# Family Wealth Series II : Post #3

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***An appeal for new language in wealth & inheritance planning – consider other words for "Next Gen", "Stewardship", "Family Dynamics," "Family Governance," "Human Capital" and "Transferring Values"***

# NEW LANGUAGE FOR WEALTH & INHERITANCE

By Richard Franklin

The words families use matter because they help to shape the individuals and their relationships, sometimes unconsciously. Family members interpret slight variations in language, occasionally correlating such differences with biased beliefs. Research demonstrates that "girls are as good as boys at math," for example, conveys and perpetuates sexist stereotypes.[1]

Reconsidering some of the language families use is consistent with our proposal to make family member well-being the core focus of the family's planning, including by being intentionally positive with family wealth, businesses and inheritance.[2] In this model, the goal is to focus wealth transfer and inheritance planning on what makes life worth living by increasing well-being and flourishing.

This is an enduring approach because family members can internalize and apply the ideas with autonomy and self-determination, each uniquely adding to the contours, depth and texture of the family's concept of well-being through time. We suggest a "well-being framework" that is positive, collaborative, and inspirational, a framework that intentionally engages with research and empirical data to inform specific actions.

In a sense, this is a human focused approach rather than one that is primarily focused on finances. In this human focused paradigm of planning, we suggest shifting away from a mentality of risk management (avoiding bad things that could happen) to a mentality of fostering and developing potential (growing the good things). This approach calls for reexamining some of the language that families commonly use.

## ~~Next Gen~~ Inspired Gen (for example)

In wealth and inheritance planning, generations within a family are often labelled G1, G2, G3, etc. The idea behind this is that the G1 created the wealth, and each subsequent generation is slotted in place in relation to this wealth creator.

Similarly, significant time and efforts are devoted to training the "next gen" in financial matters and leadership, for example. The label "next-gen" denotes the first or second generation following the current wealth-holding generation. Next gen (or rising gen) planning recognizes that this generation will soon be the next to own the wealth.

Providing resources for younger family members to learn is commendable and not herein questioned, but the implicit message in these labels is financial – i.e., which generation created the wealth and, to a lesser extent, which generation currently owns the wealth and will own it next.[3]

We suggest moving away from these labels because they reinforce the idea that financial matters are the most important. These labels say nothing about whether each generation reached their potential or the worth of their contributions to the betterment of humanity. These latter aspirations are more critical to human flourishing.

The point is to align the language to what matters most. For example, Florence became rich in the 1400s and invested its excess wealth in making Florence the most beautiful city in the world. This period is referred to as the beginning of the Renaissance, not Florence G1. Paris is the "City of Light" in reference to the period of Enlightenment. Both periods were possible because of their riches, but the language venerates what was most important – their contributions and how they flourished. Families can creatively do this too and drop the financially focused generational labels.

## ~~Stewardship~~ Return on Well-Being

The word "stewardship" is frequently tossed about in the wealth and inheritance context. Unfortunately, it is amorphous, has different connotations, and its intended meaning likely varies from person to person. Sometimes parents and advisors use it to denote a certain expectation of spending wisely, protecting the family fortune, and perhaps even charitable/social contributions. Many times, there is an implicit (and frequently "explicit") dictate that the inheritors are to spend, save and be charitable in the same pattern as the parent.

Values – those of the parents – may also infuse the stewardship framework. After all, a child spending differently than a parent must not share the parent's values, right? From that perspective, parents become risk averse with inheritance, which frequently involves strategies designed to mitigate wealth depletion (risk management).

Other threads to "stewardship" emanate from a religious orientation or from the parents having earned the fortune, having sweated, and spent much of their life energy building the legacy. The natural tendency of these parents, frequently with the counsel of advisors, is to approach their financial legacy and its future "stewardship" within the family from the parents' point of view.[4]

This top-down approach, however, may encounter resistance and resentment. Research shows that all individuals need to exercise their autonomy and self-determination to evolve.[5] Beneficiaries of an inheritance are not an exception to this foundational psychological rule.

Consider that no child grows up desiring to be a steward. "Dad," says little Zoey in response to her father asking what she wants to do when she grows up, "I want to be a fireman, pilot, or doctor…and now that I think about it, perhaps being a steward would be nice too!" Consider how much of the inheritor's life should be devoted to being a steward. Is a part-time steward satisfactory?[6] Could she be a doctor during the workweek and a weekend steward? Where is the empirical research suggesting that stewardship of family wealth leads to a flourishing life?

Well-being is based on research and science. A critical feature of well-being theory relates to everyone being able to make their own important life decisions. Smart families can help create the conditions that allow family members to have good well-being, which should help in getting the most out of what makes life worth living, and in becoming the best version of themselves as each individual defines it.

Having wealth and resources can be critical to well-being, but perhaps not if those resources come through a judgmental or controlling structure – i.e., the "stewardship" risk management approach.

For example, some families apparently adopt a so-called "leave no trace" type of stewardship, wherein the goal is to leave the "financial capital" as it was found.[7] Consider the implicit messages in this. Is the approach designed to protect the capital first and family second? How does it relate to family members' well-being and flourishing? Even if the primary goal is protecting the financial security and well-being of family members (including future generations), the words used and the framing of objectives matter.

