

Wealth planning considerations for families

Business and Family Advisory Services, Scotia Capital Inc.

Financial independence comes with responsibility and the need to ensure the family's well-being now and in the future. Family wealth involves much more than just the financial resources of a family, it includes a number of less tangible but critical things that must be paid attention to, especially in planning for inter-generational wealth transitions. Leaving a lasting legacy can be achieved a number of ways and understanding how this works best for the family requires careful consideration and reflection on more than just numbers.

A review of the following four key wealth planning areas should be undertaken in arriving at a holistic financial plan for your family. Significant thinking around these key areas will help you better understand existing areas of concern and help tailor the overall plan required to fit your family's needs.

The Four Key Areas



#1: Continuity

The concept of continuity applies to a family with regards to wealth and transition to future generations. It is important to take steps today to prepare the future generation while sustaining growth for family wealth across generations to come.

What gets you up in the morning? What is your overall purpose in life? What is most important to you? The answers to these key questions will establish the basis on which decisions are made within a family and sets the groundwork for a family's vision.

A documented and agreed upon family vision allows you to communicate your family's purpose, not just to family members, but to others as well. Money always transfers with a message, so making that message to the family intentional, clear, and constant is critical.

Keeping the "family harmony" is a top priority for most families. Ensuring that your family relationships remain strong, positive and respectful throughout the years is vital. This often starts by creating an environment that allows for open communication amongst the family (like a family meeting) so that all voices are welcomed and can be heard.

Family continuity planning questions to consider:

- < How do I develop my family financial philosophy and governance structure?
- < How do I foster entrepreneurship?
- < How do I educate my family around wealth to ensure they become responsible stewards?
- < How do I introduce the concept of regular family meetings to strengthen communication skills?

Continuity concerns for a business owner family will revolve around how to continue to successfully run the business with the eventual goal of stepping away. It is the owner's preferred choice - (their "Plan A") for transitioning the business while considering the impact of that transition on the family.

Planning around business continuity should focus on ownership versus management succession issues; successor mentoring; business strategy, policies and procedures; developing a business vision; business valuation matters and salability enhancing initiatives.

Related planning questions might include:

- < What do I need to do to prepare my business for my eventual transition?
- < Should I transition to family, encourage a management buyout, or seek an outright sale to a third party?
- < What is the current value of my business and how can I increase it?

#2: Contingency

With contingency planning you would need to assess all the potential "what if" scenarios to determine "Plan B" in the unfortunate case that Plan A is no longer appropriate or attainable.

Planning for the unexpected is crucial. The ideal “Plan A” rarely actually materializes as planned - life happens along the way, changing the intended course. Planning in advance for these unexpected possibilities through alternative plans is required to ensure proper preparation for potential scenarios.

Contingency planning addresses these questions:

- < How do I protect my family and my business from the risk of an untimely event or premature death?
- < How do I effectively manage conflict among my business partners?
- < What happens in the event of a marital breakdown for one of my children?
- < Do I have enough life insurance coverage to aid my family should something happen to me?

#3: Financial Security

Ensuring your family’s financial security involves maintaining your current lifestyle by implementing the right strategies to extract wealth effectively from your business, and both protecting and growing wealth effectively and tax efficiently.

Do you currently have the resources required to support and sustain a comfortable lifestyle into retirement? It is advisable to project out what is needed throughout your lifetime to understand both your cash flow requirements now and in the future, along with your projected future estate value.

Your financial capital combines the resources required to sustain your lifestyle with all the excess wealth thereafter. Consider it as three capital pools with three distinct purposes for your money: Financial Independence Capital or FIC (the wealth required to look after you for the rest of your life including routine expenses and anticipated future expenses); Legacy Capital (the wealth to be left to future generations); and Social Capital (the wealth left to support the betterment of society).

Wealth over and above your FIC amount is considered “surplus” capital available. You will need to decide how you want to deploy it in the future. This could include leaving an inheritance or donation, setting up a foundation, creating a family trust, etc.

Quantifying amounts in each pool will enable more meaningful conversations around monetary legacy and may

help determine the depth of conversations needed with heirs, establish the level of education required to prepare them, and lead to considerations around legal structures for optimal tax planning.

Financial questions in this wealth area include:

- < How will I generate income to sustain my lifestyle?
- < Should I be considering a sale of the business to fund my retirement?
- < How much income will I need after I retire?
- < Am I taking advantage of potential tax planning opportunities personally and for my business to maximize cash flow while minimizing tax?

#4: Legacy

Legacy planning looks at distributing personal and business assets today or in the future to create lasting family legacy. This could be upon retirement, death or actual sale of the business. Estate equalization can be critical for ensuring family harmony over the long-term as fair does not always mean equal.

Is philanthropy important to your legacy? Which particular causes are of significance? Can family members’ personal passions be incorporated into charitable donation planning? Take time to discuss the family’s philanthropic giving vision and goals. These conversations result in family unity and peace of mind that these visions and goals will be upheld for generations to come.

Legacy planning questions to consider may include:

- < How can I use my wealth to provide lasting legacy for my family and my community?
- < When is the best time and best method of transferring wealth?
- < Would a family foundation be suitable?

Conclusion

A family’s wealth plan is a living document that must be kept current and revisited periodically to ensure applicability for the family as life changes.

For further information and guidance, please contact your Scotia Wealth Management advisor.