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Transferring Family Wealth to the Next Generation: What's Fair?

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Baby Boomers are set to hand down trillions of dollars to younger generations. Family firms must consider how to transfer their ownership shares, and how much goes to whom.

Around the world, an aging baby boomer generation, flush with wealth from their real estate and other investments, is preparing to hand it down to younger family members, particularly Generation X and Millennials (people born between 1981 and 1996). This phenomenon is called the "Great Wealth Transfer." It will be one of the most significant economic shifts in modern history and will heavily influence the socio-economic outcomes of younger generations, impacting everything from asset distribution to business ownership.

The UK's Kings Court Trust estimated in 2017 that, in the UK alone, approximately £5.5 trillion was set to be transferred to the next generation by 2047. In the US, Cerulli Associates in 2022 projected that $84.4 trillion in assets would change hands by 2045 – the majority of it ($72.6 trillion) transferred to heirs. Cale Tilford, writing in the *Financial Times*, called Millennials the "principal consumer generation" (Tilford, 2018), citing analysis from the World Data Lab that shows that the global spending power of millennials will exceed that of other generations in the years ahead.

As stewards of significant wealth, through their business ownership, family business owners and their ownership successors play a central role in this intergenerational wealth transfer. This is because their economic wealth is often embedded in their businesses, with family owners preferring to pass their business shares and wealth to close family members. Family businesses in the UK alone are estimated to account for nearly 88 percent of all private sector businesses, generating over £1.7 trillion annually (Oxford Economics/IFB Research Foundation, 2022). These businesses often transfer wealth in the form of ownership shares.

This article summarizes some of the key challenges that arise during intergenerational wealth transfers, drawing on a report from the **Family Business Research Foundation**(https://www.fbrf.org.uk/) (FBRF), ***Business Family Justice in Ownership and Wealth Transfers*** **(https://www.fbrf.org.uk/s/28631_aston_familybusinesschallenges_guide19_aw_web.pdf)** . The full report, which is available for free, examines the fairness dilemmas that arise during intergenerational ownership and wealth transfers. It is based on our own research and on insights from workshops with family business owners and advisers that explored wealth transfer experiences among business families. While it is designed for family-business owners and their advisers, it will also be of interest to family business researchers.

Family Firms' Wealth: Embedded in the Business

Family members can have different perceptions of fairness and ownership. Three of the most common fairness challenges in intergenerational wealth transfers include:

- **Balancing equality and merit**: Families must navigate situations where members have different levels of involvement in the business. For example, should ownership be distributed equally or based on contribution and merit? This tension between equality and merit can lead to perceived unfairness, especially when family members' roles and contributions are unequal.

- **Unspoken expectations and explicit agreements**: Another challenge involves managing unspoken expectations within the family, which can create misunderstandings and conflicts. Formal agreements are often necessary to prevent future disputes and to clarify ownership rights for all members.
- **Who has the right to be a family owner?** Families must decide which members of each generation are entitled to ownership and how much control or freedom the next generation should have. This can lead to debates over qualifications for ownership and whether non-active family members should hold shares.

As family businesses prepare for the Great Wealth Transfer, they will need to consider when and how to address these challenges. It's important to have open communication and to understand generational differences in perceptions of fairness, balancing merit and equality among family members. Families should consider creating ownership structures that reflect contributions, using verbal agreements cautiously, and addressing cultural or religious influences. Establishing transparent governance structures, such as family councils, and using formal agreements to clarify roles and expectations can help to head off the risk of future conflicts.

Things to Consider

The FBRF report includes a **checklist**, which sets out the main questions that transferors and transferees in business-owning families and their advisers need to consider during the ownership and wealth transfer process. The checklist serves as a comprehensive tool to help family businesses address justice and fairness challenges during ownership and wealth transfers, foster transparency, and maintain family cohesion. Each section of the checklist offers targeted questions to prompt reflection and action. Here are some highlights.

Inheritance: It's important to clarify assumptions and align expectations regarding business shares or non-business wealth transfer. We recommend that families discuss life goals, ambitions, and preferences for business legacy continuity among family members to ensure transparency and mutual understanding.

Succession Context: Families should deeply understand their broader business succession options, such as gifting, selling, or retaining shares. The report provides questions to address barriers to succession, timing of share transfer, and implications for family members and the business.

Ownership and Wealth Timeline: Have a realistic timeline for ownership and wealth transfers, ensuring alignment with leadership succession. Families should consider buyer preferences, potential financing, and the involvement of professional advisers to smooth the process.

Ownership and Wealth Governance: Consider reviewing or updating governance structures such as family or business constitutions, wills, and other legal mechanisms. It's important to ensure that governance structures are transparent, and able to support intended transfer plans effectively.

Fairness Agreements: Agreements should reflect fair treatment of family members, especially in cases of share gifting or sale. It's important to consider whether non-shareholding members will have influence over major decisions, how proceeds from any business sale will be distributed, and if discounts or conditions will apply to intra-family share transfers.

Resolving Conflicts and Assumptions: To mitigate misunderstandings, families should clarify unspoken expectations and head off any potential disputes. We encourage regular reviews of agreements and governance documents to align with changing family circumstances and ensure sustained consensus.

Equity vs. Merit-Based Transfers: Families may need to strike a balance between an equitable distribution of wealth and rewarding merit or contribution to the business. We recommend strategies such as adjusting ownership shares based on involvement or using non-business assets to balance wealth distribution among uninvolved family members.

Future-Proofing Decisions: Families should consider how governance structures and ownership decisions will impact future generations, ensuring flexibility where appropriate. This includes planning for next-generation business entry, setting restrictions or rights for future owners, and protecting the business from unsustainable spending practices.

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Learn More

The full report, with more details and comprehensive advice, can be accessed **here (https://www.fbrf.org.uk/s/28631_aston_familybusinesschallenges_guide19_aw_web.pdf)** free of charge. It includes a practical checklist to help business families navigate wealth transfer decisions, together with reading materials and links to useful support tools designed to facilitate smoother ownership transfers and family discussions.

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