How do families make effective wealth decisions?

Defining the purpose, process and perspective of family wealth
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The article was authored in collaboration with the Merrill Center for Family Wealth™ and Merrill Behavioral Finance and Goals-Based Consulting.

SURVEY METHODOLOGY

This report stems from data gathered by a Merrill Private Wealth Management survey, "High Net Worth Decision-Making, Communication and Family Dynamics," conducted in 2018. Here’s who we talked to.

656 High-net-worth individuals

45% The percentage of typical respondents’ wealth that was earned

22 RESPONDENTS Also had one-on-one conversations*

*These respondents completed the survey and participated in one-on-one online conversations with a moderator about how high-net-worth individuals think and feel about their wealth, what it actually represents and how much discussion there is in their families about their wealth. The sample for the qualitative interviews was 22 men and women aged 18 or older.

Investment products:

<table>
<thead>
<tr>
<th>Are Not FDIC Insured</th>
<th>Are Not Bank Guaranteed</th>
<th>May Lose Value</th>
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</thead>
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SO, YOU NEED TO MAKE A DECISION...

**Decision-Making Style**

For decisions that impact your family, determine what style has the best fit for this particular decision. Is it “consultative” (you seek input and then decide), “group consensus” (most time consuming, but most collaborative method), a “group majority vote,” or something else?

Determine the quality of the “yes” for your group decision-making by leveraging the “Fist of Five” technique.

SEE “HOW DOES YOUR FAMILY MAKE DECISIONS?” ON PAGE 19.

**Purpose**

What are your guiding principles?

**Pathways**

For estate planning, consider your overarching purpose.

- Is it to preserve, divide or grow?
- Does your family know?
- Does your current plan align to your purpose?

SEE “WHAT IS YOUR PATHWAY?” ON PAGE 12.

**Decide How to Decide**

Decision-Making Style

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**Commit to a Process**

Moving past the pitfalls of decision-making requires a well matched process. For example, the premortem exercise on page 14 increases the ability to correctly identify success factors for future outcomes by 30%.

SEE “IT’S A WRAP” ON PAGE 8.

SEE “MAKING A CHECKLIST” ON PAGE 8.

SEE “IMAGINING AN EVENT FROM THE FUTURE” ON PAGE 14.

SEE “DIMMER SWITCH” ON PAGE 16.

**Broaden Perspective, Pause to Listen**

Create Feedback Loops

What do those who will be affected have to say? To harness the most objective thinking, allow reflection time for group members to write down their ideas before the group discussion commences.

SEE “RESEARCH ON GROUP DECISION-MAKING” ON PAGE 21.

For example, before implementing a home buying policy, one family was able to strengthen their policy by being deliberate about seeking feedback and then upon receipt, being earnest in considering the feedback.

SEE “HOME BUYING POLICY” ON PAGE 10.

**Double Check**

Periodically Reassess

With the speed of change in the economy, it’s important to periodically review your decisions to incorporate:

- Insights gained from experiential learning.
- New sources of information or rules (e.g., tax law changes).
- Additional feedback that emerges.

For example, families might update their estate plan after gaining experiential learning from a five-year lifetime gifting program and to reflect changes in tax law.
How do you make effective financial decisions?
Defining the purpose, process and perspective of family wealth

Patricia and Michael Parker\textsuperscript{1} spent decades building their family business by taking risks, pushing for strategic growth, and relying on instinct and hard-earned experience in their field. But when their children became teenagers, they began to feel out of their element when it came to managing their personal wealth and discussing it with their family. The mentality that allowed them to build wealth was not the same mentality that would preserve their wealth—or even effectively pass it down. They quickly found supporting family members in building financial knowledge and skills was not the same as running a successful business.

Our goal is to support wealthy families and their advisors to make more effective decisions around wealth. To do so, we

\begin{itemize}
  \item \textbf{Start here} \hfill Family wealth decisions are often difficult. Through this paper we seek to help individuals and families enhance their own abilities to successfully navigate their decision-making. These three questions are the backbone of developing structure in your family, and the backbone of this paper.

  \item \textbf{PURPOSE} \hfill What is the core purpose of our wealth?

  \item \textbf{PROCESS} \hfill How might we foster a culture of lifelong learning for our family?

  \item \textbf{PERSPECTIVE} \hfill What steps can we take to develop the qualities and skills we want?
\end{itemize}

\textsuperscript{1} The Parker family represents a compilation family drawing directly from our experience, with identifying details changed to preserve confidentiality.
Effective decision-making combine three elements:

- Our new research
- Findings from the field of behavioral economics\(^2\)
- Our experience in working with families like the Parkers

In the following pages, we’ll lay out the changes a family such as the Parkers would make to actively develop their family culture to work with the opportunities and challenges that managing wealth brings—both for wealth creators and the rising generations.

