement:

*"Our family's mission is to remain a connected family and; therefore, to prepare future generations to appreciate their family history and their values. Concerning wealth, the family's mission is to embrace the stewardship of wealth, where wealth is used to advance their education, pursue their passions and to build their family wealth."*

A mission statement is a living document that should be reviewed and amended periodically to reflect changing views and circumstances; and such amendments should be unanimously agreed upon by members of the family.

## Develop a family strategic plan

A mission statement provides a framework for the family to uphold as far as the family's wealth vision is concerned, and a strategic plan is the path to achieving that vision. The plan is a comprehensive roadmap that addresses the allocation of wealth amongst various forms of capital – with financial capital being the most common form of wealth. It is this capital that allows other forms of capital, including human capital, intellectual capital and social capital to flourish. In developing a capital allocation plan, consider the following:

- What assets and income are needed to support the current lifestyle of the senior generation (parents, grandparents), next generation and future generations?
- How will financial assets be invested to generate the desired returns required to support the family?

- When and how will assets be transferred from generation to generation?
- What are the guidelines for using the family's wealth for education?
- How else can the family wealth be used?

The strategic plan is a living plan built around the family, and should include the following:

- Financial planning – what does each generation need in order to sustain a lifestyle consistent with the family's values?
- Estate planning – how will wealth transition to future generations be executed?
- Succession planning – how will leadership of the family's wealth be effectively transferred?
- Family foundation – what social causes does the family support?
- Family bank – how can family wealth be preserved to fund future needs for education or entrepreneurial passions?

Finally, the family strategic plan should include the development of the concept of stewardship of wealth in the family. Stewardship of wealth encourages family members to have a level of financial fluency such that they are comfortable with wealth, respect it and can preserve it for future generations.

## Develop a family constitution

If the family's strategic plan is the roadmap to upholding the family's mission statement, then the family's constitution represents the road barriers to ensuring that the family's strategic plan is followed. Some would refer to a family constitution as the rules the family governs itself by, that is, its governance. When a family is young, governance is usually guided by how the parents believe the family should behave. As the family grows and its composition and circumstances become more complicated, increased diligence will be required to ensure effective adherence.

Here are some points to consider when developing your family constitution:

- **System of governance**  
Decision making is at the heart of family governance. A system where the senior generation has the unilateral decision-making power seldom ensures wealth is preserved as contribution and ownership from other members of the family is missing. To create a lasting wealth legacy, a family must agree to a system of representation where everyone has a voice and can be heard. In this system of representation,

larger multigenerational families require a more formal system of representation that may include a board. This ensures the following:

- **All voices are heard**

Not all family members may have a vote on issues; however, it's important that family members who are impacted by decisions have an opportunity to voice their opinion. Even if their opinion does not impact the final decisions, it is important that they at least be heard.

- **Forum for decision making**

If a family is to effectively manage its affairs, formal processes must be part of its governance. Family meetings are an important part of the family's decision-making process and the frequency and structure of meetings will vary. Periodic meetings or discussions provide some assurance family communication is practiced regardless of the importance of any decision making. A written agenda, notice protocols, minimum attendance to constitute a meeting are formalities to ensure that meetings are not used for the wrong reasons.

- **External advisors**

Some families look to objective and sound advice from non-family individuals. These external individuals may not have any votes, but their expert guidance can help to ensure that proper due diligence is followed before decisions are made.

## Maintaining family commitment to a wealth legacy plan

There will be challenges that test the family's commitment to maintaining a lasting wealth legacy. It's important that the

family stay vigilant of developments within the family, as well as developments exogenous to the family that have the potential to impact the family's strategic plans. If addressed early, challenges can be substantially mitigated and the strategic plans preserved. The first line of defense to mitigate challenges to a family's strategic plans is commitment from members of the family. This can be accomplished through timely reassurance to members of the family that one of the tenets of the family's values is commitment to one another, and that family well-being is the first priority of the family.

## Taking the first step

Wealth can be intimidating and planning around it can be daunting. Begin by taking small steps that only involve a small group of family members. It starts by recognizing that wealth, if not responsibly managed, can be a source of many family problems.

Building a lasting family wealth legacy requires effort from all family members and commitment that the family stays connected and does not allow wealth to destroy their relationships. The family comes together by having effective communication, initiated by a group activity of self-discovery to understand the common vision and values the family can agree upon that will define them.

**For more information, please speak with your BMO financial professional.**



BMO Private Wealth provides this publication for informational purposes only and it is not and should not be construed as professional advice to any individual. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Private Wealth cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. Estate, trust, and custodial services are offered through BMO Trust Company. BMO Private Wealth legal entities do not offer tax advice. BMO Trust Company and BMO Bank of Montreal are Members of CDIC.

© Registered trademark of Bank of Montreal, used under license.

All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Private Wealth.