Coming into Money: Preparing Your Children for an Inheritance

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Contents

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ONE: INTRODUCTION

ON THE FIRST TWO PAGES of a spring 2001 *New Yorker,* a young teenage girl — there's a big picture of her — asks, "Daddy, can I have a trust fund?"

Is this ad far-fetched? If you think so, consider these stories — all of them true. A fifteen-year-old inherits $6 million after her father, an entrepreneur, dies suddenly of a heart attack. A fifteen-year-old gets a gold Rolex watch from his father as a junior high school graduation present, and his father tells him that he will receive half a million dollars at eighteen. Another fifteen-year-old gets many millions, without any strings, from his parents who are themselves heirs.

Coming into money at fifteen is less common than coming into money at eighteen or twenty-one, or before thirty. However, teenage millionaires are much more plentiful than most people might imagine. And whether a young person inherits wealth at fifteen, eighteen, twenty-one or twenty-five is less significant than this astonishing phenomenon: more Americans and Canadians than ever before are considered "high net worth individuals," with assets of over $1 million. In May 2001, one estimate put the number of high net worth individuals in North America at 2.54 million. Many among these rich and super-rich are parents who have already made arrangements to leave large amounts of money to their children. Many more will likely follow suit.

What do *you* think about this remarkable trend?

If you are wealthy enough to make your children wealthy, and if your children are in their teens or younger, you have probably been wondering whether and when to share your wealth with them. *Coming into Money: Preparing Your Children for an Inheritance* addresses your questions.

Children who grow up in wealthy homes have the same needs as all children, but raising them presents its own particular challenges and opportunities for their parents. Whether you have earned or inherited enough wealth to make your children wealthy in turn, reading this booklet will be an essential first step in finding answers to your own questions about giving money to your children. Wealthy parents who have consulted with The Inheritance Project or come to our presentations ask a lot of questions about their children and money. Indeed, it is their biggest concern. These parents want to know:

- How can I raise my children to become autonomous and responsible adults?
- If I give my children money too soon, will they choose not to work?
- What are the risks of giving money "too soon"? How young is "too soon"?
- How and when should I tell my children that they will receive an inheritance?

- ▼ If I postpone giving money to my children for a long time, will they resent me? Or would they be better served by having to wait?

- ▼ How much should I give to my children? What is too little? What is too much?

- ▼ Should I set up trusts for my children? Or should I give them the money outright?

Many of the one-hundred-fifty-plus heirs we have interviewed since 1993 have described their inheritances as a mixed blessing. Many of them were only able to take the "mixed" out of the "blessing" when they were in their thirties, forties or even fifties — long after the money was given. In other words, it often takes heirs a long time to grow up — to discover and make a commitment to meaningful work, to develop intimate relationships and to take ownership of their personal power, including their money.

Why, you may wonder, does it take so long for heirs to grow up? This question haunts many wealthy parents, especially if they too are heirs. Does a substantial inheritance delay maturity? Based on our interviews, it seems that young adults who are given large inheritances in their teens or at twenty-one are in fact at greater risk of making a slow start on the path to adulthood than their peers who have to support themselves.

That is the bad news.

The good news is that it doesn't have to be that way. Wealthy parents can indeed raise healthy children. If you want your children to flourish and become productive adults, you need to commit to two major responsibilities. First, give your children what *all* children need. You must be willing to give them plenty of love, spend plenty of time with them, foster their self-esteem, set clear limits and have realistic expectations. Find out what each child's unique qualities and take the time to nurture them. Second, you need to actually model — not just preach — your values.

From our experience and the experience of others, we have come to believe that certain core values are essential in order to successfully pass on wealth. These values include coming to terms with your own issues around money; being a good example; speaking honestly about money; nurturing your children's confidence and self-esteem; teaching them that they can stand on their own; modeling and teaching the value of work; encouraging generosity; helping them understand that "we" aren't better than "they" are; teaching them that responsibility goes hand in hand with privilege; and helping them accept that wealth is a blessing, not an automatic entitlement.

Though there are hundreds of parenting books available, some of them very good, at the back of this booklet we have provided you with a Resource Directory that includes two books written specifically for affluent parents.

Coming into Money: Preparing Your Children for an Inheritance has three main sections. In the first section, "When Your Children Are Young," we'll explore the first question on page 1: How can I raise my children to become autonomous and responsible adults? In this section we'll cover such topics as giving children responsibilities, teaching them how to handle small amounts of money, helping them develop confidence and learn skills, talking about money at home, teaching healthy values and encouraging generosity.

The second section, "Transferring Wealth to Your Children," directly addresses each of the six remaining questions concerning the choices you will need to make.

The final section is called "Three Families, Three Generations, and Three Stories to Inspire You."

We begin with a caution: be advised that there are no universally correct answers or guarantees. Even if you think you are doing everything right, your children may not turn out to be the kind of grownups you would like them to become. Our intention is to give you some tools to help you organize your thinking. Be wary of anyone who offers quick fixes or easy answers. In recent years, newspapers, magazines and some books have provided affluent parents with an abundance of well-meaning advice on how they can succeed by following a list of do's and don'ts, or by doing certain prescribed exercises. While there may be some value in such lists and exercises, they are not nearly enough. The work you need to do goes much deeper.

What are your own issues around money?

Unpacking this question may prove to be your most challenging task. However, trying to bypass it is sure to undermine everything else you hope to accomplish. Your unexamined and unresolved feelings about money will inevitably rub off on your children and do them harm. Therefore, the single most important thing you can do is to examine your own ideas and emotions about money:

- Where do your ideas about money come from?
- Can you trace them back to one or both of your parents, or to your grandparents?
- Did you witness conflict between your parents over money?
- If so, how have you been affected?

How you became wealthy can make an enormous difference in how you feel about money. If you earned your wealth, you are very likely to be proud of your accomplishment. If you inherited your wealth, you may feel ambivalent, embarrassed, guilty, undeserving. Or you may feel grateful or lucky — like a steward for the wealth that was given to you.

Money is often experienced as power: the power to help, the power to make life easier, the power to control others, the power to buy many of the things you desire, and so on. But this enhanced power — and sense of being powerful — can complicate relationships. Between partners, the distribution of money, as well as the power it provides, is never equal. The partner with more money may try to control the other partner by withholding money or attaching conditions to it. Unless both partners have worked (or are actively working) on their feelings and attitudes toward money, they are at risk of getting sucked into a power struggle over who controls the money and how it is used.

In recent years much has been written about "money styles": unhealthy habitual patterns of relating to money, for example, hoarding, extravagance, money phobia, paralysis and so on. A few fortunate people have managed to grow up with a balanced style of using money, but more often than not, even when one parent handles money sanely, the other doesn't. Alice, an heir, found herself caught in the middle between two such parents: "My father came from old upper-class money, and he was very comfortable with having wealth. He would give generous tips to everybody and so he always got the best service. He was a good role model for me because he was so generous. But my mother was brought up in a very Calvinist family. They scrimped and saved and were parsimonious. Other than my school uniform, I wore hand-me-downs from my sister and my cousin. I have inherited attitudes from both my parents, and they're contradictory. On the one hand, I'm very generous like my father, and I give some big donations. But when it gets down to saving a stamp or going to a gas station that sells gas a bit cheaper, I become my mother."

Incompatible money styles and power struggles over money can also span generations. These intergenerational struggles can cause havoc in a family and create enormous confusion in a child's mind. Wendy witnessed such a battle between her father and her maternal grandmother. "There were two rules in my family," she explains. "On my father's side the rule was 'Hide the money at all costs.' And on my grandmother's side the rule was 'Do what I say at all costs.' My mother was caught in the middle between my father and my grandmother. She was so mixed up about money that she was immobilized."

Examining your feelings about money isn't easy; coming to terms with those feelings is harder still. While there are some good self-help books dedicated to working with money issues, more guidance than the do-it-yourself approach is usually needed. Having a skillful person as a guide is the best way for people to inch their way through the minefield of conflicting emotions and beliefs. The Resource Directory at the end of this booklet includes names of a few wealth counselors. Qualified wealth counselors aren't easy to find, however. Short of working with a professional who specializes in wealth counseling, a good therapist is your next best choice.

TWO: WHEN YOUR CHILDREN ARE YOUNG

Learn to recognize, and avoid, enabling your children.

Money has tremendous powers of seduction, and wealthy parents are more at risk of overprotecting their children than they are of being too strict. Wealth often creates an illusion that you can have everything you want, that anything can be bought. It can produce a false sense of power or control which may extend beyond that which *can* be bought — cars, houses, private-school education — to sometimes desperate attempts to acquire what *can't* be bought. When it comes to buying a young person's way out of a scrape, or buying what may appear to be his ticket to success, failure is just about inevitable.

One heir is disturbed by a pattern he sees in his own family and how it is affecting his nephew. He says, "My older brother Alan is going through a divorce, and Matthew, his thirteen-year-old, is exhibiting some pretty big problems. He and two of his buddies have been 'borrowing' cars from one boy's grandmother. Once Matt and his friends drove the grandmother's car all the way from Palo Alto to L.A., and Matt was behind the wheel when a police car pulled them over.

"All Alan says is, 'I can't control Matt.' *I* think the root of the problem is that my father has been doing the same thing with Alan that Alan is doing with Matthew. A few years ago, Alan drove the wrong way down a one-way street and hit another car. It was a bad accident. And my father, who's a lawyer, negotiated a settlement so he could protect Alan's assets in case he got sued. Alan's response was, 'My father was willing to step in and handle my accident, and that's just fine with me!' My father doesn't ever let Alan suffer the consequences of his actions. And as a result, my brother has never had to deal with the hard business of working things out himself.

"Of course, my father has only the best intentions. Now he's concerned about his grandson, and he wants to do this, that and the other to help Matthew. I keep telling him, 'Look at the pattern you've established with Alan and ask yourself if it isn't similar to the pattern that Alan has fallen into with *his* son.' Dad understands what I'm saying on a conceptual level, but I don't think he really gets it; he still thinks he's doing the fatherly thing."

Tommy's father made a fortune on the stock market but failed dismally when it came to helping his child learn the confidence and skills he needed. When it became clear that Tommy wasn't performing well in public school, he was sent to boarding school. But after being expelled from two private schools, Tommy was back in public school, where the D's and F's continued. So Tommy's father joined the board of an underfunded local college and made a large donation, essentially paying the school to admit his son. Four years later, Tommy's father made another large donation and Tommy graduated. Still not willing to let Tommy take his chances and learn from his own mistakes, Father gave money once again, and Tommy was given a "job" in the sports department, where he spent his days reading newspapers and talking with his friends.

Tommy is now sixty-four and has never worked a day in his life. He regularly spends all the monthly income from his large trust fund and badgers his trust officer for more. He is frequently ticketed for driving violations, but instead of paying the piper, he pays a shady lawyer to have the tickets fixed. Tommy recently confided to a friend, "I'm just a little boy who's afraid to grow up."

All parents want to help their children, but when does "help" turn into enabling, or, worse, infantilization? As we are using the word, "enabling" doesn't mean "empowering" or genuinely helping a child to learn skills, or develop confidence and healthy values. On the contrary, enabling hurts children, undermining both their self-respect and their respect for others. Understanding the difference between helping and enabling involves making a distinction only you can make. Here are some questions you can ask yourself: When does my help encourage my children to learn new skills and develop autonomy? When does my help prop my children up, rather than supporting their own process of developing autonomy? Am I willing to let my children suffer — and learn from — the consequences of their mistakes? Or am I afraid to let them make mistakes? If I am afraid, what feelings lie behind my fear?

Show your children that you love them by spending plenty of time with them. Resist giving presents as a substitute for your presence.

Take delight in your children and nurture them with genuine attention. Raising a child is time-consuming and may seem very inconvenient for busy parents. But your children inevitably pay a steep price when you delegate most of the parenting to someone else — and the damage they may suffer often can't be fixed.

Parents who don't spend much time with their children often feel guilty. In a misguided attempt to make amends, they are likely to succumb to the temptation to buy expensive toys for their children. Or when the kids are in their teens, even more expensive playthings, like cars. Whether or not it is done consciously, such gifts are offered to ease parental guilt. The consequence: children become confused and suffer a deep-seated, lingering sense that they are unlovable and unworthy.

