The Burden Of Wealth

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The female client was 43 years old when her father, an oil and gas man in Kansas, died of a heart attack at his desk. Neither her mother nor her sister was prepared to take over the business, so she felt obligated to take the reins. But it was more a prison sentence than a privilege.

“She was the artsy type. She liked to travel. She wasn’t an engineer,” says her financial advisor, Lynn Mayabb, an office director for BKD Wealth Advisors in Kansas City, Mo. “It would not have been her choice to step in.”

She also had to deal with enormous stress since the wells are owned by family members and outside investors.

“If you hit a dry well? That’s about $400,000 lost,” Mayabb says.

The woman considered selling the business, but the complex ownership structure made it difficult. So she goes into work day after day, generally unsatisfied with the path her life has taken. Whenever Mayabb raises the prospect of retiring, she says, “How?”

“I tried talking to her about an exit strategy, but she doesn’t see how it would work. There isn’t anyone in her family to step up,” Mayabb says.

The tale serves as just one example of a simple, dreary fact that’s often faced by the beneficiaries of vast inheritances or other types of big paydays: Wealth can be both a blessing and a burden.

It doesn’t have to involve a large business to be a burden, either.

Take the family vacation home. The house in Nantucket may have been in the family for generations and hold a lot of memories, but when the parents leave it to their children, they’re also lumbering them with tens of thousands of dollars in property taxes, maintenance and landscaping fees that their kids may not be able to afford. Leaving a child a trust fund or a family business can have a similar effect.

“We all have a dream. So what happens if all of a sudden I inherit a large sum of money? Do I still have a dream?” asks Amy Zehnder, senior wealth dynamics coach at Ascent Private Capital Management, the ultra-high-net-worth area of Minneapolis-based U.S. Bank. “How can I carry out the dream when I know having this money, which is someone else’s dream, interferes with my dream—especially if there are strings attached regarding how it should be used?”

So wealthy parents face a dilemma: put restrictions on the money’s use and risk breeding resentment or give children free rein with the inheritance and risk undermining their motivation?

Regarding the latter concern, advisors to the wealthy have countless stories of clients whose children didn't go to college or get a job and simply waited with their hands out for their inheritance.

"I've seen people wait for the money, and then when it finally materializes, it's not a lifetime changer, which is what they were hoping for," says David Scott Sloan, who chairs Holland and Knight's estate planning practice in Boston.

Sloan had a client, a woman in her late fifties, who waited and waited for her money, and when it finally came, it was woefully insufficient. She has gone from worrying about receiving the money to worrying it will run out.

Every advisor seems to have stories about clients who worked hard their whole lives, created a lot of wealth to leave to their children, only to see the kids fritter the money away by spending too much and generating too little.

Sloan had one client who didn't receive the bulk of his multi-million-dollar inheritance until he was in his late 40s. By then, he was trying his hand as an investment advisor, but he wasn't very good at it. He invested part of the money, but spent far more than he was bringing in and is now in his 60s and nearly broke. Sloan suggested he put himself on a budget, but the man was stumped.

"How can I create a budget when I don't know how much I'm going to spend?" he asked.

The best way to cure people of overspending is to put their inheritance in a trust, Sloan says. That way, a trustee will protect the beneficiaries from themselves.

"Every time I've seen a bad situation where someone has run through all of the money, there was no trust in place and the beneficiaries were just left to their own devices," he says.

Finding A Purpose

Richard del Monte, whose San Francisco-based firm does family legacy planning, had a client who left his sons a family business and left each of his two daughters about $1.5 million in cash and real estate. Within three years, the daughters had spent all of the money and had mortgaged their houses and lost them. They then badgered their brothers for money, saying, "Daddy would have wanted you to take care of us," del Monte says.

The father could have put constraints on the daughters in the trust language or installed a tightfisted trustee, but that would only have bred resentment, del Monte says. It's better, he says, to train the children on how to manage money before the parent dies and perhaps let them practice with a small portion of the family wealth. After the parent passes, the trust documents can stipulate that the children won't receive any distributions unless they can support themselves through good investments and savings and can pay their bills.

“It’s not ruling from the grave. You’re not saying, ‘Go get a certain job.’ You’re saying, ‘If you can live within your means, then we’ll give you a distribution,’“ del Monte says.

In this case, the daughters could also have used some psychological counseling, like a 12-step program to address their compulsive spending habits, del Monte says. The idea is not to dictate how they should live, but to reward them for good behavior.

