Memphis Business Journal
THE BUSINESS AUTHORITY OF THE MID-SOUTH
EMPHASIS: ESTATE PLANNING
April 14-20, 2006

What is driving your estate plan: your wallet or your heart?

ESTATE PLANNING

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Your family's wealth is at great risk. Regardless of its source — entrepreneurial success, corporate achievement or the benevolence of past generations — there are forces that will erode it as it passes from generation to generation.

Taxes are the most obvious and many families plan their estates accordingly, based solely on current tax law. Taxes should always be considered, but there is much more at stake as you plan to pass on your family wealth.

In fact, estate shrinkage due to taxation may be the least of your worries. To mitigate the potential risks, you first need a true understanding of the sources of your family's wealth and then an enlightened, proactive and life-long plan to protect them.

FAMILY CAPITAL

It is easy to equate wealth with money, but is that the only type of capital you've created in your lifetime? Don't you value your reputation just as highly? What about the positive changes you've affected in your community, either through business or charitable efforts? Are you proud of your educational achievements? Does your business have a meaningful culture? Isn't your family's health and happiness one of your most prized possessions?

These are all examples of family capital — a broad category encompassing all those things, tangible and intangible, that are of significant value now and will continue to grow with proper stewardship. Family capital can be broken down into four main types. Financial capital is the most obvious, but human capital is the most important.

Nothing will shrink financial capital faster than poorly developed human capital. Conversely, properly developed human capital is the surest way to preserve family wealth. In addition, no price can be put on the health, happiness, self-awareness and the potential contribution of family members. Intellectual capital is the cumulative investments in education and development of family members and community capital is the presence, reputation and impact your family has on society.

When viewed from this perspective, the traditional testamentary estate plan leaves much to be desired. It deals mostly with financial capital and to whatever extent it addresses human, intellectual and community capital it's usually too little, too late and fraught with unintended consequences.

These intangibles require life-long investment to keep their associated risks — excessive consumption, sloth, divorce, personal underdevelopment, substance abuse, etc. — in check.

DISCOVERY PROCESS

Armed with this new perspective on family wealth, I encourage you to take an inventory of your family's four types of capital. Catalog your families strengths and opportunities for improvement. Only when you are keenly aware of where you stand today can you plot a course for the future.

Next, set out to discover the values upon which you want to build your family's capital. Paul Comstock, an expert in the field of multi-generational planning, suggests asking yourself the following questions:

- What do you want for your children and grandchildren?
- What do expect from them?
- What do they expect from you — now and at your passing?
- Imagine a story being written about you 25 years from now. What would you like it to say?
- What could keep that story from being written?

The answers to these questions will be the foundation around which all other decisions can be made.

BEST PRACTICES IN BUILDING FAMILY CAPITAL

From here, consider drafting a family mission statement. Like those often found in business, a mission statement will summarize your core values and ambitions and help align the entire family around the same goals.

Depending on the size and complexity of your family, you may want to institute a formal family governance structure — a board of directors of sorts. This formal structure will deal with issues that effect the entire family. It can also build momentum behind the development of family capital and formalize the processes, ensuring success for future generations.

Develop and maintain family traditions. Tell your kids the great stories of their grandparents. Help them develop a sense of appreciation for the sacrifices and successes that set the table for today's feast.

A council of elders providing advice and mentoring for younger generations is another way to preserve and grow the intellectual capital held by our older generations.

Engage the entire family in philanthropy. Charitable giving serves as a wonderful instructional opportunity for the responsible stewardship of inherited wealth. Especially if your children may never need to work, philanthropy can be the source of pride, accomplishment and self-esteem that most of us get from our careers. Additionally, it instills a sense of stewardship, rather than ownership, of your family's financial capital.

Consider a program of lifetime giving to your heirs. There are inherent tax efficiencies as well as emotional benefits for both the giver and recipient. It can also provide another instructional opportunity for the responsible management of wealth.

If a family business is the source of your wealth, be proactive in developing the next generation of management. Create a succession plan and communicate it to all family members so the harmony you value so much now can be maintained in the future.

FINAL DISPOSITION

Now, with the proper foundation laid, you can address the ultimate disposition of your financial assets by developing a testamentary transfer plan suited to your family objectives.

Ultimately, the fundamental issues of estate preservation and wealth transfer are qualitative, not quantitative. Tax driven estate planning is one small part of what should be a life-long effort combining the proactive development of all forms of family capital with a tax-efficient and effectual testamentary distribution.

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