MERRILL CENTER FOR FAMILY WEALTH™

Pulling back the curtain

Wealthy families open up about money, relationships and decision-making

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Introduction

When families learn to navigate wealth together, they can do great things — family businesses can grow and prosper, charitable enterprises can make great strides, the family is bound together by a sense of shared purpose, and individual family members can thrive as they have the freedom and resources to pursue meaningful endeavors.

Conversely, when families aren't able to engage effectively on the subject of wealth, it has an impact. Globally, on average, there's a "shirtsleeves to shirtsleeves" phenomenon: 70% of family wealth is lost by the end of the second generation, and 90% is gone by the end of the third generation. Most of the dissipation of wealth isn't due to the economy or markets, but to factors within the family, such as limited communication and heirs who lack the necessary skill sets to manage wealth.[1]

Working with hundreds of families over the last decade, our experience at the Merrill Center for Family Wealth™ (the "Center") has been that an overwhelming share of these families are curious about what their peers are doing at home. How are they communicating with each other and preparing the younger generations for the wealth and responsibilities that are to come? How are they balancing the freedom of choice wealth can offer with not taking away life challenges and opportunities to build character, grit and resilience?

What is it, exactly, that thriving families who are able to sustain wealth and values across generations are doing?

Survey of families with assets of $50 million or more

Studies of this demographic are rare, due largely to a lack of access and to cultural taboos against discussing the intricacies of wealth.

To systematically glean more insight into the practices of wealthy families, we surveyed more than 270 individuals from families with assets of $50 million or more.[2] Many participants were attendees at Merrill client educational programs, signifying a preexisting interest in navigating important questions that arise with family wealth.

Specifically, we looked at how families are (or aren't) communicating about wealth with each other; their perceived levels of competency on key skills, including shared decision-making; and how they go about transferring and gifting wealth across generations. We've paired these insights with practical steps for families who may be hitting roadblocks in these areas and with examples that illustrate how families have used the available tools and resources.

The survey focused on three topics that wealthy families often grapple with:[3]

- **Communication.** "How has wealth been communicated in your family?"
- **Decision-making.** "What's your family's biggest challenge in shared financial decision-making?"
- **Gifting.** "How do you currently gift to your children (or other family members)? What's your view on fairness versus equality in gifting?"

Communication

Key insight 1

The pandemic fueled more family conversations about wealth. While most family members had positive experiences, more than one in four said they regretted having the conversation.

During the pandemic, we noticed that families seemed to be having more frequent conversations about wealth, and these were often unplanned. While we generally think of more communication as better than less, if the conversation isn't undertaken thoughtfully, it can hinder the family's ability to get along and work together. On the flip side, thoughtful, intentional conversations about wealth are more likely to promote well-being both for the family and the individuals involved.

Notably, one in three respondents (33%) experienced an increase in conversations about family wealth during the pandemic, and more than three out of four (78%) reported having spontaneous conversations about wealth.

For some respondents, these conversations were productive. "Having a conversation about wealth, specifically generational wealth, gives members of the family an opportunity to develop a plan together," said one respondent. Another elaborated on the downside of not communicating. "Keeping the topic a secret creates an environment that isn't conducive to honest discussions. Family members who inherit wealth may not understand the thought process or reasons for why certain decisions were made."

However, more than one in four respondents (26%) regretted discussing wealth with a family member. In some cases, the conversation exacerbated the wealth-holders' anxiety about their relationships with their children. "It was super scary," one respondent said. "I felt they were wanting a piece of me." For another, the conversation "set a plan in motion that I don't know I was ready to start." Another noted that "it can be emotional, especially when roles, responsibilities, purpose and goals aren't clear and aligned."

What can you and your family do to have more intentional, productive conversations about wealth?

