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The Family Fortune: Blessing or Curse?

How to Educate and Empower Your Heirs
So Your Money Doesn't Ruin Their Lives

by Stan Hutchinson

Dennis and his two brothers were best friends for over 50 years. As kids, they played ball and hiked together. As adults they went on combined family campouts with their wives and children. But then their parents died, leaving an estate of $10 million, and naming Dennis' older brother as trustee. That was a year ago. Today, Dennis and his brothers speak only through their attorneys, because every conversation soon turns into a bitter argument about the money.

Phil was a highly successful operator of a trucking firm. He worked hard his entire life, and when his wife died, he poured all his energy into his business, which he left to his children and grandchildren. Upon his death, his heirs quickly sold the business and began spending Phil's hard-earned money. His children bought luxury cars and went on cruises to exotic lands. His grandchildren used Grandpa's cash for alcohol, drugs and a non-stop party that went on for months. A year and a half after Phil's death, the entire fortune he had spent 40 years building was gone. So were the cars. Three of his four grandchildren were in rehab. The fourth was dead of an overdose.

These are just two examples of family fortunes that turned out to be a curse for the families involved. They are real-life situations, and based on the cases I've seen in over 23 years of practicing law, they are not uncommon. According to statistics compiled by the trust industry, in the United States the average inheritance is spent in *just 17 months*—even when wills and trusts are carefully drawn by experienced attorneys. How long do you think it will take your heirs to waste *your* life's work?

"First, Do No Harm"

Since ancient times, the medical profession has been guided by a code of professional behavior that begins with this cautious admonition. The estate planning profession would be well-advised to adopt it too. Why? Because most people who inherit a lot of money don't know how to manage it. As a result, the hard-earned fortune their well-meaning parents and grandparents leave behind becomes a source of stress, family fights and tragedy.

How can you prevent this from happening in your family? Well, *"First do no harm."* Sure, this is negative advice, but it is valuable in that it tells you what NOT to do. For example:

--DON'T leave money with no strings attached to people who haven't the skill or discipline to handle it.

--DON'T make one heir the trustee of a trust, with the power to dispense money to the other heirs.

Such advice may help you to avoid the negatives, but what about the other side of the coin?

How to Accentuate the Positives

When clients come to me for advice in these matters, they tell me things like this:

"I want my children and grandchildren to develop the habits of saving and investing money, not just spending it."

"To have money is a benefit, but it's also a responsibility. They have to learn how to manage it properly."

"I want them to realize the importance of giving back to the community."

All of these are possible, and the mechanisms for making them happen are relatively easy to put into place. But before we make the first decision, before we write the first document, I urge them to step back and take a long-range view. This involves asking some difficult, but critical questions. In fact, we find that the *best* solutions become obvious once we ask the *best* questions. For example:

- With planning, you can control access to the money. But what ruins people's lives—the presence of money or the absence of principled, disciplined behavior?
- What are the most important principles and behaviors you want *your* children and grandchildren to adopt and develop in their lives?
- If education is important to you, what do you want your heirs to learn—what things will help them lead productive, fulfilling lives once you're gone?
- Since no two people are exactly alike, how do you want to deal with the individuality of each person you want to educate and empower?

The answers to these questions automatically get the clients thinking in very long terms. We even start constructing a 100-year plan, based on a comprehensive vision of the best possible outcomes the clients would like to produce. And not just with regard to money, but also with regard to education, values, citizenship and responsible behavior.

Steve Takeda is a Senior Vice President – Investments with Salomon Smith Barney in Orange County, California. In over two decades of working with high net-worth individuals, he has seen what's most likely to motivate people to take this long-range view. "Initially, it's the negatives that get their attention," Takeda says. "They see the harm money can do to families and that becomes a worry. But after a while, it's the positives that are the motivating factors. They begin to ask themselves, 'What do I want to leave behind?' and the answer is, a lot more than just some spoiled kids and grandkids."

