

Help your clients make sure they never have a daughter like Paris Hilton.

CHILDREN AND WEALTH

By Mark Francis Cohen

LAST YEAR, WARREN BUFFETT'S granddaughter, Nicole Buffett, made a baffling admission. The young woman in the green turtleneck sweater and long silver earrings sat on Oprah Winfrey's butter-colored couch and confessed to the world that she worked as a housekeeper. She explained that she took brush to hand and scrubbed another

family's toilets and dirty dishes to make ends meet. Money, apparently, was hard to come by for the struggling young artist. "It's a very weird thing," she said, her brown dread-locked hair back in a ponytail. "I do come from one of the wealthiest families in America."

Warren Buffett, the second richest man in the world, has decided not to give his

money to his offspring, other than to finance their education and any of their legitimate philanthropic pursuits. Instead, he is giving almost every penny of his fortune—which mostly survives as stocks in his investment company, Berkshire Hathaway—to charity. When asked why her grandfather isn't lavishing his loved ones with money and gifts, Nicole told the rapt audience: "He would never want his children or grandchildren to be [born into money]. He thinks it would rob us of our experience."

For better or worse, most of America's wealthiest families do not share Buffett's attitude. In fact, according to a recent survey of affluent Americans by U.S. Trust, the New York-based investment company, 80 percent of people with vast amounts of wealth will leave their fortunes to their children and grandchildren.

More than half of those people said their children could do whatever they wanted with the money. At the same time, today's retirees are the wealthiest ever recorded, which means they are about to give the baby boomers more inherited money than any generation has ever received. Experts believe that over the next 50 years, we will see the largest transfer of wealth in history.

But before you discount Buffett's stance as unfeeling and narrow-minded, consider this: People who inherit wealth usually squander it. According to Rodney Zee and Perry Cochell, authors of *Beating the Midas Curse*, 60 percent of wealthy families burn through all their money by the second generation. Their research

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also shows that by the third generation, nine out of 10 family fortunes are gone. What's more, they say 90 percent of all estate plans eventually fail.

"For most people, inherited wealth is like winning the lottery," explains Zeeb, a co-founder and president of the Heri-

For instance, if parents are going to leave one child more money than another, they need to be up-front about it and explain why—and not just deliver the explanation in a will or written statement. Parents should have these meetings early enough so that everyone can discuss and

After the client's death, the will was opened, promising the assets to the children, precisely as the man had directed. But the children never received the financial holdings. The assets were no longer there; they had been sold years before by the client's stockbroker. Since the lawyer, however, was never notified, the will was never modified.

Similarly, financial advisors say family fortunes are sometimes mishandled because the wrong people are chosen to enact the wealth transfers. "Affluent clients are often very loyal, and they want to pick an attorney that they've used for real estate transactions or somebody they are friends with or a cousin...to handle estate plans," says Laurie Bagley, CFA, an owner of Strategic Wealth Advisors, a fee-only firm in Scottsdale, Ariz. "That's a big mistake, because you need a really good estate attorney who can execute a proper estate plan."

Another problem wealth managers point out is that children who inherit large sums of money often have grown up with terrible role models probably because people who create wealth are usually dynamic self-starters. They amass fortunes by dint of hard work and risk-taking, and they often foster a family culture that values a maverick sensibility and the pursuit of individual challenges, such as becoming an artist or environmental crusader. People who make wealth from scratch rarely preach about the importance and fulfillment that comes with portfolio growth and balanced asset allocation.

"Now their children have wealth thrust upon them," says Joel Framson, CPA/PFS and president of Silver Oak Wealth Advisors, a Westwood, Calif.-based firm. "They are expected to develop a wealth-owner mentality and to essentially have administrative skills, but all they've heard and seen is the wonders and benefits of entrepreneurial talent."

In fact, says Framson, when these children receive large sums of money, they are often unprepared and unexcited about the task at hand: preserving and managing an inheritance. They are more likely to follow

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tage Institute, which trains financial advisors to create more effective estate plans. "A lot of times, the next generation has no idea what they're going to get, and then those that are lucky enough to get this pile of money don't know what to do with it."

So how can financial advisors help clients control their wealth, even after they die? Most wealth managers stress the importance of communication between parents and heirs. When estate plans go off the rails—as they commonly do—it's because parents haven't managed their children's expectations and explained clearly what was going to happen after their demise. Sometimes, children—of any age—are blindsided by a windfall; at other times, they are handed trusts and wills laden with legal phrases and stipulations. In these situations, the heirs are forced to try to divine a parent's motivation and intent. Either way, what follows is often chaos—with children spending the money ineffectively or siblings fighting over what they were left.