With a well-being mindset, perhaps the objectives could be reframed as: "We believe in the limitless potential of each family member and that each family member's flourishing, as they individually define it, will be to the betterment of our family and humanity. Our family wealth is a resource for our family's well-being now and in the future."

Consider refocusing on making family wealth a resource for well-being. According to Dr. Martin Seligman, the so-called father of positive psychology, wealth should be in service of well-being — it has a supporting role as a resource.[8] In this context, spending would be evaluated by reference to a return on well-being – i.e., how does this expenditure or investment improve the individual's well-being in the domains of career, social, physical, financial and community,[9] and where is the point of diminishing returns? While each family member could approach this analysis with autonomy and self-determination, the analysis would be informed by research and data. Just as the Norwegian government has set aside funds in the world's largest sovereign wealth fund to protect their future citizens' well-being, family members considering the "return on well-being" would preserve family wealth to protect future well-being needs, once today's well-being needs are adequately covered.

The return on well-being analysis is both objective and subjective. It is objective because it incorporates research and data from positive psychology, well-being theory and other data sets such as life expectancy and the determinates of good health. It is subjective because it allows each family member to decide the relative importance of each element in their own life. After all, we must live in our own skin.

The suggestion is to move beyond "stewardship" to a human focused, well-being model. Well-being is free of the judgement and controlling elements that frequently infuse "stewardship." A well-being focus builds on opportunities and growing the good stuff. Its focus is for each family member to live their best life, with autonomy and self-determination.

# ~~Family Dynamics~~ Family Strengths

The common parlance of "family dynamics" is a descriptive of negative family situations and relationships.[10] Frequently advisors are seemingly on a hunt to determine the broken parts of family relationships and offer solutions to remedy them.

One key idea in positive psychology is determining what works, what a person does well, and then acting to support and strengthen those positive attributes rather than focusing on the person's weaknesses. By emphasizing the person's strengths or positives, that individual becomes more proficient with the positive attributes and builds psychological capital. This focus on positives and strengthening those attributes also has the effect of lessening the impact of the person's weaknesses and negatives without addressing them directly. For example, this basic idea is demonstrated through using signature character strengths more, which leads to greater well-being.[11]

Consider replacing “family dynamics” and searching for problems with ascertaining “family strengths” and searching for opportunities to build upon. Building on existing family members’ strengths will improve their well-being. This approach is supported by the research.

# ~~Family Governance~~ Family Collaboration & Inspiritaion

The connation and reality of “family governance” is control. But the research teaches that control and, worse yet, manipulation are negative methods to be avoided. For example, parents cannot be the “decider” of the child’s strengths, talents or highest potential. The child must have the freedom to pursue his or her own expression, which Dr. Abraham Maslow noted is a precondition to satisfying the basic needs:

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> *There are certain conditions which are immediate prerequisites for the basic need satisfactions. Danger to these is reacted to almost as if it were a direct danger to the basic needs themselves. Such conditions as freedom to speak, freedom to do what one wishes so long as no harm is done to others, freedom to express one's self, freedom to investigate and seek for information, freedom to defend one's self, justice, fairness, honesty, orderliness in the group are examples of such preconditions for basic need satisfactions. Thwarting in these freedoms will be reacted to with a threat or emergency response. These conditions are not ends in themselves but they are almost so since they are so closely related to the basic needs, which are apparently the only ends in themselves. These conditions are defended because without them the basic satisfactions are quite impossible, or at least, very severely endangered.*[12]

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Therefore, parents attempting to control the child’s pursuits are, in effect, handicapping the child and working counterproductively. With this understanding, reflect on the possible damage inflicted by an overbearing parent, or by a super-successful parent’s compulsive, manipulative behavior.

Worse yet is imposing control mechanisms based on unproven assumptions. For example, one family constitution reviewed for this article based its spending controls on the unproven idea that the creativity and productivity of a person could be impaired if not nudged by financial necessity. There is no good research to support this idea. The actual research reflects otherwise. The model of the Nordic countries with their strong social safety net is persuasive evidence that providing support makes individuals happier and more productive.[13] Research shows that well-being – e.g., life expectancy and the determinates of good health – is lower in mediocre or middling financial conditions.[14] Research has also shown for many years now that economic incentives reduce intrinsic motivation![15]

Family governance documents, such as constitutions, by-laws and mission statements have become another domain of risk management. In addition to waivers of liability and indemnifications for the family members in control (and their advisors), restrictions are imposed on the investment management, personal consumption and charitable endeavors of family members.

The importance of having freedom to make one’s own important life decisions cannot be overstated. The suggestion is to reframe “family governance” agreements as “family collaboration and inspiration” agreements. Families can collaborate together to find and support opportunities and to inspire each other, and can do this free of controlling each other. Families can build on strengths and opportunities and agree to do that positively, constructively and with love!

## ~~Human Capital~~ Beloved Family Members

"Human capital" is an unfortunate term in the business world.[16] In the context of families, it is even worse.

