Morgan Stanley

Playbook: Your Guide to Life & Money

Family Matters: Invest in What Counts

What Is Covered in This Chapter:

- Ways to beat the odds by preparing for a family business succession.
- Challenges of family wealth and steps to inheriting wisely.
- Strategies for encouraging inclusion and avoiding family conflict.
- Estate planning basics to help protect your assets and loved ones.
- The impact of passing on family values.

Only family can warm your heart and make your blood boil all in the same four-hour road trip. No family is perfect, but the little imperfections may be a big part of how you became the person you are today. Whether you are inheriting wealth, a business, your grandmother’s china set or the infamous chocolate chip cookie recipe, it is important to understand how to be a responsible steward of family legacy. Through proactive planning and honest communication, you can navigate the complexities of family matters to preserve a happy hearth and home.

Inheriting a Family Business

Inheriting money wisely can be challenging enough, but inheriting a business can come with a whole slew of additional complexities based on the size, nature and financial condition of the company, not to mention things like ownership structure and the involvement of other family members. No two family businesses are exactly alike and there is no "one size fits all" rulebook to rely on when making tough decisions and managing conflict. By working with people you trust, you can create a strategy that fits your family's needs and objectives and adjust your course along the way.

Let's start with the basics. Anyone inheriting a family business may be confronted with two essential questions:

OWNERSHIP SUCCESSION:
Do you want to keep the business or sell it?

MANAGEMENT SUCCESSION:
If you want to retain ownership, do you want to manage the business on a day-to-day basis or hire a capable executive to assume that role?

The answer to these questions are rarely straightforward. While it may be up to your discretion, plenty of people will want to weigh in. How will your involvement impact your siblings, for example? How can you separate your professional and personal responsibilities within the business as well as with your family?

FACT:

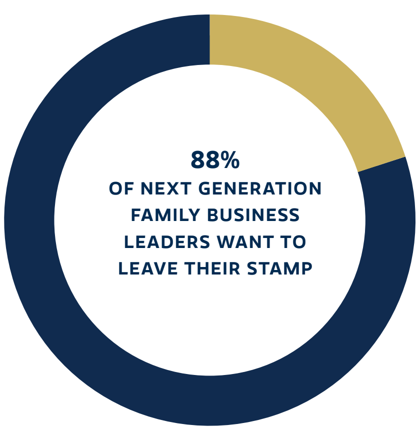
30%

of family businesses successfully transition into the second generation, with the likelihood of survival decreasing exponentially with every consecutive succession.[1] The best way to overcome these odds? Preparation and foresight.

Preparation Is Your Best Defense

The first 60 days can be critical. Whether you are inheriting the company in the midst of a family crisis or as part of a thoughtfully planned succession, there's a good chance you may feel overwhelmed. Taking a step back to reflect and understand the situation at hand can help you gather information so that you can better assess your options. Here are a few important steps to help ensure you are well prepared:

1 Assemble your company's advisors.
Gather your company's key external advisors for an in-depth pow-wow about the state of the union. This can serve as an opportunity to get their insight on important operational issues and help align everyone's strategic vision for the company. Important advisors to invite may include bankers, attorneys, accountants and your Financial Advisor. Consider extending the invitation to some of your personal advisors as well; they might be able to share a fresh perspective.



FACT:
A PricewaterhouseCoopers survey of family business owners revealed that 88% of next gen family business leaders want to leave their stamp and do something special with the business.[2]

2 Review key documents.
It is your responsibility to be as knowledgeable as possible about the company, including any concerning details that may be hiding deep in a pile of old documents. To help ensure that you have a realistic understanding of outstanding issues, here are a few of the company materials you may want to review:

- Tax returns and bank statements.
- Business and personal insurance packages.
- Letters of incorporation, registrations and trademarks.
- Any applicable licenses.
- Balance sheets.
- Current budget.
- Current business plan.
- Documentation for loans, lines of credit, mortgages and any other forms of debt or other liabilities

3 Meet with employees and customers.
There is often a lot of uncertainty surrounding a succession. By taking the time to meet with employees at all levels of the firm, as well as key customers, you can demonstrate your commitment to the company and its people. This can also be a great way to gain a deeper understanding of the enterprise's strengths and weaknesses.

TIP: Be careful about making promises before you know if you can keep them, and try to avoid making big changes too quickly. Listening can be an effective learning tool, especially if you have not previously been involved in day-to-day operations.

4 **Focus on the business plan.**
Once you have gathered enough information about the challenges and opportunities the company faces, it's time to set and sell your vision. Work with your advisors to create or revise the business plan to reflect any changes regarding the company's strategic direction (See chapter on *Starting a Business: Setting Up Shop* for more on business-planning basics). This can help you clarify the path forward, as well as help ensure that various key stakeholders are in the loop and supportive of your company strategy.