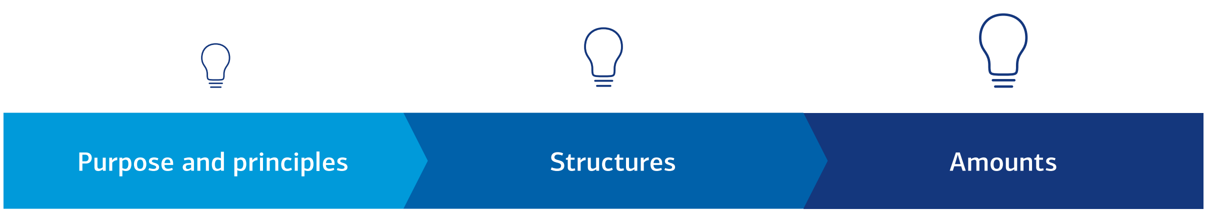
Adopting a progressive approach to disclosure

Discomfort about initiating wealth conversations can arise from several concerns. One is a fear that telling children about family wealth will rob them of motivation to succeed on their own. Another is that wealth creators will need to disclose everything, including dollar amounts. This isn't only uncomfortable for them — we've found that this type of all-at-once disclosure is also overwhelming for the rising generation and can often lead to paralysis or a sense of confusion.

We suggest that a more effective alternative to laying everything out in one conversation is taking a "dimmer-switch" approach when communicating with family members about wealth. Instead of going from a total blackout of information to suddenly revealing your balance sheet and estate plans, we've found it helpful to turn the lights up gradually, through a series of conversations over a period of years. Carefully planned progressive disclosure is best when paired with actions that allow the beneficiary to practice wealth management on a small scale. For instance, small gifts can be made, accompanied by conversations about the purpose of the gift. The wealth creator can gauge emotional maturity, assess whether gifts are managed responsibly, and see whether more education or financial acumen are needed before disclosing additional information.

While the dimmer-switch approach is a relatively straightforward concept, executing it requires deeper conversations so that the initial discussions are less focused on dollar amounts and are instead grounded in values and goals. We recommend families start by identifying shared values and operating principles that matter most to them — what the overall purpose of the family wealth is and why it matters. Once this foundation has been laid, wealth creators can disclose information about the structures that hold the wealth, taking the time to clarify the responsibilities and expectations for use of assets across each structure that exists.

Finally, wealth creators can reveal information about dollar amounts within the structures and how it all relates to the rising generation. The following graphic helps to illustrate this three-step progression:



Defining the family's values

Family wealth conversations tend to go more smoothly when the wealth creators themselves are clear about the purpose of the wealth. What's this money really for, and what does it mean for our family? Once they've clarified their intentions, the rising generation can be brought into a collaborative conversation that defines the family's shared values.

The Merrill Value Cards[4] were designed to help families identify individual and collective values and operating principles to help guide money-related decisions. Knowing what matters most to you and your family can help tremendously in guiding financial, relationship, lifestyle and philanthropic decision-making. We suggest couples (or single parents or other wealth holders) do this exercise themselves first so they can be clear on their intent for the use of wealth and what matters most, and then bring in the rising generation to discuss the family's core values.

One family's story

Using the Merrill Value Cards to identify values and anchor conversations

In one family we worked with, the parents kept putting off conversations about wealth with their college-age children. The parents' first attempt at a conversation was more stressful than expected. The children started asking lots of questions:

- "How much money is there?"
- "If I choose a lower-paying career, would you be willing to help me out financially?"
- "If I want to start a business, will you give me seed money?"

The conversation occurred spontaneously, and it put the parents on their heels. They hadn't yet thought through how they felt about these topics or what expectations they wanted to convey. When the parents clammed up, the kids were left with more questions than answers, and everyone felt frustrated.

The couples' Merrill advisor referred them to the Center. We introduced the idea of using the dimmer-switch approach to disclosure and the importance of building a foundation of shared family values about money. To prepare, the couple did the Value Cards exercise together so they could be clear about their own core values, and then repeated the exercise with their three young adult children to engage them in the conversation and learn their perspective.

The experience helped the family define what mattered most to them. It also opened the door for the rising generation to both gain some understanding of their parents' intent and to feel like their voices were heard in the process.

Over the course of the next year, when questions about how to use gifted assets arose, the family was able to turn back to their identified core values and make consistent, thoughtful decisions.

Next steps

What can I do today?

- Initiate a values conversation with your partner or family members.
- Reach out to your Merrill advisor to request a set of Value Cards. (See **Appendix A** for instructions on how to use the Value Cards as well as spaces to document your family's selected core values under the financial, relationship, lifestyle and community categories.)