Heather went to work as a nanny for Cynthia and George when their oldest child was five and the youngest was a toddler. Both parents were high-income professionals and worked long hours. George came home at six, but Cynthia, an attorney, didn't walk in the door until nine or nine-thirty. She also worked part-time on Saturday. "Sunday was the only day she didn't work," explains Heather, "and she usually took the kids on an all-day shopping expedition. I'm sure she felt guilty because she was away from her children so much, and I think the shopping trips were her way of overcompensating. I kept telling myself that Chris and Jenny weren't my children, and if that's what their parents wanted to do, who was I to say anything? But I couldn't help noticing how briefly Chris and Jenny would play with their new toys, and how quickly they'd throw them into the back of the toy closet to be forgotten. That was hard for me to accept. I felt that the kids were learning to be very materialistic and to think of everything as disposable.

"There were so few times when both parents were with the children. I actually heard them say to each other, 'It's your turn.' Although I really loved those kids, after a couple of years I couldn't take it anymore. It hurt too much to see how they were being neglected. Telling the family I was leaving was awful; everyone was upset. A couple of weeks later (I hadn't left yet), Chris started blaming himself: 'Is it my fault? Am I making you leave? I always make everybody leave!'"

It's easy to blame overindulged children for being brats, but that judgment misses the point: it's parents who create brats. Although the notion of a "spoiled brat" is subjective, we all know that a combination of insufficient limits, not enough nurturing attention and too many toys can produce children who are demanding, whiny, unusually self-centered, and chronically unhappy. Psychologist Lee Hausner's definition concerning the overindulgence of children is particularly useful. Dr. Hausner distinguishes between healthy and unhealthy indulgence. Overindulgence, which is synonymous with Hausner's definition of unhealthy indulgence, occurs when "parents teach their children — consciously or unconsciously — to place a major emphasis on external possessions and values, and on immediate gratification."

Such children are at high risk of developing what psychiatry calls "narcissistic entitlement disorder": "a sense of entitlement, i.e., unreasonable expectations of especially favorable or automatic compliance with his or her expectations." Underlying this sense of entitlement are feelings of despair and worthlessness, which can be so deeply etched into a child's psyche that he will be haunted by his sense of failure for the rest of his life.

We have included as an appendix a set of questions from a chapter called "Brat-Proofing Your Child" found in Dr. Hausner's excellent book, *Children of Paradise: Successful Parenting for Prosperous Families.* If you think you might be overindulging your children, you may want to try these questions on for size.

Don't try to protect your children from the rawness of life.

Wealthy children are much more likely than their less wealthy peers to be sheltered and overprotected. Author Sallie Bingham, member of a prominent wealthy family, says, "The children of the rich who have never learned to deal with daily life are as handicapped as the children of the poor."

Wealthy children are often told that they have been given "all the advantages." What does this mean? The good private schools, the music and dancing classes, the skiing and horseback riding and summer holidays to the mountains or a family-owned island — all these activities are undeniably advantages. They offer opportunities to learn, develop certain skills and have fun. Such advantages give young people a boost as they make their way through life. In this way, they truly are privileged.

Most wealthy children, however, lack a grounding in practical skills that other children usually learn because they have to. One young woman says, "I feel unfortunate that I grew up not even knowing how to sew a button on or do laundry or cook, because everything was done for me. So I thought that when you needed a button sewn on a shirt, you took it to a dry cleaner." Not knowing how to solve everyday problems like changing a tire or sewing on a button are actually handicaps. Not having these "ordinary" skills is apt to undermine the kind of confidence that comes from the knowledge that, when something doesn't work, you can fix it yourself.

This lack of confidence can quickly turn into fear when you are confronted by something unfamiliar or someone who is "different." And fear of the unfamiliar turns into a narrowness, a pulling back from the rawness of life, a taking refuge in what feels familiar and safe.

Increasingly, affluent families in America, fearful of crime, buy houses in gated communities. But whether or not they live in an enclave surrounded by a chain link fence, to which only those who are authorized can gain access, many wealthy children have little or no contact with children from low- or even middle-income families, let alone children whose skin may be darker than their own. Their contact with low-income adults is usually limited to the servants who work in their houses. These are the people who make their beds, cook their meals and wash their dishes. Children, so well attuned to subtle nuances of voice and behavior, always recognize when their parents treat "the help" as inferiors. In this atmosphere, children may even boss the help around and treat them disrespectfully. One little girl would scream at the maids, "You're fired!" when her demands didn't bring immediate results.

Particularly if they live in a wealthy suburb or in the country, rich kids may be completely unaware that their families are different from most. Fred grew up in a semi-rural suburb of a large Midwestern city. "Our nearest neighbors," he recalls, "were much richer and more flaunty than we were, so we thought we were absolutely normal. We didn't know we were rich! The families we knew had the same things we had; everybody had boats and ski-doos. The poor people were so far away that we never saw them. It wasn't until I started to have an outer world that I suddenly realized that how much the majority of people suffer. My parents tried to protect us — and themselves — from that knowledge. I started to understand something because of the hush in the car whenever we drove through a poor neighborhood. My parents never said anything."

An argument could be made that it is better for children to grow up in such safe and pleasant circumstances. And indeed, many wealthy adults like Fred remember their childhood with nostalgia. But the price of such a sheltered life is a kind of ignorance, as well as a fear of those who are shabbily dressed or have darker skin or don't speak English as well.

Rich children who are city dwellers are much more likely than their suburban counterparts to have their eyes opened to poverty and difference. Zoe's daily walk to her private school with her mother took them past a small park where homeless people lived. At first, Zoe showed no awareness of their presence, but one morning when she was six, she said, "Mommy, why don't we take a homeless person home with us?" A few months later, she demanded that her mother give her a dollar and a paper cup. "We have to find a homeless person to give this to," she insisted.

Not all children are as aware as Zoe, even if they live in a place where they see poor people on a regular basis. Nonetheless, something filters through. They have an awareness of contrast that suburban kids lack. When there is no contrast in a child's life, he is blind to other possibilities.

Some heirs who grow up in privileged enclaves choose to leave them once they are old enough to make that choice. One man describes himself as "a refugee from the country club." As parents, you can do your children a favor by living in a culturally diverse and economically mixed neighborhood. Charles and his family live in a beautiful Victorian house in a suburb located on the fringe of a big city. It's an affluent suburb with excellent schools, and the boys go to public school. They play on a Little League baseball team that their father coaches. If you were to walk down their street in one direction, you would see large houses surrounded by lawns and hedges. If you walked in the opposite direction, you'd quickly come to a slightly rundown commercial neighborhood on a busy thoroughfare.

Although most private schools, especially boarding schools, are still bastions of privilege, many now include a small number of inner-city kids on scholarship. So if you are sending your children to private school, and if you have chosen the school carefully, they will have at least a little contact with children from different backgrounds. You may find that when your children get to know kids from less privileged backgrounds, they will come home with questions like: "Mom, I asked Janie to my birthday party, but she says she can't come. Her mother doesn't have a car and there's no bus that comes out here. How come they don't have a car? I thought everyone did." Such questions are an opportunity for you to teach your children about the world beyond, that there are rich people and there are poor people, and that "we" aren't better than "they" are. And you can suggest ways for them to be helpful to others whose lives are hard.

Encourage your children to develop the competence and confidence that come from learning how to do things for themselves.

A summer camp for nine-to-twelve-year-old boys in New England was described by the father of a counselor as "a camp for rich, rich kids." He wasn't kidding! Before the children even arrive, their clothing is sent to the camp so the counselors can put it in dressers for them, nicely folded. Then the boys are flown in from major cities of the Northeast. Each counselor is responsible for only three boys, and their duties include getting the boys up in the morning, bathing them and putting them to bed. What are these unfortunate "rich kids" being taught? To be helpless and to expect others to take care of them.

The best thing you can do for your children is to encourage them to do their own learning. The following suggestions are just examples; there are many ways to encourage children without enabling them. Help them with homework only when they really need your help, but don't do it *for* them. If you're thinking about hiring a tutor, ask yourself if your child really needs one. Can he sort things out for himself with your encouragement and some extra effort? Show them how to sew on a button and do their laundry. Teach them to cook. Better yet, cook with them and make it fun.

Encourage your children to take reasonable risks, just so long as they aren't likely to injure themselves or others seriously. Learning to ride a bicycle is a good example: don't rescue them when they get frustrated or discouraged. Encourage them to keep trying and praise them for their efforts and successes. They will skin their knees a few times, but discovering that a little pain isn't the end of the world will build their confidence. Before long, they will learn how to balance themselves on just two wheels and feel proud of mastering a challenging new skill.

Start teaching the value of work early: give your children chores.

The biggest risk for heirs who receive their money when they are young is that they may choose not to work. Giving children chores at home is a good parenting practice in any family. Chores are all the more important in affluent families, where children often witness servants doing most or all of the domestic work. They may come to the wholly logical conclusion that they don't have to learn to make their beds or clean up after themselves because someday they too will have servants to run their household.

Chores set the stage for later training. There is a wide range of easy chores that children can learn even when they're quite young. You can show them how to make their beds, put their clothes away, feed a pet, set the table.

When they're somewhat older, a summer job is a good way to start a child on the path of becoming a productive adult. One mother says, "I think all children ought to do some kind of work, and they ought to get something of value back. My oldest son had a summer job when he was eleven. He really wanted a stereo that summer, but I wouldn't buy him one. So all summer he saved what he earned, and he managed to save enough to buy himself a music system. I think that gave him a real sense of accomplishment."

If your teenage daughter doesn't show initiative in finding a summer job, you can give her a gentle nudge. But remember to resist the temptation to pull strings to find a job *for* her. Let her do the looking, let her learn how to present herself to potential employers. Again, it's only by accepting challenges and mastering new activities that she will gain confidence.

Some wealthy parents go too far in their well-intentioned desire not to spoil their children. Parents may not want their children to be spoiled as they themselves were spoiled. Or if they had unnecessarily strict parents, they may have internalized an overzealous approach to "discipline."

Homer, a third-generation heir, says, "We were always given a lot of guidance on our behavior. There was to be no foot-dragging, whining or spoiled behavior. I was pulled out of bed many times in the middle of the night because it was snowing, and I would have to go outside in six inches of snow to put covers over the garden beds. My brother and I spent every day of our lives working around the house." Chores shouldn't be experienced as punishment; you can accomplish just as much by giving your children tasks that aren't so onerous.

When teaching your children, always strive for balance.

Teaching values such as work and responsibility is especially important in wealthy families, because wealth and the materialism that so often comes along with it tend to distort values and foster an attitude of entitlement. When parents know how to recognize and avoid unhealthy indulgence, and when they spend enough time with their children, they can also teach and model values that will lessen the risks of growing up with a lot of money. That having an abundance of money, in and of itself, can hurt children is an uncomfortable truth parents need to understand so they can guard against its negative consequences.

Values connected with money are especially tricky to teach in any family — not just rich ones — because money is a powerful and mostly unexamined force in society. A wealthy parent's worthy intention to teach his children the "right" values can easily slide into an overzealous and heavy-handed kind of moralizing. One heir who is a parent offers this insight: "I think it is very hard for wealthy parents to walk that balance between too strict and too indulgent. There is something which gets exaggerated when there's a lot of money, something that pushes back the limits around people and can, I think, increase their sense of disorientation."

The exaggerated and distorted lifestyles that often emerge in wealthy families, especially among the very, very rich, are well known, partly because the media never gives the subject a rest.

Lurid tales of decadent rich people fill not just tabloids and TV talk shows but even mainstream newspapers and magazines. Again, many of these stories reveal more than a grain of truth. There tends to be a lot of craziness among the extremely rich — addictions, multiple marriages, and bizarre, irresponsible and self-destructive behaviors. Similar pathological patterns are also common among the moderately rich, though on a smaller scale.

As a culture we are deeply ambivalent about money. We are taught to love it and want to have more of it, but we are also taught to condemn it and distrust those who possess more of it than we do. We have a multitude of expressions, such as "obscenely rich," "filthy rich" and "the idle rich," that betray our feelings about money's dark side. So it's no wonder if wealthy parents, like everyone else, believe that money corrupts.