Avoidable? Certainly. Years before anything is ever likely to happen, families should have robust who-how-and-why conversations. That is, they should discuss who's going to get the assets, how they are going to be divided up and why they're being allocated in this way.

digest what the future holds.

Zeeb, who was a practicing estate attorney for years, recently worked with a Savannah, Ga. family that fell apart after the parents died. The will contained a few surprises, and when it was read, the younger siblings were so enraged, they refused to speak to the eldest brother. These "children" were middle-aged adults with children of their own, but they were extremely disturbed to hear that their parents had left the family plantation to the eldest son. Zeeb helped defuse the situation by getting everyone to talk and come up with a compromise: The eldest son would leave the estate to the third generation of children to own jointly. Now the family is getting along and spending Christmases together again.

The importance of communication also extends to the hired professionals involved in the transfer of wealth. Financial advisors must make sure that their clients keep everyone—advisors, lawyers, accountants, brokers—in contact and in synch when estate plans are created and again when changes occur. One advisor offers a cautionary tale about the mess created by a deceased client whose lawyer and stock broker did not consult each other. When the client crafted his will, he instructed his lawyer to leave certain financial assets to his children.

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in their forebears' footsteps, trying to do things their own way and experimenting. Unfortunately, that route generally results in the depletion of the inheritance rather than its expansion.

Framson, who requires new clients to pledge at least \$2 million in assets, says he advises an affluent Hollywood writer whose works have been made into movies and television programs. This client is very worried about the effect his money will have on his children, and he is not planning on making large gifts or leaving expensive assets to them. Instead, he has assisted them when they've wanted to make important purchases, like a home.

When assisting wealthy clients who don't think their children will use an inheritance wisely, advisors might want to encourage them to use irrevocable trusts or charitable remainder trusts. Not only do these come with tax advantages and creditor protections, but they also can be set up with provisions to ensure that children—and grandchildren—use the gifts in a way the grantor would prefer. For instance, they could be tied to education or home purchases. Trusts can also dole out cash incrementally, rather than all at once. Bagley, for one, likes clients to use trusts to distribute money in thirds. In other words, a child gets one-third of the proceeds at the age of 30, the second third at 35, and the final third at 40. The advantage of charitable remainder trusts is that money is given to heirs over time, and whatever money is left over in the trust is donated to charity.

Critics of trusts say they are rigid, full of administrative costs and make children feel as if their parents or grandparents are trying to control things from the grave. But, "in most cases, the benefits outweigh any of the downsides," says Bagley, whose firm has \$150 million under management. "And they can be drawn so they still have flexibility."

In order to improve estate plans, more advisors are expanding their agendas. Now we see wealth managers working with their clients to teach children the

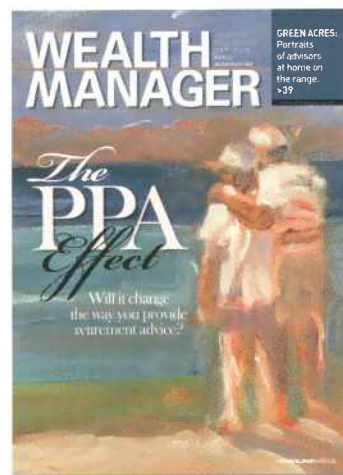
value of retaining money. Stuart Lucas, a fourth-generation heir to the Carnation fortune, is happy to see that trend. "There's a whole industry coming up today on how to prepare kids to manage money," says Lucas, author of *Wealth: Grow It, Protect It, Spend It, and Share It*. "One of the challenges for a wealth owner is to support your children without creating dependency."

Lucas is against parents giving their children money for a down-payment on a house. He'd rather see parents match retirement account contributions or pay for a child's healthcare or contribute to a grandchild's education fund. "If you want to prepare children to be effective wealth owners, you've got to make sure you reinforce the right values," he says. "When you give children money for a down payment, they are going to buy a bigger house than they otherwise could afford. That means they're going to have a higher tax burden and higher utilities bills, and they're going to live in a more expensive neighborhood. This can create problems for the child when—down the road—they might continue living outside their means."

For his part, Rod Zeeb recommends that financial advisors really encourage their clients to do more than just write up an estate plan. He wants to see affluent families go on retreats and create a family vision statement. This process should collectively identify what they value most and, ultimately, figure out how the family's money should live on.

"As an estate planning attorney, I would see the most remarkable things," Zeeb says. "We'd spend all this time setting things up so that we could transfer these huge estates tax-free. And we were very happy. But then I would see these kids inherit the estates and within a few years, they'd squander everything away. It was really disheartening."

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