

WHAT TO EXPECT IN A FAMILY DYNAMICS AUDIT



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A Family Dynamics Audit is often conducted by families to take a closer look at their wealth transfer plans through the lens of family relationships, culture, and history to determine where specific strategies might stress those relationships. The process helps the family visually summarize the tenor of family relationships across generations, without judgment. The goal: to determine where specific strategies might stress relationship patterns more clearly and thus be able to make the most informed and appropriate decisions.

Our wealth planning advisory experts will generally begin the audit process by interviewing key family members to build a family tree using genogramming techniques, which is a diagram that outlines the history of behavior patterns in a family over several generations. This process helps the family visually summarize the family relationships over a long period of time, without judgment. The goal is to see and understand relationship patterns more clearly so the most informed decisions can be made.

Once the family's inter- and intra-generational patterns are described, the audit team will consider each strategy within the overall wealth transfer plan in light of these dynamics. Asking sometimes difficult questions about how various loved ones—and relationships—might be affected either immediately or over time is an important part of the process.

How would you describe your family's

- Relationships
- (Typical) roles
- Norms and “Rules” (spoken and unspoken)
- Behaviors
- Important interpersonal events or key moments

Some of the considerations and issues that families review with their advisors during the audit process may include:

- What are the positive and negative ways each strategy might be interpreted by other family members?
- Do any transfer strategies require family members to negotiate or manage assets together?
- If any strategies include discretionary distributions to some family members by other family members, are the criteria for these distributions clear enough to avoid perceptions of favoritism?
- Do any strategies raise concerns or relationship stressors for blended families?
- Do strategies allow beneficiaries increasing responsibility or control over time, once they are adults? How do these timeframes relate to other likely life events?
- How much time and effort will it take for beneficiaries to be empowered participants in the strategies that are outlined?
- If there are non-family members involved in plan implementation, are they seen as credible and neutral by all family members?

In some cases, the auditing team also builds a timeline for each family member that maps the various strategies to points in individuals' lives when they will take place. This can help family leaders see more clearly how important wealth transfer moments might intersect with other life situations—thus improving opportunities to adjust timing or other factors for better success.



Three examples of wealth transfer plan changes made as a result of a family dynamics audit:

- One family's wealth transfer plan included a family trust with the key provision that the trust assets were to be used to pay for K-16 education for each of the grantor's grandchildren. As each adult child's children came of school age, however, the wide cost differences in school choice became a stressor among family members. Households living in expensive cities who chose private education for their children received most of the trust's funds, and households who chose to live in locations where they felt the public school systems were good choices worried that the trust assets would be depleted by the time college rolled around.

After the family dynamics audit, the patriarch decided to revise the trust provisions around education to ask families who chose private school options to cover 20% of the costs of their children's education. In addition, families who sent their children to public schools received deposits into separate education accounts for their children's higher education expenses. Finally, since sustaining the family's ability to fund education was a multigenerational goal, their trusted advisors facilitated an educational session to help adult children understand how much principal they should each preserve between the trust and their own wealth plans in order to leave the grandchildren an education "endowment/nest egg" that could support the 4th generation's education via investment earnings.

These strategies allowed family members the option to choose any educational option, while reducing the financial burden on trust assets and perhaps more importantly relieving stress and unspoken conflict between siblings.

- In another family, the senior generation—who were themselves inheritors—had found the experience of managing substantial wealth an overwhelming and unpleasant part of their adult lives. Because they wanted to give their children the ability to focus their lives on their professional and personal endeavors rather than asset management, they transferred wealth (primarily private companies) into a family limited partnership (FLP) with themselves as general partners. However, over time it became apparent that the lack of liquidity and control that the children had as limited partners created a dynamic of dependence across the generations. In addition, some siblings had objections about the kinds of companies held within the partnership. Over time and through discussion, the family made the decision to dissolve the FLP and transfer assets into holding structures that would provide siblings more individual control over what investments they participated in.
- One family had set up multiple trusts for the next generation with siblings acting as trustees for each other's trusts, and very broad provisions for distribution for "health, education, and general maintenance." This became a relationship stressor when, due to the state of the trust situs, one sibling was able to regularly use trust funds for family vacations—but another was barred from using trust funds to expand their business because that use didn't fall under the trust provisions. While these trusts were irrevocable and could not be revised, the business-owning family member then worked with their financial planners to help them redeploy assets in order to support their business growth.

In each of these examples, a family audit helped expose some of the dynamics issues and potential stressors. With the benefit of the family audit process, each of these families was able to evaluate their respective situations and find an arrangement that would keep everyone satisfied.



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