

SPREAD THE WEALTH – Seven realities for affluent family leadership

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Today, the American family is gripped by powerful changes which further threaten to sap its vitality

The precarious state of the family has long troubled our national conscience. What is different now, however, is the growing consensus that families must be proactive in order to triumph over these pressures. Below is a consideration of these pressures, their impact on affluent families and some suggestions on how to address them effectively. However vulnerable the family may be, it still has an indispensable role to play as an ongoing source of support — a backbone, if you will — in each of our lives. For it is this important collection of individuals, no matter how traditional or unconventional, that anchors our experience, identity, and ultimately, our well-being.

Consider your family. Chances are it consists of several generations, which means that a complex mosaic of relationships has to be managed, whether about inheritance or health care, education or next Thanksgiving. Then there are the demographic, economic and social forces overlaying family life that are giving it a degree of complexity as never before. Each one of these forces deserves thoughtful analysis if affluent families are to effectively face the challenges that inevitably arise. We call them realities.

REALITY #1: The melting pot called family

Remember drawing your family tree in grade school? That tree was simple — easy to draw, easy to grasp. Asked to draw that tree today, you would likely sketch something resembling a bramble bush. Grandma re-married after grandpa's death and has a set of step-children and step-grandchildren. Your parents divorced and both remarried partners who had three children each themselves. Your wife's parents...well, you get the idea. In 2004, the U.S. Census Bureau estimated that 1 in 3 families were stepfamilies, a percentage that will only increase as 1,300 new families of this type are being formed each day.

Welcome to the extended American family, a unique phenomenon that is testing the proposition that "blood is

thicker than water." Changes in the family dynamic are usually accompanied by an adjustment period when a sorting out of values and boundaries, control and loyalty, occurs. Nevertheless, the presence of "steps" and partners, adopted children and "exes" creates opportunities for re-defining what constitutes a family. Are the ties that bind due to blood alone? What about love, respect and pure friendship? New rituals and gatherings can inspire a new perspective — even maturity — about oneself. Yes, recombinant families often bring personality clashes and stress with them, not to mention uncertainties about where one stands in the new pecking order of inheritance. Nevertheless, when handled with sensitivity, the extended family can be an invaluable teacher of tolerance and openness.

REALITY #2: Entitled to a good life

Affluence continues to wash over America at an astonishing pace. Much as we hate to do a "good-news, bad-news" take on this trend, that is where the story comes out. Yes, there is a lot to crow about when gainful employment, homeownership and prosperity touch more Americans. At the same time, it is worrisome to realize that those with the highest incomes — the top five percent — have steadily increased their ownership of the nation's treasure in the past decade: in fact, that select group today owns about 59 percent of America's wealth, more than the remaining 95 percent of the population collectively. If history is any guide, there is cause for concern when a country becomes one of haves and have-nots: what usually unfolds is class division, civil unrest and well, you know, "let them eat cake." Hence, the persistent hue and cry about the stagnating — if not disappearing — middle class. The disparity is even occurring within the "haves." As a friend recently quipped, "I'm at the lower part of the top 1% and feel inadequate and insecure."

With absolute wealth continuing to increase, the very definition of "self" requires an introspective response, particularly given the in-your-face, material accumulation

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that surrounds us all. Lest we forget, the media plays an influential role in the view we have of ourselves relative to a seemingly bottomless appetite for material must-haves. So, what is the “new normal?” At these levels of wealth and higher, we are able to fulfill some of the important personal and material goals that we set for ourselves such as personal development; supporting our aging parents, if needed; giving our children the best educational opportunities in and out of school; carving out leisure time and acquiring multiple residences in order to deepen our relationships with individual family members; accessing the best health care regardless of insurance coverage; and impacting the greater good through the pursuit of philanthropic interests.

Along with these “new normal” indicators are other artifacts of the good life which, according to a December 2006 editorial in *The Economist*, is what capitalism is particularly adept at: namely, convincing us that luxury items such as multiple cars, private plane flights, expensive clothing and accessories, and exclusive recreational activities and experiences are, in fact, necessities. Then there is the “charity vortex” created by asking others to get involved in your favorite cause, which inevitably leads to a flurry of reciprocal requests, complete with black-tie events and silent auctions.

In this context of growing entitlement, where everything once considered frivolous becomes essential, the inevitable dilution of wealth over generations will take its toll as lifestyles become harder and harder to sustain. For affluent families, the issue then is how to prepare the next generation with an ethic of earning and saving, as well as the financial and life disciplines necessary to perpetuate standards and quality of living.

REALITY #3: E-nough already

The explosion of digital technologies has forever changed the way we communicate, do business, get a job, conduct politics, buy and sell goods, or find a date. Instantaneous connectivity has ushered in an era of unprecedented productivity, efficiency and yes, prosperity as 1.1 billion people, or 17 percent of the world’s population, now enjoys access to the Internet on computers, cell phones, blackberries and so on. Networked and wireless communications are rapidly shrinking every form of boundary imaginable, effectively making the world into one big political, social and economic place. Opportunities and peril accompany the debut of this (mostly) boundary-less world in which time and material are collapsed from hours and minutes to seconds, from the visible to nano-sized.

