How Demographic Changes Impact Family Enterprises

By Carolyn D. Greenspon, MSW, Partner and Senior Consultant, Relative Solutions, and
Fredda Herz Brown, PhD, Founding Partner and Senior Consultant, Relative Solutions

The demographics of what we once described as the American "family" has significantly changed since the 1960s, and especially in the past twenty years.[i] Age, lifespan, cross-cultural diversity, location, and differing models and definitions for family life present a very different snapshot of American families less than a generation ago. These shifts create new assumptions for family life and may make it necessary to rethink how they achieve continuity for the future, including estate planning.

The impact of these changes is particularly challenging for those families who share assets where family life and economic life are inextricably tied together. For these families, creating a sustainable family for future generations is a core issue that demands a systematic way of thinking about and dealing with the demographic changes. We want to provide a framework for considering the impact of these demographic changes by examining their impact on family enterprise sustainability. We will consider some of the dimensions of sustainability,[ii] as well as ways advisors and families can incorporate thinking about these changes into their work. 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 longer and are healthy longer over the past few decades.[iii] The upper 1% of wealthy families who have even better access to services and healthcare because of their financial resources also tend to be healthier and have longer lives than Americans of lesser wealth.[iv] However, with an aging population has come more medical and social issues to address. Rates of dementia increase as the population first hits 75-84 years old, and then increase again with those of whom are 85 and older. Most everyone is now touched by knowing family or friends who have suffered with a decrease of mental capacity.[v] While rates of depression drop between ages 60 to 80 years, rates of depression after 85 nearly double.[vi] So, our overall health and longevity may come at the expense of the increased cognitive and emotional impairments.

As if the changing lifespan of families and the changes inherent in that were not enough, 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 have increased substantially in recent years.[vii] An increasing number of couples are choosing not to have children.[viii] This decision used to carry a stigma and it was assumed that "no children" meant the couple had fertility issues and was often viewed in a negative manner.

Now, couples are thinking about having children as a decision for them to make, and not a given. Additionally, those who do get married are waiting longer to do so.[ix] Fertility issues (and numbers of twins) have come along as a generational phenomenon often associated with putting off marriage and childbearing.[x]

Same-sex couples and same-sex marriage is on the rise, [xi] and there is a generation of children growing up in many communities in America where same-sex families are part of the norm and the culture. What used to be rather unheard of, or rather unspoken about a generation ago, has become more than just a blip in statistics.

While divorce rates have evened out over the last decade,[xii] resulting blended families, or stepfamilies, continue to exist in most extended families. Although an official "step" means there has been a marriage, couples might also co-habitat with someone else's children without a marriage. This means that lots of kids are living with an adult who is not their biological parent and many adults are spending their family time with children who are not "officially" theirs. And many extended families are made up of members who join in different kinds of ways. Families composed of mixed race and religion are also increasingly more prominent over the last two decades, and the number of bi-racial children continues to rise.[xiii]

What we are seeing in the younger generation of kids and young adults in the upper 1% are also some shifts in their relationship with 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 is happening in their local community. The result has been increased interest in being philanthropic. And because this cohort has enough wealth in unearned income, often in trusts that generate regular dividends, they are able to pursue these interests.

A Model of Sustainability and Resilience

In our work with families, we see how the demographic changes we have just described are having great impact. Those families who are better able to understand, adjust and incorporate changes rather than be apprehensive, or not address them, are those that are able to be sustainable over the long term.

We have developed a model of sustainability which helps families navigate through the complexity that arises when an economic system is joined to an emotional one.[xiv] We believe that families must tend to several dimensions in order to take care of the current family and plan for a viable and long-term future. These are: Family Legacy and Connection, Governance Structures and Processes, Financial Accountability and Management, Human Capital and Leadership Development, and Generosity and Gratitude. 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 ready to be flexible and incorporate changes to their roadmap along the way. What if there are some major changes to our industry? What if there are big changes in our family? Families are experiencing these questions more frequently because of the rapidly changing world. Families that are *resilient* are better able to make the right and left turns along the way when changes and challenges inevitably arise. Resilience is defined as "the capacity to recover quickly; to be agile.[xv] The demographic shifts that we have been discussing are perfect examples of changes that resilient and sustainable families need to be aware of and consider in their planning.

Let us take you through a couple of dimensions of sustainability to illustrate where we see the demographic changes having the most impact with families. Our goal is to highlight the resilience that families need to manage the demographic shifts, the changes that families are experiencing, and suggest what families need to assist them in the crossover between the economic and the family side. Families who are able to address these three questions: 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? What has changed that impacts or may impact how we plan to get there? What needs to shift in our thought processes and practices to get there?

Family Legacy and Connection and *Governance Structures and Processes* are two dimensions to consider where families who have significant wealth need to spend considerable time. While other dimensions are certainly impacted, we believe these two areas will bring clarity to the impact of the demographic changes.

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.[xvi] The importance of maintaining these connections and getting more flexible in how families manage the growing geographical distances, is essential to how the family will be able to live and work together in the future.