What do I need to think about?

- Explore what you see as the purpose for your wealth and what that means for your family.

What do I want to learn more about?

- Consider having a conversation with your Merrill advisor about how to initiate these conversations.

Decision-making

Key insight 2

Shared decision-making across generations is happening in most families. Yet most acknowledge they don't have the necessary skills to do so.

At the Center, we've noticed that many families have shared assets that require shared decision-making. But this can cause discord if the family hasn't practiced working together. For example, if adult siblings are gifted a family vacation property, they'll need to make joint decisions about things such as how it will be managed, how taxes and upkeep will be paid, when to make repairs, and who'll have access to the house when and for how long. This is one simplified example. But often shared assets are more complex than just managing a home, and they require a depth of knowledge and skills that take time to develop.

The survey confirmed that most families are navigating shared decision-making, and many of them are struggling with building the necessary skills.

Almost half of the respondents (48%) noted that in their families, financial decision-making is shared among two or more generations, and one out of five (20%) respondents observed that their family had limited skills to co-manage the shared assets.

Most respondents felt that wealth competency was lacking in their family. Another issue named by 54% of respondents pointed to the challenge of limited governance, defined as:

- "Limited skills needed to co-manage assets" (20%)
- "Undefined expectations of role and responsibilities" (18%)
- "Lack of clarity on purpose of shared assets" (9%)
- "Lack of transparency in decision-making" (7%)

Sixty percent felt undereducated in matters of estate planning. Only 14% said their biggest challenge was technical complexity of shared assets.

Developing the right skills to help navigate wealth

Developing skills and processes for shared decision-making is critical. Making effective shared decisions is complex and requires the family to get specific and to spell out processes. Who'll be involved in the decision, and what will be the parameters around the decision? Will the decision be made by the wealth creator(s) or through a majority or the unanimous voting of the broader family?

The world of wealth management is its own landscape, with its own vocabulary, rules and regulations. It typically requires working with an array of professionals, such as financial advisors, attorneys and accountants. All of these require different competencies, none of which are innate. But they can be developed over time.

Consider being the owner of a one-of-a-kind sports car. If you wanted to teach your child (or niece or nephew) how to drive, you most likely wouldn't just hand over the keys. There'd be a lengthy education process — not just to learn the basic rules of the road, but also the nuances of this particular vehicle — and many chances to gain real-life driving experiences before heading out on the highway.

While it may seem obvious that no one would hand the keys to a multimillion-dollar sports car to someone who'd never driven before, many families neglect to give the rising generation even the basic "driver's education" they'll need to be able to manage inherited wealth. This often means setting up the rising generation for a crash — or at least for encountering many potholes in the road.

"Driver's ed" for navigating wealth

In our experience, overall competency can be broken into five basic skill sets: financial, wealth, governance, business and philanthropic. It might not be necessary to develop every skill set in every family. The role parents expect children to take in managing the family finances determines what the focus will be. (For example, a family that doesn't plan to leave assets in trust might not need to address certain components of wealth competency.)

The five core competencies

Financial competence encompasses the basic skills individuals need to lead independent economic lives, including how to earn, save, budget, spend, borrow and invest money.

Wealth competence is about helping the rising generation become familiar with structures like trusts and limited liability companies (LLCs), understand their roles and responsibilities, and begin working with professional advisors.

Governance competence includes building skills for effective group decision-making about wealth and assets, including how to resolve conflict and articulate common purpose and vision.

Business competence involves learning how to make assets productive and deploy family capital strategically, as well as understanding the rights and responsibilities of ownership, oversight and operational roles.

Philanthropic competence involves skills for properly managing a philanthropic entity, such as a foundation, developing a philanthropic mission and operating agreements, determining grants, evaluating organizations, and agreeing on appropriate metrics.

Sustaining wealth across generations isn't easy, and there's a steep learning curve. Focusing on fostering the growth and development of family members across these five core competencies can help families sustain not only financial capital, but also the well-being of family members those resources support — today and for generations to come.