There are two issues here. One is that earned money is often perceived as money deserved, whereas unearned money is thought of as undeserved and those who have it are believed to be undeserving. The other, more potent issue is a fear that inherited money will undermine the work ethic and destroy ambition. This well-founded fear usually leads to the kind of moralizing that is common in wealthy families.

The best way to teach healthy values is to model them for your children.

If you don't actually walk your talk, no matter what you tell your children, they will hear it as preaching — just a lot of blah blah blah. There is no substitute for being a good example of what you want your children to learn. Jerry learned how to be a good person by observing Mom and Dad: "Both my parents are good role models. My mother has an incredible sense of fairness. She taught us not to hurt people, to respond to other people's suffering, and to take responsibility for each other. My father used to say, 'Don't just sit back and complain. Do something!' He is a doer. That is a legacy from both my parents."

Help your children learn how to handle money responsibly.

From the time children are conscious of money and its uses, parents can begin teaching them to handle it responsibly. Allowances are a useful tool to help children understand that they can spend some of their money and save some too. In some families, allowances are also used to encourage philanthropy. Woody is introducing his three children to money management *and* to generosity by adding a dollar to their allowances every year on their birthday. The children have been carefully taught that thirty-five percent of their allowance goes to savings, twenty percent goes to charity, and the rest is for spending. The charity money is kept in a jar, and every few weeks Woody and his children count the money, and then the kids get to choose which nonprofit organization to give it to.

Speak honestly: talk about money with your children.

The subject of money is frequently described as "the last taboo." George Pillsbury, founder of the Haymarket People's Fund, says, "People are very secretive about money, and that taboo becomes something that isolates wealthy people. I've heard people say that it's harder to come out about their money than about their sexual preferences."

Secretiveness about money, especially big money, creates shame in children. They connect secrets with someone having done something "bad," so if their family is rich and the money is experienced as a secret, then it must be bad. By extension, they believe that *they* are bad, and they feel ashamed. And to make matters worse, because they feel shame, they think they can't talk to anyone about their feelings.

Although the taboo against talking about money is common in all families, it is usually strongest in wealthy families, especially old-money families. The parents in these families have probably learned the taboo from *their* parents — often, it seems, by osmosis, because often not much is stated explicitly. But parents can create a safe, open atmosphere at home where children feel comfortable asking questions about money.

Here's how one parent handled a question from her seven-year-old. Carly has visited her maternal grandparents in all three of their houses, and she probably thinks it normal for families to have more than one home. One day she asked her mother, "When are *we* gonna get another house?" Her mother replied, "This house is big enough for three families, Carly. And there are a lot of people in the world who don't have even one house. Our family is very fortunate to have so much, and part of being fortunate is that we get to share our money." Apparently satisfied with her mother's response, Carly went outside to play.

When you talk about money, be positive. Avoid negative messages.

What can you say to your children about the role of money in their lives? Although there are no ready-made right answers, clearly there are wrong ones. These are most often expressed as warnings about squandering their inheritance and about meeting people who want to take advantage of them.

Warnings are meant to protect children, and they usually have some truth to them. Some heirs (though far from all, or even most) really do squander their money. Some heirs really do get marriage proposals from suitors whose motives are questionable. Virtually all heirs get asked for loans, handouts and donations. Such warnings, which go hand in hand with the taboo against talking about money beyond the family, only increase feelings of guilt, anxiety and discomfort.

Children whose parents warn them to be wary of gold diggers are likely to hear an unintended message along with the explicit message: "If someone wants to marry me, it must be because I'm rich. So I guess I'm not lovable." Such warnings can teach young people to be deeply suspicious of others. Ted's parents taught him that holding onto the family money should be his number-one priority; they managed to instill in him an extreme fear, both of spending his money and of having it taken from him by a greedy woman. Ted internalized these messages to such a degree that he couldn't trust anyone who tried to get close to him. His ex-wife says, "I think Ted always distrusted that I could fall in love with him. But I really did love him, and his suspiciousness and stinginess ruined our marriage. It's so sad."

The question, then, becomes: do such warnings really protect our children? Should we let them take their chances and learn for themselves? Or are the stakes too high? Again, there are no easy answers to these questions, but they are well worth pondering.

In one old-money, business-owning family, some of the usual warnings were invoked, but with a difference. Along with such dictums as "Never, never spend principal" were lessons that encouraged confidence and a sense of purpose. In other words, the warnings were balanced with plenty of encouragement and support. Irene was raised on her great-grandparents' philosophy and has in turn taught it to her children. She fully expects that her children will teach it to their children. When Irene gave a talk to a gathering of wealthy parents, she told them, "We were taught that money is a privilege, not a right. Money can buy luxuries and choices, but it also carries enormous responsibilities, both in the making and the spending. In terms of making money, honor is the key word. On both sides of my family, pride is taken in doing business on the principle of 'my word is my bond.'

"A further injunction has been that every single one of us has a responsibility to give back, to create opportunities for others, and to share time, energy and resources with our communities. Another family tenet is that money comes and money goes. So, although we were prosperous, we have been educated with the knowledge that war, revolution, depression, inflation and government policies can wipe out funds in the twinkling of an eye. Therefore, it is up to us to educate ourselves and our children in the understanding that we have to be self-reliant.

"We were taught to save money from an early age. One of my first and best-loved presents was a little bank which, when you put in a coin, registered first the amount, then the total. We were never told, 'Don't worry, you will inherit.' In fact, it was the reverse. Expectations were never mentioned; it would have been considered tacky. The family didn't want to sap our initiative. Besides, the money was tied up so tightly in the business that we didn't begin to receive our inheritances until we were in our thirties or forties. Most of all, we were brought up to believe that we had mandates to make the best use of our talents, and we were made to feel that we were part of a larger circle — first the extended family, then the community, our country and finally our world."

Tell your children about the good things your family's wealth has accomplished.

One way to protect your children from misplaced guilt, embarrassment and shame is to teach them — if *you* feel comfortable doing it — that you are proud of your family heritage. Almost everyone wants to feel that they are part of a family culture and a family tradition. If you feel mostly positive about the wealth your father or great-grandfather created, you can teach your children about your family's history — how the money was made and the good things that have been done with it.

Not all heirs, however, feel good about how their family became wealthy. Perhaps your great-grandfather made millions by strip mining, or by clear-cutting vast swathes of old-growth forest. In such situations, you may feel deeply ambivalent about the wealth and privilege you have inherited. But there is almost always something positive about your family's history that you can use to give your children a sense of belonging to an extended family and a tradition.

Philanthropy is often the best antidote to the negative karma accumulated by the exploitation of human and natural resources. For example, notwithstanding John D. Rockefeller's well-deserved reputation as a robber baron, he and his descendants have made an enormous contribution to American society by giving back much of the wealth he created.

When you teach your children to have a healthy pride in their family tradition, you also need to be vigilant that they don't miss the point. Pride can easily be distorted into arrogance and snobbery. That is why you need to teach your children that responsibility to others is inseparable with the privileges that come with wealth. You can say to them, "This money isn't really ours, even though it's ours in the legal sense. We have a job to do with this money, and that job is to be careful with it, not to waste it, and to share it with others." When you teach your children to think in that way, it will offset their sense of entitlement.

Teach your children to share their wealth, and start early.

One of the greatest pleasures of having surplus money is being able to share it. And that is something you can teach your children, even when they are quite young. Kate's children are still very young — seven and three. She makes a point of talking about her own philanthropic and volunteer activities, and she always reminds her children, "When you have a lot of money, you get to share a lot of it." Both girls are now so familiar with this family saying that when Kate begins, "When you have a lot of money," they chime in, "You get to share a lot of money!" Recently Kate made a donation to a project for malnourished children in Tibet. She and the girls watched a moving video about the project. Afterward, without any prompting, Petra, the three-year-old, went to the mailbox and dropped in a quarter for children in Tibet.

Sebastian describes a successful experiment designed to encourage generosity in his three children. He says, "My wife and I have a small family foundation, and we were always looking for ways to engage our children in our giving. One year, when they were fourteen, twelve and nine, we gave each of them two hundred dollars in cash and said, 'We'd like you to go out into the community and, in whatever way works for you, get this money out there. And the only rule is that you have to tell the family what you did with your money.' We made some suggestions, especially to the two older ones, Alex and Daniel, because they were going to be on their own.

"Alex went all over town. Just to give you an idea of some of the things he did: he left five dollars on a shelf in the library, he dropped five dollars off a highway bridge, he gave ten dollars to homeless people, he dropped ten dollars on a soccer field, he put fifteen dollars under a food tray at a McDonalds, he gave a fifty-dollar donation to the Appalachian Trail Association, and he dropped twenty dollars in front of the ferry terminal.

"Dan was more directed in his giving. As I recall, he gave the bulk of his money to one or two nonprofits.

"Susy was only nine, so I went with her. She wanted to leave money at a playground. So we went to a bank and converted the bills into a lot of small change. Susy took the lead and we walked around, trying to look nonchalant, dropping change all over the playground. And then we went off to the side and watched to see what would happen. The first thing we noticed was that a little boy was looking at us, and we realized he probably saw that we were up to something, but he didn't know what. So he was keeping an eye on us.

"Then the kids started finding the money, and they were just delighted. And I engaged Susy in a conversation about the effects of what we'd done. There was the thrill of watching kids find the money. We also talked about anonymity; having this kid watching us and then seeing how the other kids were finding all this money brought up for her the issue of trying to be an invisible or anonymous donor, but getting caught."

THREE. TRANSFERRING WEALTH TO YOUR CHILDREN

This booklet began with some questions that many wealthy parents wrestle with:

- How can I instill a work ethic in my children?
- How and when should I tell my children that they will receive an inheritance?
- What is an appropriate age for me to start transferring wealth to them?
- How much should I give them, and when?
- How much control should I give them over the assets they will receive?

These are the key elements of any situation in which you have full or at least partial control over your children's legacies. When an inheritance comes from grandparents, or even further back, some of these vital decisions may already have been made without your input.

Self-esteem and life purpose: Instilling a work ethic

This, the most important and most slippery of all the questions we are about to consider, has a set of corollary questions from which it cannot be separated. Will my children's work ethic be stifled, or never develop at all, if they receive too much too soon? Will it be stifled if they receive even a modest amount too soon? Would it be better if they received a larger amount when they are somewhat older? Should I withhold giving any inheritance until after my death?

The fear that haunts some parents is this: will *any* inheritance, no matter how modest, no matter how carefully planned with regard to age, readiness, etc., undermine my children's work ethic?

This question, more than any of the others, defies resolution by a one-size-fits-all formula. If you give your children enough money to live on when they are young, they are much more likely to stumble at this point in their lives — and some never recover. Some heirs never work and never find a calling. Not finding meaningful work is hard on a person's self-esteem and sense of purpose. Ironically, heirs who don't work have much in common with those who are chronically dependent on welfare.

Other heirs who inherit early may flounder for years before they discover meaning and purpose in the form of work. Some are transformed by the experience of finding their calling; they go on to live fulfilled lives because they have learned how they can "give back."

Probably a smaller number of those who inherit a substantial amount early in life never have a problem getting started, or continuing to work and feel fulfilled. Woody grew up in a prominent old-money family in which both parents modeled a work ethic. They told their children that they would have to work because "We don't have that much money." Nothing could have been further from the truth. "Telling me that created much confusion in my mind," Woody says. "All the same, I think the message that we had to get a job was a really good one. My parents frequently quoted Ecclesiastes: 'To whom much is given, much is expected.' There's a sense of being productive in my family, and having an impact on others, as well as having something to show for your day and having a strong sense that you're trying to create something. We're not just sitting on our inheritance. And I feel very engaged in my work."

We wouldn't recommend that you deliberately deceive your children, as Woody's parents did, by telling them they will have to support themselves, unless that is what you intend for them. At the same time, you don't need to tell them too much too soon. If *you* work, more likely than not, your children will follow your example sooner or later.

Lily has always worked full-time. Unlike Woody, however, she didn't have the advantage of good role models. Her father took advantage of his wife's inheritance to avoid working. "He lived off of my mother," Lily says disgustedly. "He took care of our estate, but I don't consider that 'work.' When I was in grade school, sometimes a classmate would ask me, 'What does your daddy do?' I hated that question! So I asked my mother what I should say the next time someone asked me, and she said, 'Tell them he's an estate manager.'