Affluent families would do well to take note of the high level of education as well as the global outlook that their children

will need to thrive (and avoid becoming the have-nots). The knowledgeable, quick thinking and technologically savvy individual with strong entrepreneurial capabilities will have considerable competitive advantage globally over those who are not. Indeed, the rising sovereignty and empowerment of the individual seems as inevitable as the decline of rigidly hierarchical organizations which are unable to respond swiftly to the promise of the digital world. Complacency in the family about these considerations will lead to the fulfillment of the three-generation “shirtsleeves to shirtsleeves” prophecy.

The flip-side of this story is the transparent and porous nature of digital technologies. Will privacy become a luxury instead of a right as governments fearful of terrorism, and businesses eager for higher profits, take advantage of these weaknesses? Leaders in the economics of information technology believe that privacy is a thing of the past and obsolete. For affluent families and business owners, it is imperative, then, to keep one step ahead by developing a robust program of digital understanding to protect against new forms of personal and corporate exposure and liability. Affluent families will also have to be vigilant about staving off the pressures wrought by the 24-7 digital world in order to preserve the rhythms, rituals and values they hold dear.

REALITY #4: The American Dream come true

Say what you will about the 1960s, the excessive decade of “turn on, tune in and drop out,” was also one in which a utopian vision of inclusion and equality for all — women, minorities, Native Americans, immigrant laborers — took hold of our collective imagination. Today, we live with the achievements as well as the discontents born of that vision.

The racial and ethnic composition of America is undergoing a sea-change: The minority population — blacks, Hispanics and Native Americans — grew by 43 percent between 1990 and 2000, while Hispanics alone mushroomed by more than 50 percent in the same time period, according to the U.S. Census. In addition, some 60 percent of all women have joined the workforce and 10 percent of the top jobs at Fortune 500 companies are held by women. Gays, too, are making their mark, advocating for legal civil rights and protections in marriage, employment and the military as their political and economic clout grows. Sure, obstacles still exist, but even those impatient for greater success acknowledge the barriers are coming down.

Those groups once marginalized are now experiencing the tangible benefits of freedom, greater equality and prosperity. Yet their rising power is sure to test the strength of our social idealism. The backlash against affirmative action and the recent bitter debates about immigration, not

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to mention the battle of “values” occurring daily throughout the country, are examples of the crucible that is American democracy. As the established order changes, tensions will likely fester further as the “majority” becomes the “minority” and, in particular, challenge the historic biases of our society.

Some fallout is already evident as the empowerment of women is widely believed to be one of the key reasons for the high rate of divorce in the U.S., which now stands at just over 40 percent for all first marriages and even higher for second marriages, according to the National Center for Health Statistics. With marital roles and arrangements under pressure, we all must grasp, even embrace, women’s newfound autonomy while holding our insecurities in check. Those entrenched in tradition have felt and will continue to feel the greatest frustration from the new realities. Where gender politics and power are concerned, denial is not an option; careful, painstaking reflection and adjustment is the path to travel.

For all of us, but especially for affluent families who are leading complex and demanding global lives, this remaking of our national identity will require a conviction of values, as well as a high degree of openness, acknowledgement of the changing order of things, and yes, patient adjustment. Moreover, the looming crisis over government entitlement programs — meeting its social security and health care obligations — will surely exacerbate societal resentments and strains. Knee-jerk reactions to these social and economic changes — especially the inclination to circle the wagons — as well as polarizing leadership, will need to be countered if affluent families are to thrive. The true sign of family and societal achievement will be this: when we are able to fight the paralysis of political correctness in order to address genuine threats to freedom and justice, in part by respectfully acknowledging and confronting differences.

REALITY #5: A new stance for family leadership

“Govern a family as you would cook a small fish — very gently.” Those words, often attributed to Confucius, sound a proper note of caution for those who wish to apply for the job of family leader in the 21st century. Given the forces bearing down on affluent families these days, those who assume the position must possess an interesting mix of skills as well as a deep commitment to charting a family’s well-being across several generations.

In fact, a new paradigm for family leadership would seem to be in order: one that is collaborative; equipped with a sharp global outlook and business smarts; diplomatic; and, dare we say it, tough and shrewd enough to manage the often conflicting family dynamics, opposing interests and

personalities of several generations. To make a difference, leadership of a family will also depend on an input-process-feedback loop that supports the growth of each individual, exposes all members to life-skill experiences and strives to build a foundation of respect across generations known and yet to come. The “old school” approach of keeping family members insulated from the hard work and responsibilities that come with affluence is over. Replacing it will be families that “own” their destiny and effectively align financial and human resources, and geographic reach, with strong peer networks and newly skilled advisors to overcome difficult terrain.

