Introduction

Children who grow up in a wealthy household are bound to encounter mixed feelings, mixed messages, and mixed blessings. That's because parents who provide a charmed lifestyle and leave behind substantial money to their children do not guarantee their children's happiness. In many cases, riches have the opposite effect.

For wealthy families, the stakes are high—not just because there's more money to squander, but also because wealth can fuel dysfunction. Money can provide education, comfort, travel, and exposure to high culture, couture, and cuisine. But money can also paralyze people and strip them of ambition and meaning. Some children suffer feelings of guilt over not having earned their wealth; others find themselves mired in a toxic brew of entitlement and numbing ennui.

These problems affect a growing portion of our country. The estimated number of households with at least $10 million in net worth doubled between 1995 and 2004, from more than 200,000 to more than 500,000, according to Federal Reserve surveys of consumer finance. Households with at least $25 million jumped from 50,000 in 1995 to more than 100,000 in 2004.

Of course, a fair number of the country's and the world's wealthy are worth significantly less as of this writing as a result of the stock market meltdown that began in 2008. In fact, as of March 2009, the richest of the rich who made it to *Forbes* magazine's list of World's Billionaires found their average net worth had fallen 23 percent, to $3 billion, from the preceding 12 months. *Forbes* reported that the world now has 793 billionaires, compared with 1,125 the previous year. American billionaires fared a bit better than their global counterparts, snatching 44 percent of the slots, up 7 percentage points from the year before.

The financial crisis has created a new set of financial and emotional issues for wealthy families. Some who saw almost half their net worth disappear were arguably less experienced than middle- and lower-class folks in cutting spending. Families who have inherited their wealth and who have no current wealth creator among them may have an even tougher time weathering the current economic storm, both financially and emotionally.

Many wealthy parents worried even before the economic meltdown about how to raise children with a sense of groundedness and balance: how to impart a strong work ethic, how to counter their sense of entitlement, how to prevent them from remaining dependent, how to help them separate their identity from their wealth, how to help them develop confidence in themselves, how to instill a desire to give back to society, and how to be good stewards of wealth for future generations. Suddenly, there's a greater urgency about guiding and teaching children these financial values and lessons.

Moreover, those who count themselves among the elite slice of society found their sense of security shattered. Money had protected them from many of life's harsh realities. They were caught utterly off guard and unprepared to adjust their expectations and lifestyle.

When we began researching and writing our book in the fall of 2008, just as the stock market plunged, we, along with our editor and publisher, felt we might out-date this book if we gave more than a cursory mention of the market meltdown. But as the country and much of the rest of the world began to spiral into a deep and potentially prolonged recession, we all agreed that even if a miracle were to effect a major turnaround, the shock waves wealthy families were experiencing were having a profound effect. These world events had the high–net worth community questioning their values, spending habits, and children's future in a profound way. The economic downturn has brought these issues to the surface and made exploring them impossible to ignore. We have folded in facts, examples, and quotes that describe how these economic woes impact the many issues our book addresses.

Readers should also be aware that the authors of this book bring very different experiences, skills, and perspectives to this project.

Richard Morris has a background in marketing and education. He worked his way up in his family's auto parts manufacturing company, Fel-Pro, where he worked in marketing and later in acquisitions, until the family sold the eighty-year-old business in 1998. Morris's "liquidity event" prompted him to rethink his life. He wanted a work life that provided a sense of belonging and a chance to give back to society, and he soon created ROI (Resources for Ownership Intelligence) University, which provides certificate courses for private owners in management, marketing, retail, sales, and human resources management. Even though he and his wife decided not to change their standard of living substantially, they found that the liquidity of their assets provided new challenges in bringing up their children as well as managing the families' finances. Many questions needed answers, and they found no one resource to address those questions. Morris devoted substantial time to studying not only how to manage his financial assets but also the psychological and social challenges new and sudden wealth can bring.

