Blueprint for Success: Effectively Plan for Succession

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Chapman Eastway
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Introduction

The challenges of effectively planning for succession

Our toolkit comprises almost 30 core recommendations that families can benchmark their succession planning goals against. Here are 5 for advisors and the academic community alike:

1. Family elders articulate their vision of success for the family.

2. Relationship dynamics and behavioural risks of all family members & stakeholders are objectively analysed.

3. Partial unbundling occurs before it is too late.

4. There is a formal plan for transition to eldercare.

5. Debts and guarantees are capable of being assigned and serviced.
1. Family elders articulate their vision of success for the family

*Inheritance conversations are not the norm*

Less than 50% of beneficiaries actually understand the testator’s wishes and reasons.

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**Did you know?** Before you received the inheritance from your benefactor, did they discuss the reasons behind the specific wealth transfer plans with you?

- **Total**: 33% No, 45% Yes, 22% Don’t know/remember, 0% Prefer not to say
- **Canada**: 35% No, 54% Yes, 11% Don’t know/remember, 0% Prefer not to say
- **UK**: 35% No, 54% Yes, 11% Don’t know/remember, 0% Prefer not to say
- **US**: 37% No, 54% Yes, 11% Don’t know/remember, 0% Prefer not to say
- **Under 1 Mil**: 23% No, 68% Yes, 8% Don’t know/remember, 0% Prefer not to say
- **1-3 Mil**: 33% No, 59% Yes, 8% Don’t know/remember, 0% Prefer not to say
- **3-10 Mil**: 48% No, 43% Yes, 9% Don’t know/remember, 0% Prefer not to say
- **10 Mil and over**: 47% No, 43% Yes, 9% Don’t know/remember, 0% Prefer not to say

Source: RBC Wealth Management - Wealth Transfer Report 2017
1. Family elders articulate their vision of success for the family

Are beneficiaries ready to receive wealth

Communication by testators does not typically extend to education of beneficiaries, which in turn inhibits successful transfer of wealth and family legacy.

Source: RBC Wealth Management - Wealth Transfer Report 2017
2. Relationship dynamics and behavioural risks of all family members & stakeholders are objectively analysed

Different generations, different ways of thinking

- The need to acknowledge and respect the social, cultural and generational contexts of individuals within the same family.
- Possible conflict sources between the testator and the beneficiaries.

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<tr>
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<tbody>
<tr>
<td>Great Depression</td>
<td>New Deal</td>
<td>Cold War</td>
<td>Energy Crisis</td>
<td>Internet/Social Media</td>
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<tr>
<td>Cold War</td>
<td>Space travel</td>
<td>Energy Crisis</td>
<td>Internet/Social Media</td>
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<td>Cold War</td>
<td>Space travel</td>
<td>Energy Crisis</td>
<td>Internet/Social Media</td>
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<tr>
<td>World War II</td>
<td>Civil/Women's rights</td>
<td>Cold War</td>
<td>MTV</td>
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<td>Civil/Women's rights</td>
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<td>Cold War</td>
<td>MTV</td>
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<tr>
<td>Korean War</td>
<td>Wategate</td>
<td>Cold War</td>
<td>Stock market crash</td>
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<tr>
<td>Wategate</td>
<td>Vietnam War</td>
<td>Cold War</td>
<td>Stock market crash</td>
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<td>First satellite launches</td>
<td>Vietnam War</td>
<td>Energy Crisis</td>
<td>First Gulf War</td>
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<td>Energy Crisis</td>
<td>First Gulf War</td>
<td>Internet/Social Media</td>
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<td>First Gulf War</td>
<td>Internet/Social Media</td>
<td>Secondary Gulf War</td>
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<tr>
<td>Internet/Social Media</td>
<td>Secondary Gulf War</td>
<td>Great Recession</td>
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<table>
<thead>
<tr>
<th>Core Values</th>
<th>Discipline</th>
<th>Equal rights</th>
<th>Diversity</th>
<th>Global community</th>
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<tbody>
<tr>
<td>Duty</td>
<td>Optimism</td>
<td>Individualism</td>
<td>Education</td>
<td>Self confidence</td>
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<td>Family</td>
<td>Personal growth</td>
<td>Life balance</td>
<td>Forward-thinking</td>
<td>Entrepreneurial</td>
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<td>Patriotism</td>
<td>Experimental</td>
<td>Strive for emotional security</td>
<td>Racially diverse and accepting</td>
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<td>Sacrifice</td>
<td></td>
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<td>Depend on technology</td>
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<tbody>
<tr>
<td>Strive for financial security</td>
<td>Comfortable spending</td>
<td>Planners, but need to save more</td>
<td>Risk averse</td>
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<td>Support extended family</td>
<td></td>
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<td></td>
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<tr>
<td>Leery of stock market</td>
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<tr>
<td>Telephone (interactive)</td>
<td>Telephone (interactive)</td>
<td>Telephone (interactive)</td>
<td>Smartphone / Social Media (highly interactive)</td>
<td></td>
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<tr>
<td>Radio (passive)</td>
<td>Telephone (interactive)</td>
<td></td>
<td></td>
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<tr>
<td>Television (interactive)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>Desktop computer (interactive)</td>
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<tr>
<td>Strong work ethic &amp; loyalty</td>
<td>Work hard and hope to enjoy it later</td>
<td>Work smarter, not more</td>
<td>Value flexibility in where, when and how they work</td>
<td></td>
</tr>
<tr>
<td>Measure success by timelines and productivity</td>
<td>Measure success by hours worked, relationships and teamwork</td>
<td>Measure success by hours worked, relationships and teamwork</td>
<td>Measure control of their time</td>
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<tbody>
<tr>
<td>Prefer a hierarchical model</td>
<td>Moderate collaboration / interaction</td>
<td>High collaboration / interaction</td>
<td>Very high collaboration / interaction</td>
<td></td>
</tr>
<tr>
<td>Strong interpersonal skills</td>
<td>Predominantly hierarchical, face to face</td>
<td>Direct and adaptable</td>
<td>Demand autonomy</td>
<td></td>
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</table>

