



## BEYOND WEALTH TRANSITION: ROLE TRANSITION

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In our experience working with wealthy families, it is not uncommon to find a situation in which there is division of labor between spouses, each taking on decision-making roles in different aspects of the couple's life. Particularly circumstances in which the husband has been financially successful, it is also not uncommon for him to take on the primary decision-making role around oversight and management of the family's wealth enterprise. Of course, not all relationships are this way. There are women who are financially successful in their own right, and relationships where partners share financial decision-making equally, or where the wife takes on the full responsibility. Yet globally, according to a recent study by UBS<sup>1</sup>, 58% of affluent women defer to their spouses when it comes to long-term management of the family's wealth.

In many cases, this division of labor often works for a long period of time, and the family has a strong sense of financial security and high standard of living. But what happens if and when he is unable to manage the financial affairs of the family?

This paper addresses and identifies this important but not often discussed subset of women: wives in ultra-affluent families and the challenges they encounter when, by choice or circumstance, find themselves transitioning into a leadership role in the family wealth enterprise. Typically, these are women who have historically:

- Knowingly delegated decision-making of the family's financial affairs to their spouse;
- Passively agreed to most financial decisions made their spouse, and signed financial agreements with service providers upon his recommendation;
- Not explored the details of their financial circumstances;
- Made spending and budget decisions, without fully understanding the family's finances;
- Been comfortable with the fact that financial matters have been the husband's domain.

<sup>1</sup> Women put financial security at risk by deferring long-term financial decisions to spouses, UBS research reveals. (2019, March 06). <https://www.ubs.com/global/en/ubs-news/r-news-display-ndp/en-20190306-financial-security.html>

In such families where the husband assumes the CEO role of the family wealth enterprise, the wife may have chosen to take a passive role in the family's finances for a number of reasons. In the UBS study, which surveyed 3,652 wealthy women across nine countries, the most common reasons include assuming the spouse knows more about finances; focusing on other responsibilities; lack of personal interest in finances; and deferring to the spouse because he is the primary breadwinner. Yet, whatever her initial reason may have been, at some point a wife may start feeling anxious. Maybe her husband is getting older and forgetting things, maybe there's a divorce, maybe a health crisis. Something triggers her anxiety.

“What happens to me if I can't count on my husband to manage our wealth enterprise?” becomes one of several questions:

- How do I prepare myself to become the CEO of our wealth enterprise?
- Can I do it as well as he does?
- Where do I start?

The media is flooded with recommendations about how to teach and prepare heirs before a transfer of assets occurs, particularly in reference to the imminent “Great Wealth Transition,” during which an estimated \$30 trillion will be handed from one generation to the next, according to Bloomberg.<sup>2</sup> But often the definition of “heirs” is the next generation.

This contradicts a statistical reality: the average life expectancy, according to figures from the Office of Social Security, is approximately 81 for women and 76 for men. The first inheritors of the great wealth transfer aren't the children—it's the wives who will ultimately control the family's wealth and transition into the role of CEO of their family wealth enterprise. Statistically a wife will outlive her husband by five or more years, even if they are the same age. As women generally marry older men, this five-year difference in life spans may become significantly more important.

So how does a wife, who previously has not been engaged in the family wealth enterprise, prepare herself to become a confident CEO and successor manager of the enterprise? How can the husband and wife make the CEO succession process explicit and seamless? This often-overlooked process of role transition may have equally if not more profound consequences for the spouse than the wealth transition itself.

If she hasn't been involved with the wealth management activities of the family, it may feel

<sup>2</sup> Mihm, S. (2018, July 10). Wall Street Has Its Eyes on Millennials' \$30 Trillion Inheritance. Retrieved from <https://www.bloomberg.com/news/articles/2015-03-03/wall-street-has-its-eyes-on-millennials-30-trillion-inheritance>

overwhelming for her to assume a key decision-making and leadership role. While some multi-generational wealth plans have an educational component, it's typically designed for the children. Spouses may find themselves taking on financial leadership with little to no preparation, suddenly confronted with new responsibilities and potentially daunting decisions. So, while the wife may inherit wealth, it does not mean she is immediately prepared to inherit the role of CEO. This can have profoundly negative effects on the family and the overall wealth enterprise.

When it comes to estate planning, the situation can become further complicated when, in an effort not to burden his wife, the husband puts people other than her in key decision-making roles — i.e. a trustee — perpetuating the tradition of decision-making done for his wife, not by his wife. While unintentional, the husband's decisions to not burden his wife can actually result in extremely burdensome consequences.