Exploring the issue of misplaced confidence provides a solid starting point when it comes to decisions about wealth. There is a persistent and widening gap between Americans’ self-assessment of their own financial abilities and how they score on basic financial literacy tests.\(^3\) Not only that, but investment attitudes and behaviors can be just as complicated. Think about some of the questions trending articles and research findings bring up about investing behaviors:

- Are men overconfident?\(^4\)
- Are women better suited to be investors than men?
- Does experience in the market lead to improved performance over time?

There are no simple answers. While our research found a high degree of decision-making confidence among wealthy investors, additional probing revealed just how complex the questions around confidence are.

---

\(^1\) Behavioral economics combines the disciplines of psychology and economics to explain why we don’t always make rational economic decisions. The field identifies and examines the biases that influence our actions, and offers insights to encourage people to make better informed decisions.


When it comes to financial decision-making, confidence does not always translate to positive results, even among individuals with extensive experience managing investments or wealth. (For more on the opportunities to bridge the gap between financial confidence and accuracy, see “How do we know we’re making ‘good’ decisions?” on page 7.)

Outcomes Far in the Future

Investors can fall prey to a few common biases when making investment and financial decisions by:

• Relying only on readily available information, which is called “availability bias.” Sometimes we form a story based on the little information we know, without allowing for all that we do not know.6

• Seeking out information confirming what we already believe, which is called “confirmation bias.” This can have profound implications for the way we process and evaluate information. It’s an important puzzle piece to understanding financial decision-making, especially with regard to earning, saving, spending, investing and sharing.

• Assigning disproportionate weight to recent activity and performance, without focusing on a longer timeline, which is called “recency bias.”6

Complexity and self-management

The divide here is clear: Half of survey participants claimed they have very complex financial lives, whereas half said they don’t. While the study didn’t draw conclusions or show direct links between financial complexity and how participants prefer to manage their finances, our team has seen this type of connection when we meet with families. For instance, 41% of participants would like to do everything themselves, which may leave them with the burdens of complexity, while delegating management may help simplify their burdens.

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Investors tend to base market expectations on recent market performance, whether good or bad. Being aware of these biases when making decisions is a start to considering what affects our financial decisions. The Parkers, who are first-generation wealth creators, lack a history or background with decisions around wealth, and without a deliberate approach they are less likely to see or understand the different forms of biases in their decision-making.

People normally think about financial time horizons in terms of their own lives, with a major focus on saving for retirement, but the nature of wealth changes that perspective. With the potential to last for generations, wealth challenges people to think about structuring their finances to last well beyond their own lives. In this way, the Parkers are starting from scratch.

The challenge for the Parkers is to move beyond the trap many families fall into by taking an approach toward family wealth that is too casual and to apply some of the same more formal rigor and processes they used to grow and manage their business. Yet, a lack of personal history with wealth decisions combined with a longer time horizon creates complexity that makes it difficult to predict the long-term consequences of their current decisions.

When you buy a stock or a company or a car, you can use the outcome to evaluate your decision. Hopefully the stock appreciates, the company is profitable and positively affects others, and the car is safe and reliable and you enjoy driving it. But some family wealth decisions are so long-term, it can be hard—if not impossible—to evaluate their effectiveness, because an individual won’t see the outcome for years or decades or in his or her lifetime. The Parkers won’t have the benefit of feedback or experiential learning with the aspects of their estate plan that don’t take effect until their death.

HOW DO WE KNOW WE’RE MAKING "GOOD" DECISIONS?

While research suggests “individuals tend to be overly confident about how much they really know,” it can be difficult to gauge the accuracy of financial confidence. Study participants are unable to show their motivation, patience or attention to detail—all of which are required to answer financial questions correctly. Tests or quizzes are taken in isolation and do not reflect the many ways individuals make financial decisions—by considering sources of information, talking to friends and family, and consulting their advisor.

Our survey participants reported high degrees of confidence, but we realize this does not show how well calibrated this confidence actually is.” Instead, we explored whether our participants’ answer to a basic financial literacy question depended on how it was worded. What we found reinforces the need to create processes to improve how we share information, make decisions and share perspective and advice. In short, when navigating family wealth, feeling confident is not enough.


**“Another shortcoming of test-based measures of financial literacy is their sensitivity to framing. Specifically, Lusardi and Mitchell (2011a, b) and van Rooij et al. (2011b) document that the answers of survey participants differ significantly based on the wording of the test questions. In fact, the percentage of correct answers doubled in the latter study when the wording for the third question of the Big Three was ‘buying company stock usually provides a safer return than a stock mutual fund’ as compared to phrasing the question reversely, i.e. ‘buying a stock mutual fund usually provides a safer return than a company stock.’” (Stolper and Walter, 596).**
The most important idea to communicate when discussing wealth with my family is...

“[To] let them know how much I care about them and to do something special with the inheritance.”

“...the wealth should not replace hard work.”

“Work to get it, work to preserve it, work to enhance it.”

A big part of improving family wealth decisions involves putting more care into the decision-making process itself (see sidebar, this page) rather than evaluating specific and measurable outcomes. Developing a process (or checklist) for complex financial decisions can help the Parkers move past the common biases.

