RELEASING THE SHACKLES OF WEALTH

Increasingly, business families have become enslaved with the role of wealth preservation for future generations. **Charles Lowenhaupt** asks whether it may be more rewarding to focus on the human issues of wealth, recognising the benefits rather than the burdens it can bring

Creating wealth is not easy. But it can be fun and satisfying. Preserving wealth is neither particularly difficult nor fun. And yet, we have designed an entire industry dedicated to the proposition that inherited wealth requires substantial effort on the part of the inheritor. Advisors like me design complicated governance structures and use words like 'fiduciary', stewardship, and obligation. These structures and words create roles for a cast of characters: banks, trust companies, lawyers, money managers, family wealth consultants and family office executives. 'Family wealth' becomes its own career for those heirs who 'steward' the wealth from one generation to another, serving as the invisible butlers in the dynasty of perpetuity. These family wealth stewards become not only their brothers' keepers but also their descendants' keepers, dedicated to preserving the wealth for generations to come. Their mantra is fiduciary responsibility. Their goal is to beat the shirtsleeves to shirtsleeves cycle and make sure the money lasts – and lasts.

The problem with this picture is it can backfire. As many a family feud has shown, when preservation of wealth has become the primary goal, those whom the family wealth steward seeks to benefit are not always grateful. Witness the Pritzkers. When elder Pritzkers structured the family's wealth, they did not envision various family factions battling each other over how the wealth was to be managed and used. In the documentary Born Rich, the disturbingly disaffected youth it portrays cannot be what their forbearers intended when they set out to structure the family finances. Wealth is a blessing. It provides opportunity. But, too often we lose sight of the fact that wealth is a means to an end – not the end in itself. When wealth becomes the end in itself, it enslaves the wealth-holder.

A recent study by the Institute for Private Investors shows that family members are spending more and more time 'working' on their wealth, managing managers, evaluating performance and mastering the pros and cons of new investment products and techniques. There was a certain fun to that in the 1990s, but the thrill is gone when a flat or 5% return is considered terrific, especially when other family members are enjoying careers that are hitting new milestones every year. Surely there are more satisfying life roles than that of playing hostage to the family's financial legacy. Can you 'free yourself' from the burden of wealth? Absolutely, but doing so may require some psychological and financial re-engineering.

Identify what your wealth is for. This entails asking what you want to accomplish with your wealth. It can be a long process, but also a liberating one and allows you to concentrate on the human issues.

Pritzker Pavilion: philanthropy doesn't always help retain family unity

Often clients come in and say to me: "I am here to save taxes". I say: "You have told me what you don't want to do with your wealth – so what *do* you want to do with it?" For example, we worked with a client who put $2 million in one of the first post-1969 Charitable Lead Trusts trust in 1977. This safely ensured the funds could go to grandchildren and their children with no future gift taxes. Twenty-five years later, that trust was worth $70 million, which can go tax-free to grandchildren and beyond. The only problem was: there were no grandchildren! The youngest child was then a 45-year old daughter. So, we had huge tax savings, but no worthwhile result. Another client of mine built a huge manufacturing business which he sold for an enormous price. He called it a family business and his son worked with him in the business for 10 years. After the sale, my client and his son, who was 35, started a family office. Every day they went to work together, and bought US treasury bills. They were soon bored of this, and so the father funded a small manufacturing business for his son to run. The business foundered over many years, after which, the son closed the business and finally did what he really wanted to do: he went back to school to study philosophy. Today he is teaching philosophy in college and very happy. Had the father asked himself earlier on what the wealth was for – was it to create liquidity, was it to create a 'dynastic business' or was it to provide productive employment for his son,he may have freed both himself and his son to realise their own personal, educational and community service goals.

One size does not fit all.One principle to keep in mind as you work to identify what the wealth is for is that there is no 'one size fits all'. Every family is unique in culture, character and dynamics, and every family member is unique. What one person's wealth is for is not necessarily right for another; and the way in which one family succeeds in freeing itself from the burdens of wealth and accomplishing its purposes will not work for its neighbours. Granted, the patriarch's dream is often the Rockefeller model: the family together forever – all devoted to harmonious stewarding of family wealth, sharing values and interests. But, in my experience, the reality is all too often the Pritzker model: a multi-generational mélange of frustrated and disengaged heirs with little in common except the money that binds them and the lawsuits that keep them 'engaged'with each other. So how a family works with its wealth must be crafted family-by-family and driven by the principle that exploring each individual's needs and wishes is central to building freedom.