Clearly, the technology of facetime and mobile technology has allowed for the challenge of geographical dispersion to be more easily tended to, allowing for relationships and connections to continue in a way that minimizes the growing global nature of the world.

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, who were under 4 years old that she used to visit weekly? They began to have "facetime with Grammy" every Sunday, which she looked forward to and her daughter and son-in-law agreed was important. The grandkids also loved the time. They often spent 30-45 minutes catching up and the kids would share stories and show her arts and crafts they had made. It was very positive, solidified the connections between the family visits, and lays 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 do a review about their joint investments and 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.

In this family, connections were able to continue 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 also about family time, but involves conversation and decisions about their shared assets. As family members increasingly live in different states and countries, their spending time together or connection-building between family members is more challenging and needs to be more planful. Families who do this well share stories and have discussions to build their shared values over time. We find that this sort of participation and engagement helps families in their sustainability over time.

As suggested in the demographic findings on increased lifespan, this family 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 giving wise counsel was part of the norm for the elder generation. With this transition prolonged, interestingly, the middle generation (or "prince charming" 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 can come up with seniors. We often find that competency guidelines worked on ahead of time with families are very helpful to manage these challenges. This is hard enough as family members, but there is added complexity when dealing with legal assets and holdings.

Changes in family composition around stepparents, stepchildren, and adopted kids is also having significant impact on families with significant assets and holdings. Not only are more people being added to the mix (in terms of numbers), but their relationships within the family are different. Stepchildren often spend part-time with each of their parents, so they are in and out of the family system in a different sort of way. New stepparents who enter the family system aren't the parent to their spouses' children. Kids who are adopted (albeit usually at a young age) means the forging of new family connections in an even different way. Questions come up around who is family? What is 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 conversation 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 what they want.

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 who do not share assets, families with significant assets are tied in intricate ways and need to make decisions about their joint family and economic livelihoods together. Questions they need to consider include: Who makes decisions and participates as the family grows? Who is 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 in family composition occurring in families over the last two decades, some of the traditional agreements and structures that families of significant assets have used in the past might have to be re-examined. For example, how are long-standing same-sex couples treated with regard to family participation if they live in a state where same-sex marriage isn't legal? What if children are born to unmarried family members? What about stepchildren? Half-siblings? There are several different family situations that we can think of reflecting the current day that might have great influence on how governance in families might be structured for the future. On several recent occasions we have seen family enterprises stuck between what shareholder documents and trusts they have created in the past and the reality of how their family has changed as exemplified with the Burns Family below.

Vignette: Changes in Family Composition Lead to Change in Governance

Two of the eight third-generation members of the Burns family have partners with whom they have children but are not married. 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. Since both had children from their first marriage, and they were a little older, they decided not to marry and just cohabitate. His new wife has been in the family for 14 years now. It was when another cousin raised what were the rights of her same-sex partner, who is the parent of their two children, that the family needed to re-examine some of their existing structures and review their trust documents.

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 people. Many trusts were designed with criteria that marriage was needed for participation, but of course this is rather limiting for families with significant relationships without marriage, which are increasing. Historically, trusts can be viewed in some way as a partial solution of keeping the ownership in the lineal family, but this can be seen as coming into conflict with families that are changing in definition. Family enterprises that have needed legal agreements around marriage also need to give similar consideration when thinking about stepchildren, half-siblings, and adopted children who are increasingly prevalent in family systems.[xvii]

Probably the most common example where we see demographic changes impacting family enterprises are around 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 are not, supposed to treat this new "in-law" and their child, not to mention the ex-law that they have had a close relationship with for years. It would be hard to find an American family who hasn't had this experience in the last 20 years. Add on top of this complexity, a new family member entering a family enterprise where conversation and decisions about their economy are also part of what they do together as a family. Here is where the boundaries of being a family member vs. being a family member who is part of the shared ownership gets trickier. The Davis family is a good example.

Vignette: Who is Family in 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 when they had a scheduled family meeting, it became a very awkward situation around what to do with two stepchildren who had been raised with the rest of the family since they were toddlers. The stepchildren were not going to be stockholders or beneficiaries to the family's wealth, but everyone considered them family. Are they to be invited? If they do not attend, how will that be handled in the family? How will some being excluded not alter their experience of being cousins among cousins?

In this family, the definition of who can have ownership, or who will be a beneficiary, was decided in documents long ago. For families with shared assets, these distinctions become sensitive issues for modern day families who have increasingly different and extended compositions of family members, as reflected in some of the statistics we cited above.

Time will tell how the demographic changes in families with shared assets are handled over time. What we have seen so far in our work is that families who 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.

