



## Wealth Planning Report

# "We, the Family": The Benefits of a Family Constitution

Combining wealth and family can be tricky. Affluence can help families realize a shared vision and achieve great things. But wealth without shared values and goals can lead to resentments and conflicts causing estrangement among members and so damage the family's financial position.

What's more, wealthy families grow and enlarge over time. Keeping both family members and their shared capital together can become a difficult challenge. Wealth frequently is commingled because of legal structures, such as multigenerational trusts or communally owned properties like lake cottages. But rightfully or wrongfully, some family members come to feel wronged or alienated and could take legal action to break trusts or sell property interests to get out—creating even more family disharmony and perhaps even jeopardize the family fortune.

To avoid outcomes such as these—and to help encourage family harmony for the greater good—consider creating a family constitution. We see many ultra-affluent families take this step, often with very positive outcomes.

Let's look at family constitutions: what they are, what they do and how your own family may establish one.

### Facilitating family harmony

A family constitution can be used to effectively manage conflicts as they arise and facilitate agreement amicably among the members. It can provide a process for family members to constructively address their concerns and promote their preferences, especially if they have the education and maturity to act responsibly. Further, family constitutions can articulate a vision and direction for the whole family after the patriarchs have passed on.

A key goal of family constitutions is to prevent sibling and intergenerational conflicts that can tear families apart. Family constitutions recognize that misunderstandings and contention occur in every family—and they aim to spell out specific procedures a family can follow to effectively address conflicts that inevitably arise over time.

After the preambles, the constitution lays out a process and procedures for how the family manages decision-making and dissent. When the way for dealing with conflict is clearly documented and fairly followed, reasons for infighting is reduced. Everyone can be heard. With constructive ways to promote communication and build consensus grounded in core principles and values, family harmony is maintained, and progress can continue.

**Important:** A written family constitution is only a set of guidelines and prescriptions. It is not, unlike formal trust arrangements, a legal and binding document that must be adhered to and that can never be altered without court permission

### CREATING AN EFFECTIVE CONSTITUTION

A family constitution should, among other things, help the family address differences of opinion around wealth and its uses—which might include assets such as an operating business and properties (real estate, art) as well as a securities portfolio and other savings, plus educating younger members on investing concepts and strategies.

Specifically, a constitution should specify:

- How the wealth is to be used by family members, and for what purposes
- What limitations there are on how wealth is spent, invested and donated
- Who makes regular decisions and how these decisions come to be made
- How family members can provide input or impact decision-making around how wealth is deployed
- How family members are educated in core values and prepared to manage wealth for the future

A consensus among family members must be gained in developing and establishing a constitution. Without broad-based agreements, no constitution will likely be written—and if it is, it will be contested. Ideally, a family constitution would

be written when family relationships are strong (or at least not strained), making coming to a consensus more likely. All parties should be motivated to reach and develop shared solutions.

In general, a family constitution will include three key sections:

- **Who is defined as family.** As families become larger, decisions must be made specifying who is family and who is not. For example, some families exclude those who marry into the family—or those who divorce.
- **The ideology of the family.** This spells out what the family stands for, including its values and purpose.
- **The reasons for staying together.** This details the rationale for the benefits of maintaining family cohesion and managing capital jointly to support a family office. Factors such as love and concern, along with financial considerations, are usually part of this section.

**Important:** A family constitution is a living document. It is not a static “one and done” agreement. As the world changes and the family evolves, amending the constitution over time will be necessary.

## Getting help

Gaining consensus requires openness and trust among family members. To that end, many wealthy families use professional facilitators to help them work through relational issues and

emotions attached to financial matters. Conversations around the family money can get very intense, as talk overlaps with family history and any acrimony about the past. Social and political differences complicate conversations around the family money. A neutral third-party facilitator can help keep tensions at bay and family members focused on the agendas as well as keep them reminded of the benefits of being proactive.

## An option for many

In general, a well-crafted family constitution will accomplish several objectives:

- Memorialize a family’s principles and values.
- Establish checks and balances among different interests, as well as communication protocols and formal ways to address conflicts.
- Promote accountability of family members in their responsibilities.
- Ensure flexibility so the family and its businesses can adapt to change.
- Provide disenchanted family members with a viable means of exiting with dignity.

Best of all: Even though family constitutions are a strategy often employed by the ultra-affluent, you don’t need tens of millions of dollars for a reason to create one: even middle-class millionaires should do so.

This is an executive summary of our wealth management ebook. For a complimentary copy of our complete report, please contact us.



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Paul founded Professional Financial Strategies, Inc. as one of the first fiduciary planning firms in 1993 that now specializes in retirement and wealth management for affluent and aspiring families. Paul is a personal chief financial officer who acts in the best interest of clients. He brings together a distinctive management process and a network of specialists for making informed decisions for structured investing, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he has taught at St. John Fisher College. Who’s Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award and featured him with other recipients in *The Wall Street Journal* and other publications.

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