Another tool the Parkers can use is to create “safe-to-fail” experiments and feedback loops. For example, making a series of smaller, lifetime gifts and mining those experiences for lessons for both the giver and receiver can provide valuable insight they can apply to their long-term decisions.

The Need for Discussion Around Decisions

The Parkers were concerned with supporting their family members to lead purposeful lives, retain strong family connections and approach wealth with a stewardship mindset. Their initial wealth management decisions were an extension of their businesslike, analytical approach and acumen, but they realized early on their modest upbringings had not provided a model for financial parenting within their wealthy family. While they knew their children had a head start—education and parental financial experience are terrific predictors of financial acumen⁷—the Parkers

struggled with these common questions:

- **Distribution**: How much should I give and when?
- **Disclosure**: What do we discuss with them and when?
- **Fairness**: How do we treat the children fairly given their different needs and the ways they use money?

The interplay between parenting and family wealth management creates substantial complexity. Transferring large sums of money can change lives, so it is reasonable to exercise caution and concern. Yet, in some cases, this caution can lead to delayed decision-making, which can then lead to an ongoing cycle of over-analysis or avoidance. The Parkers learned this firsthand: A simple disagreement between Patricia and Michael about helping their children with future down payments for their first houses kept them from talking about money. Not working through their different

### Short- and Long-Term Confidence Differs

#### Day-to-day confidence

When it comes to financial tasks that need to be addressed daily, most survey participants can easily tackle things. The lowest results came for the complex topic of talking to next generations.

<table>
<thead>
<tr>
<th>FINANCIAL TASK</th>
<th>VERY SATISFIED</th>
<th>SATISFIED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing credit/debt</td>
<td>78%</td>
<td>17%</td>
<td>95%</td>
</tr>
<tr>
<td>Budgeting for the family</td>
<td>65%</td>
<td>26%</td>
<td>91%</td>
</tr>
<tr>
<td>Saving</td>
<td>65%</td>
<td>29%</td>
<td>94%</td>
</tr>
<tr>
<td>Managing my family’s spending</td>
<td>56%</td>
<td>36%</td>
<td>92%</td>
</tr>
<tr>
<td>Investing</td>
<td>44%</td>
<td>46%</td>
<td>90%</td>
</tr>
<tr>
<td>Teaching children about finances</td>
<td>35%</td>
<td>41%</td>
<td>76%</td>
</tr>
</tbody>
</table>

#### Wealth management confidence

When it comes to longer-term tasks, participants gave themselves much lower scores, a key indicator these are complex tasks that require support.

<table>
<thead>
<tr>
<th>FINANCIAL TASK</th>
<th>VERY SATISFIED</th>
<th>SATISFIED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gifting to family or heirs during my lifetime</td>
<td>34%</td>
<td>46%</td>
<td>80%</td>
</tr>
<tr>
<td>Gifting to charity during my lifetime</td>
<td>31%</td>
<td>51%</td>
<td>82%</td>
</tr>
<tr>
<td>Defining the intent and purpose for my wealth</td>
<td>31%</td>
<td>53%</td>
<td>84%</td>
</tr>
<tr>
<td>Distributions from trusts, partnerships, etc.</td>
<td>27%</td>
<td>47%</td>
<td>74%</td>
</tr>
<tr>
<td>Testamentary gifting to a charity upon my passing</td>
<td>21%</td>
<td>39%</td>
<td>60%</td>
</tr>
</tbody>
</table>

**ANSWERS FROM SURVEY PARTICIPANTS†**

Why do you choose not to disclose certain financial information to your children?

“They are smart and can figure it out easily when the time comes.”

“They’re not ready to know, nor does it matter at this time.”

viewpoints became a barrier to communication, which had an oversized impact. In turn, by avoiding a conversation about their overall estate plan, they missed opportunities to address critical questions about charitable giving. When they begin to reflect, wealthy individuals sometimes realize delaying or avoiding a decision is actually a form of deciding (e.g., “deciding” to do nothing for now).

Family wealth decisions can be challenging, so where does one begin? One way to start is to break down the complexity into separate discussions about purpose, process and perspective.

**Thinking About How We Make Family Wealth Decisions**

The Parkers’ decision to think more deeply about the way they make family wealth decisions was inspired by a passage Patricia read in an article about entrepreneurship: "Venture capitalists like to keep founders and managers hungry, avoiding early liquidity events that might sap motivation or lead the team to dissolve prematurely."

The quote resonated and the couple was concerned that if their children knew how much money lay in trust for them, they might not work as hard. Their children were doing well, with one in college and the other in a new career. Both children were becoming responsible, independent adults. Yet Patricia and Michael felt they might be missing an opportunity to help them

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**HOME BUYING POLICY**

As they planned for the future, one family decided they wanted to have more clarity and structure for their children when it came to buying their first homes. Here is their policy:

**VALUES AND OPERATING PRINCIPLES**

We value:

- Supporting family members in purchasing their first home to create a comfortable dwelling to spend time together, build memories and recharge.
- “Partnering” with family members, with each family member doing their fair share.
- Thoughtful consideration of the sharing of wealth, with limits and parameters.

