By **Carolyn D. Greenspon**

How Demographic Changes Impact Family Enterprises

The combination of economic and emotional systems create challenges

The demographics of the American family have significantly changed since the 1960s, especially in the past 20 years.[1] Age, lifespan, cross-cultural diversity, location and differing models and definitions of family life present a very different snapshot of American families from the one we had less than a generation ago. These shifts create new assumptions for family life and may make it necessary to rethink how to achieve continuity for the future, including estate planning. The impact of these changes is particularly challenging for those families that share assets so that family life and economic life are inextricably tied together. Here's a framework for considering the impact of these demographic changes by examining their impact on family enterprise sustainability. We'll consider some of the dimensions of sustainability,[2] as well as ways advisors and families can successfully adapt to these changes. First, let's consider the changes.

The Changing Family

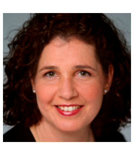
There are many factors and shifts in the social fabric of American family life to consider. People are living and staying healthy longer.[3] The upper 1% of wealthy families that have even better access to services and health care because of their financial resources also tend to be healthier and have longer lives than Americans of lesser wealth.[4] However, an aging population also has to address more medical and social issues. Rates of dementia increase for individuals between ages 75 to 84 and then increase again for individuals age 85 and older. Most everyone has a family member or friend who's suffered with a decrease in mental capacity.[5] While rates of depression drop between ages 60 to 80, rates of depression after age 85 nearly double.[6] So, our overall health and longevity may come at the expense of increased cognitive and emotional impairments.

In addition, the very definition of "family" is changing. Cohabitation (for both heterosexual and same-sex couples) is on the rise. The majority of couples still get married before having children, but the likelihood of not following this traditional path has increased substantially in recent years.[7] An increasing number of couples are choosing not to have children.[8] This decision used to carry a stigma, and it was assumed that "no children" meant the couple had fertility issues, and the decision not to have children was often viewed negatively.

Additionally, many couples are waiting longer before getting married.[9] Fertility issues (and numbers of twins) have come along as a generational phenomenon often associated with putting off marriage and childbearing.[10] Same-sex couples and same-sex marriage are on the rise,[11] and there's a generation of children growing up in an environment in which same-sex families are part of the norm and the culture.

While divorce rates have evened out over the last decade,[12] resulting blended families, or stepfamilies, continue to exist in most extended families. Although an official "step" means there's been a marriage, couples might also cohabitate with someone else's children without a marriage. This means that many children are living with an adult who isn't their biological parent, and many adults are spending their family time with children who aren't "officially" theirs. Families composed of mixed race and religion are also increasingly more prominent over the last two decades, and the number of biracial children continues to rise.[13]

There's also been a shift in how children and young



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adults in the upper 1% relate to money and their wealth. With opportunities of education and experiences/internships that take them traveling the world, a whole generation is now thinking more about the needs of the world at large and not just about what's happening in their local communities. The result has been an increased interest in being philanthropic. And, because this cohort has enough wealth in unearned income, often in trusts that generate regular dividends, they're able to pursue these interests.

Sustainability and Resilience

In our work with families, we see how theses demographic changes are having a great impact. Those families who are better able to understand, adjust and incorporate changes are those that are able to be sustainable over the long term.

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We've developed a model of sustainability that helps families navigate through the complexity that arises when an economic system is joined to an emotional one.[14] The sustainability model provides a roadmap for families to get from here to there, make the journey and think about a plan. Once a roadmap is constructed, all families need to be flexible and incorporate changes to their roadmap along the way. Families that are resilient are better able to handle the changes and challenges that inevitably arise. "Resilience" is defined as "the capacity to recover quickly; to be agile."[15] The demographic shifts that we've been discussing are perfect examples of changes that resilient and sustainable families need to be aware of and consider in their planning.

Let's review a couple of dimensions of sustainability to illustrate where we see the demographic changes having the most impact with family enterprises. Families need to address these three questions: (1) What do we need to do as a family to achieve comfort in each of these dimensions, that is, how do we go from where we are to where we want to be? (2) What's changed that impacts or may impact how we plan to get there? (3) What needs to shift in our thought processes and practices to get there?

Family Legacy and Connection

Families that own assets together need to systematically nurture family relationships and connections as well as find ways to come together to discuss and make decisions about their shared capital. The newest research in family enterprises suggests that these family connections are hugely important in determining the family's sustainability over generations.[16] Maintaining these connections and getting more flexible in how families manage the growing geographical distances are essential to how the family will be able to live and work together in the future.