In the example of the Davis family, they 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 views, it was decided that there would be a business portion of the family meetings to address the family's shared assets. The stepchildren would be included in the family meeting with the exception of this portion. The family did agree 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 have impact on our whole culture. The implications for families who share assets are unique because they are 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 have learned in our work with family enterprises:

- Creating documents such as *operating principles and structures* to guide the family and *family constitutions*, which contain the agreed upon structures and processes that the family will use to execute on their operating principles, are ways to capture the goals and agreements of family members. Using a change in the family governance to trigger a legal document review is a good idea. Continuing to have ongoing reviews of legal documents and agreements (at maximum every 10 years) is imperative. It is important to see how family membership/participation is defined in what has been written and to make sure it captures the current picture of how the family views family.

- Participation by all generations is essential for the family learning from each other and also for investment in the future of the family. It is important to be mindful that individual participation will vary and change over the years depending on where they are in their life stage. Clarity about participation starts with documenting when a family member is old enough to be involved in family conversations about shared assets to setting clear criteria and protocols for when a family member would be deemed incapable of staying in a decision-making role.

- Financial skill 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 doesn't increase their financial skill 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 all individuals learn in different ways.

- Try to have the mindset and the 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 is somehow stunted and resilience not developed.

- 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. And actively consider how to use this information.

- Assist families to realize that they are making adjustments to a changing world and not just changing their ways for one person or situation. We all have a tendency to laser focus on one person causing unrest, rather than to respond to the broader landscape.

- Encourage experiences to help families embrace challenges, obstacles, and mistakes to develop resilience to deal with ongoing changes. It is a skill that will help individuals and the family weather the uncertainties we face in the world.

About Relative Solutions

Families who share assets must successfully manage the joining of their emotional and financial lives. Relative Solutions guides families through the difficult questions that emerge from the shared risks and opportunities that impact their lives together.

Relative Solutions provides a structured space that is neutral, objective, and conflict-free, so a family's best thinking can emerge to solve their most pressing challenges. Leveraging their proven process, families get the sense that change is possible, and are able to embrace tailored, practical solutions that have a substantive and lasting impact.

www.relativesolutions.com

Footnotes:

---

[i] https://www.prb.org/wp-content/uploads/2016/08/prb-population-bulletin-71.1-complex-families-2016.pdf

[ii] *The Essential Roadmap: Navigating Family Sustainability in a Changing World,* Fredda Herz Brown, 2020.

[iii] https://www.aafp.org/news/health-of-the-public/20181210lifeexpectdrop.html

[iv] https://fas.org/sgp/crs/misc/R44846.pdf?te=1&nl=paul-krugman&emc=edit_pk_20200121?campaign_id=116&instance_id=15345&segment_id=20510&user_id=f0880cc70145906da5b70b7bc5838fb9&regi_id=7456472020200121

[v] Federal Interagency Forum on Aging-related Statistics. Older Americans 2016: Key Indicators of Well-Being. (2016)

[vi] Federal Interagency Forum on Aging-related Statistics. Older Americans 2016: Key Indicators of Well-Being. (2016)

[vii] https://www.pewresearch.org/fact-tank/2018/06/19/family-life-is-changing-in-different-ways-across-urban-suburban-and-rural-communities-in-the-u-s/

[viii] https://www.pewsocialtrends.org/2015/12/17/1-the-american-family-today/

[ix] https://www.pewsocialtrends.org/2015/12/17/1-the-american-family-today
[x] https://www.nichd.nih.gov/health/topics/infertility/conditioninfo/causes/age
[xi] https://www.pewresearch.org/fact-tank/2019/06/24/same-sex-marriage/
[xii] https://www.weforum.org/agenda/2018/10/divorce-united-states-dropping-because-millennials/
[xiii] https://www.pewsocialtrends.org/2015/12/17/1-the-american-family-today/
[xiv] *The Essential Roadmap: Navigating Family Sustainability in a Changing World,* Fredda Herz Brown, 2020.
[xv] *The Essential Roadmap: Navigating Family Sustainability in a Changing World,* Fredda Herz Brown, 2020.
[xvi] https://www.intheblack.com/articles/2016/08/12/the-role-of-family-cohesion-in-family-business-profitability
[xvii] https://www.pewsocialtrends.org/2011/01/13/a-portrait-of-stepfamilies/

About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, fourteen offices in New York, New Jersey, Connecticut, Maryland and Rhode Island, and more than 1,000 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 27th on *Accounting Today*'s 2021 "Top 100 Firms" list. It is also ranked among the top 20 best accounting employers to work for in North America by *Vault*.

PKF O'Connor Davies Family Office, a division of PKF O'Connor Davies, LLP, provides a full range of family office, accounting, tax and advanced planning services to high net worth individuals, family offices, closely-held businesses, executives of multi-national corporations, family trusts and entrepreneurs. With each client's needs in mind, our professionals use state-of-the art technology to develop customized and strategic solutions that meet their planning, reporting, financial and lifestyle challenges. Clients and their key advisors rely on PKF O'Connor Davies for extensive expertise in tax, accounting and reporting, wealth planning, charitable giving and investment oversight. The Firm's experienced team of dedicated family office professionals includes specialists in tax planning and compliance, estate and trust, state and local tax, and corporate and international tax.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in 440 locations, in 150 countries around the world.