* For more, see the Values Cards co-created by Merrill and Money, Meaning & Choices Institute, 2014.

(Cont’d on page 11)
build knowledge and skills for the future by not having an open dialogue about wealth and the difference it might make in their futures. In talking with their advisor, the Parkers decided to consciously change their “either-or” thinking (either we say nothing or tell them everything), and started to explore a third option: How might they provide funds, starting with smaller dollar amounts, to support experiential learning and active dialogue on how to effectively save, spend, invest and share money without sapping motivation? This started the family on a journey of discovery exploring the purpose, process and perspective of family wealth.

I. PURPOSE

Ask Yourself:

1. What is the core purpose of my wealth?
2. What pathway best reflects the overarching goal of my estate plan: division, preservation or growth?
2. How might I align what I say and do, and the structures I create through my financial and estate planning, to support my purpose?

Before they could decide what or how to communicate about the wealth they’d set aside for their children or engage in lifetime gifting, Patricia and Michael worked with their advisor to define the purpose of their wealth. They decided their core goals were to:

• Help family members thrive through actively building meaningful lives.
• Ensure the family remained strong and vibrant.
• Enable everyone to contribute positively to society.

Like many families, the Parkers wanted to be strategic about minimizing gift and estate taxes. Working with their advisors, they realized they needed to
WHAT IS YOUR PATHWAY?
In working with families to navigate the complexity wealth brings, our team has found it productive to have a toolkit of frameworks and processes on which to draw. Pathways is one such framework.*

Expanding on the purpose of wealth, the framework asks wealth holders to consider the overarching goal of their estate plan, including the amount of control and the roles of the beneficiaries and advisors, the desired sustainability (e.g., through the next generation or five generations to come) and the current (or potential) capacity of beneficiaries to steward a wealth plan.

* See “Pathways: Matching Estate Planning to Family Culture” by Matthew Wesley and Scott Cooper, Merrill, 2018.

The most important idea to communicate when discussing wealth with my family is...

“...to make sure they understand that love for the family comes first, money is a bonus.”

“Their responsibility to give to others and to charities.”

define their goals well beyond tax minimization and explored three potential pathways for their gift and estate plan: division, preservation or growth. The Parkers considered the capacities and capabilities of their family and selected the path best suited for them. Their strong desire for their wealth to benefit generations beyond just their children and their comfort level in engaging professional management led them to choose preservation. (For more, see “Four Pathways” below.)

Four pathways
More than a quarter of survey participants noted stewardship and handling money wisely was a top concern. As you consider your own estate plan and weigh the importance of communicating about stewardship, what pathway resonates most with you?

<table>
<thead>
<tr>
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<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preservation</td>
<td>45%</td>
</tr>
<tr>
<td>Division</td>
<td>22%</td>
</tr>
<tr>
<td>Growth</td>
<td>17%</td>
</tr>
<tr>
<td>Undecided</td>
<td>16%</td>
</tr>
</tbody>
</table>

PRESERVATION
Assets are passed to beneficiaries through entities that are professionally managed and designed to reduce estate taxes and control the flow of assets.

DIVISION
Beneficiaries receive a fixed amount with the balance going to charity.

GROWTH
Beneficiaries actively manage the wealth through complex, tax efficient structures, often including direct ownership in operating companies or investment entities.

UNDECIDED
Some families are still in the process of deciding on their wealth pathway. Remember: Waiting too long can be the same as making a decision.
The role of pathways in setting priorities

For those who were undecided on their pathway, the day-to-day business of managing their finances dwarfed all other priorities. Survey participants who were focused on specific pathways showed how those long-term decisions influenced their priorities. Long-term growth, for example, made the importance of family governance and career development clear. Families focused on distribution saw a higher value in philanthropy.

<table>
<thead>
<tr>
<th>PRIORITIES</th>
<th>PRESERVATION</th>
<th>DIVISION</th>
<th>GROWTH</th>
<th>UNDECIDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day-to-day finances</td>
<td>31%</td>
<td>33%</td>
<td>26%</td>
<td>50%</td>
</tr>
<tr>
<td>Managing wealth</td>
<td>50%</td>
<td>48%</td>
<td>43%</td>
<td>39%</td>
</tr>
<tr>
<td>Family governance</td>
<td>7%</td>
<td>3%</td>
<td>13%</td>
<td>1%</td>
</tr>
<tr>
<td>Business and career development</td>
<td>8%</td>
<td>5%</td>
<td>15%</td>
<td>3%</td>
</tr>
<tr>
<td>Philanthropic endeavors</td>
<td>5%</td>
<td>11%</td>
<td>4%</td>
<td>7%</td>
</tr>
</tbody>
</table>


Selecting a pathway narrows the vast array of choices, allowing a family to begin to take steps toward achieving their desired outcome.

Partners may have different views on the purpose and pathway of their wealth, or express the shared purpose in vastly different ways. Through candid and thoughtful conversation, they can sort through differences (whether they are real or perceived) and align on a shared purpose. Advisors can also serve as sounding boards for families: Not only do many advisors have experience helping families define the purpose of their wealth, but they can also share stories about what happens when families do not take this step of communicating openly about what matters most to them.

