

ST. LOUIS POST-DISPATCH

How Do You Help Your Gift Survive the Generations?

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Ever been asked this question: "Do you want your money to corrupt your grandkids"? All sane grandparents would answer "No." But actions speak far louder than words. Statistics tell us that 90% of us are likely, by our inaction, to inadvertently answer "Yes."

The core reason for this strange response lies in our retirement mentality. When folks retire nowadays they regard their whole universe as the next 25 to 30 years spent with family members they can wrap their arms around and hug. What they don't realize is that this is only a small part of their retirement responsibility. The much larger part constitutes family members they can't hug because those family members have yet to be born.

At the current U.S. birth rates, 50 years after each of us passes away we will have 45 living heirs, all the way from newborns to 85-year-old great grandparents of those newborns. In fact, those great grandparents in the future are your grandkids today. How (not how much) you pass your money to your grandkids today has a deep and lasting impact on what kind of great grandparents they become.

Your family wealth is nothing more than a monument to everything you've accomplished in life. This monument should carry your values, wisdom and work ethics deep into your future generations. To do this, though, families must overcome that old dastardly, worldwide, very accurate proverb, "Shirtsleeves to shirtsleeves in three generations."

The first generation creates the money. Their kids, the second generation, spend it, mostly on their own kids. Then those kids, the third generation, before they die, finish the money off. Ten percent of all inherited money never makes into the fourth generation. This occurs because the money pass through generations with no values or life-lessons attached. By the time the third generation gets their hands on it, they see nothing but dollar signs. The labor and love that generated it are nowhere to be found in its value, and that third generation almost always races through life as hapless consumers without roots.

This brings us back to the original question: "Do you want your money to corrupt your grandkids"? If you think you don't have enough money to worry about answering this question, you will find that time and sufficient discipline will prove you wrong and you will inadvertently answering "Yes" to the query.

Let's say you own and sell a business, inherit money, or have a hefty 401k, or some combination thereof that equals \$2 million. You retire at age 65. If the money grows at S&P historical return of 8.75% and you consume half of it along the way, at 85 you will have over \$5.3 million. This is what you hand over to the second generation, along with a systematic method of passing along the values that created the money.

If that generation consumes 25% of the inheritance (they will, after all, still have jobs and professions to complete) and then gives the wealth off to their kids, the fabled third generation, its balance will be over \$21 million dollars. This is a crucial moment in the family's wealth transfer. If the family's values and life-lessons imbedded in the money by the first generation are transferred intact to this third generation, proving them to be outstanding stewards of the wealth instead of gung-ho spenders, when they pass the wealth and tradition on to their kids, the fourth generation, it will be worth over \$266 million.

Affixing family values to a family's wealth is typically achieved by:

1) creating and abiding by a well-written Family Financial Philosophy that is shared with all family members (present and future) and will endure the test of time through generations,

2) compiling a family biography/history, also shared with all family members, that chronicles not only how the first generation created the wealth but also but how multiple past generations helped shape the values of the family, and

3) if circumstances warrant (family size and degree of wealth), installing and managing a family governance system, where even the children become involved in such affairs as philanthropic supervision.

All this to get a family's wealth past the third generation. Because it is in the fourth generation you will have 45 living heirs. In the example above, each will be worth almost \$6 million, from the tiny newborns to their great grandparents, your grandkids of today. Your family wealth and the memories of you will be on well their way to endless existence. All because you had the foresight during your 25-30 years of retirement to reach out and hug those family members yet to be born.

