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Part I:
The challenges of surplus wealth

1. Introduction

This book deals with the challenges that come from possessing a family fortune. It doesn't matter whether this wealth was generated by you, received by way of gift or inheritance, or won on a lottery.

A fortune presents opportunities and challenges, and a system is required in order to understand both – and to manage them sensibly.

This matters because we know that for many families their fortunes, far from bringing happiness, can cause misfortune. It matters because the issues and choices that face people dealing with a fortune are not only unavoidable but very different from those that face the overwhelming majority of the population.

Most who find themselves in this position are deeply unprepared. It can be a lonely place with little support, even from those closest to them. There are many stories in the public realm – sadly often sensationalist and portraying only the negative – about what happens to families with a fortune behind them. It may only be many years later, having learned some harsh lessons on the way, that they come to terms with their supposedly good fortune.

Throughout this book I will use the term 'surplus wealth' rather than 'fortune', so as to remove any connotations of chance or luck and to enable us to think in terms of surplus wealth as being something that can be systematically managed.

Even the term 'surplus wealth' comes with a caveat – we need to balance the focus on financial wealth with a focus on the importance of non-financial wealth. That is why I appreciate the sentiments contained in the two quotes at the beginning of the book. Good habits, good intentions and good actions can create and maintain good fortune; but we know from the many stories of those in possession of a fortune that it can be punishing as well as rewarding.

This book, then, aims to set out how the issues arising from having surplus wealth can be dealt with in an orderly way by developing and maintaining a system of family governance. In this context, the aim of governance is to increase the chances that surplus wealth will enhance your life and the lives of those around you rather than having a detrimental effect.

2. Surplus wealth

Surplus wealth, quite simply, is a level of wealth beyond that which can be consumed during one's lifetime.[1]

We can't put a figure on the level at which surplus wealth starts as it will vary between people according to two obvious factors:

- how long a person will live; and
- their lifestyle or wealth consumption rate.

Equally, the surplus wealth threshold needs to be exceeded by quite some margin for there to be a meaningful surplus that requires management. Whereas the majority of the population is worried about having enough money to survive – whether for a day, a week, a year or the rest of their lives – those with surplus wealth shouldn't have to think, let alone worry, about this.

The number of people falling into this category is very small. In even the wealthiest economies the percentage of the population that might be regarded as having surplus wealth is tiny. In the US, for example, we are talking about somewhere between 0.03% and 0.07% of the population.[2]

The numbers appear to be growing, however. The total number of ultra-high net worth individuals (UHNWIs)[3] in the world is now estimated at just over 513,000,[4] an increase of 6.4% in the 12 months to January 2020. While the US currently dominates, with just under 50% of the total, strong future growth is to be found elsewhere. India is forecast to grow its UHNWI population by 73% over the next five years; China by 57.6%; and even the UK by 31%.

If we take a look at the split between inherited and self-made fortunes we can get a feel for the level of preparedness within these families. Those families who encounter surplus wealth for the first time are, by definition, likely to be less prepared for its effects, although a fortune generated by previous generations is no guarantee of success.

One report suggests that 67.7% of the ultra-wealthy around the globe are self-made,[5] with only 8.5% deemed to have gained their wealth purely from an inheritance. The balance of 23.7% became wealthy through a combination of both.

But this simplistic view doesn't show the effects of some other interesting underlying influences. Family background, culture, upbringing and values have a significant role to play in beliefs, attitudes and behaviours regarding wealth, and a greater focus on the non-financial elements of wealth can act as a counterbalance to surplus financial wealth. Non-financial wealth includes things such as:

- physical, mental, spiritual and emotional wellbeing;
- reputation and social capital;
- values and principles;
- history, traditions and rituals;
- family education;
- family communication and decision making;
- family relationships; and
- legacy.

Viewed from the perspective of normal levels of wealth, it takes a moment or two to understand why having to deal with serious surplus wealth matters. Most people, when offered the prospect of having more money than they need, instantly see it as removing any worries they might have in their life. After all, why do so many people play lotteries? I accept that most don't expect to win, but that's not the same as saying they don't want to win. Of course they do. They would love to find themselves in a position where they believe they won't have to worry about money.