Having chosen preservation as their desired pathway, with a core purpose of bettering their family’s lives over generations, the Parkers turned to the

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9 For more information on the Wealth Pathways, see “Pathways: Matching Estate Planning to Family Culture” by Matthew Wesley and Scott Cooper, Merrill, 2018.

question of disclosing information about their wealth to their family and began to consider the mindset and skills that the rising generation would need to achieve the preservation goal. What should they communicate with their children—and when?

Often it is helpful for wealth holders to discuss the following questions with each other, as partners or parents, as well as with an advisor:

1. What is your real concern about disclosing wealth?
2. What are the benefits and risks involved in communicating and not communicating about wealth?
3. How much do you think family members know already? Why do you believe this?
4. Should something happen to you:
   • Who knows where to turn for family wealth decisions?
   • Who knows the family purpose?
   • Who knows where documents and passwords are located?

Imagining an event from the future
With the support of their Merrill advisor, one family completed an exercise called a premortem, where they considered two future scenarios—one positive, one negative. This exercise allowed them to identify risks they hadn’t yet considered.* As a result, they decided transparency was something they’d like to achieve over time and through a series of thoughtful conversations.

You had a conversation with your children/beneficiaries sharing with them the full details of your estate plan.

The conversation went brilliantly. How did you get there?

The conversation failed spectacularly. How did you get there?

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*Research conducted in 1989 by Deborah J. Mitchell, of the Wharton School; Jay Russo, of Cornell University; and Nancy Pennington, of the University of Colorado, found that prospective hindsight—imagining that an event has already occurred—increases the ability to correctly identify reasons for future outcomes by 30%.*For more on prospective hindsight and the “premortem” exercise, see “Performing a Project Premortem,” Gary Klein, Harvard Business Review, 2007.
II. PROCESS

Ask Yourself:

1. What qualities are valued by our family?
2. What skills are necessary to effectively integrate wealth into our lives?
3. How might we foster a culture of lifelong learning?

The Parkers leveraged resources for each generation to actively build well-being, designating funds for ongoing education, family vacations, health and wellness, etc. They wanted this process to foster PERMA:\(^1\) positive emotion,\(^2\) engagement, relationships, meaning and accomplishment.

With family unity as a foundational value, the Parkers took steps to steer their family culture and approaches to wealth decision-making. They created routines and processes, communicated more openly and set milestones for transparency. They were clear about their expectations for personal discovery, productivity and the pursuit of excellence.

Because their children’s emotional health and sense of personal responsibility were such priorities, Patricia and Michael decided to take a “dimmer switch” approach to communicating about wealth (see chart on page 16). Working with their advisor and the Merrill Center for Family Wealth\(^{TM}\) they started regular family discussions, focusing first on nonfinancial and nontechnical topics (e.g., purpose and operating principles), in order to prime their children for more serious revelations and involvement. Then, they slowly introduced more information and increased responsibility, as if brightening the lights.

\(^1\) Martin E.P. Seligman, "Flourish". Free Press, 2011. Human flourishing rests on five pillars, denoted by the handy mnemonic PERMA: positive emotion, engagement, relationships, meaning and accomplishment.

\(^2\) Barbara Fredrickson, a leading scholar within social psychology, and her colleagues have defined the most common positive emotions to be: love, joy, gratitude, serenity, interest, hope, pride, amusement, inspiration and awe. (“Positivity: Top-Notch Research Reveals the Upward Spiral That Will Change Your Life,” 2009.)

\(^3\) “Meaning” was where individuals used their unique strengths and virtues in the service of something much larger than themselves.
Dimmer switch
Educating your children about your family’s wealth isn’t a single conversation. The Parkers had a series of thoughtful conversations, which helped educate their children over time. Their approach was similar to a dimmer switch that slowly turned on the lights. They started by explaining their mindset, and moved on to structure and then real numbers.

<table>
<thead>
<tr>
<th>MINDSET</th>
<th>STRUCTURE</th>
<th>NUMBERS</th>
</tr>
</thead>
</table>

**Context**
The Parkers began their dialogue to build a shared family understanding of key parts of their mindset.

- The **purposes** of the family’s wealth.
- The core **family values** and operating principles.
- **Healthy ideas** about money.
- The importance of **stewardship** and the skills needed to support it.

**Results**
Building clarity and agreement on intent and expectations strengthened family unity.

- Created greater **buy-in** from family.
- Helped family “attune” to one another’s **similarities and differences**.
- Initiated a process of **education and experimentation**.

**Path**
The Parkers explained their goal of preserving their family wealth. They wanted their family to develop the skills needed for preservation.

- **Understanding the jargon** of trusts, foundations and other gift and estate plan elements.
- **Introduction to professional advisors** (who the children would “inherit” along with the structures).

**Experiential learning**
Their children were allowed to make decisions that were substantial enough to have a real impact on their lives, but did not carry with them the potential for catastrophic failure.

