



From Shirt Sleeves to Shirt Sleeves, Part II Communication

*By Gary Pittsford, CFP®,
President and CEO, Castle Wealth Advisors, LLC*

“To those whom much is given, much is expected.” – words from John F. Kennedy.

Preparing the next generation to successfully manage the assets or business that they will inherit takes work and communication by both the parents and the children. The older generation has been successful in accumulating a high net worth through years of being frugal, planning extensively, and only making small mistakes.

Unfortunately, even though the parents have been successful in their career, only 30% will be successful in passing on their assets to their children. Only 15% of those children will actually pass on the family's accumulated assets to their children and have the assets remain intact for yet another generation.

In this article and the one to follow in this series we will cover:

- **why** families tend not to retain their assets from one generation to the next and
- **how** can we eliminate this problem for families in the future.

Over many years, closely held family businesses and families with a high net worth have been studied. The three common causes for a family's failure in sustaining their accumulated assets are:

- 5% - errors in financial or tax decisions
- 25% - unprepared heirs
- 60% - lack of communication and trust within the family.

As the statistics reveal, communication is vital for every family to maintain and preserve the assets that have been accumulated by prior generations. This communication is especially important because over the next 40 years the greatest transfer of wealth in history will happen - over \$40 trillion will pass to the next generation.

So what can we do to protect and preserve those assets for the betterment of our children, grandchildren, and great-grandchildren?

First, we will talk about some important ideas for families who own a successful family business that will be passing it on to the next generation and then **secondly**, we will cover several ideas for families who have a high level of diverse family assets. In both of these family situations it is very important that the families pass

Continued on next page



From Shirt Sleeves to Shirt Sleeves, Part II *(continued)*

on their values and their experience, in addition to their valuables. This sharing of knowledge is where most families fail. They just pass on the assets without passing on the hard earned knowledge to manage and preserve those assets.

Succession planning and exit decisions for a closely held family business probably requires the most communication. Exposing the children to all of the good benefits of a closely held family business, starting at age 9 or 10 is usually a good idea. Children need to learn how to work hard and in the family business is a good place to start. That “on the job” training should continue through high school and college, at which point it is important for the children to work for another company in your industry or perhaps a completely different one for several years before joining the family business. Unfortunately some parents do not make their children work hard because they want them to have a better life than what the parents had when they were young. This is the wrong training for taking over a closely held family business.

During this “training” time, the younger generation needs to study their parents and learn what they have done over the past 30 to 40 years to preserve and grow the family business. Success in the past leaves clues for the future and those clues are what the younger generation needs to be looking for.

Education in the business world also is very important and we will cover that in our next article.

Designing a blueprint to pass on a successful family held business is shaped differently for every family. Some children may have voting stock and others may have non-voting stock. Some of the children may come to work for the company and some may choose a different career. Protecting and preserving the hard earned assets over many generations is not easy with constantly changing tax laws, business competition, and a changing economy.

Most business owners can talk for hours about their company, their products, and their great employees. Unfortunately many of those individuals have a hard time expressing their feelings with their sons and daughters about taking over the company in the near future. The company is often the glue that holds families together, but current owners need to think about training their children for future leadership just like they would train one of their young managers for future promotion.

The owners that are running closely held family businesses today should adopt a new position and title within the business as part of the succession planning process. They have been president for many years, which means that they’ve been on the football field every day playing quarterback and calling all the plays. Their new position in the near future and their new title should be “coach.” If their business is going to continue for several more generations they need to stand on the sideline and start coaching the new



From Shirt Sleeves to Shirt Sleeves, Part II *(continued)*

quarterback. They need to let them get knocked down a few times, but make sure they do not lose the game. They need to coach their handpicked quarterback on how to win plays with customers, vendors, suppliers, employees, and everyone else that comes in contact with the company.

For those who do not have a family held business but have accumulated a large diversified portfolio of assets during their career, they have the task of training their children to effectively manage those assets for the family in the future.

Teaching the next generation about handling a changing financial environment and managing family wealth is very important to high net worth families today. Preparing our children to understand in broad terms how to manage accumulated family assets for the future is a top concern. Preserving the assets that a family has accumulated, sometimes over multiple generations, is also usually very complicated. The young adults need to learn how to work with the family's financial advisors, attorneys, and accountants.

Families that have accumulated a high net worth always have a team of advisors working with them to make adjustments every year to keep up with a changing economy, new tax laws, and changing business decisions. Children that are in their 20s and 30s need to be trained how to work with Trusts, different types of corporations, buy-sell agreements between stockholders, employment agreements with key personnel, and even pre-nuptial agreements. Having these complicated documents is just part of being in the family.

Parents need to communicate with their children and tell them the stories over and over on how they were lucky enough to accumulate the assets that they have. Those young adults need to sit in on some of the conversations every year about changing financial ideas and decisions that are being made.

As mentioned before, the next generation is going to be receiving trillions of dollars over the next four decades and most of them do not have the training to maintain those family assets or run the closely held family business and pass it on to the next generation.

Business owners should also communicate with their children about different business and financial topics every year as they children are getting older and going through high school and college. Starting to educate them with the skills that they will need to manage assets and all of the family capital in this new century will be invaluable to their success.

Gary Pittsford, CFP®, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income projections. Castle's senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit www.castle3.com, call 1-888-849-9559 or e-mail Gary directly at gary@castle3.com.