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FAMILY BUSINESS FORUM

Discussing Estate Plans with Your Children

By Donald Levitt

Most professional advisors to family businesses recommend that family business owners discuss their estate plans with their adult children. By calmly talking about what you want to accomplish with your estate plan, well before a crisis arises, you can reduce misunderstandings and the potential for future conflict. Family members who understand how decisions have been made, or who have input into the decisions, are more likely to feel that the decision-making process has been fair.

This sounds like good advice – but it is often not followed. In some cases the topic is avoided because the senior generation does not want to talk about their own death, and the younger generation doesn't bring up the topic because they don't want to give the impression that they are looking forward to that death. In other families, a history of poor communication and conflict leads family members to be reluctant to raise difficult issues.

What are the senior generation's responsibilities? Let's hear from an advisor to family businesses and from two family business leaders who have gone through this process as members of the succeeding generation.

The Expert

Bill Horst, CPA is the managing shareholder of the William Vaughn Company, an accounting firm of over 50 professionals in Maumee, Ohio.

“Mom and Dad need to come up with their plan and – most beneficially – talk it over with their family,” says Horst. “They need to talk about which of the children will receive control of the business; how financial parity will be achieved for each of the children; what Mom and Dad's financial needs are; and how the finances will work – where the money will come from.”

Horst notes that the children who do not receive the business sometimes see the decisions as unfair. “It's the parents' job to indicate to these children that the business may indeed have greater upside potential, with good leadership in the next generation, but it also has greater risk.”

“If the parents want their children to get along after the parents' death, the children need to hear all of this directly from their parents,” says Horst. “This is particularly true if one

of the children is the executor or trustee. The other children can feel that decisions are being made which are in the best interests of the executor or trustee and do not reflect the parents' intentions."

The Family Businesses

Carl Hill is president of Hill Manufacturing, Inc, a contract manufacturer in the metal fabrication and stamping industry, located in Wauseon, Ohio.

"Looking back, you can have 20/20 hindsight," says Hill. "Our parents discussed everything with their attorney, but none of the heirs knew the details until our parents passed away. It's better if the parents sit down with their children and say 'Here is what we want done.' Difficult issues can be more effectively handled by the parents at that time. There are always 'gray areas' in the documents, to allow for flexibility and changing conditions, and these gray areas can lead to disputes or hurt feelings if they are not discussed directly. When family members are grieving after a death, it's a difficult time to start to deal with a complex process," notes Hill.

Rick Waters is vice president of Precision Masking, Inc., a fabrication shop in Erie, Michigan specializing in paint and metalizing masking.

"I was fully involved in my father's meetings with the accountant and attorney regarding transferring the business," says Waters. "We worked on it together. I was surprised at how much work and time it took to explore different options. We worked on the plan for over two years to get the structure done before implementing the plan."

The Tip

One of the most valuable gifts you can leave your children is clarity regarding your estate planning intentions. Such clarity arises from candid discussion – and not from legal documents alone.

Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month's topic, and other family business issues, can be found at LevittConsulting.com.