"I don't respect my father, and that's mainly because he doesn't work," she adds emphatically. Lily chose a path that was the opposite of her parents' lifestyle: since college she has always worked, even though with a small trust fund, she could have afforded to work less than full-time. She is proud of being capable and fully self-supporting.

Is this little story the exception that proves the rule? The only generalization we can make is that it isn't possible to generalize.

Charlie made the mistake of believing that he could give money to his children at a young age without damaging their work ethic, because that was what his parents did with him. Charlie was given his money outright at twenty-one, and he has done the same thing with his own children. Charlie practiced law for about thirty years before retiring in his fifties and devoting himself to building model ships. His son Patrick graduated from college with a major in economics but chose not to pursue the subject in the labor force. In fact, he didn't know what he wanted to do next.

"He's a little shy," says his father, "a little on the paralyzed side. About a year ago I was getting irritated with him, so I said, 'I'm not going to give you my annual gift this year. You've got to get a job.' So he went and got a job as a waiter. He actually learned something from that experience, and he kept the job for six months. So I decided to give him his annual gift, and he up and quit the job; he said he wanted to concentrate on other things. That was all right with me: I knew he wouldn't want to be a waiter for long. But I wanted him to go out and face the world and have interviews and actually get a good job.

"I have a friend," Charlie continues, "whose son told his father after college, 'Gee, Dad, I'd like to do a Master's degree in philosophy.' And my friend said, 'Well, that's great, but I'm not going to pay for it.' All his son could say was, 'Oh.' I don't think he was expecting his dad to say that. Looking back on how I handled money with my own son, I think Patrick would have been better off if I hadn't given him anything."

In his conclusion, Charlie completely reversed his initial position. So is it an all-or-nothing proposition? Or are there other possibilities? The answers to those questions are so complex and so individual that we can only advise you that by the time you have finished reading this booklet, you may have a clearer sense of what to do in your own family.

Whether you give your children money earlier or later, and whether you give them more money or less, there are things you can do that will be helpful. Modeling a work ethic for your children is essential. There aren't many Lilys in the world with the pluck to invent their own work ethic when they haven't witnessed one at home. But it isn't necessary for you to spend forty or more hours a week earning money at an office in order to be a good role model. It may not even be necessary that you make money. Woody's mother did volunteer work; what he admired was not whether she made money but that her work had intrinsic value. She demonstrated how a person of wealth can serve others.

Raising children and caring for a home is another way for wealthy parents — mothers *and* fathers — to be good role models. As a child, Sophie had a nanny and lived in a household with many other servants. As an adult, she chose not to follow her parents' example. She says, "I don't want my children to see me paying other people to make our lives possible. We have somebody who cuts the grass, but we don't have someone who cleans the house. I don't want a nanny either. I want my kids to know that you can feel good when you clean the bathroom, that there is nothing demeaning or unworthy about taking care of yourself. There is dignity in the simple business of washing your clothes, cooking, cleaning and taking out the trash."

Besides being a good role model, it is very important to tell your children what you expect of them. It's tricky telling them that you expect them to work when they already know that their family is wealthy, and it's especially tricky if you (or your parents) have already set up trusts for them. This is how Woody plans to present the subject to his children when they are old enough: "I want to tell them, 'You're going to have some money when you're older, and if you don't want to work, you won't have to. But why would you *not* want to work? I'm confident that you will be able to find work that is compelling and enjoyable. And if you want to maintain the lifestyle to which you've become accustomed, if you intend to continue skiing in Vail every winter, you probably will have to get a job.'"

What matters most is to model wholesome work patterns for your children — whether your work is paid or unpaid — and gently but firmly let them know that you expect them to work.

When should I tell my children that they will receive an inheritance?

By far the most common approach is for parents to tell their children nothing about their inheritance until just before the first installment, or the whole amount, is about to be distributed to them. Ralph was vaguely conscious of his family's affluence but completely unaware that he was in for a big inheritance. Then the situation changed abruptly. "When I was in college," he says, "my parents decided that I was old enough to deal with this information. All of a sudden I was presented with people that I'd heard about but didn't really believe existed — downtown lawyers that treated me nicely but condescendingly — who explained to me that I was going to have to deal with certain amounts of money in the near future.

"Well, it was a completely discombobulating experience. The knowledge that I had an inheritance was debilitating for some time. Until then, I had been protected, shall we say, from issues of wealth. Then all of a sudden I caught "affluenza," though it wasn't contagious. None of my friends got it, only my relatives. And that sickness for me, as for many, I imagine, involved foolish financial ventures and drug abuse. I could easily have gotten stuck at that stage, and it took me a long time to find my way out."

When Kate was eighteen, she and her younger sister were taken to see her uncle, the CEO of the family office. He explained to the girls that they had trusts which "are for your benefit." Kate learned that she would start receiving income in three years, at twenty-one. When Kate came home, she angrily told her parents, "I hate having all this money!" She explains, "I was upset because I felt that my money would separate me from everybody else."

Reactions such as these are common. Dr. Dennis Pearne, a clinical psychologist who specializes in wealth counseling, has learned from twenty-two years in practice that "the moment of actually receiving wealth is often so shocking that therapists may see post-trauma symptomatology associated with the event years later." Responses to a sudden announcement vary widely — from paralysis to anger, from spending sprees to deciding on the spot to give away the entire inheritance. Others respond by leaving their money alone, not spending any of it, and just pretending it isn't there.

Since learning that they are going to receive a big inheritance is so frequently a shock, you may do better to accept that no matter how skillfully you think you can break the news to your children, they are likely to experience it as an upheaval in their young lives, a life-changing event.

Having said that, it is still much better to inform them ahead of time than not to prepare them at all.

Sometimes the shock never comes because nothing is actually revealed, or so little that the young person doesn't "get it." More often than most of us might imagine, some young people grow up completely in the dark about the extent of their families' wealth — especially if they live in an affluent neighborhood. David was a fourth-generation heir in a prominent family. At eighteen, he remembers, "I was given a credit card and told to sign a document that basically said I was going to put my money back into trust, and I couldn't get ahold of it until I was twenty-five.

"My parents downplayed our wealth," he says, "and that was both a positive and a negative. My parents paid for college, of course. After college I wanted to travel abroad for a year, and when I asked them for money for my trip, they gave it to me. When I came back and asked for rent money, they gave me enough for rent and my other needs. But I always had to ask for the money; I didn't even know it was mine! There was never any announcement of my inheritance, and I had no knowledge of the family assets, which were extensive. I think the way my parents handled money was wise in the sense that my siblings and I didn't become high-living big spenders. But we were almost living as if we were poor. In my family — by that, I mean the extended family — the most powerful message was: 'Don't spend frivolously. Preserve the assets for future generations.'"

Our bias is that more harm is done by waiting too long than by introducing the news too early. We feel that, in absolute terms, under sixteen is too early. In relative terms, so much depends on how ready a young person is to hear the news. Within any family, as everyone knows, what works for one child may not be right for another.

How can I prepare my children for their inheritance?

Up to this point, we have been focusing mainly on the *when* question. As important as *when* is *how*. Many parents are squeamish about delivering the news of an inheritance, especially if their own wealth is inherited. This isn't surprising, since money is such a potent and conflicted part of people's lives, and since the taboo against talking about money functions as a powerful inhibitor, especially in wealthy families. The more you and your spouse have tackled your own money issues and resolved your own major differences around money, the easier it will be to talk with your children about money.

To be fair to parents, preparing a young person for an inheritance isn't easy. Hillary's father was conscientious in his efforts to prepare his children for the trusts they would receive at twenty-one from their maternal grandparents. The decision to give his children large trusts at a young age was not one he supported, but he had no control of it. He was afraid that his children would be too young to understand the value of their money. "When Dad realized it was out of his hands, he tried to prepare us," Hillary says. "He made sure that we went to talk to his investment advisor. He really tried to teach us some kind of responsibility toward the money. He was always giving us lectures: 'Don't spend it all; don't forget the Depression; you're going to meet people who will pretend to be your friends so they can get their hands on your money.'

"So I was aware of the wealth and privilege in our family, but it didn't really affect me until I was twenty-one. And all of a sudden, practically on my twenty-first birthday, I was shown some kind of stock portfolio. But I just wasn't interested. I said, 'Dad, I am never going to be interested — ever.' And my father has finally accepted that."

When the time comes for Hillary's second child, Donald, to receive his inheritance, his response will be different from his mother's. "Don is really entrepreneurial," Hillary says. "He is always thinking of ways to make money. He used to make little drawings and sell them on the sidewalk. And he's always trying to con us out of money. He's just so different than I was!" So when the time comes, Don will take a lively interest in his inheritance.

In our experience, telling a young person about an inheritance is rarely done well — and that isn't surprising because it's difficult to do. Telling your sixteen-year-old or your eighteen-year-old that they are going to be rich is hard for parents to handle gracefully, which is probably why they so often delegate the job to a trust officer or the CEO of a family office. Entrepreneurs may be less uncomfortable with such an announcement because they haven't been weighed down with the baggage that so often comes with old money. They are proud of making their families rich, and happy that they can provide for their children. At the same time, they may handle the announcement unskillfully, simply because it isn't something they have done before.

You can be creative in finding ways to teach your children something about fiscal responsibility and investing. An heir in her forties remembers her father letting her pick a stock (just a few shares) in seventh grade. "I picked Pillsbury. I figured that since everyone has to eat, if I picked a food stock, it would do well. And it did do well." Another heir recalls how her father taught her to read the Standard & Poor's 500 when she was nine or ten. She bought a few Kodak and Nabisco shares. "It was a great way to learn about money," she says.

But teaching financial literacy isn't simple or easy. There are more than a few adolescents and young adults like Hillary who could care less about learning how money works. Even those with a natural interest need careful, consistent training and guidance — and a voice in decision making. In her booklet, "Building Family Unity Through Giving: The Story of the Namaste Foundation," Deanne Stone follows the path of an entrepreneurial father as he searches for ways to teach his children financial literacy and responsibility. Stone writes, "When Bob's daughters entered adolescence, he began planning for their financial education. He opened modest bank accounts in their names and brought in investment counselors to teach them how to manage their money. At this age, however, the girls were more interested in their social lives than in finances. They felt overwhelmed by the amount of information they were being asked to learn and the decisions they were supposed to be making. The experiment soon fizzled."

A few years later, Bob tried a different approach. "[He] set up new and larger accounts for his daughters, but this time he tried to better prepare them for their responsibilities. After some coaching by [a friend who was a professional financial advisor,] each girl interviewed several investment counselors and chose the one whose investment philosophy and personality she was most comfortable with. At first, the girls showed more interest in managing their accounts than they had before. 'But after three years,' says Bob, 'I could see that they weren't learning any more, and the managers were doing everything, so I said enough of that.'"

Finally, Bob and his wife Wendy decided to create a family foundation and to include on the board all the children from both sides of their blended family. Then Bob and Wendy created a three-part educational program for their children, all teenagers at that point. They created something they called the $25K Investment Club. They gave each child $25,000 so they could set up their own brokerage accounts. The kids had to distribute their investments among five types of assets. "One of the children set up a computer program to store all the data related to the individual brokerage accounts, and each month she publishes the updates on their investments in the family newsletter. To sustain short-term motivation, the club gives semi-annual prizes to the two most successful investors. ... 'The object of the investment club,' says Bob, 'is not to see how much money the children can make, but how much they can learn.'"

Bob and Wendy's long-term plan for their family included several other components, but the details are beyond the scope of this booklet. We have included a portion of this family's history as an example of how much you can do if you have the energy and motivation.

Another approach is to set up a one- or two-day family meeting with a wealth counselor acting as a facilitator. In such a setting, information can be shared, questions asked and risks taken in a safe environment. You may think it unnecessary to work with a facilitator, and it is possible that your family communicates so well that you, your partner and your children can undertake something like this without professional help. But tensions and areas of confusion exist in all families, and talking about money, as we discussed, is fraught with perils. Wealth counselor John L. Levy advises, "When tensions are rather high or conflict is anticipated, it can be most helpful to use the services of a skilled and *neutral* facilitator."

What is an appropriate age to start giving my children money?

Of the more than 150 heirs that The Inheritance Project has interviewed in eight years, one thing stands out: the vast majority inherited at either eighteen or twenty-one. Probably the most common reason for parents' (or grandparents') decisions to start distributing money so early is found in two sections of the United States tax code: the Annual Gift Tax Exclusion and the Uniform Gift to Minors Act.