**Results**
The children gained real-world experience. They worked with professionals and entities in ways that were age appropriate.

**Full transparency**
Only when the children had a good understanding of the constituent parts of the plan, combined with suitable emotional maturity, was the entire plan (with numbers) revealed.

**Agility required**
The Parkers tried to follow the progression from mindset to structure to numbers, but of course it was not perfect. Some numbers had to be revealed along the way, such as when the children started to become involved in the family foundation.

**Results**
The Parkers felt they had shared the right amount of information at the right time, enhancing both understanding and unity, and in turn increasing the probability of achieving their desired outcome.
Working together, the Parkers and their advisors developed an integrated plan to address an approach and a timeline for wealth conversations to be deliberate in carving out the time and creating opportunities to actively build the family’s skills across finance, wealth, governance, business and philanthropy.

These educational experiences were collaboratively developed to ensure they met the unique goals and aspirations of each family member. This plan was not limited to children: The whole family set out to learn more. Michael was tasked with learning about impact investing, while Patricia attended a Merrill Financial Boot Camp with her economic peers, which emphasized long-term planning and investment skills. She learned about the idea of “bringing the future to the present,” a tactic to make more effective decisions, from a UCLA professor.14

ANSWERS FROM SURVEY PARTICIPANTS†

The most important idea to communicate when discussing wealth with my family is...

“I don’t want them to be financially dependent.”
“...my confidence in them in how they will use it.”

How do others distribute wealth?
There are many ways to distribute wealth including those based on equality, merit or need. The stats below are for all survey respondents, but it’s worth noting younger respondents were more likely to value merit-based distribution, and male respondents were most likely to focus on equal allocations.


III. PERSPECTIVE

**Ask Yourself:**

1. What steps can we take to develop the qualities and skills we want for our family, both individually and collectively?

2. How do we move from awareness—"Are they ready?"—to taking action—"How do we get them ready?"

In their business life, the Parkers relied on a network of trusted partners—attorneys, business contacts, bankers and advisors—but when they began approaching their wealth systematically, it was not as clear who to turn to for advice.

The Parkers worked with their Merrill advisor to consult a range of specialists, who collectively formed a “family board of directors” and helped them address estate planning, alternative investments, philanthropy and the skill building of all family members. Although this consultative approach suited the Parkers, early on they encountered an obstacle when it came to the idea of who makes decisions for the family—and how.

- Should one partner be more responsible, or should they share all decisions?
- Should they divide responsibility for specific decisions?
- When and why should they consult their children?

In our study, a majority of participants actually reported being the sole decider when it comes to making family wealth decisions.

This one-person approach to decision-making is common and reasonable, but it’s important to reflect on its suitability when it comes to family wealth. When the Parkers defined their pathway for their wealth, it became clear they were going to need to engage their children as part of the decision-making process, if they wanted to have confidence their plans would succeed long term.

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**NEED, EQUALITY AND MERIT**

The Parkers decided they would use a blended approach to wealth distribution to match the method to their philosophy:

**NEED:** Education funding and health care costs (of current and future generations) based on need (i.e., actual cost of tuition, room and board).

**EQUALITY:** Funding for a down payment on a first-time home ($250,000), weddings ($100,000) and testamentary estate gifts would be equal.

**MERIT:** Employment within the family enterprise based on contribution and pay at fair market value.
The democratic model of decision-making enabled the Parkers to ensure their family members were prepared to shoulder part of the burden for success. The core question went from “Are the children ready for the responsibility of wealth?” to “How can all family members build and rebuild knowledge and skills required to effectively navigate the complexity of wealth in our fast-changing world?”

Even within families practicing participatory decision-making, not all decisions are automatically left to the group. The Parkers took a slow, step-by-step approach to include their children in decisions. They had several “practice” rounds of discussion, where they provided their children hypothetical questions and helped them see how the choices would impact their family’s wealth. They determined strategically what decisions made sense to streamline and make as individuals—or with some input from the

<table>
<thead>
<tr>
<th>How does your family make decisions?</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are many ways families make decisions. Our survey found autocratic, or top-down, decision-making was especially prominent with members of the baby boom (37%) and silent (47%) generations, but less so with: younger millennial (22%) and gen X (18%) respondents. The younger generations aren’t yet in a position to establish the order they prefer; in many cases, they are still subject to the style set by older generations.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>35%</th>
<th>21%</th>
<th>17%</th>
<th>17%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AUTOCRATIC</strong></td>
<td><strong>TECHNOCRATIC</strong></td>
<td><strong>DEMOCRATIC</strong></td>
<td><strong>MERITOCRATIC</strong></td>
<td><strong>REPRESENTATIVE</strong></td>
</tr>
<tr>
<td>One person serves as the decision maker with little or no input from other family members.</td>
<td>Individuals with specialized knowledge and/or training manage wealth decisions.</td>
<td>Decisions are made collectively with each family member having equal say or “votes.”</td>
<td>Decisions are made by family members who have a proven track record with making good decisions about the family’s wealth.</td>
<td>Certain family members are selected by the family to make decisions on their behalf.</td>
</tr>
</tbody>
</table>


### ANSWERS FROM SURVEY PARTICIPANTS

The most important idea to communicate when discussing wealth with my family is...

