Putting on Heirs

How to make sure your wealth becomes a legacy and not a curse

Anthony Marshall is every wealthy parent's worst nightmare. The son of the late epitome of New York society, Brooke Astor, was indicted last fall on criminal charges for mishandling his mother's estate.

Marshall isn't the first trustafarian to squander inherited wealth. Huntington Hartford went through the A&P fortune like butter and wound up bankrupt. Tobacco heir Steven Benson went to prison for planting a car bomb that killed his mother and her adopted son.

Inherited wealth doesn't always result in murder or mayhem, but it does present challenges in raising self-reliant children.

Experts estimate that anywhere from $10 trillion to $40 trillion will transfer as the richest generation in U.S. history passes on its wealth within the next 40 years. Many parents worry that their riches may ruin their children. And well they should.

Psychologists who've studied wealthy inheritors have found it can diminish self-esteem and dull their drive. It can isolate them, make them suspicious of others and impair their ability to sustain relationships as well.

So what can parents do to keep their ample assets from tarnishing the silver spoons in the mouths of their offspring?

Setting limits

Make sure you raise your children to be good stewards of wealth.

"Parents worry too much about how much money to give their children, when the real issue is how to prepare them to handle wealth," says Nancy Wieboldt, vice president in the Wealth Management Group at Northern Trust. "If they are well prepared, the dollar amount will be less relevant."

The super rich may have to work harder at parenting than the less affluent. All children need limits, but they come naturally to the less affluent.

Saying "No" when your 6-year-old daughter wants diamond studs from Tiffany's or your teenage son wants to take all his friends skiing in Gstaad is easier when you can't afford to say "Yes."

"Wealthy parents must develop character and self-esteem in their children and inspire them to find fulfilling work — without the built-in incentive of hardship," Wieboldt says.

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NANCY WIEBOLDT, VICE PRESIDENT IN THE WEALTH MANAGEMENT GROUP AT NORTHERN TRUST

Open up

Start by trying not to hide your wealth from your children, she advises. Kids will find out just how rich you are. Most kids learn to Google before you stop goo-gooing over them. They will trust you more if the information comes from you.

An heir to the Johnson & Johnson fortune had no idea his parents were wealthy until a fourth-grade classmate brought in the Forbes 400 list. One CEO caught his sixth-grade son sifting through SEC documents looking for Daddy's salary and stock options.

You don't have to share P&L statements with preschoolers, but you might start the conversation by sharing that many other people aren't as wealthy. Be sure to talk about the responsibilities and challenges, as well as the possibilities, of wealth.

Your estate plans should be part of a regular family conversation when your children reach their teens. The last place you want them to find out where they stand is at the reading of the will.

Transfer knowledge as well as wealth

To raise financially literate children, you need to start early, say the experts. Even first-graders can comprehend that they have choices to make with every penny: to save, invest, donate or spend it.

"They need to understand the value of money as well as what it means to work," Wieboldt says. "If all your kids think about is how to get your money, what will they do after they get it?"

As children reach their teens, that education should come from experts in addition to parents. Financial advisors, wealth camps, wealth counselors, books and workshops can all help children learn to manage money.

Model money

Your children will also learn from your example. If you're careful about spending money, your children are more likely to do the same.

This goes for philanthropy as well. Your children should witness charity at work. They won't learn much if they only see you writing checks. That may look like a handout to them, Wieboldt explains.

More and more super-wealthy parents, especially those who've earned the money themselves, have announced plans to direct the bulk of their estates to support their philanthropic causes.

The list includes Microsoft's Bill Gates, Virgin Airlines' Richard Branson and Berkshire-Hathaway's Warren Buffett, who has often stated that children shouldn't get billions just for winning the birth lottery. His formula is to leave his own children "enough money so that they would feel they could do anything, but not so much that they could do nothing."

In fact, one survey of entrepreneurs found that they plan to leave an average of 10% of their wealth to their children. They often cited reasons based on how much they enjoyed making a success of themselves and not wanting to deprive their children of the opportunity.

Forge character

While you may not want to reproduce deprivation, you can do a great deal to build character in your children.

"You want them to understand that money is connected with effort,"

Wieboldt says. Here are some tactics she recommends:

> 'You want to transfer knowledge along with wealth. Financial literacy should be a part of your children's education.'
>
> NANCY WIEBOLDT, VICE PRESIDENT IN THE WEALTH MANAGEMENT GROUP AT NORTHERN TRUST

Make allowances work. The weekly allowance is the place to start. Don't just dole out a fixed amount. Make it contingent on performing tasks.