The Annual Gift Tax Exclusion

According to current tax rules, anyone can give up to $10,000 a year, tax-free, to an unlimited number of recipients — in this case, to a child or grandchildren. Over the years, these annual gifts really add up, especially if the initial gift is given in a child's first year of life. If the gifts are well invested, at the end of eighteen or twenty-one years' time, a pretty big bundle will have accumulated.

The Uniform Gift to Minors Act and the Uniform Transfer to Minors Act

The Uniform Gift to Minors Act (UGMA) and its successor, the Uniform Transfer to Minors Act (UTMA), have for many decades operated in tandem with the Annual Gift Tax Exclusion. By the rules of these acts, a custodian — usually a parent or grandparent, or someone they appoint — holds the money until the child is no longer legally a minor. According to the UGMA, a "minor" is a child under the age of eighteen. On the child's eighteenth birthday, the custodian is required by law to distribute the proceeds to him, to do with as he chooses. Why? Because that age is what the federal government has deemed to be an appropriate age for a person to gain control of his assets. According to the UTMA, which has been adopted state by state over the past ten or fifteen years, gradually replacing the UGMA, the distribution of wealth has to begin at age twenty-one.

When you consider how or whether you want make use of these two sections of the tax code, or when a financial professional encourages you to do so, here are some questions you can ask yourself. The first is: What is in my children's best interest? This question is not easily answered. It will require serious thought and much discussion with your partner and your professional advisors. Experienced advisors — financial planners, estate attorneys, accountants and wealth counselors — have dealt with this question many times. Many wealthy and well-off parents have sat in their offices, many questions have been discussed, and much advice given. If you have chosen your advisors with care, they will be professionals who have seen many other situations unfold over time, and observed what seems to work and what does not.

The second question is: Which is more important to me — paying less tax or doing what is in my child's best interest, even if that means paying more tax? You may, after consideration, come to the conclusion that these two goals are not incompatible. However, at the best of times, giving money to an eighteen-year-old or even a twenty-one-year-old — unless it is a very small amount, no more than a few thousand dollars — is risky business. Try asking yourself a third question: Will my children be ready to handle an inheritance when they are eighteen or twenty-one? Again, this question cannot be addressed in isolation: the answer depends on the other variables you need to consider. Therefore, please keep the question in mind as you continue reading. When you think it over as thoroughly as you can, you will discover that it takes you straight back to the subject of work.

Early adulthood is a perilous time for most people. Transforming oneself from a dependent child into a self-supporting, autonomous adult is one of life's major challenges. This period of transition is made particularly difficult when parents tell their children, in essence, "Now it is time for you to go out into the world, find a job, and be a grown-up" while at the same time giving them enough money to live on.

The paradox of choice

Not needing to work for a living is probably the toughest challenge of all for young inheritors, and many of them get stuck at this stage of life, never taking the leap into true autonomy. Even if your children are happy and confident, as well as good students, they may stumble when a big chunk of cash is suddenly thrust upon them before they have had an opportunity to learn that they are able to support themselves. Indeed, a fear that they may not be able to support themselves haunts many heirs, young and old. Sometimes the fear solidifies into paralysis.

There are actually three issues here. The first is that in order for young people to become adults, they need to know that they can take care of themselves and can stand on her own feet. The experience of finding a job, getting paid and living on an earned income fosters confidence and self-esteem. And there doesn't seem to be any satisfactory substitute for that experience.

The second issue focuses on a particularly sensitive question: Can a young adult develop autonomy by engaging in *unpaid* work? Working as a volunteer means that you are still financially dependent on someone else, and that can undermine confidence.

The third issue is the burden of too many choices. "It has taken a lot of effort for me to impose on myself some of the necessities that other people have to live with, that force them into action," says one young heir. "I think people who don't have money can't understand just how undermining it can be. When you have so many options, no clear vocation and no parameters, why get up at six in the morning?" The paradox is that the advantage of having choices can also make it hard for heirs to identify their calling in life.

Some wealthy parents who understand these issues choose to defer giving their children any money until they are a few years past their twenty-first birthday. Some young adults receive a small first distribution at twenty-five, with more to come at thirty, followed by a final distribution at thirty-five. This can work well for young people who have their feet on the ground. For others, however, twenty-five is much too early for anything more than a few thousand dollars. Lee Hausner believes that parents should postpone an inheritance until their children are forty. Some parents with children who stubbornly resist growing up resort to a tough-love approach: they offer no financial help and leave their young adults to sink or swim. These kids almost invariably learn that they can swim. This approach is sure to fail, however, if parents cut off their love and moral support along with the money. Your children still need you while they are learning to survive.

How much money should I give to my children?

Of all the questions wealthy parents ask, this is the most challenging. Opinions vary dramatically about how much is appropriate. Let's consider two widely known views. Perhaps they will help you find a middle ground that feels right for your family.

Self-made billionaire Warren Buffett is often quoted as having advised, "You should give your children enough that they can do anything, but not so much that they will do nothing." Buffett doesn't specify how much money that would be, but his advice can be scaled down to match your family's circumstances. James E. Hughes, a prominent estate attorney, shares Buffett's approach. He advises his clients to "fund [their children] up to a level that gives them the freedom to decide what to do in the morning, and after that, no more.... Once that complete freedom of action is achieved, you become a steward for the rest of the money. It's not going to change your lifestyle at all." His point is that you must actually *do* something.

Actor Beatrice Straight is an example of someone who made good use of the financial freedom an inheritance offered. Although not a household name, Straight had a distinguished career on stage and cinema. Her mother was a Whitney heiress, and her father, a banker, was a business associate of J.P. Morgan. Straight won prestigious awards: an Oscar and a Tony. According to her obituary in the *New York Times*, "because she came from a wealthy family, she never had to act for a living but was dedicated to the art of theater. When she became successful, she continued to choose roles for their challenges rather than for their ability to further her career." As a founder of Theater, Inc., she helped to bring the Old Vic, with Laurence Olivier and Ralph Richardson, to the U.S. She also helped to revive Michael Chekhov's School of Theater in New York. In other words, Beatrice Straight used her financial resources not only to pursue her passion and gift for acting, she also supported theater — a gift to all. In James E. Hughes' terms, Beatrice Straight knew what she wanted to do when she woke up in the morning.

At the other end of the "how much" question are the views of Thomas J. Stanley and William D. Danko, authors of the 1996 best-selling book, *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*. Stanley and Danko studied the work and lifestyle habits of new-money millionaires. Their conclusions are easy to grasp: people become wealthy when they work hard (and, it goes without saying, are financially successful), living a frugal lifestyle and plowing their profits back into the business or into the stock market.

Stanley and Danko have only scorn for "'rich kids' [who] receive substantial cash and other financial gifts until they are in their late forties or even early fifties." The authors have coined an expression, Economic Outpatient Care, or EOC, to describe the financial gifts that wealthy parents make to their adult children and grandchildren. The authors claim that parents who give EOC to their adult children are making a big mistake. That mistake is the belief that injecting some cash at key points in the lives of young adults will "'get the youngsters going' and then [the money] won't be needed anymore." Stanley and Danko maintain that "adults who sit around waiting for the next dose of Economic Outpatient Care typically are not very productive." They advise not giving any financial aid, either to younger or older offspring, beyond perhaps paying for college.

Stanley and Danko's approach has merit in the sense that too much "help" can indeed ruin a person's work ethic and encourage passivity and self-absorption. However, while some people who are given modest amounts of money never become productive adults, many more have benefited from receiving at least some financial support early in life. They are able to invest in a good education or start a small business, without taking on the heavy burden of loans. They can afford health care for themselves, or for a child with special needs. Jim, an attorney, has done well in his practice, although he and his wife are not rich enough to give their children the option of not working. They set up small, revocable trusts for their three children, to be used for college, graduate school, and a down payment on a house. All of their children have completed graduate school and are fully employed, whereas many of their children's friends are still struggling to pay off their student loans.

When wealthy parents raise their children well and prepare them for their inheritance, the danger that giving them a limited amount of money in early adulthood will "ruin" them is diminished, though still not eliminated.

Let's look at the "how much" question from a different angle: the question is closely linked not only to adequate preparation but also to timing, to "when." Consider this story as an example of what can happen when a relatively small amount of money — "small" from the point of view of many wealthy parents — is given to a very young adult. When James was fifteen his father revealed that he would give his son half a million dollars at eighteen. "I thought I was the only kid at my school who knew he had half a million coming to him," says James. That year, James' private school held an eighth-grade graduation ceremony and James was named valedictorian. To honor his son, James's dad gave him a Rolex watch. His intelligent but unappreciative son commented, "I felt pity for my dad. I was precocious enough to know that you don't give your eighth-grade son that type of present."

James is now twenty-six. In the eight years since his eighteenth birthday he has spent most of his inheritance, and he holds his father responsible for his lack of prudence. "I love having money," he explains, "and I think he didn't give me enough. About two years ago I sent him a twenty-page letter. I wrote, 'I have gone through so much hell. I've spent much more money than I should have, and it pisses me off that you gave me the money but you didn't give me any guidance. I should have been mature enough to see that I was spending too much, so what was keeping me from waking up? It's because the money has always been there and I had no reason to think about it, so I didn't.'

"My dad wrote me a beautiful letter, in which he tried to defend himself. He said, 'I did the best I could. I came out of poverty and it never dawned on me that you would have a hard time handling that kind of money.'"

James emerged from his adolescence with a bloated sense of entitlement. In college he was an English major and he feels revulsion at even the thought of going into business in order to support his chosen lifestyle. "I've known that whatever I do in life, I'll never achieve the success my dad did monetarily. So right from the start, I wasn't even interested in doing that. But what's so odd is that, growing up in a big house and driving a nice car, you get accustomed to it. You get used to luxury. I can't stand flying commercial because for the first fifteen years of my life I flew private."

While it isn't easy to feel empathy for this young man, Dad's decision to give half a million to his eighteen-year-old son without any strings or financial education was foolish. This story illustrates how seriously things can go wrong when a wealthy parent, possibly motivated by the hefty tax break offered by the Uniform Gift to Minors Act, as well as by the desire to do something nice for his children, ends up giving them too much too soon.

"It never dawned on me that you would have a hard time handling that kind of money." These pained words from a father who had to claw his way out of poverty and who only wanted to make life easier for his children is a useful example of how new-money parents may be unable to see the potential problems that so often accompany an inheritance. This story is also revealing in other ways. Half a million is not a lot of money compared with what many young heirs receive. (We have heard of several million dollars falling into the laps of fifteen-year-olds upon the sudden deaths of their hard-working fathers.) But half a million, from the perspective of an eighteen-year-old, seems like a fabulous, limitless fortune. He is, quite literally, blown away by his windfall: it threatens whatever sense of perspective he might otherwise have had. We could almost say that James should have known what to do, should have realized that if he spent too much and didn't invest anything, his money would soon vanish. But he didn't know, and he lays that responsibility — quite rightly, too — on his father for failing to prepare him to handle money.

If James had been twenty-five when he was given half a million, and if he had known at least a little about budgeting and investing, the outcome could have been quite different. As it is, James now has to make his way in the world, like almost everyone else. He won't see any more inheritance until after his father's death. By then he may know what to do with it.

No money at all?

What about not giving your children *any* money when they are young adults? Should they have to wait a long time, possibly until after your death?

The authors of *The Millionaire Next Door* are not alone in their strong belief that wealthy parents should not give their children money, or if at all, only in their wills. This belief has its roots in the Calvinist work ethic, the underpinning of the American Dream. Quite a few wealthy parents believe in hard work and a frugal lifestyle, and they don't want their kids to have it too easy or to live too comfortably. Oddly, the practice of leaving nothing to wealthy children is not limited to hard-working, plain-living, self-made men and women. Sometimes it happens even in old-money families. Here too, it is most likely founded on the same belief system of which Stanley and Danko are champions. One heir says, "I have known people who grew up with wealth, but at some point early in their life, their parents said, 'OK, you are on your own. You are going to work, and that's that. You are never going to get a dime from us.' Those parents went so far as to tell their kids that being cut off was good for them. But I think it's crap!" she exclaims. "When you raise your kids in wealth and then you say, 'OK, that's all,' and send them off into the sea of poverty, they suffer! Some of my friends who've been cut off like that haven't been able to make it. Their lives are really hard."

