Volume 18 No. 2 www.iijwm.com Fall 2015

The Journal *of* Wealth Management

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Amy A. Castoro

Institutional Investor Journals

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AMY A. CASTORO

AMY A. CASTORO
is a senior coach with The Williams Group in San Clemente, California.
amy@thewilliamsgroup.org

The next 50 years will bring the greatest transfer of wealth in history, experts say. Paul Schervish, director of the Center on Wealth and Philanthropy at Boston College, estimates that at least $41 trillion will pass to the next generation by 2044 (Havens and Schervish [1999]). The very people who have amassed such wealth often find themselves stymied by the question of how to transfer their wealth to heirs without leading to jealousy, idleness, entitlement, and lawsuits.

Incredibly, nine out of ten affluent families will lose their wealth by the third generation. Many languages have a term for this. In Italy, it is referred to as, "barn stall to barn stall;" in Japan, "rice paddy to rice paddy;" in China, "teacup to teacup;" in the United States, "shirt sleeves to shirt sleeves;" and in Europe, "clogs to clogs."

A 20-year field research study conducted by The Williams Group revealed that 70% of families lose their wealth due to infighting, long-held resentment, lack of trust, and poor communication within the family (Williams and Preisser [2003]). Other research spanning centuries and countries has consistently found that 90% of inheritance is often completely depleted by the third generation. Let's take a closer look at how this occurs.

As parents, you want your children and your children's children to enjoy the fruits of your labor, bypassing the hardship you endured to get there. Your hard work relieves them of struggling to make ends meet. You can pay for their first home, so they live free of the burden of a mortgage. You can cover their education and their children's education, so they are not strapped with long-term debt. You can take the whole family to see the world and broaden their experience of humanity and sense of privilege.

HOW THIS LEADS TO ENTITLEMENT

At some point, you find yourself in a guilt-ridden quest to make sure each of your children has the same value home, car, and private schooling for their children. In the name of fairness, what you give to one child, you give to another, building a pattern of unexamined expectation. Eventually that expectation becomes a negotiation. If one child is granted the opportunity to study abroad, the next child may not share the same ambition; however, he or she may insist it is "only fair" to be given the opportunity to take a gap year and travel abroad. He or she may suggest that, because you are paying for private school education for other grandchildren, it is only fair to provide the same support by covering the cost of a full-time nanny to play a similar role for a child not yet old enough to attend school.

This raises a question: "Should the child sitting on the beach be given the same financial support as the one in medical school?" If being strictly fair is the organizing principle, then should not the money spent on one be equally distributed to the others? If one sibling is deeply entrenched in the family business and the other is not, should they earn the same income from the company? General Motors does not pay their employees equally—the vice president is not paid the same as the janitor. Employees are paid based on the standards and measurements established by the company; they are directed by their purpose in life, the role they have, and the legacy they are building for themselves. In reality, equality does not exist because children are not equal. A special needs child in school will inevitably cost more than a highly intellectual child who will likely go on to have a significant impact on the world. Our love for our children may be equal, but children follow different paths.

THE COST OF ENTITLEMENT

The disconnection between parent and offspring experienced by many high-net-worth families is rooted in misaligned expectations. Parents expect their children to responsibly manage themselves and their wealth. Children expect to continue receiving the benefits of growing up with wealth. In truth, many heirs do not have the competence to manage their own wealth; they become overwhelmed, and eventually the wealth manages them. Their sense of purpose is diluted by the many opportunities and lifestyles available to them. The values that formed the very foundation of the wealth are lost in the flood of privileged opportunities that carry them through daily life. Sometimes, children experience what psychologist Stephen Goldbart calls, "Sudden Wealth Syndrome." Many who find sudden fortune become overwhelmed, start to overspend, grow suspicious of those around them, and make poor decisions that lead to familial and financial ruin (Schorsch [2012]). Paul Piff [2014], who earned his PhD at UC Berkeley and now is an assistant professor of psychology and social behavior at UC Irvine, conducted a series of five studies that demonstrated a direct link between wealthy lifestyles and entitlement.

Sooner or later, you begin to feel that you are being taken advantage of. The expectation that you will provide whatever is necessary becomes the norm. Wealth becomes the demise of your children's future and their children's future. What was intended to afford great opportunity and possibility becomes a source of malice. Your children come to feel entitled and expect to live a privileged life without regard for what it took to get them there. Worse, you see your role in enabling that thinking and way of life.

You realize your time is finite, and at some point you will not be around to oversee their wealth management. It becomes painfully apparent that a lifetime of hard-earned assets will fall victim to the old adage, "shirt sleeves to shirt sleeves in three generations," simply because the inheriting generation are ill-equipped and unprepared.

YOUR ROLE IN ENTITLEMENT

Take care of your legacy and the dignity of your heirs by declaring clear conditions for the support you are providing. You have the responsibility to be explicit about what you offer and to engage in adult conversation in order to arrive at mutually agreeable conditions according to which financial support will be provided. For example, agree to cover the cost of education for four years, so long as a certain GPA is maintained; or perhaps stipulate that each child will receive $500,000 toward their first home, adjusted for inflation but not location. Your children's responsibility is to meet the expectations associated with what you provide, and your role is to hold to the terms.