One family's story

Creating a priorities-focused plan that considers the five core competencies

In one family we worked with, the parents had given each of their two daughters a direct ownership stake in real estate assets through a trust. They wanted the daughters to become more involved in business decisions.

One daughter had a bachelor's degree in economics, and the other had worked for a startup, so they were generally familiar with business concepts but were struggling on the decision-making front. They weren't sure whether they were being given a vote on decisions or whether their parents were just asking for input. They worried about disrespecting their parents but were getting increasingly frustrated.

The family decided to work on governance skill-building and, specifically, what we call "deciding how to decide." The family met to walk through different decision-making methods (for example, consultative or majority rules) and to clarify what type of approach the family was comfortable taking regarding the real estate assets. They also agreed to have a few "dry runs" in applying their methods of decision-making, such as when reviewing their broader real estate portfolio with their advisor and exploring a new opportunity to invest. Once they decided on a decision-making method, the daughters felt more comfortable asking questions and acting within their agreed-upon roles.

Next steps

What can I do today?

- Take an assessment of your current understanding and skill levels across the five core competencies. (See **Appendix B** for the *Five core competencies self-assessment* worksheet. Use the worksheet to help identify current understanding and to rank skill-building priorities.)
- Have a conversation with your family members to discuss the different skills and ask them to assess their own skill levels.

What do I need to think about?

- What does your current skill level look like across each competency?
- Are there certain areas that you want to focus on developing?
- What's one practical step forward that you can take?

What do I want to learn more about?

- Reach out to your Merrill advisor to learn more about available educational materials and resources.
- Identify partners who can help you and your family members develop the skills most important to you.

Gifting

Key insight 3

Of the majority of clients who gift to their adult children, more than a third provide recurring lifestyle support. Gifting without dialogue can create challenges, such as financial dependence or conflicts over perceptions of fairness.

Most families the Center works with provide some form of financial support to the rising generation. An unexpected consequence of gifting, if families haven't had thoughtful conversations about wealth, is that a gift given in the spirit of goodwill could end up creating confusion, guilt or hurt feelings. This can occur due to unconscious expectations on both sides (or anxiety over not knowing what the expectations are), conflicting perceptions of fairness, or confusion about the purpose for these gifts.

The survey confirmed that most families are providing support to the rising generation, with 83% providing some sort of support and 39% providing recurring lifestyle support for children (or other members of the rising generation).

We've found that when a family doesn't practice thoughtful discussions, gifting can quickly turn into what we call "overfunctioning." When the wealth creator (often a parent) does more, the recipient (often the rising generation) may be encouraged to underfunction and do less, even if subconsciously. When parents pull back, rising-generation family members have more space to step up. But pulling back abruptly, or without talking it through and creating a plan, can also create stress or rifts in relationships.

One way to approach gifting conversations is to think about matching types of support to desired outcomes, with mutually negotiated agreements. For example, funding a daughter's certification program can be seen as an investment, with the expectation of personal development. A loan would have the expectation of repayment according to loan terms with the underlying principle of accountability. A wealth transfer might simply be a tax-minimization strategy, and a present might be just that — an expression of care and gratitude without any requirements of the recipient. In our experience, clear and consistent approaches to distributions, such as by crafting family policies together, can help create stability in the family system and mitigate unintended consequences.[5]

Fair versus equal versus equitable

Balancing ideas of fairness and equality can also be challenging for families.

Among those wealth creators who plan to gift wealth during their lifetime, more than half (56%) gift to recipients equally. But approximately one in three (35%) make distribution amounts based on other factors, such as age and readiness, financial need, and how much time the recipient has put into the family.

In our experience, being clear about criteria and letting the family know the purpose behind the gifts goes a long way toward dispelling hurt feelings over perceptions of favoritism or fairness. Consider a family with a child who has significant health issues that impair his or her ability to work. An equal distribution may not feel fair in that situation. Having a conversation about what the children can expect and why a distribution might be greater for one recipient than another helps everyone appreciate the intentions behind the gifts.[6]

Survey respondents also exhibited two different approaches to fairness and equality depending on whether they were considering distributing wealth to their children during their lifetime or upon their death. While 56% of respondents noted that they would distribute equally during their lifetime, 83% of respondents noted that they would distribute equally upon their death. This difference is most likely because when respondents consider distributions during their lifetime, they evaluate on a case-by-case basis, and if they plan to distribute upon their death, they choose a one-size-fits-all approach because they won't be around to experience the result.