How will families adapt, steeped as many are in hierarchical traditions? Will patriarchs be able to put their daughters on an equal footing with their sons? Will families grounded in more conservative traditions welcome new members of different religions and cultural heritages? Will the 1st Generation respect the lifestyle and entitled choices of the 3rd Generation? Given these many questions, family leaders will be required to balance an inclusive and interactive approach when addressing the dynamics of relationships across several generations. Good leadership will also be measured by strong interpersonal skills, savvy judgment and a sense of timing about the appropriateness of communicating structural strategies deployed to protect the broader family’s wealth, safety and security. One example of this is the family’s philosophy about and implementation of prenuptial agreements.

Ultimately, the key for affluent families is to recognize how essential good leadership is to the task of fulfilling the objective of preparedness — the proactive program for multi-generational well-being.

REALITY #6: It’s a long life

In the year 1000, life expectancy was 25 years. We’ve come a long way, baby. Not long ago, life expectancy in America was thought by most scientists to be an immovable rock. We now know longevity has been climbing steadily for the past century due to medical advances, better nutrition and improved living conditions. Today, we can expect to live some 60 percent longer than our ancestors did at the dawn of the 20th century, with the majority of those who reach age 65 today having a life expectancy of 83. Medical advances over the next few decades will likely raise the bar higher.

Long life can be a gift. For some, it means growing the family business that much longer. For others, it offers the chance to enjoy the fruits of hard work and to shape their legacy-sharing their wisdom and experience with family members, deepening their relationships across several generations or pursuing philanthropic interests. Yet that gift

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of time will only last as long as proactive efforts have been made to mitigate the outcomes that often beset those who live into their 80s and 90s: ill health and prolonged dependency on loved ones; outliving one's financial resources; extended delays in passing on family leadership. Those spry, long-livers in your family demand that an additional 20 to 30 years of annual expenses be planned to ensure the challenges of growing old do not overwhelm its pleasures. A sobering economic reality for a non-earning aging couple: \$250,000 per year of spending — on lifestyle as well as annual philanthropy, gifting, education and healthcare for future generations — will require approximately \$7 million of additional expenses, based on 3% annual inflation, to cover 20 more years of life.

REALITY #7: The financial comfort zone is past

We have been living in a “wind at our back” economic environment for the past 20 plus years due to frenzied growth on all fronts. A booming population, productivity-enhancing innovations and declining interest rates have ushered in a period of unprecedented gains in wealth, home ownership and economic prosperity for many Americans.

For baby boomers, these optimal conditions have meant earning much and living large. Until now, that is. Without the savings disciplines of the Depression-era and World War II generations, many adults today are ill prepared for the long-term financial pressures that are fast approaching; a result of the enormous shift in the global economic center of gravity that is already underway. This is not a prediction of a US decline due to the steady advancement of developed countries. Rather, it is a suggestion that we are entering a period of shared global economic, political and social interdependence that we have not experienced before, one that has unknown financial implications and begs for complex, strategic decision-making on a range of policies. Against this backdrop, the current fiscal exposures of the US — government entitlement liabilities, baby boomer retirement, worldwide risk-taking, a weakening dollar, continued trade imbalance and increased reliance on foreign investment to support our deficit — make for an uncertain future.

Tomorrow is here today for those affluent families who want to stay ahead of the curve. What that means is that no one

should think the way they have in the past about their assets, nor should they depend on the continued upward spiral of salary and bonuses, nor the large margins for risk taking in equities, private investing, hedge funds and so on. We are likely entering unfamiliar financial territory and woe to those who are caught unaware or unprepared. Given the multiple demands that are already gripping families today — caring for aging parents, sustaining high pressure careers, and raising purposeful, high-minded teenagers in a media saturated age — the prudent course of action is to pause to analyze these needs and “costs” in the larger context of the changing economic picture.

Seize the opportunities for practicing disciplined spending and managing risk carefully, with risk defined broadly to include the well-being of family members and family relationships given extreme scenarios that include homeland terrorism, global warming and/or US civil unrest. Trimming your sails may be in order as well as simplifying lifestyles. We also need to ensure that qualitative inputs and judgments are in place to sort through the complex quantitative ones that are dominating current financial decision-making. Considerable ingenuity is likely to be required, too, when preparing the next generation for its leadership of a family business or setting the ground work for good stewardship of inherited wealth. In all of these scenarios, simplified and thoughtful coordination of family resources, networks and advisors will be at a premium.

Final thoughts

Extended family complexity, entitlement, digital insecurity, the democratization and diversification of society, leadership issues, living longer and a challenging economic picture — all of these conditions are sure to impinge on you and your family unless you decide to act in advance. We hope this discussion of the opportunities and pressures that affluent families face today has helped you to think in a strategic way about your future. Our goal is — and always will be — to create an awareness of the dimensions that families need to consider when planning for today and tomorrow. Recognizing these realities is, in fact, a first step toward fashioning an entirely new reality that supports multi-generational family well-being.

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