

Money

70% of Rich Families Lose Their Wealth by the Second Generation



Scene from *Arrested Development* with Jessica Walter and Portia de Rossi Carin Baer—20th Century Fox Licensing/Everett Collection

By **Chris Taylor / Reuters** June 17, 2015

When Stephen Lovell used to visit his grandparents as a kid, it was like entering the world of Cole Porter or *The Great Gatsby*.

People dressed in tuxedos and sipped cocktails. They owned boats, airplanes, a hobby farm. Not to mention a lavish mansion in Ontario, Canada, and a summer home in Southampton, New York.

He estimates that his grandfather, who founded the John Forsyth Shirt Co, had a fortune of at least \$70 million in today's dollars. But through a combination of bad decisions, bad luck, and alcohol dependency, the next generation squandered that money.

“I think about it all the time,” says Lovell, a financial planner in Walnut Creek, California.

Indeed, 70% of wealthy families lose their wealth by the second generation, and a stunning 90% by the third, according to the Williams Group wealth consultancy.

U.S. Trust recently surveyed high-net-worth individuals with more than \$3 million in investable assets to find out how they are preparing the next generation for handling significant wealth.

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“Looking at the numbers, 78% feel the next generation is not financially responsible enough to handle inheritance,” says Chris Heilmann, U.S. Trust's chief fiduciary executive.

And 64% admit they have disclosed little to nothing about their wealth to their children.

The survey lists various reasons: People were taught not to talk about money, they worry their children will become lazy and entitled, and they fear the information will leak out.

When I asked financial planners why the wealthy are so poor at passing along money smarts and why second- and third-generation heirs turn out to be so ham-handed, the answers were surprisingly frank.

A sampling: “Most of them have no clue as to

ow to handle



Yes, the statistics may be grim. But just because most wealthy families see their fortunes evaporate within a couple of generations does not mean yours will. Some strategies to avoid it:

Talk Early and Often

You may think you are encouraging hard work by not disclosing wealth to your kids, but that really just fosters ignorance.

If you have just never talked about money, get over it, and give your kids a crash course in financial literacy. Many financial institutions, including U.S. Trust, offer specialized learning materials and courses to get heirs up to speed.

That goes for grandkids, too: Instill smart money lessons in them, and you have pushed family wealth forward another 30 or 40 years.

Discuss the Will





Do you think you're in the middle class?

Vote!

... and see how others have voted



Yes, I'm
definitely
middle class



No, but I
aspire to join
the middle
class one day



No, I am
above the
middle class



5 433 Votes

OPINARY.

If you are ready for true transparency, take it up a notch and bring up the elephant in the room: the will.

“Parents and grandparents should communicate the whats and whys of their will in a group setting, with all their children present, long before the will is read,” says David Mullins, a planner in Richlands, Virginia.

That way, you can hash out any issues as a family beforehand. It is better than after the fact, when the patriarch or matriarch is not around to explain or make adjustments, and things devolve into all-out legal war.

“Trust me, siblings will find out who got what,” says Mullins. “Without proper communication, this can destroy families.”



Almost one-quarter of baby boomers think their kids will not be able to handle wealth properly until the ripe age of 40. And almost half of wealthy individuals over 70 agree.

That is why you should give your heirs a financial roadmap in the form of a family mission statement, advises U.S. Trust. You can lay out what you expect in terms of spending, saving, and giving back, as well as pass along strategies for building wealth.

Stephen Lovell wishes his mother had that kind of roadmap.

“How did my mother blow it?” he says. “She just didn’t know any better. And now we all live with that regret, every day.”

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