Yet we know that surplus wealth can be corrosive and is no guarantee of happiness – clogs to clogs in three generations, as the saying goes. And look at the stories of how fortunes have destroyed individuals and relationships within families. I put this down to three main factors:

- **A misunderstanding of the dynamics of surplus wealth:** Often there is a misplaced focus of activity when surplus wealth is encountered. At one end of the spectrum we see individuals launching into a spending spree. At the other we see an obsessive, fear-driven focus on protecting the money and keeping it secret. A quick look at the contrasting marketing and sales pitches of, on the one hand, the luxury goods industry, and on the other, the trust and estate planning and investment management industries, shows how easy it is to be sucked into either of these.
- **The trap of what I call 'money without purpose':** Idle or wild spending, consuming, giving or donating money rarely generate a sense of purpose. In fact embarking on such a spree, whatever the focus, can severely damage what sense of purpose there was before the surplus wealth arrived. Without being guided by a pre-existing or pre-developed sense of purpose these things are much more likely to end up generating, in due course, feelings of frustration, disappointment, regret and even waste. Which can then turn into even more destructive behaviours.
- **Family dynamics and family culture, comprising three elements:**
    - The generators of the surplus wealth will have their own individual backgrounds and culture, built up within the history of their separate families.
    - They will have developed a joint, shared way of doing things in creating their surplus wealth.
    - There will be the family culture within which they have been brought up and raised their own children.

    This complex historical family culture jigsaw is unlikely to have been planned proactively; it will just have evolved. And the surplus wealth lands on top of it.

I'll share two examples that highlight these factors:

- On meeting a multi-billionaire from a newly emerging economy we were engaged in a discussion about why he wanted much of the surplus wealth he had created to be dedicated to philanthropy. He contrasted the economic and political development path of his country with that of mine, the United Kingdom. “Philanthropy and charitable giving,” he said thoughtfully, “are part of the system in your country that provides you with the values you have. My country doesn’t have that system, that history, those values. I want to use philanthropy not only to do good in my country, but also to help define my family’s values.”

- A more regular occurrence is what often happens when I meet couples for the first time to talk to them about the purpose of their surplus wealth. As I ask each to explain their motivations and their view of the purpose for their surplus wealth I find, unsurprisingly, quite a high degree of overlap. What’s interesting, however, is the number of couples who are surprised by what they don’t know about each other’s thinking. I often hear, “You’ve never told me that” or “I didn’t know you thought that”, alongside slightly bewildered faces, as they look at each other trying to understand why this is new news.

The simple fact is that it’s hard to prepare for the effect of surplus wealth.

Yet, standing back, there’s a relatively straightforward process to bring order and purpose to surplus wealth. It requires, first, a calculation of the level of core wealth appropriate specifically to you – what you need for the rest of your life. Anything above this is surplus wealth. And secondly, it requires the development of a purpose and strategy for the surplus wealth. What is the point of the wealth and what is it going to be used for? I use the term ‘wealth philosophy’ to describe this purpose and strategy. It should provide the guiding principles for the family in relation to their surplus wealth and a narrative that links the family history and culture with the future.

The purpose and strategy should also describe the roles that family members will have in relation to the surplus wealth, whether as stewards, beneficiaries or managers, or even generators of greater wealth.

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And finally there should be a plan and processes for the purposeful management of the surplus wealth.

The core wealth calculation – what is needed to maintain your lifestyle for the rest of your life – needs to look at income generation on the one hand and expenditure on the other, and to identify possible risks. This calculation can take into account whatever level of lifestyle is desired; the point is to include such expenditure in the core wealth calculation, not in the surplus wealth calculation.

While surplus wealth is anything above what's needed for the rest of your life, it should be borne in mind that the number of years of life you have ahead of you will be a major driver of the level of core wealth you need. In making the calculation, prudence would suggest planning and allowing for a long life and a range of eventualities that may occur over such a period.

With the level of surplus wealth identified, determining what to do with it is rather more straightforward than many suppose. The simple truth is that surplus wealth can only be used in three ways:

- by attempting to consume it;[6]
- by sharing the wealth with family and friends; and/or
- by giving it away in the form of philanthropy.

And while doing any or all of these can be deferred, they can't be put off indefinitely. Death, I'm afraid, will eventually force the issue. And a premature death will just increase the level of surplus wealth to be dealt with.

The relatively simple list of things that can be done with surplus wealth doesn't necessarily make it easy to determine what to do or help to identify the balance between them. But what it does allow, in my experience, is for people to approach the issue with much, much greater focus. Simplifying things puts time on their side and should allow a sensible approach and plan to be put in place.

This is an extract from the chapter 'The challenges of surplus wealth' by Russell Prior from the title 'Family Governance and Surplus Wealth: Sustaining Family Fortunes'*, published by Globe Law and Business*.