

## Peace, love and understanding: help your heirs see eye-to-eye about family wealth

The task of transferring ownership and control of your wealth to multiple family members can be fraught with interpersonal land mines capable of effectively destroying that wealth. The solution: smart family governance that aligns your family members' values and goals.



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### Key takeaways

- Nonfinancial issues and family dynamics must be addressed to ensure your heirs don't erode your wealth.
- Convey to your heirs your family's values and how they translate to wealth and financial matters.
- Family constitutions and ethical wills are smart tools for family financial harmony.

Leaving money to heirs can be a tough road to navigate even under the best conditions, when family members are few and they all get along well. But when it comes to transferring ownership and control of sizable wealth to multiple family members, the task can become significantly tougher — and fraught with interpersonal land mines capable of effectively blowing up that wealth.

Single-family offices are well-versed in the risks of sustaining family wealth across multiple heirs and generations. Their best practices for wealth transfer — which focus as much on nonfinancial matters as on the assets themselves — offer a peek into the world of the wealthy, and offer valuable lessons for those of us who hope to pass along wealth to our kids down the road.

### The all-important interpersonal family dynamics

Multigenerational, sustainable wealth management requires a shrewd combination of smart planning and savvy implementation. That goes double when there are significant assets to consider, including a family-owned business.

The great majority of families with single-family offices tend to work with truly best-in-class legal and wealth management professionals to transition the ownership to heirs in tax-efficient ways. Having exceptional financial and legal experts steering the ship into port is one obviously smart move to make.

But there's another issue that too many wealthy families ignore or underappreciate: the non-financial factors involved in passing on family wealth, particularly when there are many heirs involved.

Focusing predominantly, if not exclusively, on transferring financial assets can result in aggravating existing family dysfunction (or even create new problems). That, in turn, can lead to brutal intrafamily conflicts, accompanied in the worst cases by lawsuits and bad judgment that ultimately destroys the family's wealth. When resentments among the inheritors boil over into open warfare, nothing good is going to result.

### Focus on family governance

Of course, these outcomes don't have to happen — and they generally don't among families that take the time to address both the financial and non-financial considerations of multi-heir wealth transfer.

The key is to focus on ensuring there is high-quality family governance in place. Here's what that entails.

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## Family history and values

Effective family governance often starts with delineating your family history and values. Sharing the story of the family and the way the wealth was created proves to be educational for many family members, especially heirs who may not know important details such as the following.

- How did the family become successful?
- Who created the family fortune and who added to (or subtracted from) it?
- What were the values of the original wealth creators?
- How did these values contribute to the family fortune?
- How closely are our values today aligned with those of the wealth creators?
- Beyond creating wealth, how did their values and actions impact the family then and today?
- What sacrifices did they make and how did that affect the family?

Discussions of family history have proven to be very powerful ways of binding families together and creating harmony. When all the generations know the family history, they can often move ahead with greater certainty about themselves — knowing where they came from, who they are today and what they stand for. Ultimately, this can greatly reduce or eliminate wealth-destroying family conflict.

**Option.** Older generations wanting to have their values and wishes for the family continue are increasingly creating so-called ethical wills. Although they're not legal documents, ethical wills help patriarchs and matriarchs communicate their hopes and dreams, their wishes, and important life lessons to their heirs. Hopefully, the ethical will reinforces these ideas among heirs and guides their decisions.

## Vision and mission

For a family to work together, its members' values, goals and expectations must be in alignment. This alignment helps them act as a true family rather than as a number of people simply connected by blood and a common portfolio, without much else in common.

**Important.** There is nothing wrong with family members not being on the same page — not “being a family.” But if this is the case, it's much better to recognize that fact early on, appropriately divide the family wealth and let each go his or her own way. Trying to force such a family into alignment rarely works — and usually leads to severe problems.

Finding alignment in terms of family values and mission requires a few questions to be answered.

- Do the family members have similar values?
- Can the family members effectively work together to everyone's benefit?
- How good are the family members at negotiating and compromising?
- What self-determined obligations do certain family members feel to each other and to the previous generation?
- Are there issues and concerns with respect to particular family members that need to be worked through?

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To facilitate coherence within the family that can result in better decision-making, many wealthy families construct vision and mission statements for their single-family office.

**Vision statement.** The family's optimal goals and reasons for existence. It looks forward, with a "We will promise to ..." philosophy.

**Mission statement.** The plans and actions to realize the vision. It is a translation of the vision into tactical action steps.

## Structures and protocols

Vision and mission statements provide the big picture when it comes to the family office. The structures and protocols of family governance help ensure things are managed on a more granular level.

For example, family members have roles when it comes to the wealth they share and manage through their single-family office. They might be owners, managers, beneficiaries and so on. The family members will have different rights and responsibilities that can be determined formally or informally.

The purpose of family governance is to create an organizational structure that includes the family history, the vision and mission statements, the roles and responsibilities of family members, and processes and systems to manage the family office (and possibly other shared family resources) most effectively.

A key benefit of well-structured family governance is superior decision-making. When that occurs, there are relatively few missed opportunities, little if any family hostility and greater overall emotional calm. Moreover, the family or the single-family office runs smoother and delivers better outcomes for family members.

The objectives of creating structures and protocols for single-family governance include the following.

- Defining the positions family members have in the decision-making process
- Recognizing and adjusting for the cross-over between family obligations and the single-family office or other family business interests
- Identifying and facilitating the fine-tuning required to deal with family issues, with the aim of not eroding the value of the single-family office

**Example.** One type of document that is often used to ensure good governance is called the family constitution. A well-crafted family constitution will include the following.

- Memorialize the family's values
- Establish checks and balances among different interests
- Specify conflict resolution practices and communication protocols
- Promote accountability
- Ensure flexibility so the single-family office can adapt to change
- Explain in detail how the directors and management of the single-family office will operate.



## Not just for ultrawealthy, family-office types

All that said, issues of family wealth transfer and family harmony are not exclusive concerns of the richest among us. The actions taken by single-family offices to ensure good family governance can be extremely valuable to families with far less wealth — including those who own businesses and expect their heirs to one day take charge.

The fact is, any family with money to give to heirs can benefit by finding agreement between its members on issues like family values, family mission and family goals — and then documenting the processes and rules they'll use to make decisions about family wealth based on those issues.

To that end, it can be helpful to hold regular family meetings or family retreats to discuss these topics and seek to come to agreement on them. Although these conversations can also occur informally, many families find that setting aside dedicated time can bring family governance issues into sharper focus — and ultimately lead to less conflict and smarter family financial decision-making.

Often a family wealth facilitator is used to keep ideas flowing, keep the conversations moving forward and dampen any problems that could cause the discussion to devolve into fighting and hurt feelings. This facilitator may be a trusted family wealth manager, or other professional, or a team of people that includes financial and psychological experts.

## Getting help navigating family dynamics

**Action step.** Contact us to explore more about family wealth transfer and family harmony.

## Please feel free to contact us

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