“...the responsibility of stewardship and giving back.”

“Provide for yourself and help the organizations you believe in.”
It was important to make some decisions on the basis of family consensus.

Once the Parkers established routines for meeting and discussing wealth decisions, they were relieved to see their children rising to the occasion. The family learned to use a ‘Fist of Five” (see sidebar on this page) voting method to achieve consensus. ‘Fist of Five’ became a rallying cry whenever a tough decision had to be made. Patricia and Michael were heartened to see their children actively making the informed decisions that would transform their lives and the lives of their own children. Their children appreciated they were respected enough to be brought into the inner circle, to not just

**A communication gap**

Many survey participants noted they don’t regularly have formal family meetings to discuss wealth—and they have no formal communication strategies in place.

**A lack of formal structure**

<table>
<thead>
<tr>
<th>% SELECTED</th>
<th>Family advisor(s)</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Family council or committee</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>Family succession plan</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>Investment Policy Statement (IPS)</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>Family mission statement</td>
<td>7%</td>
</tr>
</tbody>
</table>

**A lack of meetings**

<table>
<thead>
<tr>
<th>% SELECTED</th>
<th>Less than once per year</th>
<th>18%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annually or semi-annually</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Quarterly</td>
<td>7%</td>
</tr>
</tbody>
</table>


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**FIST OF FIVE**

*Fist of Five* moves beyond simple “yes” or “no” voting and introduces the element of the quality of the “yes.”

The number of fingers raised indicates the level of agreement. Typically consensus is not reached until all members are at three or more fingers.

A FIST: “I vote no.”

1 FINGER: “I have strong reservations.”

2 FINGERS: “I have minor issues to discuss.”

3 FINGERS: “I’m neutral, in the middle.”

4 FINGERS: “This has my solid support.”

5 FINGERS: “This is great. I’m all in.”

This tool can also be used to check the pulse of the group during the decision-making process.

See also, “Collaboration Explained: Facilitation Skills for Software Project Leaders,” Jean Tabaka.
have a seat, but a say in the family’s financial future. We noticed a similar finding in our survey, where respondents who had routines around wealth communication, such as annual meetings, were more likely to report that every member of the family had an equal say on decisions.

Research on group decision-making suggests there is good reason to seek a diversity of perspectives, whatever your core wealth objectives. If you’re including family members or professionals in your wealth decision-making process, it’s recommended to set the direction of the discussion, so the specific parties can be prepared and not sidetrack in the process. The following techniques are best practices for doing so:

1. Use an agenda, with a beginning, a middle and an end.
2. Practice alignment. What is this money for?
3. To harness original thinking, allow reflection time for group members to write down their ideas before the group discussion commences. Conversations can influence their thinking.

Learning (and Refining) by Doing

Adopting an experimental approach to learning and development is one of the most effective ways to increase ability, yet many family decision makers are waiting until their own death for their estate plans to play out. Waiting to gift until after you are gone bypasses years of opportunities to build experiential knowledge. Making scaled gifts during your lifetime can avoid the hard or conflicted feelings that accompany delaying or denying an outright gift.

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ANSWERS FROM SURVEY PARTICIPANTS†

The most important idea to communicate when discussing wealth with my family is...

“...[to develop a] sense of values based on sound financial principles.”

“...this is the product of a lifetime of working. Invest it well.”

CONSTRAINTS ON THE NEXT GENERATION

One of the hardest choices families of wealth face involves imposing constraints on the rising generation. Setting constraints can be most difficult in first-generation wealthy families, wherein the wealth creators want younger family members to not have to struggle like he/she did. But tension arises, because the elder realizes the value of learning how to overcome obstacles.

The choice is complicated by the fact that these are loved ones: It’s easier for a venture capitalist to delay compensation to keep an entrepreneur “hungry” than it is to say no to a child or grandchild. The answer to implementing constraints in a way that’s helpful—and accords with one’s role within a family—is to approach the topic with a particular scenario and frame it as a learning experience. When it is clear that constraints are imposed in certain circumstances, for specific reasons, and metrics and measures of success are defined, then much of the hard or conflicted feelings that accompany delaying or denying an outright gift can be avoided.

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enables your family—both givers and receivers—to learn over time. For example, allowance programs for younger children and annual exclusion gifts for adult children enable families to routinely reflect on and practice integrating wealth into one’s life, including mistakes as a necessary part of learning. Mistakes made with allowance early on get children ready to handle more significant amounts later in life.

Many families of wealth actively work to build feedback and perspective into their decision processes. Considering feedback is essential, and input—whether negative or positive—can be turned into improvements. Ask yourself: “Would I rather be right or understand?” This process can help families increase confidence in their decision-making process. Methods that incorporate feedback help improve the accuracy of the final decisions, rather than simply validate or confirm pre-existing decisions.

