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Nothing succeeds like a succession plan

Michael Nairne, Serious Money

Mark Blinch, Reuters Files

Galen Weston, left, with son Galen Weston Jr., who has taken over as executive chairman of the family-run business of Loblaw Cos., the largest food retailer in Canada. The Westons are Canada's second-richest family, behind the Thomsons.

When it comes to wealth planning, many high-net-worth individuals seem to share the cockeyed optimism of Stephen Wright, who famously said: "I intend to live forever. So far, so good."

When you act like you'll live forever, you don't have to be bothered with the host of issues that plague mere mortals. Discussing the family's financial affairs, clarifying your philanthropic legacy and wrestling with sensitive matters in an estate plan-- these can all be avoided when a person refuses to confront his or her own mortality.

The harsh fact is that death rates rise steadily from the mid-50s onward. Someone aged 65-69 is almost three times more likely to die than someone 55-59. By 75-79, the chance of dying has climbed sevenfold. "So far, so good" becomes "this far, no further."

Wealthy individuals should take the best practices of corporate governance to heart. Ensuring effective continuity of executive management is one of the top responsibilities of the board of directors. Similarly, high-net-worth families need to develop a succession plan for the management of their financial affairs.

The first step is an open discussion between spouses to ensure that they are both fully knowledgeable about the ins and outs of the household balance sheet. Spouses should catalogue and review all assets, liabilities, insurance, pensions and key documents, such as wills and powers of attorney. Longer-term retirement and wealth-transfer goals have to be thrashed out, not an easy task if there isn't a consensus. Financial advisors can help at this stage.

It is usually advisable to bring adult children into the dialogue. Unfortunately, money is often a taboo subject in wealthy families. One survey of high-net-worth individuals in the United States found that more than half of the respondents had not discussed their wealth-transfer plans with any family members. Second marriages can add to the complexity of this exchange, as children can easily see the new spouse as an interloper. Children with psychological issues or handicaps also add to the challenge.

To paraphrase Tolstoy, "harmonious families are all alike; every disharmonious family is disharmonious in its own way." Hence, wealthy families with serious discord should consider bringing in specialists to help work through this discourse in a fashion that deals specifically with their dynamics.

The team of financial, legal and accounting professionals critical in ongoing wealth management has to be assembled. The spouse and children need to know these professionals. Typically, the family patriarch is the first to die or be incapacitated and a grief-stricken family has enough to cope with without the added stress of dealing with near-strangers.

Finally, the family in conjunction with their professional advisors should work through three key planning documents. One is an investment policy statement dealing with their investable capital; second is a wealth duration plan analyzing the family's projected cash flow over the parents' retirement horizon; and finally, the wealth-transfer plan.

It is surprising the number of wealthy people who don't have a succession plan for their finances. I know more than a few individuals who handle all of their family's investments unilaterally, often dispersed amongst an uncoordinated collection of brokers and money managers, who will leave spouses and children exposed to needless anxiety and stress when they depart. Then again, maybe they plan to live forever.

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