In working with clients, Takeda reminds them that after their deaths, their money can only go to three places—the government, their heirs and charity. "Once they've dealt with the tax issues," Takeda says, "the issue then becomes, what do you want to promote? What do your kids want to promote?" He then suggests that, in setting up charitable foundations, his clients get their children involved. Ask what's important to them. If they say, for example, "the environment," then he advises the client to challenge the children to decide which charity would best serve that end. This means doing research, conducting due diligence, asking for proposals—and eventually making informed choices, rather than just giving money away. The very process of making these decisions helps bring the family together. The clients talk *with* their kids, not *at* them.

Takeda summarizes the essence of this approach: "It's not what you give your heirs; it's *what you want them to learn* that's most important."

Begin with Your Best End in Mind

So, you've taken the long-range view, and gotten clear on what you want your family's legacy to be. How do you begin? Steven Covey, author of <u>The Seven Habits of Highly Effective People</u>, advises *begin with the end in mind*. I like to take that advice a step further: *Let's begin with your **best** end in mind*. From this premise, we create a plan that will produce the results the clients want. One of the most effective means for doing this is the Macro Strategic Plan™, developed by Bruce Wright, of Simi Valley, California

Wright defines Macro Strategic Planning™ as "a systematic approach to discovering what is *one's best end in mind* and articulating how passionate they are about it, followed up by the specific goals, strategies, tactics, tools, personnel and capitalization so that their *best end* can be achieved." The process can be used by anyone who is seeking any outcome that is important to them.

Using this blueprint, I sit down with the clients and have them tell me their fondest dreams, what the future would look like if they had their 'druthers. I have them put everything in writing: their vision, their level of commitment and the goals they would like to achieve. Once these have all been articulated, we can then develop the strategies, tactics and other components that convert ideas and plans into action and reality. All of these are also written down.

Some of the techniques I suggest are just common sense. Some are legally sophisticated. All are designed to produce the results *you* want for the people you love. If the end you desire is to make sure your heirs develop the discipline to save and invest as you have, you can write the trust to require that for every dollar they receive from the trust, they must demonstrate to the trustee that they have saved or invested a dollar from other income sources, and left it to grow over a certain minimum time period. I might suggest that the trust pay them two dollars or even five dollars for every dollar they saved from other sources. Talk about incentive! Save a dollar, get five more—who *wouldn't* be motivated by that?

If your goal is to ensure that your grandchildren will be educated, you can set up graduation gifts that grow larger as bachelor's, master's and doctorate degrees are earned. In plain terms: no degree, no money from grandpa and grandma.

If you want to encourage your heirs to buy and live in their own homes, you can specify that your gift be used only for a down payment—and further restrict it as to size to make sure they don't get strapped with a house they can't afford.

If you don't want your money to be a source of family conflict, appoint a corporate trustee who can administer the trust objectively, and is not likely to play favorites. That way, if your heirs don't like what they have to go through to get their benefits, they'll get angry with a trust company, but not with each other.

It's Not About Control; It's About Education and Empowerment

Critics of these planning techniques argue that they are efforts to "control your family from the grave." But in working with real clients, I've learned that the motivation is not control. It's an honest effort to teach your heirs what you've learned is valuable: how to save, invest, and live a socially responsible, principle-based life. You would not give a child a loaded gun without instructions on how to handle it. Yet if you give them a large inheritance without guidelines, that's exactly what you're doing. Money, improperly used, can do as much damage as a bullet—and often has.

Steve Takeda says, "It's the difference between giving your kids a fish, and giving them a fishing pole. Which is really going to 'feed' them—and others—in the long run?"

Whether it's small or large, the family fortune should be a blessing to those who inherit it. How much of a blessing it will be is in your hands. With proper thought, planning and implementation, you can use your money to help make this world a better place than it was before you came along. And while you're at it, you can educate and empower your heirs to keep up your good work.

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