Jayne Pearl has been a financial journalist since 1980, when she started as a reporter-researcher at *Forbes* magazine, where she helped research and fact-check the premiere *Forbes* 400 "Rich List" of the wealthiest Americans. She later worked as editor of a syndicated daily financial public radio program, then launched a successful newsletter for management guru Tom ("In Search of Excellence") Peters. In 1989 she helped launch *Family Business* magazine, to which she has contributed for twenty years. She wrote a highly acclaimed book, *Kids and Money: Giving Them the Savvy to Succeed Financially* (also published by Bloomberg Press), in 1999, and has been writing and speaking about financial parenting ever since.

The authors' different professional and socio-economic backgrounds resulted in enlightening brainstorming, challenges, and some creative tension as they periodically wrestled over how to address many of the issues they have covered. Without either one receiving or delivering a single black eye (which would have been difficult not to avoid, as they live a couple thousand miles apart), each difference or hurdle led them to deeper insights and solutions that far exceeded either of their initial positions and preferences.

The authors hope that the resulting book will help readers increase the odds that their family wealth will enhance their children's ability to succeed under any economic circumstances. We will describe the skills children need to obtain successful, happy lives. We will look at how we define success and explore the extent to which money might bring or hinder that success. We will evaluate how spending, financial management, and estate-planning choices today affect what we will leave behind. We will also consider an array of ways that parents can discuss money with and in front of children, to teach them how to spend, invest, and manage it responsibly.

There are many choices that determine how wealth will affect your children. This book arranges these choices into three categories: Financial Choices, Intellectual Choices, and Spiritual/ Emotional Choices, as depicted in **Exhibit O.1.**

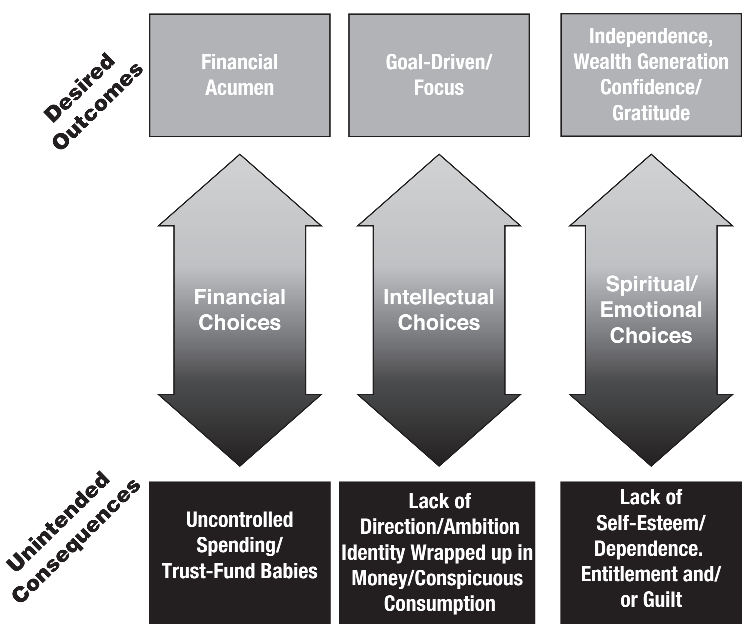

Exhibit O.1 Kids, Wealth, and Consequences Model

Each of these categories of choices comprises one section of the book, with a fourth section focusing on integrating the different types of choices into an action plan.

- **Section I: Financial Choices.** The three chapters in this section cover somewhat technical concepts, while Chapters 4 through 10 deal with the softer topics. If you are not a numbers person, you may prefer to skim the first chapters or even skip them, although optimally, you would benefit from at least familiarizing yourself with the technical concepts in this section (**Exhibit O.2**).

Our decisions about spending, estate planning, and portfolio management dramatically affect our own future, as well as that of our children.

