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Tough Love

Many wealthy Americans, it turns out, are more fixated on spending and giving away their wealth than making sure their kids get a big inheritance.

By Caren Chesler

In 1986, Buffett's attitude was revolutionary. But times have changed. Bill and Melinda Gates have also said they plan to leave their vast fortune to charity and not their children. And both Gates and Buffett are asking the nation's billionaires to join them by donating at least half their fortunes to charity.

The sentiment is already trickling down. Estate planning experts interviewed for this article say they have seen a growing number of their wealthy clients handing a chunk of their wealth over to charity rather than give it to their kids-though most are waiting until they die to part with it. Chris Murray, president of Murray Financial Group Inc. in Frederick, Md., says since the economic downturn, he's seen more clients increase their philanthropic giving while reducing the amount of money they plan to hand down to their kids.

"I can't put my finger on why-is it because of the recession and them just knowing there are a lot of people out there today in dire need? But I know I'm now seeing more of it," he says. "I hear comments like, ‘I made it on my own. I didn't have a lot of money left to me,' or ‘I put myself through college. I bought my first home on my own.' It's almost like they've become nostalgic, and are remembering in these difficult times that it's character building."

Indeed, a recent study by U.S. Trust found that less than half of wealthy parents nationwide thought it was important to leave their money to their children. Many of those surveyed were baby boomers who had made their own fortunes.

The survey, of 457 affluent individuals with $3 million or more in investable assets, found that wealthy Americans worked hard for their money and would rather travel and focus on their relationships-which suffered because they had to work so hard-than leave an inheritance to their children. They cite a variety of reasons, from not believing their children will be able to handle an inheritance (34%) to fearing their children will become lazy (24%). Some 20% believe their children would make poor decisions, another 20% believe their kids would squander the money, and 13% believe their children would be taken advantage of by outsiders.

When Joseph Flom, a partner at Skadden Arps, Slate, Meagher & Flom, died this past February, for instance, he left $50 million of his estate to the Flom Family Foundation rather than to his children. He left another $2 million to Harvard Law School and $1 million to the Skadden Fellowship Foundation, which helps law students interested in public interest work. Flom's son, Jason, reportedly said that from the time they were kids, his father told them he planned to give his money to charity and that they should all go out and make their own.

Kristin Abati, a partner in the Wealth Management Group at Choate, Hall & Stewart LLP in Boston, says many of her clients feel that way. Most of them are entrepreneurs who built up a company, sold it, and are now well off, and they fear if they just give their fortunes to their children, the kids will have no drive. Abati says those type of clients typically have a set amount they want to leave to their children, like $5 million, and the rest they leave to charity, though they'll put the money into a family foundation with the hope that the children will run it, thus instilling in them a sense of giving.

Some do a variation of that theme. Abati says she has one client who has more than $30 million in investable assets and is going to put all of that money into a charitable lead annuity trust. For 20 years, charities will receive the income from the trust while her children receive nothing. At the end of the 20 years, her children receive the balance. While the charities are likely to be happy with the client's decision, her children probably are not, Abati says.

"Her kids are almost certainly going to be disappointed," Abati says. ""They have other assets. They're not going to want for anything. But there's an emotional component to thinking your parents have disinherited you."

Some parents don't care about how their children feel. They believe it's their money, and they have a right to choose what to do with it. And then others feel deeply about how their children feel. The key is for the parents to keep the children informed of their decisions, Abati says.

"The kids thought they were getting $50 million and then they find out they're only getting $5 million," Abati says. "If you don't tell your kids, and they had an expectation that then does not play out the way they thought it would, it can be very painful."

Some wealthy parents simply don't believe their children are mature enough to handle a large influx of cash. They think their children will squander it. Nearly half the U.S. Trust survey's respondents, for instance, believe their children will not reach a level of financial maturity until they are at least 35. Some fear their children won't ever reach it.

Action movie star Jackie Chan, at an awards ceremony for his son in Beijing, said he would not leave a cent to his son, singer Jaycee. Chan, who had already willed half his fortune to charity, was quoted by the Chinese media as saying, "If he is capable, he can make his own money. If he is not, then he will just be wasting my money."

Some parents feel their children are of an age and level of financial independence that they don't really need their parents' help, and so the parents pass their money on to their grandchildren, says Danielle Mayoras, an estate planning attorney in Troy, Mich. Mayoras says she had a client who structured his will so that the children wouldn't receive any money until they turned 65, and even then, it was just the income stream from the assets, not the principal. The principal was going to go to his grandchildren.

"In that case, the parents knew their children spent their money frivolously. It was like water in their hands," Mayoras says.

Emily Bouchard, a family, wealth and money coach with Wealth Legacy Group, based in San Rafael, Calif., says it can be a little unfair because many children in wealthy families are in a Catch-22 situation: The parent who built the wealth is likely to be a type-A personality, meaning they're probably controlling and unable to delegate. And those very traits can make it difficult for the children to learn how to handle money. The parents probably didn't have the time or the desire to teach the children about money, and they were likely so controlling with it, the children were never able to exercise their independence or prove how responsible they could be, Bouchard says. The result, particularly in families with first generation wealth, can be dysfunctional children who either embrace the wealth and try to live off their parents in perpetuity, or rebuff the wealth, sometimes because they fear people are using them for their money, Bouchard says. In the end, the parents in these families are usually so afraid the children will be hurt rather than helped by the money, they opt to give most if it away, she says.