3 Steps to Inheriting Wisely

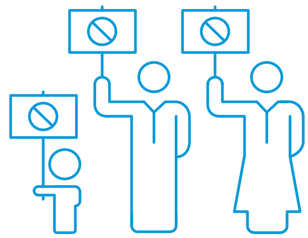
from Glenn Kurlander
Managing Director, Morgan Stanley Wealth Management

Take a step back and reflect.
It goes against our natural instincts, but when faced with an inheritance event, the most important thing you can do is to do nothing. Take a step back and reflect. Take stock rather than rush precipitously into a decision. Think about your goals and the impact you want this event to have on your life. Reflect on the person who left their wealth to you, how they earned it, what it meant to them and what you learned from the way they led their lives.

Find a Financial Advisor.
Find someone who has experience creating and executing a plan, so that they can help you achieve your desired impact. Look for a Financial Advisor who makes an effort to get to know you and understand what matters most to you, as opposed to making assumptions about what you need without gathering the proper intel.

Stick to the plan.
Evaluate your plan periodically and make adjustments as life unfolds, but stick to the plan.

When you inherit a family business, your role and responsibilities within the family structure can shift dramatically. This shift can lead to tension among family members (even those who have little involvement with the business on a day-to-day basis). While communication is critical to managing and addressing family conflict, it can also be useful to establish certain boundaries around what is and what is not appropriate to discuss outside of work.



FACT:
52% of next gen family business leaders are worried that they will need to spend time managing family politics.[3]

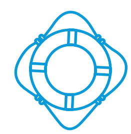
STRATEGIES FOR AVOIDING CONFLICT[4]

Establish a Framework for Making Decisions

Many families make decisions on an ad-hoc basis and may not include all family members in the process (whether intentional or not). Creating a standard family framework for decision-making can help ensure a transparent and efficient process for navigating important decisions together, especially in times of uncertainty or crisis.

Structure a Family Council

One of the common elements of a family governance system is a family council. A council can help foster a sense of inclusion, ownership and a willingness to participate amongst family members. To avoid spending too much time and energy on consensus-building activities, create a set of clearly defined operating principles to provide structure for the group. Consider inviting an objective advisor to help facilitate a productive dialogue during family meetings and act as a buffer when there are points of contention.



Create Safety Valves

As you create a framework to manage conflict, it can be important for family members to have a way to separate themselves from the business without jeopardizing the functioning of the enterprise or organization as a whole. These “safety valves” can help avoid situations in which someone is forced to walk away by helping provide a sense of comfort and accountability to encourage compromise.

PRO TIP

“Consider asking your advisor to act as a mediator in difficult family situations. He or she can ask deeper questions and bring up certain sensitive issues that someone who is more emotionally invested may avoid.”

GLENN KURLANDER, MANAGING DIRECTOR, MORGAN STANLEY WEALTH MANAGEMENT

“If you don’t have a plan, someone else is going to have a plan for you and your money.”

LISA SHALETT — *MANAGING DIRECTOR, HEAD OF INVESTMENT AND PORTFOLIO STRATEGIES, MORGAN STANLEY WEALTH MANAGEMENT*

Estate Planning[5]

"Politics, drugs, even sex are now openly discussed, but money is still too delicate an issue for many families. Talking about money makes many of us feel embarrassed, guilty, even shameful. But when we let money become taboo, we're not living up to our responsibilities to prepare and educate."

GLENN KURLANDER—MANAGING DIRECTOR, MORGAN STANLEY WEALTH MANAGEMENT

Estate planning may not be the most enjoyable topic to bring up around the dinner table, but it is certainly an important one—regardless of your age. Even if you are just starting to build your own wealth, having a basic understanding of the steps involved in estate planning can be helpful in the event your parents or grandparents look to you for support. Without a proper plan in place, a family crisis can have tumultuous (and expensive) consequences for everyone involved from a personal, legal and tax perspective. Even though your parents may be in great shape today and therefore reluctant to think about making end of life plans, it will give them peace of mind to know that a family member is privy to their wishes in the event something unexpected happens.

What to Include in an Estate Plan

Much of life is difficult to predict and impossible to control. What we can control, however, is how we prepare for whatever life may throw our way. Whether you are creating your own estate plan or helping loved ones with theirs, consider including the following:

Who Will Act on Your Behalf

A fiduciary is a person who is legally appointed and authorized to act on your behalf in the event you are no longer able to make decisions for yourself. If you don't identify fiduciaries in advance, your desires and wishes may be left up to the court's discretion, so consider choosing people that you trust to have your best interest, and the best interest of your loved ones, at heart. Some important types of fiduciaries include:

EXECUTOR:
The person or institution (typically a bank or trustee company) responsible for settling your estate according to the terms of your last Will and Testament (your "Will"), including distributing assets, paying debts and claims, and preparing the estate tax and income tax returns.

GUARDIAN:
The person named in your Will who will be responsible for caring for any minor children. If you have no Will or your Will does not name a Guardian for your children, a Guardian will be selected by the court.

HEALTH CARE PROXY
(OR DURABLE POWER OF ATTORNEY FOR HEALTH CARE):
The person responsible for making healthcare decisions in the event you are incapacitated.

Care for Aging Parents
At some point, you may find yourself providing care for aging parents. By engaging parents, siblings, and other family members in a proactive, thoughtful discussion, you can help avoid the emotional complexities of making difficult decisions during times of crisis or medical emergencies.