“The problem with people like this is they don’t have a purpose for their wealth,” del Monte says. “They just look at it as a limitless checkbook and keep raiding the jar until it is exhausted.”

The problem is sometimes the suddenness with which the wealth appears—and it isn’t just a problem for children in affluent families. Lottery winners, professional athletes, anyone who comes upon a lot of money can have trouble reining in spending, particularly when their friends and colleagues are living high on the hog.

“If you’re a rookie for the Boston Red Sox, and you’re hanging out in Detroit with David Ortiz, and everyone is going out to have drinks or go to a casino, you want to go with them. But their capacity to do things and spend is far different than your capacity to spend,” says Mickey Segal, managing partner at Nigro Karlin Segal & Feldstein, a Los Angeles-based CPA firm.

Advisors may try to rein in a client’s spending, but he or she may not want to hear it, Segal said.

“If you push too hard, then they’re going to go somewhere else. If you don’t push at all, they’re going to spend it all,” says Segal, whose firm handles a lot of professional athletes.

So you try to find a way to communicate a message to them that basically gives some parameters into what they can and cannot do, Segal says.
Segal had one pair of clients who were minors when they received about $20 million, but once they had access to the money, they began spending it wantonly and went through about a quarter of it in just a couple of years. Their attorneys and advisors sat them down and told them they had to curtail their spending or they would lose everything, Segal says.

“You see it happen all the time, especially with athletes. When a chunk of money comes in, there’s the inclination to buy all the things you want that you could never have,” he says.

In the end, the trustees took 95% of the clients’ principal in the trust and purchased a lifetime annuity, and the beneficiaries now live on just the money the annuity kicks off, which is about $280,000 a year. Had that not been done, there’s no telling how much money they would have gone through, Segal says.

Drowning In Money
Michael Needleman, a portfolio manager for Fusion Analytics in Manhattan, says the most important

thing for people with newfound wealth is to come up with a plan and to live within that plan, and to find advisors with whom they can work, the three most important being a tax attorney, a CPA and a financial advisor.

“Oftentimes, when people come into newfound money, they get advice from family and friends, but sometimes it’s better to deal with someone at arm’s length,” he says.

Needleman says his firm is currently talking to some professional athletes who entered into investments that turned sour, and they may now need to borrow against their future earnings. In fact, it’s pretty common for athletes to make bad investments, run into problems and then have to borrow under their contracts. That’s why firms like Morgan Stanley have full departments devoted to making these loans, he says.

“I shouldn’t say this happens a lot, but it happens quite frequently,” Needleman says. “In some cases, the problem is overspending. Sometimes, it’s bad deals. And sometimes, it’s family members coming to them, and they’ve turned over assets to the wrong people.”

Wealth can sometimes magnify issues already there. Samuel Ledwitz, an estate attorney in California, had a 27-year-old client who was a waiter studying to be a chef when his mother and grandmother died, leaving him more than a million dollars. He bought a condo overlooking a Marina del Rey boat basin, a motorcycle and a car, and went out to trendy restaurants all the time and treated scores of friends to dinner and drinks. But he failed to pay his bills and his mortgage and lost the condo. He crashed the motorcycle, which he was driving without insurance, and was sued by the driver of the car he hit. He then abandoned his car on the side of the road to attend a weeklong spiritual commune. When police found his car and wallet, they opened a homicide investigation. Within 17 months, he had gotten into debt and owed back taxes, had lost his condo and was broke.

“At 27, he had potential, and at 28, he was broke and had the IRS and everyone else coming after him,” says Ledwitz, whose firm, Bezaire, Ledwitz & Borncamp, is based in Torrance, Calif.

With proper planning, all of that could have been avoided, Ledwitz says. The inheritance could have been put in a trust and doled out like an allowance over time, or the trust could have stipulated that he receive no money until he was 35 or 40, when he was mature enough to handle such wealth.

“We tried to get him to meet with financial advisors and CPAs, but he refused,” Ledwitz says. “Not everyone who is drowning wants to be rescued.”

Zehnder of Ascent Private Capital says if someone has relationship, trust or communication issues, these can become intensified when a lot of wealth is involved. Children who come into a lot of money may have low self-esteem and want to fit in, and now suddenly they have the cash that will give them access into the group.

“Money takes an issue that’s out there and just exacerbates it,” she says.

