

Borrowing from the Bank of Dad

A wealthy 69-year-old gentleman I know keeps \$2 million in a liquid bank account for the sole purpose of dispensing it to his children as part of an “heir preparation” program. The legal and financial aspects of his estate plan are already in place. What is missing, and what he intends to devote the rest of

doling out chunks of the family estate to adult children who can demonstrate that the funds will be put to good use teaches kids about money in the most practical and concrete way. Parents can talk about the value of a dollar until they are blue in the face, but until prospective heirs have had a chance to actually deal with large sums of money within the context of a specific purpose, it will never really be known if they are prepared to manage and preserve their full inheritance. Heir preparation is an attempt to avoid the rags-to-rags-in-three-generations syndrome that threatens to undermine the accomplishments of many of today’s wealth holders whose fortunes were earned in a single lifetime.

The children of today’s most successful real estate or business moguls will never have to work a day in their lives. And that’s the problem. Without economic necessity driving them to get an education and engage in a productive career, they could squander the family fortune – along with the motivation and self-esteem of the kids who inherit it. To prepare heirs for the responsibilities of wealth, many parents today are releasing funds with strings attached. The conditions and incentives that go along with the grant or loan allow children to demonstrate that they are capable of handling larger and larger amounts of money in increasingly responsible ways.

Whether the instrument is a so-called incentive trust, which specifies the exact conditions under which funds may be disbursed to beneficiaries, or a more informal Bank of Dad arrangement, the principle is the same: Children must show that the funds are being used for responsible purposes. Usually these fall into the following categories:

Education. This may be broadly interpreted to include travel, career preparation courses, and self-improvement workshops in addition to formal education at accredited institutions. The point is for children to lead productive lives, and many forms of education will prepare them for that.

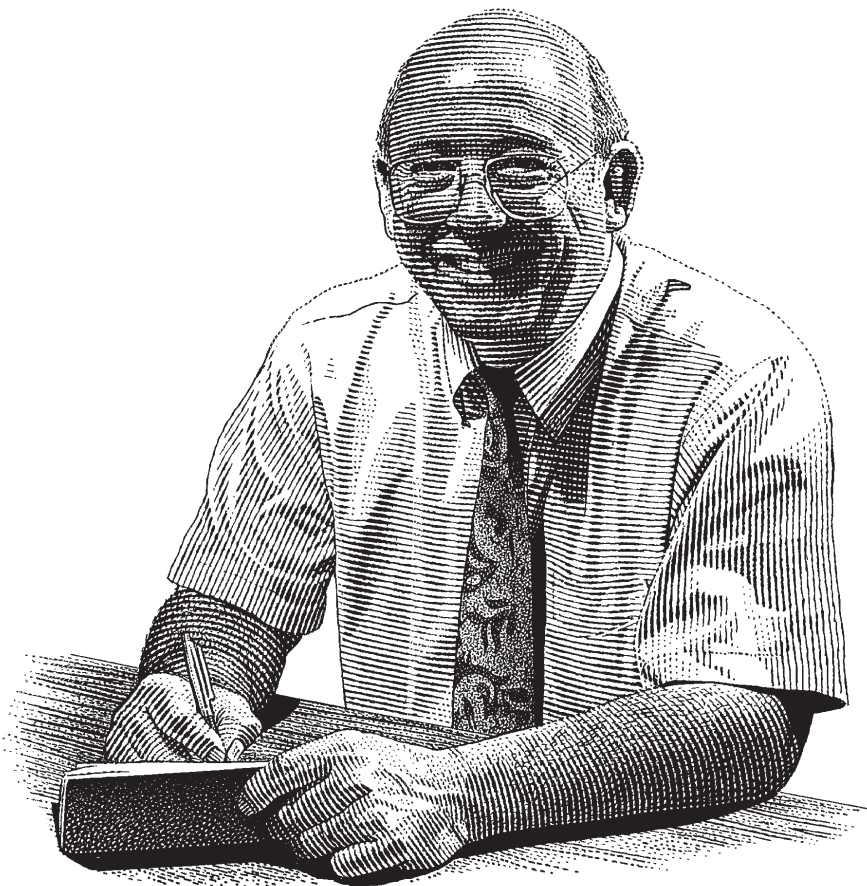
Investment. There is no time like the present for today’s future heirs to learn how to manage an investment portfolio. Give them a sum of money and some tools and instruction and see how they do.

The following exercises and challenges can all provide valuable investment experience:

his life and some of his money to, is the extremely important job of preparing his children for the \$56 million inheritance that will someday be theirs.

If one of his kids has an idea for a business, he doesn’t immediately write a check to fund the initial capital requirements. Rather, he asks the heir-apparent to write up a business plan describing his vision of the business, how he intends to turn a profit, and how he plans to use this grant or loan from the Bank of Dad to further his business goals.

Call it an allowance on steroids. This manner of



Stock market challenge. Pit the siblings against each other by giving each of them an equal amount and comparing results at the end of a year. We used to do this with our children when they were teenagers, and the challenge of picking companies to invest in was a life-changing experience for them.

Hire a money manager. Teach them what to look for when hiring a professional investment manager and send them out to interview prospective candidates.

Buy property. If your children will be inheriting a significant amount of investment property, start them out now with a duplex or small apartment building. Let them locate the property, negotiate the purchase, and handle the details of property management.

Start or buy a business. If a child has an entrepreneurial bent and asks for money to start or buy a business, do what my friend does and ask for a business plan. Also offer to help analyze the profit potential of the business. This is a great opportunity for parents who have run successful businesses to pass their wisdom and insights on to the next generation.

Philanthropy. If giving back to society is one of your family's values, let children gain practical experience researching worthy charities and deciding how charitable dollars should be allocated. You can formalize the process by establishing a family foundation, or you may simply choose to allocate a certain amount for charitable purposes and involve the children in the giving process.

The incentives we are talking about here go beyond dinner-table conversations – valuable though they may be for communicating family values. When it comes to preparing children for the responsibilities of wealth, there's nothing like real-world experiences and hands-on parental guidance to help kids learn how to manage the family fortune and become fully functioning individuals in society. ☺

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