One family's story

Communicating your intentions and setting guidelines for giving

In one family, a widowed mother had paid for her two sons' educations and wanted more than anything for them to pursue their dreams. One son became a mechanical engineer and was able to support himself and a family easily. The other became an artist. He earned a master's degree in fine arts, produced new art consistently and had gallery shows but was struggling to make a living as a sculptor. He lived in San Francisco, which has a thriving arts scene but also has one of the highest costs of living in the world.

The mother felt torn. She wanted to support her son's artistic ambitions and paid his rent for years, but there were few guidelines for this assistance. She was concerned about giving him more financial support than her other son and feared the imbalance would create friction between them.

She worked with her Merrill advisor and the Center to better articulate her goals and initiate a dialogue with the artist. She told him she'd been investing in his dreams but felt that their current practices were unsustainable and that her subsidies might even be undermining his confidence. She also let her other son in on her rationale for helping his brother, specifically highlighting that it reflected solely a willingness to recognize them both as unique individuals and not any preference for one over the other.

She then set guidelines for giving — letting her artist son know she'd continue paying his rent for six more months, giving him time to make alternate plans before she stopped. She also armed him with a career coach so he'd have support in his efforts to become more self-sustaining.

Next steps

What can I do today?

- Take stock of where you are and whether there are any changes that need to be made. (See **Appendix C** for the *Parenting and gifting self-assessment* and reflection questions to help guide your thinking.)

What do I need to think about?

- Have you had a discussion with your family about what fairness looks like to them?
- If you gift using criteria such as readiness or age, does everyone understand what criteria you're using?
- What's a first step you can take toward creating family policies?

What do I want to learn more about?

- Reach out to your Merrill advisor, who can help direct you to relevant books and white papers on behalf of the Merrill Center for Family Wealth.

Conclusion

Wealth remains a taboo topic in most circles. This curtain of silence leaves many wealthy families and individuals feeling isolated and ill-equipped to manage the responsibilities that come with wealth. Relationships with family members and other loved ones can also suffer if money becomes a source of conflict. This survey offers a rare glimpse behind the curtain into the practices, questions and concerns of wealthy families and shines a light on potential next steps for families navigating this territory. Our hope is to provide you and your family with an actionable guide to help address some of these complex topics by starting with the suggested next steps, reflection questions and included worksheets.

Appendix A: Value Cards facilitation guide

Value Cards exercise

The goal of this exercise is to articulate the core values that are most important to your family and to help guide financial, relationship, lifestyle and philanthropic decision-making.

1. **Sort and select.** Each individual reviews the four categories (relationship, lifestyle, financial and community) and selects the three top values within each category that most resonate (each individual chooses 12 cards in total).
   - Edit the wording as necessary or create your own value statements using the blank cards if none of the given options capture your thinking.
   - Feel free to include aspirational values as well as those that reflect your present state.
2. **Share and document.** Going category by category, each individual alternates reading aloud their selected values. (Start with one category and have everyone read aloud their selected values for that category before moving on to the next category.)
   - Use the "Our core family values" section below to document family members' selected values for one category, circling or noting the values that two or more family members select, then move on to the next category until you've documented all selected values across each of the four categories.
3. **Review** the selected values as a group to assess whether any areas are missing or require further emphasis.
   - Discuss any overlap or points of difference.
   - The goal is to have a deeper understanding of why individuals selected the values they did. The goal is not necessarily to select the same cards.

Our core family values

Financial values

We value:

Relationship values

We value:

Lifestyle values

We value:

Community values

We value:

Appendix B: Five core competencies self-assessment

Use the chart below to document how you view your current skill levels and priorities across the core competencies. Include any relevant resources or assign an accountability partner (can be a sibling, parent, friend or advisor) to help you stay on track.

This is meant to provide a snapshot of your current thinking. It's not intended to be scientific, but rather to serve as a starting point to help guide future conversations and focus areas.