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Vignette: Staying connected across the distance. A grandmother on the east coast was concerned when her daughter and son-in-law moved to the Midwest for their careers. How would she continue to have a close relationship with her two young grandkids, whom she used to visit weekly? They began to have "Facetime With Grammy" every Sunday, which she looked forward to and which her daughter and son-in-law agreed was important. The grandkids also loved it. They often spent 30 to 45 minutes catching up, and the kids would share stories and show her arts and crafts they had made. It was a positive experience, solidified the connections between the family visits and laid the

foundation for later connections.

The adult family members were also diligent about having video meetings every month after the grandchildren went to bed. The daughter, her brother and the mom would review their joint investments and the small foundation they had set up in addition to catching up on family matters. They found these meetings helpful to supplement the more formal quarterly meetings they had with the family office staff.

This family was able to continue the connections despite the physical distance. The connection between grandparent and grandchildren is all about family and the values of spending time together and enjoying each other. For the siblings and their mother, the connection is not only about family time but also involves conversation and decisions about their shared assets. As family members increasingly live in different states and countries, spending time together or connection-building among family members is more challenging and needs to be planned for. Families that do this well share stories and have discussions to build their shared values. We find that this sort of participation and engagement helps families in their sustainability over time.

Seniors active for longer. As suggested in the demographic findings on increased lifespan, the family in our example has three vibrant generations living at once. More and more in our family enterprise work, we see fewer seniors retiring or turning over authority, or at least not voluntarily. Rather, the seniors are physically and mentally strong and are enjoying holding on to their positions of leadership in the family for much longer. In the past, retirement was more of a given, and moving into the role of giving wise counsel was part of the norm for the elder generation. With this transition prolonged, interestingly, the middle generation (or "Prince Charles" generation) is often waiting much longer in family enterprises to attain decision-making authority. This brings up other issues around the different roles of each generation. This shift has also created more difficulty for families and advisors when issues of capacity or capability come up with seniors. We often find that working on competency guidelines ahead of time with families is very helpful to manage these challenges.

Stepchildren and adopted children. Changes in family composition involving stepparents, stepchildren and adopted children are also impacting families with significant assets and holdings. Not only are more people being added to the mix (in terms of numbers), but also their relationships within the family are different. Stepchildren often spend part time with each of their parents, so they're in and out of the family system in a different sort of way. New stepparents who enter the family system aren't parents to their spouses' children. Adopted children may spur the forging of new family connections. Questions come up around who is family? What's the definition of "family" when there are assets or stock to pass on? These are crucial issues that our families and their advisors face.

The result of many of these shifts is that families and advisors need to be more equipped to have honest conversations about how they define "family." They also need to be ready to engage in a re-examination of their estate and financial planning so that it reflects what the family believes and wants.

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Governance Structures and Processes

When we think of having "governance" in family enterprises, we mean the setting up of processes and structures that families use to get their work done. Unlike families that don't share assets, families with significant assets are tied in intricate ways and need to make decisions about both their family and economic livelihoods. Questions they need to consider include: Who makes decisions and participates as the family grows? Who's responsible for implementation when decisions are made? As a family grows in numbers, coming up with ways to organize and educate itself is essential to its sustainability.

With some of the demographic changes that have occurred in family composition, families and their advisors may need to re-examine some of the traditional agreements and structures that families of significant assets have used in the past. For example, how are longstanding same-sex couples treated with regard to family participation? What if children are born to unmarried family members? What about stepchildren? Half-siblings? On several recent occasions, we've seen family enterprises stuck between shareholder documents and trusts they've created in the past and the reality of how their family has changed, as exemplified with the Burns family below.

Time will tell how the demographic changes in families with shared assets are handled over time.

Vignette: Changes in family composition lead to change in governance. Two of the eight third-generation members of the Burns family have partners they're not married to but with whom they have children. When their parents set up trusts after the sale of their manufacturing company, the legal structures used assumed traditional marriages with children in the future. First, one of the sons was widowed and found a new partner a few years later. Because both had children from their first marriage, and they were a little older, they decided not to marry and just cohabitate. His new partner has been in the family for 14 years now. When another cousin raised the issue of the rights of her same-sex partner, who's the parent of their two children, the family needed to re-examine some of their existing structures and review their trust documents.