RECOGNISE THAT WEALTH'S VALUE IS IN THE FREEDOM IT OFFERS,NOT THE CONSTRAINTS IT IMPOSES

Discussing unbundling is one way to do that. Bundling is the putting together of a family's assets into a trust, partnership, corporation or family office. Unbundling allows for independent management of each member's assets. Plenty of families with whom I work are perfectly or partially bundled and it works. Others are being made miserable by bundling. Family dynamics and unhappiness are preserved in the wealth management structure, where sibling rivalries are played out and carried on through subsequent generations. We frequently find ourselves helping families design unbundling strategies with the least tax impact. Foundations can be divided into pools. Trusts can be divided and segregated. Corporations can be reformatted.

Currently our firm is helping a family 'unbundle' its wealth in its fourth generation.That fourth generation is in their fifties and sixties. The unbundling will cost a great deal in taxes and administrative fees and make wealth management much more expensive and less effective. Yet, the senior members are exuberant. Each feels that a huge burden has been lifted – one characterised herself as "a bird being freed from a cage". In my experience, wealth frequently stays bundled not for the good of the family but to support the family wealth steward. We have more than one client who needs to keep the family's wealth bundled to support the family office and staff – all of whom provide the family wealth steward companionship and a feeling of importance. In many families we see the steward aging and unable to abandon the role. Once he or she passes on, the family breathes a sigh of relief. Each takes his or her own piece of the family wealth and manages it fairly well,happy to be unencumbered by the burden of supporting the steward.

Philanthropy gives value to wealth: with or without unbundling, one of the most liberating tools you can use to free yourself and your family from the burden of wealth is philanthropy. Families use it to build functionality into the family through shared experiences and common efforts to build culture and values. It shows there is a purpose to wealth beyond creation, preservation and consumption. Philanthropy allows you to use your excess wealth for value and for the community. Add up the amounts you need for essentials and the 'what ifs'. Is that total less than what you have? If so, what will you do with the extra? Then imagine the fifth generation of fourth cousins and beyond. Consider how family blends into community. Finally, ask yourself what you will tell your children or grandchildren about the value of wealth.This all leads to philanthropy.

Do not burden your descendants with responsibility and obligation. Recognise that wealth is frequently transitory. Remember that stewardship is not a creative or inherently constructive role for any person, while service to a community can be. Give your children the freedom to benefit from, rather than be dominated by, their financial legacy. Surely you wouldn't stop your daughter from learning to ride a bicycle because she might fall.Is failure in preserving wealth really so catastrophic that we should protect all future generations from taking risks? Give your heirs the freedom to 'unbundle', to untie the apron string, even to return to shirtsleeves. Recognise that wealth's value is in the freedom it offers, not the constraints it imposes.

Your family's wealth management need not be a full-time occupation. You can design adequate systems of investment management that meet your family's needs, and those systems are likely to be 'auto-pilot' rather than 'rocket science'. The fundamental competency of the good family steward is a sense of service of a community and the ability to design solutions to community problems.

Keep the family wealth in perspective. Raising children to be functional and independent has little to do with the preservation of family wealth.A grand dame I know was a young Texas heiress 40 years ago when she married into a hard working Connecticut business family. Before the wedding she told my grandfather: "My daddy takes care of my money, and I don't worry my pretty head about it". Political correctness aside, she had it right. The money never played a role in her marriage. Admittedly, it helped to educate children,buy a house, or fund a vacation or two. But its management (or its existence) never dominated their lives. "Life throws us so many curves," she told me. "Raising children and grandchildren is so difficult. Why complicate it with focusing on preserving the family money?" Finally, my advice for the wealth management industry centres on what we do best: education. We must help our clients understand and articulate their objectives and their sense of what they want to accomplish with their wealth. The client's role is to get on with life. ■

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