Be creative. Offer to match funds for money saved or donated. Then make them account for what they spend.

That worked for John D. Rockefeller, Jr., who helped found the family foundation. His oil tycoon father made Junior's allowance contingent on saving 10%, donating 10% to charity and submitting reports on how he spent the rest.

Provide opportunities to earn money. "If you don't want to raise accomplished sponges," Wieboldt says, "make sure your children experience the joy of earning money for honest effort and don't berate them for wanting to work."

Years ago, one wealthy Kansas City, Mo., woman was horrified when her daughter took a job taking care of a neighbor's pets. "My daughter shouldn't be picking up poop for a living," she wailed. Her daughter soon decided she was above working altogether and hasn't held a job since.

Engage your children in managing money. Talk about your investments. With young children, ask about their favorite toys. Explore stock or mutual funds with holdings in the companies that make the products they like.

You might also open custodial investment accounts and involve your children in where to invest the funds.

Paul Gardner, a well-to-do Washington, D.C. lawyer, for example, spent a great deal of time talking about investing with his two sons, Dave and Tom. He taught them about risk and opportunity and searching for value in ways that made investing fun — so much so that his boys went on to found The Motley Fool, the source of stock investing advice for millions.

Stage their inheritance. "Giving large sums of money to children before they have had a chance to earn a living themselves and polish their skills can undermine their confidence and self-worth," Wieboldt says.

Better to transfer wealth in stages, through vehicles like trusts. (See "Love minus money" on Page 5.) Giving them smaller amounts while you're alive also lets you see how they handle money.

Resist the impulse to use money to control. "You risk dulling your children's decision-making skills when the money makes choices for them," Wieboldt says.

To mature, your children need to make choices and live with them — like college, a career and a spouse. That means wishing your son well when he decides to become a shepherd instead of taking over the family real estate business.

Let them make mistakes. Most people learn more from failure than from success. Besides, the stakes get higher the

longer you cheat your children out of the chance to make their own blunders.

One wealthy Dallas retail executive spent years bailing his son out of trouble, paying off his credit cards, gambling debts and legal bills. When his son, already in his 30s, called from jail in London, his father finally said, "You're on your own." After a few years in prison, his son returned a different man and went on to become a successful restauranteur.

Sterling examples

Finally, take heart that vast wealth isn't always the ruination of the next generation.

CNN host Anderson Cooper is a Vanderbilt descendant. Brooks Firestone of the tire family started a vineyard that put California's central coast on wine maps. And both Donald Trump and Ted Turner out-earned their dads.

Love minus money

Putting distance between your love and your money can help your kids

If you don't want your kids to think of you as an ATM, you might want to deploy some tools designed to provide a neutral buffer between you, your children and your money.

Nancy Wieboldt, vice president in the Wealth Management Group at Northern Trust, outlines a few:

Family trusts. Most wealthy parents set up trusts to transfer wealth to fund the health, education and welfare of their children. These can yield tax savings, keep assets out of probate court and provide a way for money to pass smoothly from generation to generation. Parents can either act as the trustees themselves or appoint a neutral outsider.

There are as many different types of trusts as there are parenting styles. Many trusts, for example, pass money to children in three or four stages. Some don't pay out fully until the children reach their 40s, 50s or beyond.

Incentive trusts. These allow parents to attach specific conditions to a trust, like graduating college, working for a specified period of time or staying sober. Wieboldt advises great caution in setting provisions. The courts often won't uphold certain conditions, such as marital status or church attendance.

"Remember, you can't build character with money, nor accomplish in death what you couldn't do in life," Wieboldt cautions.

Family meetings. More families are holding regular meetings to discuss estate plans and address money matters with an outside facilitator. These sessions might include an educational component for younger members. Many take advantage of a holiday or family reunion to set aside two or three hours to go over financial issues together.

Money mediators. Psychologists and lawyers with special training in mediating money issues can help wealthy families work through difficult issues related to money.

Mentoring committees. Some parents with problematic adult children have formed mentoring committees to respond to money issues. They might be composed of a lawyer, accountant and financial advisor.

"If you want to talk about money, call them," says one frustrated father. "I just want to be your parent."

These tools can free your time to provide what your children most need to become well-adjusted adults: your love and attention.