"The parent feels like if they leave their wealth to their children, there's more potential for it to do damage and harm. So they try to avoid all that by giving the money to charity," Bouchard says.

And then there are those who are so determined to keep their money in the family that they will cut off their children, lest their son- or daughter-in-law gets the family fortune in a divorce settlement. Frank Brogan, an attorney with Greenberg Traurig in Fort Lauderdale, Fla., says it's not uncommon for parents to fear that if the money goes to the divorced spouse, it won't make its way down to their grandchildren. To avoid that, they structure their estate plan so that a chunk of their money bypasses their own children and goes directly to their grandchildren.

"When I first started practicing, the in-laws would get something in the estate plan. A parent would say, ‘My child is married to so and so, and I want to leave them a little something.' But with more than half of all marriages ending in divorce, you just don't see people leaving money to the in-laws, nor do you see people having their in-laws even included in the estate plan," Brogan says.

These days, parents are also pushing more of the estate down to the grandchildren in the event that their own children make poor financial decisions and the family fortune is exposed to their creditors. The parents will structure a trust to, say, give their child the interest generated by an asset, but the child can't get at the principal. That would be left to the grandchildren. By denying their children access to the principal, the parent effectively shields the assets from the child's creditors.

"The asset can then go to the grandchildren and not be lost in some intervening event where the creditor takes it," Brogan says.

Some parents feel they have already given enough of their money over to their children. They now want to have some fun with it themselves. They're concerned that if they give too much to the children, they won't have enough for themselves.

Colleen Schon, senior vice president of investments at The Barrett Group, a wealth management group of Raymond James in Auburn Hills, Mich., says her clients who have less than, say, $10 million in investable assets, are concerned about how much they will have when they retire, given the economic downturn, and they want to make sure they have enough to not only live but to live it up before they die. In fact about 60% of her clients fall into that category.

One couple came into her office recently and had done the math, she says. They were going to live to be 80. They then added five years on to that figure for good measure. They knew they wanted to take two trips a year until they die, so they knew about how much money they would need. Given all that, they decided to simply gift $13,000 a year to their two grandchildren. If anything is left after they die, their children can have it, but if everything goes as they plan, that will not happen.

"They said, ‘I don't want to have anything left. Zero.' If they could take it down to the penny, they would," Schon says. "They feel they've done enough for their children. Now it's their turn."

Schon says that's a change from, say, 20 years ago, when clients lived their lives a bit more parsimoniously because they believed it was their obligation to leave something to their children.

Bradford Winton, a financial planner and portfolio manager with Legacy Solutions Inc. in Kennett Square, Pa., says as many as a third of his clients, when asked whether they wanted to leave money to their children, said, "Sure-if there's anything left over after they've finished with it." He says one client said, "They make more money than I do right now! Why should I short change my retirement?" Another said, "I paid for all their schooling. As far as I am concerned, they owe me." Though he says the more money the client has, the less this line of thinking applies.

"They're more worried about maintaining a certain lifestyle, and they wouldn't want to eat into it just to leave money to their children," he says.

Even his own grandmother has told him that while she's willing to leave money to her children, she doesn't want to jeopardize her current lifestyle to do it.

Susan Colpitts, co-founder of Signature, a multifamily office in Norfolk, Va., with $2 billion in managed assets, says the decline of the family business has also made parents less inclined to leave the family fortune to their kids. With the maturation of the stock and private equity markets-and the fact that many children no longer want to go into the family business-parents can sell the business and take out their cash. In the past, a business was more illiquid, so when a father passed on the business to his son or daughter, he passed on all the equity that was tied up in it.

"Most of our clients are entrepreneurs, people who have built a business, and then either did an IPO or just got very successful. They have very different ideas about what they want to leave to their children in comparison to the prior generations," she says, adding, "When the business is sold, there's a huge liberation that comes with liquid wealth, and they have a choice: Do I want to pass along all this money to my children?"

In many instances, the answer is "no," Colpitts says.

"They don't want their children to feel a sense of entitlement," she says. "I think they feel like if things had been easier for them, they might not have tried so hard."

But giving money to charity instead of family comes at a cost, says Jules Haas, a New York City-based estate attorney. When people cut out their heirs, it means any good that may have come from that money, as it was passed on to future generations, will never be known because the money was diverted away from the family.

"It's like pinching a vein," Haas says.

Not everyone is actually seeing the trend. Meg Goldstein, an estate attorney with Poyner Spruill LLP in Charlotte, N.C., says she still thinks it's relatively uncommon for parents to not leave the bulk of their wealth to their children. She believes 80% to 90% of most wealthy individuals still give their money to their kids.

"I think parents, wealthy or not, see their children as their charities. And they're going to take care of their families, above all others," Goldstein says. "Maybe some are disappointed when their children are spendthrifts, or not developing good business acumen, or maybe they've become couch potatoes. But there has to be a huge wedge for a parent to disinherit a child. I've had a few of those, but they're rare."