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Keep Family Disputes from Sinking Family Finances

Intergenerational squabbles don't just make for tense holidays. Failures of trust and communication can put family wealth into jeopardy.

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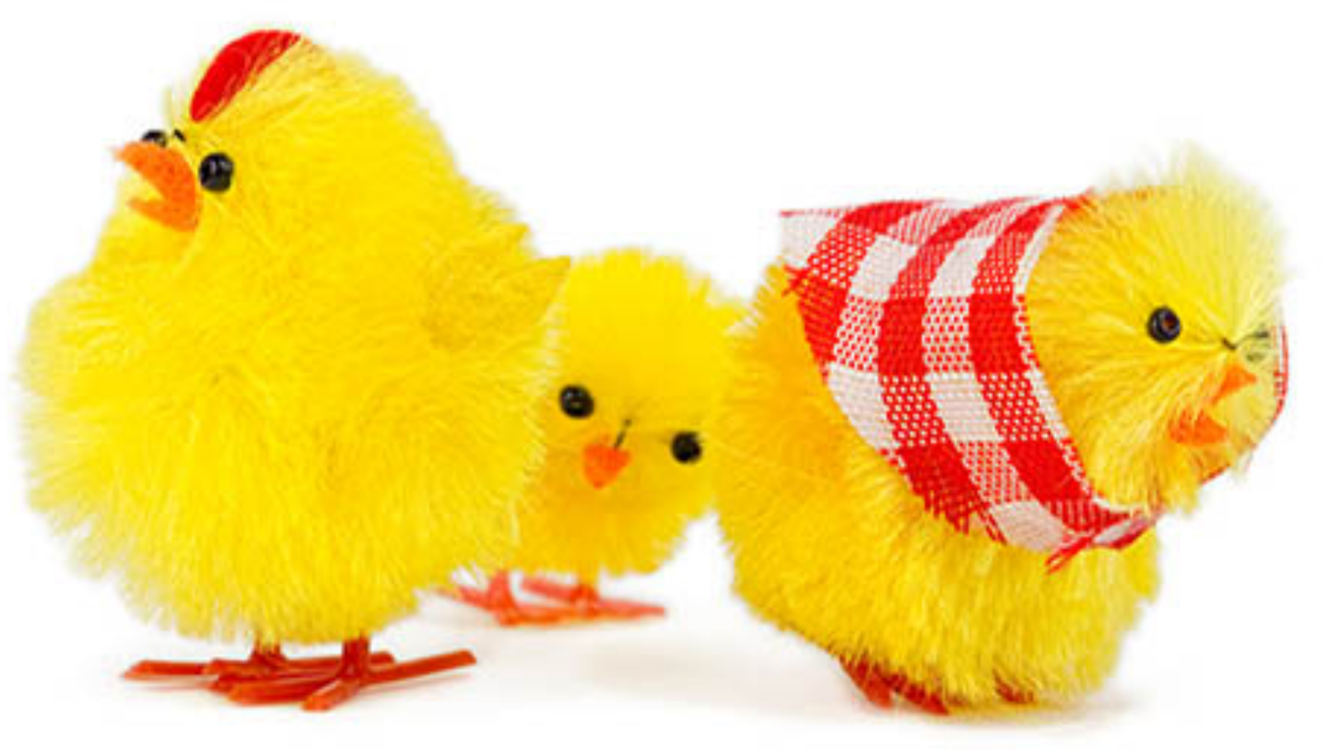

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In addition to doling out financial advice and aiding in tax and estate planning, financial advisers often find themselves playing another role: peacemaker.

Intergenerational disputes about private wealth can happen at any time. But they're particularly common during periods of family stress and change, such as the holidays and after milestone events such as marriages, divorces or deaths of family members.

"When you go through life with your clients, you're on an enormous emotional roller coaster," says Jeffery Price, managing director of wealth management for Price, Dilworth & Associates, a unit of Bank of America Merrill Lynch in Southlake, Texas. "It's natural for disagreements to come about. It takes a little bit of human emotional intelligence to help bridge the gap and flush out the issues."

Such disputes can be expensive for both families and advisers if they lead to clients' moving their business elsewhere or engaging in costly litigation. When clients put off making important decisions — such as those involved with estate planning — because they're worried about the conflict that will ensue, they could be jeopardizing the financial stability of the family.

More than 40 percent of high-net-worth families say they would rank disputes among relatives over financial strategy as one of the biggest factors holding them back from reaching their wealth goals, according to a recent report from SEI, a financial services company based in Oaks, Pennsylvania. The best way to keep family disagreements from causing lasting financial damage is to establish open lines of communication, experts say.

"One of the things we try to counsel our clients on is being forward with their plans, so there are no surprises," says Richard Todd, chief executive officer of Innovest Portfolio Solutions, a Denver-based registered investment adviser with about $12 billion in assets under management as of the end of first-quarter 2015.

More than eight out of ten of the heirs in the families surveyed by SEI with an average $18 million in financial assets said that they didn't know how much wealth they would inherit, and most hadn't received any formal education or training around handling their inheritance. A separate study by the Williams Group ?found that 70 percent of wealth transfer failures, defined as either losing control of assets or of family harmony, occur within one to three generations.

Todd recommends that his clients conduct family meetings, at least annually, to make sure that everyone is on the same page about the family's financial goals, both short and long term. Bringing children to those meetings from the teenage years on can help them feel connected to the decision-making process and gain a sense of why family members make certain decisions.

"They are formal family meetings with an agenda," Todd says. "They can help create a path of good family communication that can really keep everybody informed and help pass along values and other important components of a family history."

Such meetings are especially important for blended families, for whom disputes are more common, Price says. For families that don't like talking about money, annual meetings can help them get more comfortable discussing potentially emotional topics like money and death. Successful communication is an ongoing strategy, and most conflicts won't be resolved in one meeting.

"You have some clients who want to pretend that a family dynamic is going to miraculously get better once they're gone," Price says. "We try to be proactive in that conversation and get Mom and Dad to define what life is really going to look like once they're gone."

Helping keep the peace among family members and head off disputes before they devolve can benefit everyone involved, including wealth managers.

"From an adviser's perspective, you really have to address those issues proactively, before there's a lot of infighting going on," Price says. "Otherwise, you're going to lose that relationship. You may resonate with one or two of them, but you'll wind up losing a significant portion of the assets once they start fighting with each other."

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