An evolving family. This family situation is an example of how trust agreements were set up one way but are now challenged by the way a family has evolved in composition, as well as in the number of individuals. Many trusts required marriage for participation, but this requirement limits family members who are in significant relationships without marriage. Historically, trusts can be viewed in some way as a partial solution for keeping the ownership in the lineal family, but this may conflict with families that are changing in definition. Family enterprises that have legal agreements around marriage need to think about stepchildren, half-siblings and adopted children who are increasingly prevalent in family systems.[17]

The most common example of demographic changes impacting family enterprises is the increasing numbers of significant others and their children being part of the family system. A remarriage occurs, or a new partner becomes part of the family, and then the family has to grapple with how they are, or aren't, supposed to treat this new "in-law" and her child, not to mention the ex-law that they've had a close relationship with for years. It would be hard to find a U.S. family that hasn't had this experience in the last 20 years. On top of this complexity, a new family member is entering a family enterprise in which conversations and decisions about their economy are also part of what they do together as a family. Here's where the boundaries of being a family member versus being a family member who's part of the shared ownership gets trickier. The Davis family is a good example.

Vignette: Who's allowed to attend a family meeting? When the Davis family decided to invite the next generation teenagers to attend an educational forum on financial literacy for the first time during a scheduled family meeting, they faced an awkward situation about what to do with two stepchildren who had been raised with the rest of the family since they were toddlers. The stepchildren weren't going to be stockholders or beneficiaries to the family's wealth, but everyone considered them family. Should they be invited? If they don't attend, how will the family handle that? How will their exclusion alter their experience of being cousins among cousins?

In this family, the questions of who can have ownership and who will be a beneficiary was decided in documents long ago. For modern day families with shared asset and different compositions, these distinctions become sensitive issues.

Time will tell how the demographic changes in families with shared assets are handled. What we've seen so far in our work is that families that address the discomfort and speak about the boundaries of their family in open and transparent ways are better able to come to a more comfortable place of how to manage

them. Documenting the family's operating principles or creating a family constitution that describes the family's values, joint vision and structures to accomplish what they want to achieve allows the family to engage in a thoughtful process together and to create something that they want to live by.

The Davis family took the time at the family meeting to openly talk about this awkward situation and their current governance structure and processes. After some lively conversation, and respectfully hearing different points of view, they decided that there would be a business portion of the family meeting to address the family's shared assets. The stepchildren would be excluded from this portion only. The family agreed that family reunions, family trips and all other family events would be inclusive of stepchildren. The family's decision to change their protocol was documented in an amendment to their family constitution that had been drafted a few years back.

Takeaways

The demographic shifts in the American family impact our whole culture. The implications for families that share assets are unique because they're an economic system along with an emotional one. By recognizing the changes, both families and advisors who serve them can be more thoughtful around planning that might be considered. Here are a few suggestions that we've learned in our work with family enterprises:

1. Create documents such as operating principles and structures to guide the family and family constitutions, which contain the agreed-on structures and processes that the family will use to execute on their operating principles. This will help capture the goals and agreements of family members. Use a change in the family governance to trigger a legal document review. Continue to have ongoing reviews of legal documents and agreements (at minimum every 10 years). It's important to see how documents define family membership/participation and to make sure those definitions capture the current picture of the family.
2. Participation by all generations is essential for the family learning from each other and for investment in the future of the family. It's important to be mindful that family members' participation will vary over the years depending on where those individuals are in their life stages. Clarity about participation starts with documenting when a family member is old enough to be involved in family conversations about

SPOT LIGHT

What a Wonderful World

Louis Armstrong by Clifford Lee sold for $40,000 at Swann Auction Galleries African-American Art from the Johnson Publishing Company sale on Jan. 30, 2020 in New York City. This painting is part of Lee's series of jazz musician portraits from the early 1970s. He also worked as a commercial artist, illustrating for *Ebony* magazine throughout the 1960s and '70s.

shared assets to setting clear criteria and protocols for when a family member would be deemed incapable of staying in a decision-making role.

3. Financial skills development will help ensure the family's ability to manage financial responsibility in the long term. If the next generation's career choices and training don't increase their financial skills development and financial responsibility, then plan for it. Be transparent in conversations, and develop ways to increase this skill level for family members, keeping in mind that individuals learn in different ways.
4. Try to have the mindset and behaviors that allow the family to use the wealth for opportunities. Watch for ways that the family unintentionally takes too much care of young individuals so that critical thinking, responsibility and independence are somehow stunted and resilience not developed.
5. Encourage families to be open to new data and new ways of doing things by exploring the world and all that it offers. Help them to see the great opportunities and potential positive impact of change that can help them as individuals, the family and the community. Actively consider how to use this information.
6. Help families realize that they're making adjustments to a changing world and not just changing their ways for one individual or situation. We all have a tendency to laser focus on one individual causing unrest, rather than to respond to the broader landscape.
7. Encourage experiences to help families embrace challenges, obstacles and mistakes to develop resilience to deal with ongoing changes. It's a skill that will help individuals and the family weather the uncertainties they face in the world.

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Endnotes

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