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Spoiled progeny is bane of inherited wealth

By David and Stacy Hefty

In America, at least, it's a favorite jab at he wealthy and the silliest insult at the poor: "The rich are getting richer while the poor are getting poorer." Those who vocationally manage the wealthy's wealth know that this critique gives far too much credit to the wealthy and far too little respect to the poor.

According to the Family Firm Institute of Brookline, Mass., those who figure out how to make their millions rarely figure out how to pass on their moxie to the next generation. According to the institute, 70 percent of all family firs fail before reaching second generation, 88 percent fail before the third, and 97 percent fail by the fourth generation and beyond.

It may surprise some, but many first-generation affluent business founder-owners ire wealth managers not primarily to grow wealth, but to preserve it. After pouring much blood, sweat, tears, prayer, and treasure into the creation of their widget or service business, Mr. and Mrs. Entrepreneur have successfully dodged a host of bullets that could have wrecked their business, only to stare down the barrel of the ultimate threat to their wealth: their children. What? Your children are supposed to be the hope and dream of the family's enduring legacy, and the family business would help finance that legacy, right? Well, hopefully, but sometimes - many times- the affluent simply work so hard over the span of their careers that they neglect to instill this hard-as-nails work ethic into their children.

Most of the people who ask us to manage their wealth are first-generation affluent. This means that they resolved early in life to become what we call "income statement poor" so that they could someday become "balance sheet wealthy." That is, they were willing to live within their means (live minimally on their income) and reinvest as much capital as possible into their business and/or their future savings (and watch their balance sheet grow). ~~Now,~~ 10, 20, 30 years later, they have cultivated a lifetime habit of working hard, living frugally, enjoying occasional fun things as appropriate, and now they just happen to have a million dollars or more cubbied up. And while they've successfully dodged the frivolous lawsuits, fired the crooked bookkeeper before he embezzled everything, and worked overtime for darn near three straight years to beat a competitor's market entry, they raised their children in affluence, giving these cubs everything they themselves never had. Fifteen years later, the parents can't figure out why their children can't make it through college or keep a job. It's painful because they arrive in our office with money problems. Granted it's not the kind of "money problems" that many people experience, where they are trying to pay the bills month to month. But it's not too far removed from that situation, because these parents realize that their adult children are clearly not ready to handle money, and they fear that they've ironically set their children up for the month-by-month life that they labored 70 hours a week for the past 30 years to avoid.

Now, they've amassed a million dollars or more for both their retirement and, after their passing, as an investment for their legacy. But this first generation affluent knows that their second generation is preparing to consider this money as their primary source of income, not an extra legacy inheritance. The parents feel guilty because in the course of pursuing what they thought they wanted for their children, they might have taken away something that made them successful in life. Money, of course, is hardly the only or even primary measure of success in life- our priest isn't a wealthy man but he's clearly successful., even more successful than many affluent people we can think of- but it never ceases to amaze us about how many people have mastered the basics of wealth generation and preservation. Yet a lot of them see their kids signing up for high-interest collegiate credit cards, and rarely balancing their own check books.

What can a first generation affluent parent do, then, in order to preserve his/her wealth for his children and grandchildren without hurting them? The institute's study offers some encouragement, too: Potentially a third of all family businesses successfully transfer their wealth to the second generation and 12 percent transfer their wealth to the third generations. Older affluent families will chant in unison to the younger affluent families: First focus on instilling the same work and savings ethics that are presently building your wealth. Planning for your legacy can mean all the difference between "Suffering the children" and "making your children suffer."

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