

# RICH KIDS

To give or not to give?

*The numbers are staggering. In the next 50 years, families will give their heirs an astounding \$25 trillion—the largest transfer of wealth in history. Two-thirds of that money will come from only 7 percent of estates, potentially creating a uniquely American aristocracy or, at least, a plutocracy. Worth's cover package tackles the eternal dilemma of what to do with family money and how to do it with dignity. We bring you the perspectives of an inheritor and an expert on the evils of big bequests, with a how-to-stay-sane guide for siblings divvying up Mom and Dad's estate. Plus, an inside look at Delaware, a haven for trusts and trust fund folks. Rich kids, listen up.*



PHOTOGRAPH BY MICHELE PEDON

# THE INHERITANCE

## Reflections on the good, the bad, and the

BY NELSON W. ALDRICH JR.

**A**LMOST THIRTY-TWO YEARS AGO, IN a dingy lawyer's office on Martha's Vineyard, I learned that my mother had disinherited me. I can't say I was surprised, since my mother and I had never taken much interest in each other. After my parents divorced, when I was 3, I bounced around from one grandparent to another. There was one critical mercy, however—the fact that all members of my family were quite rich. As a result, I had all the finest amenities of life, including the best boarding schools, the best colleges, and the best psychiatrists.

My mother was 54 when she died—accidentally on purpose, I'm inclined to think—from once too often mixing Scotch, milk, and tranquilizers. I was 36. Over the years, we had worked out a relationship that was remote (dinner about once a year), respectful, and, in a way she could never manage with her four husbands, comfortably boring. But it was not a relationship conducive to great expectations of a substantial legacy.

Nor, for that matter, was my family's culture. Dependent as we all were on inherited wealth—a privatized welfare system, one might say, in a broader culture that respects only the independent, the self-made—the idea of inheritance as a source of funds was a topic so taboo that it barely reached the level of conscious thought, let alone expectation.

Still, as I waited for the shabby scribe of my mother's last will and testament to begin reading the document, I could not repress a tiny flutter of excitement. Maternal my mother was not, as she cheerfully acknowledged, but she had always insisted (when, for example, I began addressing her by her first name) that she was my mother and entitled to the formalities due to that status. And so, as the man droned

through the boilerplate preamble to her will, I wondered whether she would recognize the obligations usually incumbent on a mother with no further use for her inherited money except to pass it on. She did not. Virtually all her near-million-dollar estate went to a local charity. To me she left \$10,000—on the assumption, the lawyer said, that I would be taken care of by my father.

What she could not have known, and what I didn't learn until a year later, was that as I sat in the lawyer's office, the smell of fried fish wafting up from the street, my father was already going broke. His downfall was a huge, wretchedly timed speculation on a shopping mall in Portsmouth, New Hampshire. He took with him not only his own "self-made" money but also the far more substantial sums he got from his mother. And that, except for a few modest trust funds that my parents couldn't touch, was that.

Since then, I have spent a good deal of time brooding over how things would have been different had my parents done by me as they had been done by—that is to say, if they had made me rich through no effort or merit of my own. Rich, in my mind, would have meant never having to work for any reason other than one's own

pleasure or self-expression; residing in at least two houses of comfort, taste, and high-status zip code; affording one's children the same privileges that one had enjoyed oneself; and being able to travel at will, defining *travel* in the broadest possible sense to include any form of escape.

Do we want to endow our children with these circumstances? For inheritors, as a particular species of the genus *rich*, it's the fourth of these definitions, personal freedom, that counts. First-generation rich parents usually preach that while their wealth is for them a quest and a reward, for their children it can only be a solemn responsibility. They typically preach in vain. There are Sirens warbling away on top of that pile of money, and they're not singing the joys of good stewardship: They sing of liberation.

Inherited wealth is not only free (because it is unearned), it is also freeing. With "fuck you" money, rich kids need never submit to the discipline of boss, subordination, and routine. They need never know the more banal forms of insecurity, such as unemployment, inadequate health insurance, or exclusion from a social group. Most important, their gift of wealth contains a magic DELETE button, applicable to every mistake they or their progeny make, from a bad school record to a faltering career, from an ill-advised marriage to an unfortunate choice of interior designer, from a dreary set of friends to every new passion that doesn't pan out.

That brings us to the curse of inherited wealth. Who in consumerist America can resist the temptation to choose, choose, and choose again? Some call that the ability to learn from our mistakes. Its moral peril lies in wait for all of us, since each new choice is to some degree a canceled commitment, an act of faithlessness.

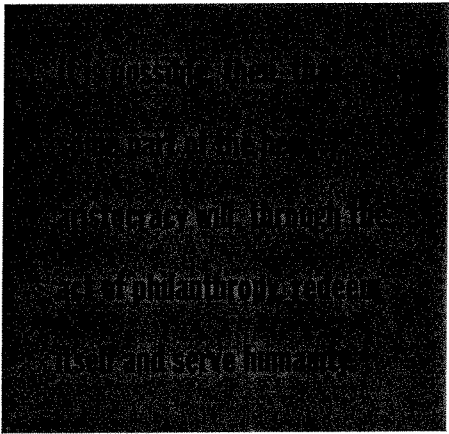
For the hereditary rich, the peril goes

Their gift of wealth contains a magic DELETE button, applicable to almost every mistake, from a bad school record to a faltering career.

