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How to beat the Midas curse

Nine out of 10 affluent families will lose their wealth by the end of the third generation. So how can families hang on to their money?

By Marilyn Gardner | Staff writer of The Christian Science Monitor

Whenever Rodney Zeeb gives talks on financial planning, he asks his audiences if they know the perils that arise when heirs are ill-prepared for an inheritance. Each time, nearly all heads nod, and hands shoot up: Yes, yes.

"Almost everybody knows a family or has seen a case where the money hurt somebody in the family, or the kids or grandchildren blew it all," says Mr. Zeeb, an attorney and coauthor of "Beating the Midas Curse," a reference to the destructive relationships with money that splinter some families.

So widespread is the problem, that 6 out of 10 affluent families will lose the family fortune by the end of the second generation, Zeeb says. And 9 out of 10 will have depleted the family wealth by the end of the third generation.

It's a modern-day drama summed up in an ancient Chinese adage: "Wealth never survives three generations." Nineteenth-century Americans updated it to read, "From shirtsleeves to shirtsleeves in three generations."

These sobering realities raise a question: How can families plan their estates across generations and reduce the chances that money will be squandered?

That question promises to grow more urgent as baby boomers receive inheritances and plan their own estates. The next 50 years will bring the greatest transfer of wealth in history, experts say. At least \$41 trillion will pass to the next generation by 2044, estimates Paul Schervish, director of the Center on Wealth and Philanthropy at Boston College.

To help families make successful transfers, some financial advisers are quietly broadening their approach. They are part of a fledgling movement urging families to focus on passing on values as well as valuables to successive generations. "That's where parents typically fall down," says Paul Binnion, vice president of Clark Capital Management Group in Philadelphia. "They just pass the money without passing the values involved in its creation."

Stuart Lucas, a fourth-generation heir to the Carnation fortune, offers a cautionary note: "If you transfer wealth to the next generation without preparing them, it's bad for them, and it gnaws at the fabric of a vibrant and productive society."

Yet preparation can be hard. Out of love for their offspring, parents can unwittingly sow the seeds of later inheritance problems by trying to spare their children the hard work that contributed to their own financial success.

"They want their kids to have an easier life than they had," says Jim Huller, a principal at Maximum Wealth Advisers in Roanoke, Ind. "They kind of neglect letting them learn things the hard way - doing without things, making some sacrifices." That can foster an easy-come, easy-go attitude toward money that most parents never intended.

"If you ask a wealthy parent, a husband or wife, 'Do you want your wealth to corrupt your kids?' there wouldn't be a parent on earth who would say 'yes,' " Mr. Binnion says.

He and others see communication as the start to a solution. Yet Binnion finds money to be "one of the most taboo subjects" in wealthy families.

"Most parents don't want to talk to their kids about money," Mr. Huller says. "And our schools do a terrible job about training us to manage money."

Still, at the other end of the age spectrum, signs of change are appearing. A survey by The Hartford notes a distinct generation gap in how baby boomers and their parents see issues of inheritance and estate planning. Three-quarters of parents in their 70s say they are very comfortable talking about their estate. But less than half of the children feel comfortable having this kind of conversation. The study also finds that baby boomers underestimate the importance their parents put on providing for their heirs, improving their children's lives, helping their children prepare for retirement, and helping grandchildren attend college.

When families do have conversations about preparing heirs to handle estates responsibly, Binnion suggests that the talks begin between Mom and Dad.

"You can't discuss values with your kids if you don't discuss them yourselves," he says.

Zeeb recommends a formal process of discussion for the family, beginning with the values members cherish. A vision statement can follow, along with family council meetings and family retreats. He emphasizes that this must be an ongoing process. The size of the estate does not matter.

Preparation also involves encouraging children to think philanthropically, regardless of the family's financial circumstances. Zeeb tells of one family with two children, ages 8 and 10. The parents gave each child \$1,000 to give away. "They had to do a grant request, telling who they wanted to give to and why. At Thanksgiving, three generations were talking about helping others and helping the community."

Elizabeth Arnold, author of "Creating the Good Will," advocates putting the emotional well-being of families ahead of tax- saving structures. She also emphasizes the need to look objectively at the money behavior of loved ones. "Are there people in their circle who will squander the money? It's OK to admit that. A trust is a good gatekeeper. If you put funds in a trust, you can pretty much decide when and where the money is going to flow."

Even so, estate planning must consider fairness. "If you know that your son likes to spend money on cars but your daughter is very careful with her money, you don't just want to throw money for your son in trusts if he's going to feel singled out," says Ms. Arnold. "Fair is not always equal, and equal is not always fair. But if one person gets the money outright, and the other person has some special provision put in place, there could very easily be tension between the siblings."

If parents decide to create different arrangements for loved ones, Arnold continues, they need a video or written document - some kind of lasting explanation, so siblings do not take it out on each other. It tells them they're loved and explains why the situation is the way it is.

"You can have the most perfect legal and tax plan," Arnold adds. "But if you don't help

shape healthy relationships to money and to each other within a family, affirming your love, and giving kids a healthy sense of themselves, then no plan will achieve your goals."

Some parents choose to skip a generation in designating heirs, at least for part of their estate. Huller notes that some of his clients are executives in their 50s. "They say, 'I want to make sure my grandchildren can go to college.' " In such cases, he might suggest a 529 account, the section of the IRS code whose purpose is to fund college education.

Some clients like charitable remainder trusts, which spread out income to heirs over time. Later, the rest goes to charity.

Whatever the provisions of an estate, nobody said preserving an inheritance is easy. "It actually is more difficult to retain wealth than it is to make it in the first place," says Lucas, author of "Wealth: Grow It, Protect It, Spend It, and Share It." "If you want to retain your wealth, the work has only just begun."

In his extended family, he explains, "We do things that involve delayed gratification, or living below one's means."

Part of the living-below-one's-means lore in Lucas's family involves a Plymouth Valiant his father bought new in 1965. "He drove that car to work every day," Lucas says, even after he became president of Carnation International. He kept it for 25 years.

"The expression and management and passing on of values is much more important than the passing on of wealth," says Lucas. "If you pass them on together, you've created something powerful for the individual, the family, and for society. That's true whether you're worth \$100 or \$100 million."

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