**ADDRESSING FEEDBACK**

Another technique that can be effective is soliciting the perspective of other outside parties, whether it’s an advisor, expert, neighbor or friend. In

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**GIVING VOICE TO THE VOICELESS**

Considering the perspective of interested parties who cannot represent themselves.

Admittedly, not everyone can engage the rising generation in a productive way. Some family members cannot speak for themselves because of disabilities; in other families, planning involves considering the interest of future generations who are not yet born. We can offer two ideas for considering the perspective of interested parties who cannot represent themselves.

1. **Ensure the party is represented**, somehow, even if by a proxy vote cast by another family member. This may seem innocuous, but in practice it can impact the decision-making process by including some form of representation.

   For example, when one family learned they were expecting their first grandchild, they decided to include another chair at the next family meeting. Of course, the baby wasn’t born yet—and certainly couldn’t cast a vote—but the symbolic gesture was a powerful reminder of what the family was working to achieve and that its work would continue into the future.

2. **Imagine you are the individual you want to give a voice to.** From the perspective of the voiceless, you can ask yourself to list those things you need, as well as things you may want. Try not to limit yourself to material possessions: Often families consider not only quality-of-life questions (housing) and developmental resources (education), but also information (the origin of the wealth). The key is to think about the question from the perspective of the other person; rather than asking what you as a wealth creator want them to have or know, consider what you would want to have or know if you were them. This enables you to reflect on your own views and priorities as you decide how you might support future generations of your family.

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order to get the most out of differing perspectives, the individuals need to feel you’re listening and you’re open to using their advice. This is not to say everything is decided by committee, but trust requires faith in follow-through.

Mistakes are a natural part of reflective learning. The key challenge—and a critical component to an experiential approach to learning and development about wealth—is creating the conditions where it is safe to fail. One way to do this is by starting small. When the eldest of their children used his “emergency” savings for a romantic trip to Paris, only to have his car break down the next month, Patricia and Michael used the opportunity for a discussion about the family philosophy of maintaining an emergency fund. They cared enough not to bail him out, but let him experience the “desirable difficulty”17 of figuring it out on his own. The tough love necessary to facilitate these lessons provides financial moments that matter. Many families include their advisor in learning exercises, including him or her in discussions about allocation choices and budgeting, in order to learn how to effectively work with an advisor.

START TODAY
A little change can go a long way. Once the Parkers prioritized the day-to-day skills that were important to their long-term financial wellness, they recognized where they needed to bridge the gaps in financial literacy and communication strategies. They started approaching wealth in a purposeful way and were willing to hold each other accountable to achieve their individual and collective goals.

So why wait? Hindsight is always 20/20, but families who make changes tend to be grateful they didn’t wait.

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17 Term coined by UCLA Professor Robert Bjork. A “desirable difficulty” enhances learning.
WILL YOU DISCLOSE?

Question 29 in our survey asked participants why they have held back about disclosing information about their wealth to their families. Their answers were varied and multifaceted, showing many different perspectives on what can be a difficult and important decision. Here are some of their responses, which help illuminate why there may be a communication gap when it comes to family decision-making.

Disclosure is often delayed for positive reasons:*

“They need to pursue their own path and not rely on what may come their way.”

“They are smart and can figure it out easily when the time comes.”

“I want them to approach life feeling they must make it on their own. Who knows what tomorrow will bring? Their present inheritance value may diminish or disappear before my death.”

Concerns and mistrust also sometimes play a role:*

“Our assets will be fully distributed to heirs when we die, so no disclosure is necessary.”

“Because I don’t want them to know how much wealth I have accumulated or they would be pestering me for money all the time.”

“We do not have a close relationship.”

*Note: The exact phrasing of question 29 was as follows: “Q 29: Why don’t you intend to disclose some financial information to [If Have Children: your children/grandchildren; If No Children: your extended family/heirs]?"

About the authors

**STACY ALLRED** is managing director leading Merrill Center for Family Wealth. Allred enjoys working with curious individuals and multi-generational families committed to navigating the opportunities and challenges of wealth with intention. Her work focuses on developing family governance and the facilitation of family meetings. Allred leverages her almost three decades of experience, ranging from tax and estate planning to family governance, to implement a holistic framework to align financial and estate plans to purpose. She earned her bachelor’s degree in accounting and business, and received a master’s in taxation, with distinction, from DePaul University. Allred speaks internationally on topics of family wealth. She is passionate about solving the financial literacy gap and volunteers in the public school system.

**MATTHEW WESLEY** is a director in the Merrill Center for Family Wealth. Wesley is an internationally recognized practitioner and thought leader on the issues facing financially successful families. With a career that spans 30 years as an estate planning attorney, family advisor, facilitator and consultant, he helps address the complex issues of generational transition, family culture and ongoing governance. These issues often affect family enterprise succession, philanthropy and wealth transfer. He holds a J.D. from Stanford University and M.Div. from Fuller Theological Seminary.

(Note: Matthew Wesley does not provide legal advice in his role at Merrill.)

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