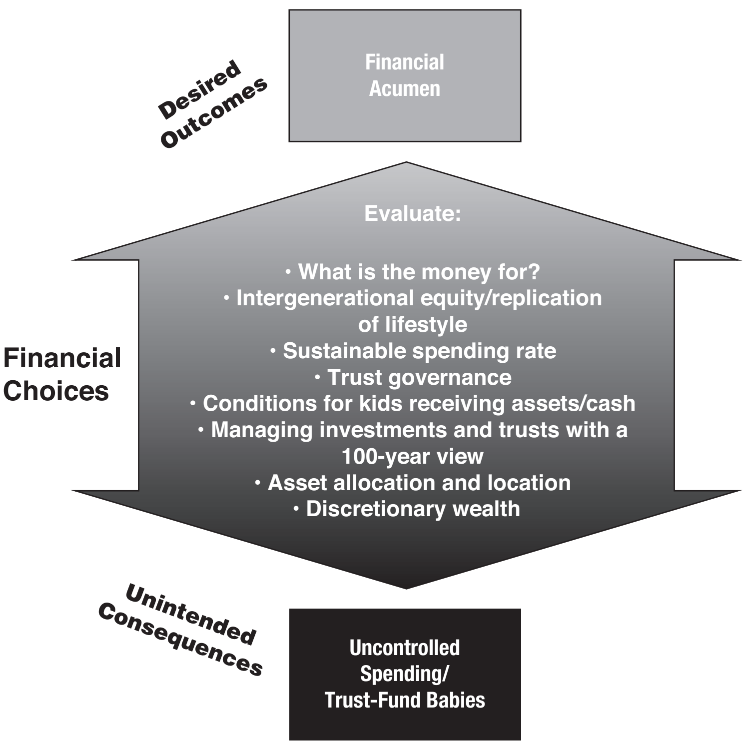

Exhibit O.2 Financial Choices

When wealthy parents neglect to think through these issues, making sure to structure trusts, spending, and investing to meet their goals and values, the unintended consequences for the children can include uncontrolled spending and dependence in the form of trust-fund babies. But when there is careful consideration and preparation, the family will develop the financial acumen, create estate plans that match their long-term values, and maintain their resources so that the children will live independently and responsibly.

In Chapter 1, "Calculating Your Family's Future," we describe the spending choices "Bob" faces, how various spending scenarios affect his net worth in future years, and the legacy he wants to leave behind to his children. How will these decisions affect his children? Will his financial decisions enable his children to enjoy future "intergenerational equity"—the ability to replicate his lifestyle? If intergenerational equity is not available or desired, then at what rate should he spend?

Chapter 1 also includes a spreadsheet calculation about the variables (expected return, inflation, income taxes, number of children) few people consider when they decide the percentage of their net worth that they can spend each year. Many wealthy individuals believe that, as in the case of endowments, they can spend 5 percent of their net worth per year and still preserve their capital. Our calculations demonstrate that such an approach may not allow their children to maintain the same standard of living as the family presently enjoys. What are the unintended consequences when adult children cannot match the standard of living they enjoyed growing up?

In Chapter 2, "To Trust and How to Trust," we focus not only on how to select trustees and make sure they understand and honor the grantor's wishes, but also how to structure the trust for the best financial and emotional benefit of the children—specifically, how to avoid creating a sense of entitlement and the "trust-fund baby" syndrome. In this chapter, we explore the best intentions of parents who work with their lawyers to create trust language that can actually lead kids to become dysfunctional and lack direction in their life. We also present alternative ideas about how to leave a legacy with legal language that will help kids to realize their potential before receiving the money. Chapter 2 illustrates that there is no one right approach, but each approach comes with its own set of unintended outcomes. We explore the pros, cons, and alternatives of incentive trusts, flexibility devices, handing over trust control, trustee selection, and oversight that can all help us to integrate the values and goals that we hope to pass down to our children along with our assets. It is not all about taxes and control.

Chapter 3, “Portfolio Management,” provides insights from many professionals and high–net worth investors as to how choices of asset allocation, asset location (which trust the asset should be put in), tax ramifications, and risk tolerance affect our ability to achieve intergenerational goals, or the ability to pass down the most value possible to our children. The interplay of these elements can affect our portfolio even more than our specific investment choices. The financial crisis that began in 2008 has brought to the surface some unexpected lessons about asset allocation, which we discuss along with the scams that have come to light during this economic downturn. They provide us with insights as to how important it is to stick to guidelines for choosing and firing managers and advisors.