Jane's life was made unnecessarily hard because of the way she was set up to expect a large inheritance — an expectation on which her parents have yet to deliver forty years later. Undoubtedly Jane's parents had good intentions, but they were appallingly unskillful. Jane was told her in her mid-teens that "Someday you will be a wealthy woman." Her parents also warned her to beware of gold-digging suitors. What they didn't tell her was how far in the future "someday" would be, and she still doesn't know. Many times she has felt anger and resentment over the way her parents created an expectation they haven't fulfilled. She remembers a particularly awful day when she couldn't even afford to buy a cauliflower. But eventually she was able to see that not having her inheritance was also a blessing in disguise. Because she has had to support herself, she has gradually came to think of herself as a working woman, and to enjoy and take pride in her work.

Jane has also witnessed the negative effects of inherited money in her extended family: her aunt never got over the fear that she might lose her money and become destitute. Jane recently received a small bequest after her aunt's death — enough to buy a condo and a Honda, but not enough to stop working. She says, "I'm so grateful that I didn't inherit anything earlier, because I would never have learned that I could take care of myself. I have been able to find a place for myself in the world of work, and my work has been such a rich experience."

John L. Levy articulates a middle-ground approach. Levy interviewed thirty inheritors and their parents over a five-year period. His research was funded by a wealthy man "who was concerned about the effects of inherited wealth on his own children as well as others'." One of Levy's suggestions is that parents consider "sparing [their children] the burden of affluence by not leaving them much money.... Many wealthy parents have decided that ... young people should have to support themselves, at least partially, particularly if they want to live in anything like the style to which they have become accustomed." Levy also thinks it essential for parents who make this kind of decision to prepare their children, so they "know what is going to happen and that they understand, as well as they can, the reasons for it. As one wealthy parent put it, 'It's not right to bring them up on steak and then make them switch to hamburger.'"

How much control should I give my children over the wealth they will receive?

Unfortunately, there is no universal answer to this question. Some young people seem either unable or unwilling to learn how to manage money. A few take to fiscal responsibility like a duck to water. Most young adults are somewhere in the middle. Given sufficient preparation, most wealthy children have the capacity to learn how to manage money. And if you have done your job well, unless they are in still graduate school to learn a profession they can later use in the work force, it is likely that your children will be earning much or all of what they are spending by their mid-twenties.

In general, parents can think about giving their children as much control over their money as they are able to manage responsibly. Let's take a look at the ways parents (and often grandparents) transfer wealth. The key variable to be aware of is control: How much control? What kind of control? Who exercises the control? And for how long? Based on our experience, there are four basic patterns that occur when wealth is transferred.

1. When a family owns a business, most or all of the assets are tied up in the business. In these families, the wealth of individual family members is usually in the form of shares in the

business, with a controlling number of shares held by the founder or current CEO. Indeed, for the sake of the business, the assets need to be kept within the family. Family businesses are likely to generate various types of trusts, not only to protect assets from being dissipated, but also to limit IRS access to profits.

2. At the other extreme, and only in rare instances, parents give their children their entire inheritance outright, and sometimes at a very young age. Henry was given many millions in assets at around fourteen or fifteen. He muses, "I guess my parents just assumed from day one that my siblings and I were going to be responsible. They didn't think they needed to put the money in trust and make us jump through various hoops in order to get it." Henry and his two siblings had been carefully prepared from an early age: "I was taught how to balance a checkbook at fourteen. I learned about the responsibilities that go along with having money. If I had wanted to, I could have written a check for who knows what, but I wanted to do the right thing," he says. Needless to say, Henry's parents were taking a huge risk. Few parents would have the confidence that they could so successfully train their children to internalize a stewardship model of wealth management. This approach isn't one we would recommend because it can so easily backfire. Henry's parents also paid a steep price to the IRS — another reason why outright transfers before eighteen or twenty-one are unusual.

3. The most common manner of transferring significant wealth to the next generation is by creating trusts. If the wealth is more than one generation old, there are likely to be trusts from grandparents and sometimes also great-grandparents. Some heirs we have interviewed are beneficiaries of several trusts that have kicked in at various times in their lives.

4. In some families, money is doled out by parents. We could call this "the hands-on approach." Whether or not the money is, or was, in trust is irrelevant. We saw how David was given a credit card on his eighteenth birthday and how at the same time he signed his money back into trust for another seven years, essentially giving away the power he didn't even know he had. This is one example of how some parents circumvent the rules in the Uniform Gift to Minors Act, and the more recent Uniform Transfer to Minors Act, requiring that beneficiaries be given their trust assets outright at age eighteen or twenty-one, respectively. David didn't understand what he was signing, nor did his father explain it to him. This too is common. For several years after his eighteenth birthday, David didn't realize that the money his father was doling out, almost like an allowance, was actually his own. In some families this habit of doling out money to adult children goes on indefinitely. The children feel tied to their parents' apron strings, always waiting for the next installment of their allowance.

Secrecy vs. openness

Before we delve into the topic of trusts, we would like to share a story told by Scott, whose father built a business empire. This story illustrates that the ways families transfer wealth to their children aren't always as simple as the four basic patterns we just described. How parents transfer essential information to their children is just as important as the instruments they use to transfer wealth.

Scott is determined to spare his own children the secrecy, entanglements and confusion he had to deal with because of the way his father handled the transfer of wealth to him. This story is also of interest because it shows how wealth was transferred in the first generation of a business-owning family, and how dramatically the situation shifted in the second generation.

Scott begins, "My father made his fortune in the liquor business, but he was always very vague about how much money might be coming my way. My mother told me that I was going to be extremely well off. She said I could do anything I wanted because wealth is a stairway I could stand on to reach the stars. Meanwhile, Dad was thinking, 'The only star that really matters is the family business.'

"The entire family fortune was tied up in the business in a complex legal structure. There was no loose money at all. I knew that there was plenty of stuff there, but I had no idea what the real numbers were. Meanwhile, I went to law school and started practicing law. On my thirtieth birthday I got money from a small trust. Dad made a big fuss about that money being totally mine. He said I could get experience with it, and he introduced me to a broker.

"I eventually went into the family business and stuck it out for seven years. I got Dad to distribute some money to the shareholders — the family. It was like pulling teeth. In order for me to get my share, I had to enrich all the other family members, many of whom I didn't like. (They didn't like me either.) We finally sold the company and now *I'm* the family business. I manage our investments for myself, my mother, my sister, my children, and a couple of family foundations. I bought the family credo that the name of the game is to accumulate as much money as possible and keep it in the family.

"When Dad died there was a generation-skipping trust that passed from my grandparents to my generation. All the money had been held in my grandfather's name, and Dad's generation was getting the income. I managed to persuade Dad to take a fair amount of money that was intended for me and my sister, and stream it to his grandchildren. So now they have trust funds.

"I always wanted to correct something my dad did: he kept information about the money to himself. There were a lot of secrets, and I didn't like secrecy around money. I don't want there to be any confusion for my children. Dad was always telling me that there was big money for me, no strings attached. But he wasn't being truthful. I couldn't really see Dad's strings until I was in a therapy workshop, and then I saw myself as the captive of a giant spider, hopelessly caught in his web, and the more I flailed my arms, the tighter I was caught. So when Ben, my oldest, was nine or ten, I told him, 'When you're eighteen years old, come down to my office, and I will explain and disclose everything to you.'

"But when Ben turned eighteen, he didn't come to the office. He didn't want to know. Finally, three years later, he showed up wearing a pinstripe Brooks Brothers suit. He looked like a million bucks! And I disclosed everything to him. I have to laugh when I think that it took him three years to get around to it. Since then I've come to understand that twenty-one is awfully young. I now think the age of maturity is more like thirty-five.

"My dad put all kinds of restrictions on my money, and I didn't want to do the same thing to my kids. So I told Ben, and I'll tell Cary as soon as he's eighteen, "You'll get X when you're twenty-one, and Y when you're twenty-five. And when you're thirty-five, you'll get it all. You can take over the management of the money that's yours anytime you want, once you're twenty-one.'

"Both my boys have explicitly told me that they are not interested in money, thank you very much. Cary said, 'I'm just not interested in business, Dad.' So I said, 'Cary, why can't we reserve five percent of that enormous brain power of yours to pay a little attention to this stuff, in case Dad loses his marbles?' He said he'd think about it. Ben teaches at a private school and his salary is tiny. He pinches every penny and only dips into his trust fund to the tune of about five thousand a year. I couldn't be happier about the kind of work he has chosen. Cary's in his last year of high school, and he's suddenly developed a tremendous interest in drama. He got himself into the drama department at the Julliard School in New York, which isn't easy. I'm very proud of my kids.

"Even though I spend a ridiculous amount of time money-grubbing, playing the stock market, my children have picked up my belief that money isn't inherently valuable; it's what you do with it that counts."

Trusts

Trusts, the most common means of transferring wealth in families, can be a blessing, a mixed blessing, or a curse. It all depends on the type of trust, the preparation given to the beneficiaries, and the character of the trust officer the grantor selects. There are many kinds of trusts — enough to make the head spin.

We will restrict our coverage of trusts to living (or *inter vivos*) trusts, as contrasted with testamentary trusts, which are created as part of a last will and testament. A living trust distributes income, or both income and assets, during the lifetime of the grantor — you, the parent or grandparent. There are two basic types of living trusts: revocable and irrevocable. Either can vary widely in its impact on your children, depending on how it is written. The terms of a trust often reflect the values of the attorney who drafted it as much as the parents'. Therefore, your money is well spent when you take the extra time to discuss in depth what values you want your attorney to incorporate in the trusts they are preparing. This is not a good time to be penny-wise by choosing an attorney primarily because their fees are lower; their training and experience may be more limited and their values may not reflect your own, causing unintended and painful consequences for you and your children.

Dan Rottenberg's book, *The Inheritor's Handbook: A Definitive Guide for Beneficiaries,* is a good source of information on the various types of trusts you may want to consider. This book offers a clear analysis of the most common reasons why parents create trusts. In addition to tax avoidance, he includes "providing for children until they are adequately mature," "preventing children from making costly mistakes," "protecting children from the dangers of the world" and "maintaining control over children's lives." Rottenberg's comment on "providing for children until they are adequately mature" is worth pondering: "This is a laudable motive that often backfires in practice. When parents set up a trust for the benefit of their children, their implicit message ... is: 'We don't trust you.' Treating young people as immature often serves as a self-fulfilling prophecy: They don't grow up, and they spend their lives as resentful children. As [John L.] Levy points out, the indirect beneficiaries of trust arrangements are often psychotherapists."

That said, we believe that time-limited, revocable trusts, even if they have some disadvantages, are often very useful.

Irrevocable trusts

Once created, an irrevocable trust cannot be changed or terminated by the grantor. Even the best irrevocable trusts may have an unfortunate impact on their beneficiaries: the power to gain control of their assets is permanently withheld. Irrevocable trusts are specifically designed to ensure that wealth reaches beyond the beneficiary into the next generation. The income beneficiary (in this case, your child or grandchild) receives distributions of income and may be eligible to request distributions of principal, depending on the terms of the trust. Even when an income beneficiary has the option to request distributions of principal, the decision to grant the request is always at the discretion of the trustee. The ultimate beneficiaries of irrevocable trusts are your children's children, who will receive full control of the assets after your children's death.

Some irrevocable trusts are so rigidly framed that they leave the beneficiaries feeling disempowered and angry at their parents. Deborah's trust, for example, gave her absolutely no access to "her" assets during her lifetime. Other than the right to receive income, the only control given to Deborah was the power of appointment in her will, and even that was limited to her nuclear family and registered charities. Deborah found the strict terms of her trust all the more galling after Mr. D, her trust officer of many years, retired. He had been somewhat patronizing, but at least he had listened. Within the narrow limits to which he too was confined by the terms of the trust, he did his best to consider her small requests. Since the kindly Mr. D's retirement, however, her new trust officer, the hostile Ms. L, seems determined to thwart Deborah at every turn.