It is no secret that the burden of wealth is heavy with responsibility. It is as much your responsibility to nurture the capability, drive, and purpose of those inheriting wealth as it is to afford them a comfortable life. This happens by entering into difficult conversations that lift the veil from your assessment of their ability to carry the fortune forward and enable it to continue for many generations. Your assessments may not all be favorable ones and can be difficult to communicate.

These conversations start by stating why you care, by clarifying what is important to you in what you observe about the family's interpersonal relationship with you, how it may be becoming strained, and how their actions are raising some concerns. By stating what is important to you, the conversation becomes less about them and therefore less likely to put them on the defensive. A statement like "I'm concerned I'm doing you a disservice by continually providing financial support without you finding your own means of taking care of yourself, and I'd like to have a conversation with you to learn what you think" opens the conversation in a way that speaks to your concern and creates a mood of curiosity rather than blame or defensiveness.

YOUR FAMILY AS A TEAM

Fortunes are not made alone. Successful business owners often have high-functioning teams to support them, yet these same CEOs are disheartened to learn that their own families, the heirs to their fortune, are ill-equipped and unprepared to manage wealth. Their well-founded fear regarding transferring their fortune to their heirs while maintaining familial harmony and long-term success becomes a reality. In any high-performing team, trust and communication are essential building blocks. How can the leaders of thriving companies create a high-performing team in their own families?

The essential elements of a highly effective team includes leadership, a mission, defined roles, and standards. It requires significant trust, skill in coordination, and commitment. These qualities are observed in effective leadership teams, productive partnerships, military platoons, and winning athletic organizations. In my experience as a leadership coach, a high-functioning family shares the same dynamic. The culture of the family is rooted in strong values set by the leader, handed down from generation to generation. Families are aligned in the vision of what they are committed to accomplishing and are skilled in articulating the expected performance and outcomes in accordance with agreed-upon standards. They have cultivated an environment of trust that enables open, sincere communication.

One particular family was drifting apart, each child on a different tangent, some more productive than others. A general mood of resignation, isolation, and distrust was growing among the family members. Family gatherings were obligatory, with the conversation circling the weather, movies, and the deviled eggs. Today they are a completely different family. Through a series of family meetings designed as a learning program, the family embraced new methods of communication centered on purpose, values, and trust. They are able to have sincere and meaningful conversations about who they are as individuals and as a unit. They are aligned and committed to philanthropic global pursuits, providing each of them a strong sense of unity, accomplishment, and pride.

The parallels between highly effective work teams and family teams are founded on the same principles: purpose, values, commitment, and trust. The skills required to cultivate these principles can be learned and integrated into the fabric of the family so that in time, they become the values for future generations.

A NEW PATH FORWARD

The critical link to a successful transfer of wealth—*successful* defined not just as the preservation of wealth, but as the preservation of individuals—is communication that builds trust and cultivates openness. This is accomplished by establishing new patterns of communicating with one another, patterns that enable sincere and supportive relationships to grow. Skills can be developed that permit previously taboo topics to be discussed productively, creating the possibility of greater intimacy and respect.

Professor John Davis [2013], faculty chair of the Families in Business program at Harvard Business School, states that a critical element found in family companies that are able to survive across generations is a well-established mission or purpose based on core values. This mission statement can then be the cornerstone of all other investment advice and philanthropic avenues. Individual aspirations and purpose can be explored together using a nonjudgmental approach: The family agrees on standards, roles, and performance metrics, creating a roadmap to navigate entitlement, which becomes an action plan for the future that greatly enhances the likelihood of success and family harmony.

"Over a 20-year period, we interviewed 2,500 successful families who had transitioned wealth to their heirs. Overwhelmingly, they told us their *values* were the most important gift they could pass on to loved ones. We learned that values determined actions taken, or not taken; actions determined impacts and results; and impacts and results determined a family's future," said Roy Williams. He continued: "While money and 'things' are transitory, the values your family holds are paramount. It is as much your responsibility to lead the capability, drive, and purpose of those inheriting wealth as it is to afford them a comfortable life" (Williams and Preisser [2005]).

CONCLUSION

The best legal and tax professionals in the world can take care of wealth transfer. Your role is to take care of the conversations that support your offspring's dignity, aspirations, and ability to provide for their own families. Teaching them the values on which your wealth is founded is the best way to avoid the cliff of lost fortunes and build the bridge leading future generations to prosperity. Successful wealth transfer can be secured through a family learning program that teaches the critical skills of building trust and fostering sincere communication. Family meetings, previously thought of as obligatory or an exercise in control and cordial hypocrisy, become a learning environment and a safe place to acknowledge the individuality and contributions of each member.

ENDNOTE

The Williams Group, founded in 1965 by Roy Williams, is a family consulting and estate transition firm located in San Clemente, California. For more information on the firm, visit www.thewilliamsgroup.org.

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