Zehnder had a wealthy client in her mid-30s who spent about a million dollars a year but was very lonely and always had self-esteem issues, and so she tended to spend a lot of money on her friends. She would then question their motives: Did they hang around because they liked her or because they liked her money?

“The money has created a lot of confusion in this person’s life,” Zehnder says.

How children respond to wealth can simply be a matter of character, says Mindy Hirt, a wealth advisor for Argent Trust Co. in Nashville. Some people are just hardworking and no matter how much money might be there, they will leverage those funds to achieve their goals. Others will always squander what they have, whether it’s a lack of ambition or a lack of character.

Sometimes, addiction issues are at play. Hirt had a client who received more than $1 million from her grandparents when she was in her early 20s, and all the money was gone within 10 years, in part because she had a substance abuse problem. Hirt convinced the woman to set up a “Young Adults Trust,” but because she was her own grantor and could decide on the trust’s parameters, she put broad language into the documentation that enabled her to take a certain percentage from the trust at any time for any reason, on an annual basis.

“At least the funds got depleted in a slower time frame. But still, over a 10-year period, it was fully spent,” Hirt says.

The grandparents did put money into a separate trust that was overseen by someone else, and much of those funds remain. But it hasn’t helped the woman become self-sufficient. She is now in her early 30s and still does not work or support herself, Hirt says.

For some, the prospect of having an enormous amount of wealth, and the responsibilities that go with it, can be daunting. Eido M. Walny, an estate attorney in Fox Point, Wis., had a client who, upon her 18th birthday, was brought into a room where a bunch of men in suits marched in to discuss her future inheritance, which was in the tens of millions—far more than she ever imagined. After these men discussed the future death of her parents and the difficulties of managing all that money in a rather condescending manner, the young woman began to cry and ran out of the room.

“She wasn’t ready for it emotionally,” Walny says. “She was an 18-year-old there all by herself, surrounded by these guys talking down to her, and their perspective wasn’t to prepare her for her inheritance but rather to establish a relationship with her so they could get her investments and legal work.”

But she and all children who are going to inherit wealth need to sit down with advisors so they are prepared when the money comes.

“It’s not like all of a sudden your bank account swells. Your tax situation changes. The way people approach you changes. Really, your entire life changes," Walny says. "If you're not emotionally and financially ready for it, it can do a significant amount of damage."

Guilt Complex

There's also a lot of guilt associated with inheriting a lot of money and having more than most everyone, says Zehnder. It doesn't help that a parent usually has to die for the beneficiary to receive the money. Feelings of guilt are so prevalent among her clients, she wrote a paper on it.

"Feelings of guilt are a lot more common than people realize," she says.

That guilt can lead to excessive spending, as those now flush with cash feel obliged to treat their friends and relatives to lavish dinners and drinks.

Hirt had a client with more than $50 million in assets who gave his 20-something-year-old son some company stock, and it appreciated so rapidly, the young man found himself with about $1 million in cash. He not only bought a condo and an expensive car and began day trading, but he went out all the time with friends and felt guilty if he didn't pay the bill. He wound up blowing through most of the money within a year.

If the money had been put into a trust controlled by a family member or a corporate trustee, he wouldn't have had access to the money to trade or spend on his friends, Hirt says.

"He would have had an excuse or out," she says.

Wes Moss, a CFP for Capital Investment Advisors in Atlanta, says beneficiaries who begin receiving trust distributions at about 18 often don't know how to support themselves.

"I'd say it's more the rule than the exception. And the beneficiary ends up with some distorted sense of how easy it is to make a living," says Moss, who has a radio talk show in Atlanta in which he gives out financial advice. "When someone starts getting $40,000 to $50,000 a year for the rest of their lives, they think money seems to just grow on trees."

The problem is, most trusts provide a nice supplemental income—enough to make the beneficiary think they don't have to work, and yet not enough to live an opulent lifestyle, Moss says. So some begin spending as if they can afford to live high on the hog, and then because they don't bring in any income themselves, they run out of money. He has one client who, despite her trust distributions, is often in debt and asking her trustee for more money to pay her bills.

"What would I do differently? I'd make them wait, make them work, make them financially literate, make them save. And make them give. It will make them more self-reliant," Moss says.

"If you transfer a bunch of money through a trust, block access until the child is 30," he says, and then thinks about it, and says, instead, "35."

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