Competency	Skill level (Scale of 1 to 5, with 5 being the highest)	Priority (High, medium or low)	Resources	Accountability partner
Financial				
Earning				
Saving				
Spending				
Investing				
Wealth				
Governance				
Business				
Philanthropy				

Appendix C: Parenting and gifting self-assessment

This exercise is meant to help you take stock of where you are in terms of current gifting to your children. It addresses the overfunction/underfunction element involved in the parent/child relationship and provides questions to help you think through how to best match support to your desired outcomes in gifting.

What's your current challenge in gifting to your children?

In a few words, describe the situation you'd like to change.

What's your commitment to change? When you're honest with yourself, on a scale of 1 to 10, how committed are you to changing this pattern? (1 = not at all committed and 10 = very committed) ______

If you're committed (a self-score of 6 or higher), proceed to the next questions. They assume that you can control only your own beliefs and behaviors, but also that shifting any one element in a system will require changes in other parts of the system. (Change yourself, change the system.)

Why is this important to you?

How does this situation make you feel? What's motivating you to want to change? How badly do you want change?

How are you potentially contributing to the problem?

Are there any specific things you're doing that are allowing this problem to continue to exist?

What agreements would you like to reach?

If you were to negotiate agreements that would shift the behavioral dynamic, what would those agreements be? What natural consequences should be incorporated?

What's the "One Thing"?

If you could do only one thing that would make the biggest difference, what would that be?

About the authors

Valerie Galinskaya is a managing director and head of the Merrill Center for Family Wealth. She guides families in communicating about wealth, building skills and developing governance to make informed decisions, applying more than 15 years of experience as a strategist, facilitator and management consultant. Valerie's insights on wealth decision-making have been featured in leading publications and outlets such as *The New York Times*, *Barron's*, *Crain's New York Business* and CNBC. She helped conceive and launch the Financial Boot Camp Series, Merrill's premier client financial education events. Valerie holds an MBA from Harvard Business School and a Bachelor of Science, magna cum laude, from New York University's Stern School of Business.

Phoebe Massey is a vice president and business support manager in the Merrill Center for Family Wealth. She provides resources and insights to help clients navigate the impact of wealth across generations. Phoebe works with families to develop educational sessions for rising-generation members, aligning content to families' identified values and objectives. She facilitates meetings designed to educate and empower younger family members to effectively integrate wealth in their lives. Phoebe earned a bachelor's degree in political science and government, with a focus on legal studies, from Trinity College.

Endnotes

[1] Roy O. Williams, *For Love & Money: A Comprehensive Guide to the Successful Generational Transfer of Wealth*, Robert Reed Publishers, 2010.

[2] Two hundred seventy-seven (277) individuals responded between November 2020 and July 2023. Respondents identified themselves as wealth creators and family members from the second, third and fourth generations, as well as spouses/partners/in-laws and others. Individual families of respondents have $50 million or more in net worth. Survey was conducted by the Merrill Center for Family Wealth in partnership with Bank of America Merrill Lynch Analytics, Modeling & Information. Special thanks to Brian T. Shaw, Susan Bauman, Anna Danilenko and Larry Necowitz.

[3] Full survey questions read as follows:

- In what way has wealth been communicated in your family?
- How has the coronavirus and recent turbulence impacted your family's conversations about wealth?
- What do you see as your family's biggest challenge in shared financial decision-making?
- Which of the following describes how you currently gift to your children: education funding, support of purchase of home/apartment/condo?
- What's your view on distributing wealth to your children during your lifetime: distributing equally, distributing wealth based on age and readiness of each child, distributing wealth based on financial need of each child?

[4] Contact your Merrill advisor to receive a set of Value Cards. The Value Cards were co-created by the Merrill Center for Family Wealth and Money Meaning and Choices Institute (MMCI).

[5] *Untangling the Complexity of Gifting to Family*, Merrill Center for Family Wealth, Bank of America Corporation, 2023.

[6] *Fair, Equal and Equitable: A guide for families navigating gifts, estate planning and inheritance*, Merrill Center for Family Wealth, Bank of America Corporation, 2023.

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