Inside a multi-generational wealth enterprise, much is seen initially through a tax lens rather than a governance lens and includes extensive and sometimes complex paperwork such as wills, trusts, properties or companies. These documents often list one or more of the couple's children, the children from a previous marriage or trustees (corporate or individual) as decision-makers, owners or beneficiaries. Depending on how the specific assets are titled, a wife's financial life may not be within her own control; it may be in the hands of others — her children, her husband's best friend, a corporate trustee. This lack of control only exacerbates the anxiety. It's a stressful and potentially humiliating proposition between the wife and whoever holds dominion over her property. This situation, because she delegated decision-making to her husband throughout their lives, is far from the husband's original intention—not burdening his spouse.

So how does a wife become an informed, engaged and effective owner and decision-maker of a complex wealth enterprise when faced with taking on the leadership reins? ***It starts with developing a different approach to the decision-making process.***

Often the wife observes her spouse's frequent decisions on the minutiae of investing or saving taxes, what stocks or securities to buy, the merits of a particular fund or manager, or the intricacies of a complex structure to defer estate taxes. What she may not observe, because they are often not made explicit, are the key drivers of decision-making: the overall plan, sources and uses of cash and the balance sheet. In addition, the family's providers (bankers, brokers, etc.) are also often engaged with her spouse on execution and not necessarily focused on the bigger, and more important elements behind what they are doing day to day.

When first stepping into the role of decision maker for the family wealth enterprise, women often jump too quickly to what they saw their husbands focused on, encouraged by his existing providers. Instead she should step back and develop a more fundamental, broader foundation for decision-making.

In our work with wealthy families, we've seen those that are successful in transitioning the role of CEO, in addition to transitioning the wealth, have much in common. Each focuses explicitly on three core activities:

## **|| ACTIVITY 1: MAP**

### UNDERSTAND WHAT YOU OWN

The most critical activity a woman who becomes the leader and decision-maker of a family wealth enterprise can do is to do a thorough mapping of all of the elements of the wealth enterprise for which she has responsibility:

- What do we own?
- How do we own it?
- What do we need? How much do we spend? What are our sources and uses of cash?
- Who are the key decision makers?

## **|| ACTIVITY 2: PLAN**

### IDENTIFY THE IMPLICATIONS & PRIORITIES

Once developed, the enterprise map can be used to identify critical implications and priorities:

- What's the big picture plan? What are the priorities? What is the purpose of the wealth?
- How long will the wealth last?
- Will I have enough to maintain my lifestyle for as long as I live?
- How much will my children likely inherit?
- Is the ultimate disposition of the assets (taxes, charity, children and grandchildren) what I want?
- What decisions am I able to make? What decisions am I dependent on others to make?
- Who are they? Am I comfortable with them, or, do changes need to be made?
- Do I have the right set of providers?
- Is the portfolio aligned with my needs?
- What are the highest priorities that require immediate attention?

## || ACTIVITY 3: MANAGE

### ESTABLISH A REGULAR PROCESS FOR OVERSIGHT & DECISION MAKING

Define an ongoing process the family can use to oversee and make decisions for the wealth enterprise by clarifying:

- How often will the family meet to make decisions?
- Who are the key decision makers and what are their rights?
- Who's an owner versus an interested party?
- Who will help the family manage and execute the process?
- How and when should the family bring in key providers (attorneys, accountants, investment managers) into the process?
- What kind of information and reporting will the family need to make decisions and who will provide it?
- How will the family define and measure success?
- How will the family engage different stakeholders in the process to facilitate learning and engagement?

Becoming an engaged and successful owner and transitioning not only the wealth, but, the key decision-making role as CEO of the family wealth enterprise, may seem like a daunting endeavor at first. If a wife understands what she owns, knows the implications of what she owns, creates an explicit plan with short and medium-term goals and priorities and, finally, defines and executes an effective decision-making process, she'll have the preparation and confidence to lead her family wealth enterprise.

#### **About The Authors:**

*Maria Elena (Mel) Lagomasino and Michael Zeuner are both Managing Partners at WE Family Offices. Mel is the CEO of the firm and Michael leads the business in the United States. With offices in New York and Miami, WE Family Offices is an award-winning independent, family-focused wealth management firm, serving ultra-high net worth clients. The firm addresses the real-life challenges that deeply impact wealth so that clients are able to make the critical decisions necessary to manage, preserve and grow their wealth. WE Family Offices was most recently named Best MFO \$3-5B by Family Wealth Report; ranked as #14 out of 150 in Financial Planning magazine's 2016 RIA ranking; a Top Wealth Manager by Forbes and a Top 300 Registered Independent Advisor by the Financial Times. Mel can be reached at [mel.lagomasino@wefamilyoffices.com](mailto:mel.lagomasino@wefamilyoffices.com) and Michael at [michael.zeuner@wefamilyoffices.com](mailto:michael.zeuner@wefamilyoffices.com).*