Family members are not sacks of flour or machines to be bought and depreciated. These are the beloved individuals with whom we share DNA and the bonds of shared life experience, and, as many people believe, are made in the divine image of God!

Thinking of family members in financial terms once again sends implicit messages that "financial" considerations are most important. The terminology is devoid of the reverence, affection and esteem that should be held for every family member. Family is not an asset to list on a spreadsheet; it is life itself, like the air we breathe. It is everything--a connection and love that defies comprehension. "Human capital" also connotes that these individuals can be controlled and manipulated, like potatoes to be cultivated in a field.

Resist the temptation to quantify family members in financial terms as "human capital." If this leaves you wanting a descriptor, here's a suggested alternative: "I believe in the limitless human potential of our family members." No monetary quantification is necessary.

## ~~Transferring Values~~ Discovering Values

Another suggestion is to leave behind the language of "transferring values." Parents are frequently admonished to transfer values concomitantly with asset transfers. However, values and virtues are characteristics that are individually internalized. Dr. Seligman writes: "Building strength and virtue is not about learning, training, or conditioning but about discovery, creation, and ownership."[17] This suggests that "individual strengths and virtues are not 'given' but discovered via a process of moral entrepreneurship."[18] Values as distinct from virtues may even be more individualistic and subjective. One person may value honesty above all else, whereas another person may value kindness most.

While parents and grandparents are naturally a source of demonstrated values, virtues and moral conduct, a greater appreciation of the unique individuality of values and virtues is in order. Surely families would be well advised to explore these characteristics as a group, but perhaps more from a space of humility and genuine curiosity about each person's wisdom. Shared values are great, and families can build on those commonalities, but consider leaving space to celebrate everyone's unique values and virtues and how they contribute to greater humanity.

## More information

**For more information on how to orient your estate planning to a well-being model and change the language of your planning to be less focused on avoiding the bad things and more focused on growing the good things, see our Family Wealth and Inheritance Services page or contact Richard Franklin, rfranklin@fkl-law.com, (202.495.2677) or your FKL attorney.**

For other posts in this Family Wealth Series II, click here.

Notes:

[1] Shashkevich, *The power of language: How words shape people, culture*, Stanford News (Aug. 22, 2019).
[2] See Franklin & Tordini, *Wealth and Well-Being - What Wealthy Families Can Learn from Sovereign Government Policies and Measuring Human Progress*, Bloomberg, Vol. 46, Estates, Gifts and Trusts Journal, Number 3 (May 13, 2021)(hereinafter "Wealth & Well-Being"); Franklin & Tordini, *Well-Being Supported by Family Wealth – A Foundation to Flourish*, Bloomberg, Vol. 45, Estates, Gifts and Trusts Journal, Number 3 (May 7, 2020)(hereinafter "Family Wealth").
[3] These labels also forgo the history and contributions of those family members that came before the wealth creating generation.
[4] Sometimes it seems there is a role reversal associated with the stewardship mentality. It is as if the inheritor must work for the wealth, rather than the wealth being a resource working for the inheritor.
[5] *See e.g.* the information and articles at the *Center for Self-Determination Theory*.
[6] One prominent author argues that a child achieving the child's dream with the family's encouragement creates the space for the same child to become a "steward-conservator" of another's dream. Hughes, Family The Compact Among the Generations, p. 193 (Bloomberg Press, 2007).
[7] *Peppet, Monitoring Financial Capital with the "Four Horsemen" Graph*, Chpt.28, p. 201, Wealth of Wisdom, Top Practices for Wealthy Families and their Advisors (Wiley, 2022).
[8] Seligman, Flourish, p. 221 (Atria 2011).
[9] These domains of well-being are identified in the Gallop model of well-being. See Rath, T. & Harter, J., Well Being - The Five Essential Elements, Gallup Press (2010).
[10] While it is possible to argue that "family dynamics" is neutral in tone because the family's dynamics could be positive or negative, the common usage is reflective of negative family situations and relationships. Its usage assumes that all families have negative situations and relationships and the advisor's job is hunt around like a dentist drilling to find cavities, which then can be repaired.
[11] Family Wealth, note 1 at 9.
[12] Maslow, A.H., A *Theory of Human Motivation*, Psychological Review, vol. 50, p. 383 (1943).
[13] Franklin, *The Nordic Model Informs U.S. Families*, Family Wealth Series II: Post #2 (2022).
[14] Family Wealth, note 1 at 4.
[15] Wealth & Well-Being, note 1 at 5.
[16] *See e.g.*, Weissmann, *The Actual Problem With Saying "Human Capital Stock"*, Slate (May 2020); *The problem with 'human capital'*, OpenDemocracy (April 2019); Spross, *Why Big Business needs to stop calling people 'human capital*, The Week (May 2015).
[17] Seligman, Authentic Happiness, p. 136 (Atria 2002).
[18] Garnett, *Positive Psychology and Philanthropy: Reclaiming the Virtues of Classical Liberalism*, Conversations on Philanthropy, Vol. V, p. 12 (2008).