Long-Term Care
Help ensure that you and your loved ones are able to age comfortably by securing long-term care insurance.

Special Planning Issues
Blended families, children with special needs and pets may require special consideration when putting together an estate plan.

> **CHILDREN:**
> If you have children with special needs or severe disabilities, it is important to make sure that any gift or inheritance they receive will not interfere with his or her eligibility for government benefits. The most common way to do this is through a Special or Supplemental Needs Trust, which suggests that any assets held in the trust are intended to supplement, but not supplant, the government benefits your child is entitled to.
>
> **PETS:**
> Leaving a pet to a caregiver in a Will may not account for situations in which you might become incapacitated. Consider setting up a traditional or statutory pet trust to help ensure that they will be taken care of in the event something happens.

Burial Instructions and Last Wishes
No one likes to think about death, but leaving detailed burial instructions and last wishes will make it a lot easier for surviving family members to make funeral arrangements and handle estate administration.

Organization of Financial Information
Estate settlements can occasionally last years, especially in the absence of proper recordkeeping. By taking the time to organize personal and financial information, you can save your family a lot of hassle, stress and money.

Values Beyond Valuables

Beyond the tangible assets that may be transferred through estate planning, an inheritance can also include intangibles such as life lessons, memories and personal values. By sharing the values that connect family members to one another and to the things that matter most, families and individuals can create a legacy that lives on for generations to come.

WINNING PLAYS for Passing on Values through Estate Planning:

Write down stories:
Whether you choose to do so through journals, letters or a book, the process of documenting stories, memories and lessons you've learned along the way is an incredible gift for future generations, as well as a powerful way to reflect on your life. Encourage family members to write down their own stories, or suggest a collaborative family project.

Seek out conversations:
Engage in family dialogue by asking loved ones about topics such as love, parenting, work ethic, success and personal fulfillment. This can be a meaningful way to deepen your relationship with family members and learn more about the experiences that have shaped them along the way.

The All Knowing File

The essential information everyone should have prepared in the event something happens:

1 THE LOCATION AND KEY TO ANY SAFE DEPOSIT OR POST OFFICE BOXES

2 THE LOCATION OF IMPORTANT DOCUMENTS
- Will.
- Trust documents.
- Birth certificates.
- Life insurance policies.
- Prenups or marriage and divorce licenses.
- Employee benefit program documents.
- Real estate deeds.
- Passports.
- Social security information.

3 AN OVERVIEW OF ASSETS AND LIABILITIES
- Documents related to debts and loans outstanding.
- Credit card information.
- Automobile titles or insurance policies.
- Investment account information.
- Bank or brokerage statements.
- Retirement account information.
- Insurance documents for any valuable assets.

4 CONTACT INFORMATION FOR IMPORTANT ADVISORS
- Financial Advisor.
- Insurance agent.
- Attorney.
- Accountant.

5 DIGITAL LOGINS, USERNAMES, AND PASSWORDS
- Online banking, investment and retirement accounts.
- Social media.
- File storage and cloud-based accounts.
- Online photo galleries.
- Music and entertainment subscriptions (e.g., Netflix, Spotify, iTunes).

Questions to Ask Your Financial Advisor

1. *(If inheriting a family business)* How might my ownership interests change after the succession event and how does this affect my financial plan?

2. *(If you own or run a family business)* How can I start developing a formal succession plan to ensure continuity for the business?

3. What are some strategies to mitigate family conflict? Are there certain procedures you recommend to help ensure everyone feels heard when it comes to decision-making?

4. What should my estate plan include at this stage in my life to make sure my assets and loved ones are protected? Beyond my advisor and spouse, who else should be involved in conversations about my estate plan?

5. When should I consider updating or revising my estate plan?

Must Reads

Family Wealth – Keeping It in the Family
AUTHOR: JAMES E. HUGHES JR.

This book is an essential guide on creating family legacy with best practices for family governance and decision-making.

The Wall Street Journal Complete Estate-Planning Guidebook
AUTHOR: RACHEL EMMA SILVERMAN

A step-by-step guide to help make your estate-planning process simple, smooth and straightforward.

Family Fortunes: How to Build Family Wealth and Hold on to It for 100 Years
AUTHORS: BILL BONNER AND WILL BONNER

A practical, actionable plan for getting and maintaining multigenerational wealth shared by a *New York Times* bestselling author.

Keep the Family Baggage Out of the Family Business
AUTHOR: QUENTIN FLEMING

This book is filled with practical advice from a family business expert who helps family businesses thrive.

Strangers in Paradise: How Families Adapt to Wealth Across Generations
AUTHOR: JAMES GRUBMAN

This book shares an innovative approach to the challenges facing "immigrants and natives" in the land of wealth from a prominent wealth psychologist.

CITATIONS:

[1] Family Business Institute. Succession Planning (Accessed 2016).

[2] PwC Next Generation Survey of Family Business Leaders (2016).

[3] PwC Next Generation Survey of Family Business Leaders (2016).

[4] Morgan Stanley. "Managing the Family Enterprise" (2015).

[5] Morgan Stanley. "A Proactive Approach to Estate Planning as a Family" (2015).