■ **Section II: Intellectual Choices.** The previous chapters dealt with how to prepare the wealth for family. In this section we delve into how to prepare the family for the wealth. Providing children with financial education is an important responsibility for any parent in today’s complex economic world. But for wealthy families, the stakes are much higher—not just because there’s more money to squander, but also because wealth can fuel dysfunction and at-risk behaviors such as substance abuse (**Exhibit O.3**).

Chapter 4, “Financial Literacy,” explains that, regardless of how sophisticated (or not) they are about personal finance and investing, parents have a responsibility to prepare their children to live in our complex economic times. We guide parents through the process of instilling the five important financial values: tolerating delayed gratification, understanding the difference between wants and needs, practicing making tradeoffs, telling oneself “no,” and developing a healthy skepticism about ads, fads, and conspicuous consumption.

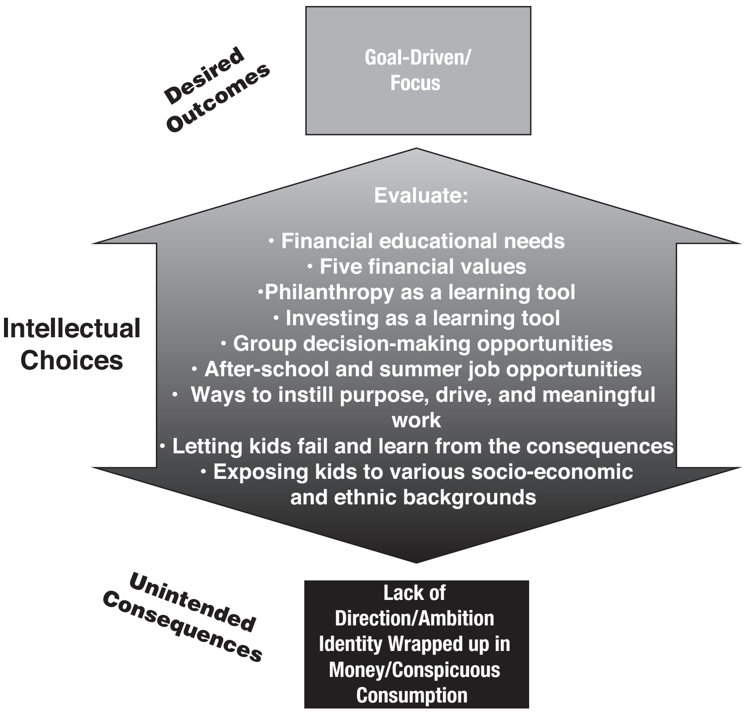

Exhibit O.3 Intellectual Choices

Chapter 4 also addresses specific issues that come up in wealthy families. For instance, will allowance work for high–net worth kids? Should wealthy teens get a summer or after-school job (especially if their parents do not choose to work)? In addition, how can parents prepare children to invest and develop healthy spending and saving patterns early?

Chapter 5, "Skills and Experience," presents a framework to assess the current financial skills both parents and children posses. This chapter is filled with suggestions for preparing children to handle the money they may receive in the future. Experts share their findings about how having dinner with your children can dramatically reduce the chances of an array of at-risk behaviors, including abuse of drugs. For those parents whose kids are less than fascinated with finance, we suggest games specifically for high–net worth families that will make learning more fun.

We will describe creative ways parents can present children the opportunity to practice investing and handling money early so that they can make and learn from their mistakes early, before they inherit significant wealth.

Dealing with advisors is another important skill children will need once they take possession of significant money. This chapter suggests various ways to involve children at different ages with the family's financial advisors and describes how to use a philanthropic family foundation to provide children real-world experience in investing. Often, the first exposure siblings have with financial planning is after the parents die, and they suddenly have to make big decisions with big consequences, without any experience working together. We explain how a foundation can help the family practice making financial decisions together. We also introduce family projects that will allow children to practice investing with real money and learn how to make financial decisions as a family.

Chapter 6, "Goals and Purpose," focuses on how money can bring pleasure as well as problems. While money can provide education, comfort, and travel, it can also paralyze people and rob them of ambition and meaning. In this chapter, we explore how some kids suffer feelings of guilt over not having earned any of what they have or will inherit, while others feel entitled to get everything they desire and yet find themselves bored by it all.

