

What you should know about family wealth

Family Wealth

Warren Buffett's granddaughter, Nicole, while on the Oprah Winfrey show, discussed how she had worked as a housekeeper to support being a young artist. She explained how she cleaned another family's toilets and dirty dishes to make ends meet. Warren Buffett believes that children born into money are robbed of their experience, which is why he will only fund their education and philanthropic pursuits.

America's richest families don't seem to agree with Buffett's beliefs. According to recent surveys, 80 percent of people with substantial wealth will leave their fortunes to their children and grandchildren. More than half the surveyed said their heirs can do whatever they wish with the money.

Here is where it gets sticky. Based on the research, 60 percent of inherited substantial wealth is burned through by the second generation, and by the third generation 90 percent of family fortunes are gone! Furthermore, 90 percent of estate plans eventually fail.

In many cases the next gen-



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eration has no idea what they are going to get, and when they receive their family's fortune they don't know how to manage it properly. These beneficiaries can be blindsided by the windfall; other times they are handed trusts and wills loaded with legal mumbo jumbo. The heirs are then forced to divine the wishes and intent of their parents. What follows in many cases is chaos, with money being spent needlessly or siblings fighting among themselves.

So how do you solve the above challenges? We would emphasize continuity, communication and education, years before anything is expected to happen, between parents, offspring and advisers. The who, how and why conversation must take place. When estate plans go sour, as they often do, in many cases it is because the parents haven't managed the heirs' expectations and clearly explained what was going to

transpire after the matriarch's demise.

Continuity can be achieved through having your wealth manager coordinating efforts of your lawyers, CPAs, insurance agents and other professionals. Making sure that your heirs are well acquainted with your wealth manager is another crucial step. Family retreats and family vision plans can help make this a pleasant experience, as it should be.

Foundations

Foundations are not purely for families like Bill and Malinda Gates. The main purpose of a private foundation is making grants for funding scientific, educational, cultural, religious or other charitable causes near and dear to your heart.

Although private foundations can be set up for relatively small sums of money, we would likely not recommend

them unless you plan on funding yours with \$1 million or more.

One caution: The IRS and Congress have cracked down on private-foundation abuses, such as improper allocation of funds and inflated salaries, but with the guidance of an experienced professional team you can avoid these common problems.

When should you consider setting up a foundation? We suggest that the best time is when you have strong motivations of philanthropic and giving desires.

Foundations can be set up for the taxable portion of your estate to avoid estate taxes. Since your heirs would not receive this portion of your estate, being that it would be funding your private foundation, you would need to replace this portion of your estate to your beneficiaries via life insurance. Life insurance proceeds pass along

At a glance

- Substantial family wealth is completely depleted by the third generation 90 percent of the time
- Private family foundations are a great tool to make a difference and involve your loved ones in causes that are near and dear to your heart
- Communication with and education of your heirs are critical to protecting your legacy

to your beneficiaries free of estate and income taxes. Trusts, insurance premiums, planning costs, insurability and gift taxes, among other things, need to be considered first. If you agree with Warren Buffett's belief that money robs the children of their experience, then the life insurance part can be left out.

Family foundations allow you and your family to make a real difference; recently, the Bill and Malinda Gates Foundation announced a \$200 million donation to fight polio. By getting your children involved they can learn responsibility, money skills and philanthropy while being compensated for managing the private foundation.

In conclusion, we recommend you communicate your family wealth transfer wishes and educate your children and grandchildren to ensure a legacy beyond the third generation. Foundations are one form of creating a legacy, as well as helping loved ones learn about money and making a difference.

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Don't let prospective customers give you the holiday brushoff

Maureen is making her calls to potential clients to fill her calendar with appointments. She has spoken to lots of people, and, when one shows strong interest in her company's product, she asks for an appointment.

She gets this response: "Well, Maureen, I think it might make sense for us to talk further. Why don't you call me after the holidays, and we can get together then."

Maureen is excited about all of the interest, but she's frustrated with the procrastination. She speaks to her manager and others on her team, and they say, "Oh, yeah. That's par for the course this time of year. That's just the way it is."

What? I don't know about you, but I am already getting booked up for January and beyond. If I were to wait until after the first of the year to book appointments, I wouldn't be working very efficiently. I bet you also have at least a half a dozen appointments already set well into 2008.

So why am I pointing this out? Because if you are



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first of the year, with all of our calendars filling up. Let's go ahead and schedule something now, so we can have it already done."

At that point, if Bob still asks to have you call later, say, "I've got to tell you, Bob, when someone tries to make an appointment with me, and I am really not

selling a product or service and someone asks you to call after the first of the year, are you accepting that brushoff?

Here is how you need to handle the situation:

You get to the point in the conversation where you ask for an appointment, and the prospect says, "You know, that sounds good. Call me after the holidays, and we'll set something up."

I would say, "I appreciate that, Bob. But it'll be so crazy after the

first of the year, with all of our calendars filling up. Let's go ahead and schedule something now, so we can have it already done."

At that point, if Bob still asks to have you call later, say, "I've got to tell you, Bob, when someone tries to make an appointment with me, and I am really not

interested in meeting, I find a reason to put it off. And the holidays are what I use this time of the year as a believable excuse.

"If you don't think we have some things to talk about that could really be worth our while, let's just say that now and not set anything. I am a big girl, Bob. I can take it. But if we do want to talk further, let's go ahead and set it. Either way is fine with me. So, Bob, what do you think?"

Some of you may not feel good about that response because you believe you would then lose your opportunity with the prospect. Guess what - you really didn't have one anyway. Once you get real with prospects and they understand where you are coming from, they will schedule the appointment, or they will respect you for being honest about it.

Wouldn't you?

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