Source: State Street: Roadmap for a new landscape – Managing the Transition of Wealth Across Generations
2. Relationship dynamics and behavioural risks of all family members & stakeholders are objectively analysed

Conflicts within the same generation

Case Study:

- Two sisters (43 and 40) inherited significant wealth from their late mother.
- No prior insight into family wealth or education on working together.
- Forced to work together (for the first time) to co-manage the inherited wealth.
2. Relationship dynamics and behavioural risks of all family members & stakeholders are objectively analysed

Conflicts within the same generation

The sisters are the complete opposite of each other!

**DISC personality profile**

**Sister 1**
- "Dominance"
  - Direct
  - Forceful
  - Firm

**Sister 2**
- "Steadiness"
  - Accommodating
  - Patient
  - Tactful
2. Relationship dynamics and behavioural risks of all family members & stakeholders are objectively analysed

Conflicts within the same generation

The sisters are the complete opposite of each other!

Sister 1

Sister 2

Finametrica risk profile

<table>
<thead>
<tr>
<th>Risk Group</th>
<th>Very Low</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score Range</td>
<td>Less than 35</td>
<td>35-44</td>
<td>45-54</td>
<td>55-64</td>
<td>65 or more</td>
</tr>
<tr>
<td>No in group</td>
<td>7%</td>
<td>24%</td>
<td>38%</td>
<td>24%</td>
<td>7%</td>
</tr>
</tbody>
</table>

“Very High”

“Low”
2. Relationship dynamics and behavioural risks of all family members & stakeholders are objectively analysed

The basic family genogram
2. Relationship dynamics and behavioural risks of all family members & stakeholders are objectively analysed

The family genogram – emotional relationships legend
3. Partial unbundling occurs before it is too late

Majority of wealth transfers still happen upon death of the testator

Partial unbundling is not common.

- 30% of surveyed participants gradually gift during their lifetime.
- 60% of wealth transfers occur upon death.

Source: RBC Wealth Management - Wealth Transfer Report 2017
Why do testators wait?

3 key reasons:

- Testators wish to maintain their lifestyle.
- Liquidity constraints prevent testators from gifting.
- Testators do not believe that the beneficiaries need the funds.

Source: RBC Wealth Management - Wealth Transfer Report 2017
3. Partial unbundling occurs before it is too late

*Upwards trend in will contestations*

Key reasons:

- Increasing complexity of family structures.
- Larger pool of claimants.
- Disappointed beneficiaries feeling ‘left out’ or expectations not met.
- Wills fail to reflect modern relationship trends.

Inheritance claims in the UK High Court

Source: Royal Courts of Justice, Nockolds Law Firm
4. There is a formal plan for transition to eldercare

Elder population is rising in developed countries

In Australia, the elder population is expected to grow from 15% of the total population in 2017 to 23% in 2057.

Source: Australia’s Welfare 2017 In Brief – Australian Institute of Health and Welfare
4. There is a formal plan for transition to eldercare

**Elder population is rising in developed countries**

- In Australia, majority of the elder population live at home.

- Care is mostly provided by informal carers (family members, spouse, etc).

- Only 5% live in cared accommodation (e.g. nursing homes).

![Activity type and provider type for older Australians aged 65 and over living in households who needed assistance, 2015](source: Australian Institute of Health and Welfare - Australia's Welfare 2017 in brief)
4. There is a formal plan for transition to eldercare

**Elder population is rising in developed countries**

- More Australian women than men aged >75 entering nursing homes.
- Are children inclined to send mothers to cared accommodation following their father’s death?

![Bar chart showing number of people entering PRAC in 2013-14 by age and sex.](source: Pathways to Permanent Residential Aged Care (PRAC))
5. Debt and guarantees are capable of being assigned and serviced

**HNWI debt-to-equity ratio**

- Average HNWI debt-to-equity ratio is 22%.
- The typical asset base was US$9.1m and average liabilities were US$2m.
- Significant ramifications for executors and beneficiaries.

Source: The Bancorp – A lifetime of Debt. The role of Liabilities in the Wealth Creation Journey
In conclusion

The challenge of effectively planning for succession

1. The greatest threat to succession is not rules and structures, but rather the behaviour of individual family members.

2. The profound need to analyse not only top-down, but importantly bottom-up as well.

3. Monitor, monitor, monitor! Estate plans must stand the test of time and also be effective today.
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Family and business advisors since 1897

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