

A close-up photograph of two hands against a blurred green background. The upper hand is positioned to drop a single coin into the palm of the lower hand, which is already holding several other coins. The lighting is soft, highlighting the texture of the skin and the metallic sheen of the coins.

From Shirtsleeves to Shirtsleeves

Keeping Wealth in the Family

By Mark J. Morrise

Family wealth can be quickly lost. The old proverb, “From shirtsleeves to shirtsleeves in three generations,” sums up the sad 19th century tale of how a hardworking immigrant can accumulate a fortune, and in just two generations the less hardworking offspring can spend it and must again work for a living. Implied in this tale are mistakes made by the first generation that foster the later generations’ extravagance.

The “shirtsleeves to shirtsleeves” proverb is as true today as it was then. The desire to pass on wealth is still strong, and for many affluent Americans it continues to be an important financial goal. But, despite that goal, nearly three of every four wealthy families today see their wealth dwindle by the end of the second generation, and nine in 10 see it disappear altogether before the end of the third generation.

Affluent parents naturally want to avoid the shirtsleeves-to-shirtsleeves tragedy. “I

don't want to spoil my children" or "I don't want to give them too much" are concerns often expressed by such parents. They rightly perceive that a large inheritance will affect their children's or grandchildren's financial decisions, including their willingness to control spending and save for retirement. One approach is to limit their children's inheritance to an amount that will help them succeed in life but will not undermine their desire to save or be productive. Perhaps this is what billionaire Warren Buffett meant when he said that a perfect inheritance is "enough money so that [the children] would feel they could do anything, but not so much that they could do nothing."

Limiting the size of an inheritance is not the only possible approach to avoiding the shirtsleeves-to-shirtsleeves misfortune. The following four principles for keeping wealth in the family are based on recommendations from experienced advisers who counsel wealthy families.

Prepare Your Heirs for Their Inheritance

The 2007 Wealth Management Wealth and Values survey identified five "golden rules" of meaningful money management: earning, saving, spending, giving and budgeting. How can parents teach these golden rules? One nationally recognized expert on wealth psychology, Charles W. Collier, a senior philanthropic advisor at Harvard University, recommends four basics: set a good example, provide consistent guidance, allow children to make mistakes and consider the use of mentors. Mentors can be family members (such as aunts, uncles or grandparents) or nonfamily members (such as friends, teachers or advisers).

David and Janice Wallace, who were successful in preparing their three sons to take part in the family business, said the key to their success was that they practiced and taught the principle of stewardship. According to David, "A steward does not

look at an asset as his to begin with. Some parents say, 'These are my assets. I paid the price to get here, and my kids are going to have to do the same! Until then, I will make all the decisions!' What these parents fail to recognize is [that] their stewardship [is] over both the assets and their kids."

Communicate and Build Trust

Closely related to heirs' needs to be prepared for their inheritance is their basic emotional need to be able to communicate with their parents and feel trusted by them on money matters. The lack of such an "emotional inheritance" can lead heirs to experience deep personal problems, notwithstanding their financial inheritance.

Communication with heirs includes talking to them about the purpose of wealth, how it can and should be used, and the responsibilities that accompany it. It may also include an honest and open discussion of the parents' estate plan. Without such a discussion, children are more likely to perceive the parents' estate plan as unfair, especially if it does not give everything in "equal and outright" shares to the children. That perception in turn may lead to hurt feelings, resentments and interfamily conflicts.

Building trust often includes disclosing how much wealth the family has and giving heirs opportunities to manage portions of it. One wealth management opportunity recommended by advisers is to create a family foundation and involve the children in family philanthropy.

Create a Shared Family Vision and Mission

James E. Hughes Jr., a long-time counselor of wealthy families and the author of "Family Wealth: Keeping It in the Family," advocates that families create a shared vision of the family's future and a mission statement to carry it out. The mission statement then flows down to all joint endeavors in which the family participates, such as investments, the family

business and philanthropic work. The family creates the mission statement by holding meetings where family members share their individual passions and values, envision the family's future, and choose a form of family governance that will assist the family in carrying out its mission.

Use Your Estate Plan to Promote Values

Examples of values-based planning include selecting trustees who will act as mentors to your heirs, attaching incentives to trust distributions, establishing a "family bank" to make loans (instead of gifts) to heirs for worthy purposes and setting up a private foundation to encourage philanthropy. Unlike traditional planning, which seeks to maximize the assets to be passed on to the heirs, this type of planning seeks to maximize the heirs' physical and emotional well-being and then structures the plan accordingly.

Although these four principles differ in the solutions they propose, they are all related by one fundamental truth: The real assets of a family are not its money but its members. A family that understands and lives by this truth not only has its priorities straight, but is also in the best position to preserve its financial wealth. ■

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