Not all irrevocable trusts, however, are as restrictive as this example might suggest. John L. Levy advocates skillful planning and thoughtful discussion with an estate attorney who understands the emotional consequences of irrevocable trusts as thoroughly as he or she understands estate law. Levy advises estate attorneys, "You can ... help parents to see that withholding responsibility and power from their heirs too long or too rigidly is likely to be bad for them."

Reading Rottenberg's book and Levy's article, "Trusts vs. Trust" (see the Resource Directory) will help you decide what questions to ask, what types of trust you might want to consider and what qualities to look for when you go shopping for an attorney.

Our bias is in favor of revocable trusts for the reasons clearly articulated by Rottenberg and Levy. When you consider, one by one, the reasons why parents create irrevocable trusts, the only one that stands up under scrutiny is the intention to ensure that you will be able to give inheritances to your grandchildren. But there are other ways that this can be accomplished, without leaving your children under the thumb of a trust instrument and trust officers for the rest of their lives.

Any trust is only as good as the financial institution and the trust officer that administer it. This is particularly important when a trust is irrevocable: it is likely that more than one trust officer — and possibly several — will be in a position of power over your children during their lifetimes. Sadly, some trust officers are incompetent, poor communicators and possibly even dishonest. When flagrant mismanagement or outright theft happens, it is very hard for a beneficiary to hold the financial institution accountable because the rules and regulations, set out state by state, are weighted in favor of trust companies and banks. So you would do well to think twice before locking your children into irrevocable trusts, the outcome of which you can neither predict nor control.

Revocable trusts

Well-crafted revocable trusts can be very helpful, particularly when the trust officer is carefully chosen. A revocable trust is designed to end at a certain point in a beneficiary's life. Thus it can actually accomplish some of the goals that, according to Rottenberg, parents are striving for, without undermining the opportunity for the beneficiary to develop autonomy. For example, "providing for children until they are adequately mature" may be the best option if parents sense, or already know, that their child is immature and careless with money.

At some point, though, it is best to let go of your control over the money you have put in trust for your children. What, after all, is more important, safeguarding your fortune or allowing your children to grow up? An essential part of growing up involves taking risks, including experimenting with money. Such experimentation may result in your children losing some of "your" nest egg. If you can view such losses as less than calamities, we think you and your children will be better off.

It may be easier to loosen the reins if you ask yourself (and listen deeply for the answer), "Whose money is it? Is it really theirs, or do I think of it as mine?" You could also try asking yourself, "How important is the money to me, when stacked up against what is in my children's best interest?"

When parents are able to let go of the need to control what happens to the money they give their children, depending on their child's circumstances and readiness, various kinds of plans can be made, with a revocable trust as the centerpiece.

Let's begin a few years before a trust starts distributing income in a hypothetical scenario. The parents may decide to dostrobute a small amount of cash — five or ten thousand dollars — to their nineteen-year-old, who has not yet shown the slightest interest in managing money. The money would be hers to learn and experiment with. The parents have to be willing to accept the possibility that their child will spend her money frivolously and have little or nothing left a few months or a year later. But she will have learned some valuable lessons about money and how easily it can vanish, and she will probably be ready to handle her money more prudently in the future.

Parents can also create a revocable trust of a million dollars, more or less, that pays out in several stages: at, say, ages twenty-five, thirty and thirty-five. (This type of trust is sometimes called a "trickle trust" or a "stepped-in trust.") They can appoint a trusted professional advisor as their son or daughter's trustee and empower this advisor to consider giving principal, on request, for certain purposes, such as tuition, overseas travel, or starting a small business. Good trustees, particularly those who knows the young beneficiaries, can discuss with them the advantages and disadvantages of using a portion of their assets. At thirty-five, all the remaining assets are given outright. If trustees are doing their job well and gain the beneficiaries' confidence, at thirty-five the beneficiaries will, more likely than not, be ready to manage their money themselves, or at least to choose a competent financial advisor. And if they still aren't ready, the risk of losing some of their assets may well be outweighed by your demonstration of faith in them.

The trustee-beneficiary "marriage" — making it work

James E. Hughes describes the relationship between a trust officer and a beneficiary as an arranged marriage because beneficiaries rarely — if ever — get to choose their trust officers. "Unfortunately for many trustees," Hughes writes, "they are not introduced to their new partner, the beneficiary, until the 'wedding night.'" Hughes explores how such a relationship can be made to work to the benefit of both trustee and beneficiary: "The solution to a successful beneficiary/trustee relationship lies in the trustee offering and the beneficiary accepting the proposition that ... the trustee's role is to be the beneficiary's mentor and to remain in that role until the beneficiary is fully participating in the beneficiary/trustee relationship, at which time the trustee's role will evolve to the trustee as representative."

Although in our experience such exemplary trustees are not easily found, times are changing and the traditional authoritarian approach to the trustee role is slowly giving way to a more open and cooperative spirit. The following is a useful example. Shelly's father was her original trustee, but his efforts to get his daughter to pay attention to her money were going nowhere. She admits, "I overspent and I didn't have any sense of budgeting. My father thought I was spending too much and I knew he was right. But I didn't have any sense of what 'too much' meant. I was really in the dark, though it wasn't my dad's fault. He was a wonderful father.

"Finally, when I was in my late twenties, Dad decided to turn me over to a trust officer at the bank. I was pretty nervous about it at first, but when I met Mr. S, I liked him right away, and it turned out to be an excellent arrangement for me. Even so, it took me a long time to learn to relate to my money. When I was thirty, Mr. S asked me to write down everything I spent money on, so that we could figure out where the money was going. Little by little, and somewhat painfully, he taught me to live on a budget. I finally realized that I really liked being on a budget because, for the first time ever, I felt like I was in control of my life."

Incentive trusts

One relatively recent type of revocable trust is called an "incentive trust." Financial planner Myra Salzer believes that, when thoughtfully planned, an incentive trust can be helpful. She says, "People set up incentive trusts because they want to be responsible in the way they give. They don't want to take away from their heirs a sense of purpose or accomplishment, or even just a reason to get out of bed in the morning." She also acknowledges that when parents use these trusts to encourage their children to do what they would like them to do, they can become somewhat like the star charts that parenting manuals often recommend. When a child makes his bed, gets himself ready on time for school and so on, he earns a star. The stars are later converted into some kind of award, usually a small amount of money. Star charts can work well for some children, but incentive trusts, with their built-in high stakes, are another matter. When a distribution from a trust fund is dependent on completing a major task, such as graduating from college, earning an MBA or working full-time for a certain number of years, the beneficiary could easily resent the control invested in the trust and dig in his heels: "I'll show them! They can't make me do something I don't want to do!" Or the desired task may get done, but for all the wrong reasons. Excessive control doesn't work even with teenagers; to think that it can work with young adults is foolish.

Salzer designs incentive trusts with the full participation of her clients. Most of them are testamentary trusts. "If the parents [fear that they] won't be around to teach the values they believe in," she says, "they feel that incentive trusts will help to replace the financial guidance that they won't be able to give themselves." Salzer is also aware of the risks involved in creating a trust like this: because no one can predict the future, or how people's interests may change over time, these trusts are difficult to draft. She says, "I always recommend that donors make sure the trusts stay relevant in a wide variety of circumstances, such as whether or not the beneficiaries have their own children. [Parents should also] consider a wide variety of values, [such as] philanthropy, education, [and] entrepreneurship. A good trust has to give the beneficiary choices."

A final note about trusts: Two distinct views affect what decisions parents make when they plan to transfer money to their children. The more common of these is known as "wealth preservation." Hughes describes this view clearly: "What is the business of families? I believe it is preservation. I have come to believe that families are in no other business.... Preservation ... means remaining wealthy for at least three generations, preferably longer. It means avoiding the proverb, 'shirtsleeves to shirtsleeves in three generations.'"

Ultimately, the issue of trusts comes down to your priorities. Which is more important, to preserve as much of your (or your family's) wealth for as long as possible, or to give your children control of their wealth? Or is there a way that you can accomplish both goals? We believe that there is, and the way to do it is to bring up your children well and teach them to value and steward their financial resources. But if you choose this option, you need to accept that there are no guarantees that your family's fortune will continue as far into the future as you might like.

Another option worth mentioning takes a different approach to the widely accepted wealth-preservation model. This view is considered left of center and doesn't accept the "Never, never spend principal" rule. This approach can be dangerous, especially when an heir is young, idealistic and often naive. So it's not for everyone. One young heir, for example, gave some of his inheritance to his guru, a man many considered to be a charlatan. On the other hand, if wealth preservation as a goal is less important than empowerment and financial education, an argument might be made for letting heirs learn from their own mistakes. They usually do.

FOUR: THREE FAMILIES, THREE GENERATIONS, AND THREE STORIES TO INSPIRE YOU

Having read this far, you may be feeling confused and possibly daunted. Indeed, giving substantial amounts of money to young adults is a risky business, and there is absolutely no guarantee that the money will not undermine or even paralyze them. At the same time there is another, more positive view, one which is clearly articulated by John L. Levy: "From my own experience and that of many I've known, inheriting a substantial amount can be a truly wonderful blessing, not a curse. It provides the inheritor opportunities to choose among career options, some of which may not be income-producing. Being able to select a vocation in philanthropy, social service, teaching or the arts is a wonderful privilege, which wise parents can offer their children."

By way of encouragement, we offer these three stories about wealthy parents who have succeeded in raising their children to become responsible and fulfilled adults for whom wealth is a blessing.

A work in progress: Geoff and Mary's family

Geoff is a fourth generation heir. Geoff and his wife, Mary, have three children: Kevin, twenty-one; Tim, eighteen; and Sarah, sixteen.

The biggest challenge for Geoff and Mary has been to turn the tide of the authoritarian old-money tradition in which Geoff was raised, in order to nurture their children, as well as teach them strong moral values.

Geoff: My great-grandfather was a strong and very hard man — stern and domineering. And those qualities got transmitted to my grandfather, and then to my father and on down to me. That hardness has been somewhat diluted in each generation, and I think my generation is much more conscious than our parents or grandparents were of what we're doing as parents. My parents implanted lot of values in me which have served me well — like duty and responsibility. You need those qualities in order to make your way in the world and become a successful person. But I think the value training I received may have gone too far: things like thrift and budgeting got pounded into me and my siblings. I'm sure my parents were doing the best they could, but the best that they could do, in many ways, wasn't very good. I was never given the option of not working, and I never even considered that possibility. But working wasn't about needing to make money in order to exist: you worked, I was told, "because that's what we do." So I went to work for an investment bank and became successful in a very conventional way. But in so doing, I lost a lot of the emotional side of life. For me, it always came down to doing the job or performing the duty or assuming the responsibility. And that didn't leave room for being spontaneous and expressing warmth. In my family's culture there wasn't much room for emotion; everything like that got pushed away. So I've spent the last five years talking with a therapist about those issues and how they shaped me, and trying to undo those old patterns.

Mary: I had caring parents. I know they loved me dearly, but they're also part of that same generation: they didn't believe in hugs or praise because they were afraid we might get big heads.

Geoff: Mary and I wanted to get away from some of the things that we felt were wrong in our own childhoods. We wanted to create a gentler environment for our children. We wanted to give our kids lots of hugs and be in touch with their emotional needs. I also wanted to transmit some of the same values that have served me well, like responsibility and integrity and honesty, but in a less heavy-handed way.

Mary: My youngest is sixteen and my oldest will graduate from college next spring, but I'm still a full-time mother. When your kids get older, you don't have to be there as much for their physical needs, but you never know when they're going to want to sit down and talk to you about something that's on their mind. So I try to make myself very available to them.

Geoff: Our kids have trusts that will be their own at twenty-one. They also have educational trusts from my parents, which will be theirs when they turn thirty-five. My feeling is that there's a time when they will be ready to learn about what they will inherit and telling them before they're ready isn't going to do much good. Before Kevin went off to college, I sat him down and told him what he has. I showed him some financial statements for his trusts, and he was quite taken aback: in his world, the numbers were pretty large. But I think he put it aside in his mind because it wasn't really relevant to him at the time.