In Chapter 6 we also look at how parents can help guide their children to find their purpose and set meaningful goals that will make them productive. This chapter also illustrates how parents of means can motivate their children, using simple techniques, to find their own path. We also consider ways to encourage children to take sensible risks and experience failure as an important part of their journey.

Many people build their identity around their work or professions. Many wealthy people who do not have to work find it difficult to find a purpose or sense of identity. Parents help their children develop a healthy sense of identity and purpose by exposing them to entrepreneurial and philanthropic activities, and by teaching them that wealth is a responsibility to pass down from generation to generation, not just to buy expensive things.

■ **Section III: Spiritual/Emotional Choices.** Among the many concerns of wealthy parents are how to raise children with a sense of reality and balance, how to prevent them from being dependent, how to help them separate their identity from their wealth, how to help them develop self-confidence, how to instill in them a desire to give back to society, and how to teach them to be good stewards of their future wealth for later generations (**Exhibit O.4**). Parents want their children to develop the capacity to engage in meaningful

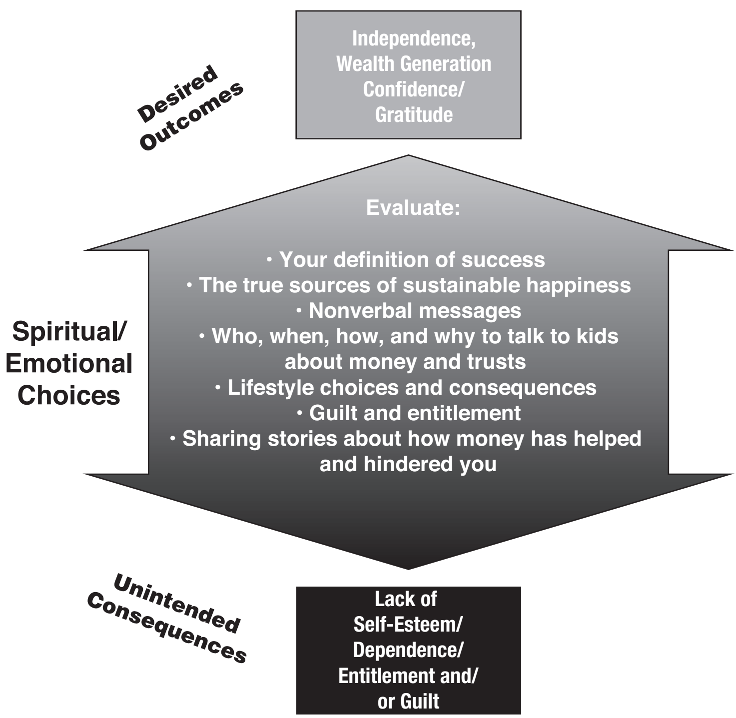

Exhibit O.4 Spiritual/Emotional Choices friendships, to love and to be open to others loving them—for who they are, not because of their family's balance sheet. In this section we see how parents can enhance the values they hold close and discourage values that may impede living a happy and productive life.

Chapter 7, "Success and Happiness," delves into the issue of entitlement and the insidious effects it can have on children of any age. Entitled people do not appreciate, or even enjoy on any deep level, the possessions and other advantages they receive, which can lead to anxiety and depression when too much is never enough. We look at studies and talk to experts about the age-old question of whether money can buy happiness.

The flip side of entitlement is guilt. Some children feel they do not deserve the advantages they have and will inherit. They are plagued with guilt, which can also lead to anxiety and depression. While money will not necessarily make us happy, we can be happy with money. And while wealthy people can't buy immortality, they can leave a legacy built around healthy values and exposure to the many facets and faces of the outside world. We describe the traits of happy people and consider what "drives" drive.

In Chapter 8, "Communication," we ask: what attitudes and values have served you well in your own life? Which ones have hindered you in your work, relationships, and family? Are you comfortable talking honestly with your children about your own foibles and flaws? The messages we send our children come not just from our words but from our actions. While many wealthy people believe that their legacy to their children is their money, the larger legacy is actually the attitudes and values we pass along with that money. This requires a fairly high degree of open, honest communication, so we also explore in this chapter different communication styles, and how one type of communicator can best communicate with other types of communicators.