Mary: Since we knew we didn't want to tell the younger ones about their educational trusts until we thought they were ready, we said to Geoff's mom and dad, "You won't be getting thank-you notes from Sarah and Tim for your annual gifts to the trusts because they aren't aware of them yet." This past Christmas we thought Sarah and Tim were old enough to know, so we said, "Your grandparents put a gift into your educational fund and you need to thank them." And they shot those notes right off. They still have no idea that they'll get the money at the end of the day, and I don't think they need to know. Kevin is easy. He seems to be on the right track: he's thrifty and careful. He's a bit upset right now because he doesn't know what he wants to do with his life. We just said, "You need to find something to do that's constructive and that makes you happy. If you want to be a school teacher, if you want to be whatever, just be whatever you want to be. Most twenty-one-year-olds don't know what they want to do, so don't worry about it."

Geoff: All three of them got their first summer jobs at sixteen, but we haven't made that an absolute requirement. We haven't been real pushy, and I think that's because we both experienced that kind of pushiness in spades. When I was old enough to have a car, I had to earn money to help pay for it. And when I wanted to go to Europe one summer, first I had to work and save my earnings through June and most of July. Neither Kevin nor Tim had to contribute anything toward the purchase of their cars, and maybe I haven't pushed hard enough in that respect. It's a fine line, and I don't know what the ultimate impact will be.

Mary: If we'd told Tim, "There is absolutely no way you can go to Europe unless you work and save money for your trip," he'd have known it wasn't true. So where do you draw the line? We may be too indulgent in some ways, but I think we're somewhat demanding in others. They have to get good grades in school and they have to go to college. And we absolutely expect them to be honest and respectful and polite. I hope we haven't been too permissive; we're trying to strike a balance.

Taking responsibility for one's life: Diana's family

The next piece is told from the perspective of a third-generation heir and mother of three. The story of Diana and her family shows how two generations of parents have successfully taught their children that wealth is a valuable resource, and that each generation is given two big responsibilities: to be stewards of the wealth and to serve others.

Diana grew up in a small town. "That helped create a sense of security and rootedness in me that reinforced my own confidence," she says. "Both my parents gave us a lot of encouragement. There were expectations too, of course, but I had the ability to meet them, so they didn't feel like a burden. One of those expectations was that I take on certain responsibilities. I knew that I had a responsibility to be constructive and creative and to contribute to society, but my parents didn't *make* us do anything. They didn't have to: they led their lives in a way that showed us a positive example, and that example has ended up being powerful for all of us. So I came out of childhood feeling really good about myself. My inheritance has never been part of my definition of who I am. I define myself by my intelligence, by my competence and by what I do in the world.

"Two of our kids are in their twenties now, and Seamus is about to graduate from high school. All three of them are good kids; we're very proud of them. Ever since the children were very young, we have lived in an affluent small town that has good schools. All three of our kids went to the local schools because Harold and I felt strongly that we wanted our children to be a part of their community — like I was at their age. Even in an affluent community, they have experienced some diversity because our schools have a good inner-city busing program. About twenty percent of their classmates were black kids from the city, and their friends ran the gamut from rich to poor.

"Our children had allowances, but not big ones, and they had to do chores. They weren't deprived, but they didn't have as much stuff as a lot of their peers. We try to lead a good, frugal life. To meet our essential expenses, we've always lived within our earned incomes. We have also worked hard to help take care of our community and the world around us. I was a young mother when we moved here, and I started becoming involved in the community — in the church and local government. And I did those things because that was the model I saw at home.

"Harold and I have a lawyer who helped us draw up some trusts for our kids, way back when. He suggested as a guideline that we make sure our kids would have to work. That was a wise thing to have planted in our heads when we were young parents, and it has proved its wisdom. All the children, when they graduate from college, will be fully responsible for their livelihood.

"Just before each of the children turned eighteen, we sat them down and explained what their assets were, as well as the small amounts of income they could expect to receive as they move through their twenties. They get a chunk of their money — not enough to be dangerous — when they're twenty-one. It's just about enough to buy a car. And when they're twenty-five, the trusts that Harold and I set up will distribute to them, but they will receive fairly small amounts.

"My children and all their cousins will also get something from their grandparents, but it will remain in trust for a long time. Harold and I are now trustees of our children's trusts, and they will become successor trustees for their children and maybe also their grandchildren. They'll be working with an independent trustee, probably a lawyer, who will have the authority to make distributions, but who will also look to them for advice about how that's done. They need to be educated in wise trusteeship and stewardship of the family assets — the business. I want to help the next generation grow into a position of understanding, so that they have some control over what is in trust for them, as well as some influence with their trustees. I do not want the next generation to feel controlled, either by the trusts or by their trustees and advisors.

"Michelle, our oldest, is twenty-six. She has just started graduate school. It was very important to her, and to me, to put a lot of thought into how she would pay for grad school. She wanted to apply for financial aid, as if she did not have any inherited wealth, so we went through the process of doing an application, even though I didn't think she had a snowball's chance in hell. But she actually got short-listed for financial aid, and she's still holding out the possibility of accepting it in her second year. She needed to prove to herself that she could manage the entire cost of graduate school, but finally she and her father and I were comfortable saying, 'OK, we will pay your tuition, and you will pay your living expenses.' She is more anxious than her younger sister — more likely to worry that there might not be enough money to go around.

"Laura, our twenty-four-year-old, is working full time for a high-tech company. She is much more relaxed about her money than her sister. She finds it much easier to buy things for herself. She is decisive, and it was easy for her to decide to lock her small inheritance away in some investments for several years. She asked me, 'What should I do with this money?' and I laid out her options. Every once in a while, we sit down and talk about how her investments are doing.

"Seamus just turned eighteen, and he can't wait to buy a car. He's got it all picked out. He's a wonderful, thoughtful, curious young man who, I think, is going to need a lot of time to mature. He's going through the college application process now; some days he gets excited about it, and other days he says, 'Oh gee, I don't know if I want to go to college yet. I think I just want to live in the woods for a while.' And I say to him, 'Well, that's just fine. If you can do that and be happy, that'll be OK.' He is very busy being eighteen and defining himself as separate from us. So I think it's much too soon for us to know which way he'll go, in terms of what kind of relationship he will make with his money.

"Recently Laura asked me, 'Mom, how do you handle having so much?' I said, 'What do you mean — so much?' And she said, 'So much healthiness.' She sees our family as being lucky in all areas. I talked to her about the general well-being of our family, which for me is grounded in a feeling of grace or a belief that thanks to a Higher Whatever, we happen to be in this position.

Empowerment: The Trudeau family

The late Pierre Elliott Trudeau, Prime Minister of Canada for sixteen years, was, like some of his American counterparts — both Roosevelts and John F. Kennedy, for example — an heir. Exactly how Trudeau's parents transferred wealth to their children is not public knowledge. But not having all the details is more than compensated for by this excellent example of good parenting and transfer of values *by example* — especially courage and service to others — through two generations.

How did Trudeau's privileged childhood and family life shape him? Were privilege and supportive parents part of his destiny to become a Prime Minister? Trudeau's story is particularly revealing because he manifested many of the behaviors of children of wealth and privilege, behaviors which often worry wealthy parents. And he made choices which may have seemed at the time, to those who didn't know him well, like fooling around. It turns out that, on the contrary, Trudeau's unconventional choices were part of a self-imposed preparation for a life of service.

Charlie Trudeau, Pierre's father, was a successful businessman. Pierre adored both his parents and was deeply influenced by them. "My father taught me order and discipline, and my mother freedom and fantasy," he once told *The New Yorker*. "My mother was a great respecter of [the] freedom of her children and was always prepared to take a chance. I suppose that because my father gave us a strong disciplinary base, I could make good use of that freedom. If I was going to take off for James Bay [in the Arctic], for example, [my mother] would say, 'So long. Have a nice trip, and don't get drowned.' She never said, 'Why don't you work or study instead?'"

Trudeau was a brilliant student, though often mischievous and rebellious. During World War II, he stayed at university "while many Canadians his age were fighting in Europe. He opposed conscription and wrote ... essays about the joys of motorcycling and canoeing." Already Trudeau was using his financial resources to choose not to do the expected thing.

In his twenties and thirties, Trudeau could easily have been labeled a late bloomer. After graduating with honors from law school, he spent five years "using his family's affluence to study and travel, seldom staying long in one place." He studied at three elite institutions: Harvard, the Ecole des Sciences Politiques in Paris and the London School of Economics. He traveled around the world: to Africa, to the Middle East, to Eastern Europe and to China. In those days, Trudeau traveled on the cheap. A friend recalls, "He was living like a poor guy, with a knapsack, sleeping in huts. He could have traveled first class, but he knew you can't understand a country as a tourist."

After returning to Montreal, Trudeau chose work that was unconventional. Again, according to *The Globe and Mail*, "he would not stay put for long. He helped found *Cité Libre,* a magazine ... which criticized the Quebec political establishment. The magazine was influential because it was one of the few vehicles for expressing dissent.... He worked briefly in Ottawa as an economic policy adviser ... but he soon departed for Africa and then to an international economic conference in Moscow. For the rest of the decade, he dabbled in a variety of occupations. He advised the trade union movement on legal problems, wrote essays, edited *Cité Libre,* managed his father's estate, and traveled.

"He enjoyed the life of an apparent dilettante.... [An old friend commented,] 'People always had the impression he was not doing anything, that he had a leisurely life. You'd see him on the ski slopes [and] with pretty girls in the discotheques, but [that] was only [how he spent] a small part of his time. He was working more than [most] people suspected.'"

At forty-six, Trudeau was elected to Parliament and became Prime Minister three years later. His far-seeing political vision is largely responsible for the respect Canada has earned.

Trudeau was famous for his devotion to his three children, and his love for them was richly returned. He understood their needs and didn't let his job as Prime Minister stand in the way. According to one of his political associates, Trudeau advised him, "When your kids are teenagers, that's when they really need you because they're defining themselves as adults." The legacy Trudeau gave his children is much more than a material legacy, although that too is part of what they received. He loved his children fiercely and trained them well.

At Pierre Trudeau's funeral, his eldest son, Justin, age twenty-eight, said, "He loved us with the passion and the devotion that encompassed his life. He taught us to believe in ourselves, to stand up for ourselves, to know ourselves and to accept responsibility for ourselves. We knew we were the luckiest kids in the world, and we had done nothing to actually deserve it. It was, instead, something that we would have to spend the rest of our lives to work very hard to live up to.

"He gave us a lot of tools. We were taught to take nothing for granted. He doted on us but didn't indulge.... He encouraged us to push ourselves, to test limits, to challenge anyone and anything. [He taught us] tolerance and [recognition of] the real and profound dimensions of each human being, regardless of beliefs, origins or values."

We have said that having too many choices, being able to do whatever you want, puts heirs at risk of feeling ungrounded and paralyzed. But not necessarily, as Justin Trudeau's comments in a more recent interview reveal. He says, "Sometimes people tell me, 'Justin, you could do anything with your life. Why become a teacher?' (He teaches in a private school.)

"And I say, 'Because I can do anything I want, and there is nothing [better] than to be a teacher and maybe creating more people like me, who recognize the importance of taking responsibility for the world.'... I grew up with an incredible man for a father and a wonderful mother. Given those two people, trying to live up to what I see as my potential is the challenge I set for myself."

Could we imagine a better legacy from a wealthy parent (or from any parent) to his children?

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Appendix A

QUESTIONS FROM "BRAT-PROOFING YOUR CHILD"

in *Children of Paradise: Successful Parenting for Prosperous Families*

by Lee Hausner, Ph.D.

1. Do you indulge your children to replace yourself?
2. Do you indulge your children to avoid hassles?
3. Do you indulge your children to be fair?
4. Do you indulge your children to reflect your success?
5. Do you indulge your children to keep up with the competition?
6. Do you indulge your children to make up for your childhood?
7. Do you indulge your children to win a divorce battle?

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Not having to support themselves often leads heirs down dead-end streets. Explores how heirs deal with this situation.

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Passing Wealth Along to Our Children: Emotional Complexities of Estate Planning (1995)
25 pages. Follows a fictional family through the complexities of estate planning to illustrate the dilemmas that arise in leaving wealth to children and grandchildren.

Wealth Counseling: A Guide for Therapists and Inheritors (1999) 18 pages.
Dennis Pearne, a psychologist and wealth counselor, discusses how to work with issues most likely to be obstacles for heirs: guilt, shame, financial paralysis, and fear.

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Wealth counselors

Joan DiFuria and Stephen Goldbart, wealth counselors, Money, Meaning and Choices Institute, Kentfield, CA. www.mmcinstitute.com.

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