Our children derive their financial values and their expectations about what kind of lifestyle they will be able to maintain into adulthood—a topic not often discussed overtly with our children—from what they observe about how much and the way we spend. When is it appropriate to discuss with children what, when, and how they will inherit? Should parents tell their children how they expect them to spend, save, invest, and donate the money they'll inherit? How can they help their children develop a positive identity that is not defined by money?

In Chapter 9, "Navigating the High–Net Worth Environment," we examine the messages children may glean from parents' choices about how to live and spend, and the emotional impact that is likely to have on children. The media have a large impact on our children. It may be difficult for them to distinguish between the values of the media, your values, and the consumption they see all around them. Just because you or your family members have enough money to live in a palace, travel by limo, and jet around the world without traditional employment doesn't mean that you have to do so. Nor should you or your children feel guilty about wealth and enjoying some of the benefits.

But with constant traveling and consumption of massive quantities of clothes, electronics, art, wine, jewelry, and—fill in the blank with whatever your passions or poisons include—children may come to believe their family is better than "those" people who don't achieve the same lifestyle. They may believe it is not fun or safe to live differently. Yet many families have had more fun at a roadside hotel or have met interesting people and learned important skills having to deal with a canceled plane flight than they have living it up in a cocoon. More bonding memories result from the time spent together than from the time spent in a "great place." Such situations teach us that what is important is family and community, not the money things can buy. This chapter will explore some of the unintended consequences children have suffered from being cocooned in the trappings of wealth and how to navigate around it. With the financial outcome of 2008, many parents are rethinking what is truly important about the money they have, the things they own, and the places where they live. Will the high–net worth environment protect wealthy families from new realities of a potentially changing world?

■ **Section IV: Integrating Your Choices.** By examining the unintended consequences of your lifestyle, you can figure out how you can best match your lifestyle choices with your life values. By integrating the strategies and techniques we have presented in the first three sections—Financial Choices, Intellectual Choices and Spiritual/Emotional Choices—you can greatly increase the chances of raising happy, well-adjusted children who appreciate and know how to manage the wealth they will one day inherit.

"The Family Glue" is the subject of Chapter 10. Studies have found that many families that create even the most sophisticated estate plans but do not prepare their children to inherit their wealth will end up in a generation or two with little or no wealth. This chapter presents techniques for working together as a family toward common goals and values. Business owners and managers invest countless time and money teaching employees to work as a team, yet they do not teach their own families to do so. Business owners and managers also invest heavily in creating vision and mission statements that articulate their values and goals; yet they rarely if ever do so with their families. How can or should the family use its wealth to accomplish the family's mission and vision in a way that complements its values? We will focus on how to begin to execute these goals at home to strengthen the family glue.

In Chapter 11, "Pulling It All Together," we review how the issues, decisions, and challenges we have grappled with in previous chapters come together. We explore the likely outcomes—intended and unintended—of parenting and lifestyle choices, investing and trust decisions. One set of parents may decide to give their child a BMW at a young age but make other choices that offset the possible "spoiling" that may otherwise result. We help parents align their communication, trust documents, work expectations, and spending choices with their personal and shared family values.

This is not about judging or making all the "correct" choices but about understanding how the combination of our choices will affect each individual child. This chapter will also describe choices about what kind of legacy, beyond the dollars and cents of your wealth, you have an opportunity to leave future generations.

If 2008 has taught us anything, it is to prepare for the unexpected. All the chapters in this book raise—and we hope, help answer—some critical financial parenting questions, such as how we can plan and protect our children for the unknown and how can we prepare our kids to survive any potential lifestyle.

There's no substitute for good basic, active parenting. Three of the many ingredients behind good parenting are clarity (setting clear rules and expectations), consistency (imposing consistent consequences for breaking those rules), and communication (about your family values, your expectations, and the lessons children learn from their successes and failures, whether at home or at school).

We are delighted you will join us on this journey and hope you visit our Web site, www.KWandC.com, where you will find many financial and parenting tools, updates, and links.