# ANCE QUESTION

he ugly of money from an heir who's been there.

deeper. Their money being overflowing as well as free, they never have to accept the repercussions of their choices. This devastates their morale and often leads to futility, chronic disappointment, ontic guilt, envy, unappeasable restlessness, and a lifetime of doomed seeking. Incapable of serious commitment, they never gain any traction in the world. Capable of dodging the consequences of their actions, they become



inconsequential people. If you want to know the meaning of that gnostic cliché “the incredible lightness of being,” get to know an inheritor of lots of money.

Then there are the problems that inheritors create for society. The United States is about to experience the most gigantic avalanche of wealth transfers in the history of the world, with a stunning \$25 trillion being passed down to heirs by 2052, according to a study by John Havens and Paul Schervish of Boston College's Social Welfare Research Institute. The avalanche metaphor comes from an adviser's warning to John D. Rockefeller: “Your fortune is rolling up, rolling up like an avalanche! You must keep up with it!... If you do not, it will crush you and your children and your children's children.” These inheritors will become a new aristocracy of en-

during wealth, privilege, and social security in the midst of a mass society where individual wealth is negligible, privilege unattainable, and social security—as well as Social Security—increasingly shaky.

This is not a prospect that believers in equal opportunity should applaud. Spoiled, degenerate, totally dependent on the hand-me-downs of their ancestors, America's new aristocrats could soon be prancing among the populace as the poodles of plutocracy, disdainful of those beneath them and groveling before the Wall Street and corporate masters who keep them in fine biscuits and pretty ribbons. In this scenario, vast amounts of inherited wealth are disastrous for inheritors and for society, enfeebling one and piling up potentially revolutionary material in the other.

Yet many Americans see in this prospect only a beneficent trickling down or a targeted transference. In the benign logic of the trickle-down metaphor, a society simply cannot have enough rich people. What difference does it make as long as wealth abounds? Dogmatic democrats may see only a crushing reign of the rich, but Americans generally behold only a gentle rain of prosperity for all.

Both schools of meteorology could be right, and both wrong. It all depends on the economy. A long period of slow growth or depression could convince Americans that our system is a zero-sum game after all and that, as a result, the chances of being downstream from the trickle are nearing zero as well. In such a state, people might conclude that most of the money in the country has become a vast frozen reservoir, fenced and gated, to which only idle, foppish, decadent, snobbish children of the rich have a key.

This has happened before. Around the turn of the last century, robber baron fortunes created (and the media endlessly

publicized) our first really egregious aristocracy of inherited wealth. To be sure, this aristocracy, over the generations, gave historically unsurpassed benefits to our culture by creating some of the world's most prestigious museums, libraries, and performing arts institutions. All these treasures are accessible to Americans today, regardless of economic status.

Yet when the great slump came along a generation later, it helped to show the incompetence of that aristocracy in managing the economy. At every step, more and more Americans resorted to something that looked a lot like class warfare. Guess who helped rile them up, teaching them to rail at “Nancy boys” and “malefactors of great wealth”? Teddy Roosevelt and, later, Franklin Roosevelt, two rebellious aristocrats who discovered that a bold concern for the less fortunate was both a fitting role for a child of privilege and a winning political pose. Many of their peers were equally proud to be called traitors to their class.

It could be happening again. William Gates Sr., father of the world's richest man, is spearheading a movement to maintain the estate tax, which was temporarily rolled back as part of Congress's 2001 tax package. In the book *Wealth and Our Commonwealth*, co-written by Gates and United for a Fair Economy co-founder Chuck Collins, they assert that the growing concentration of wealth threatens American democracy: “The more a society is organized around the preservation of wealth for those who already have it, rather than building new wealth, the more impoverished we will all be.”

As Gates surely knows, there is one way rich kids can save themselves and the nation, and that is through philanthropy. The great task of inheritors, in a society where the ruling mythology is uniquely focused on the Self-Made Man, is to earn “their”

money retroactively, to wipe away those sarcastic quotation marks. There are two choices: the easy, pitiable, and painful way (blow it) and the difficult, empowering, and gratifying way (give it away).

With one astoundingly creative exception—John D. Rockefeller Jr. and his descendants—the inheritors of the robber barons chose to blow it. The founders of these families were the philanthropists, endowing foundations, schools, museums, hospitals, and nature. Yet their progeny's contributions seemed pathetic compared with those of the founders. The giving decisions—and therefore the empowerment and gratification—they left to professional decision makers and caretakers.

This was a mistake, a lost opportunity to lift the affliction of inheritance, a free pass in life. Yet today, inheritors such as Ted Turner appear to be seizing the opportunity along with the money. Tutorials in effective philanthropy for rich kids are popping up at private banks and elite learning institutions such as Harvard Business School. They don't seem to be lacking students. Perhaps some part of the new aristocracy will redeem itself and serve humanity. It might even challenge the power of the plutocracy.

Andrew Carnegie famously allowed that he'd as soon give his child a curse as give him a large inheritance. Note, however, that every consequence I've mentioned, the dire as well as the beneficent, for individuals as well as society, depends on contingencies such as the economy or one's own ideological reading of the issue. In my case, I can now say with confidence that had I inherited that money at the age of 36 it would have ruined me entirely by giving me the freedom to avoid making true commitments. If I came into the money today, at the age of 67, I would be better off, but only because it took me most of my working life to discover what my personal strengths are and what I want to do with them.

In an open society, the choice, happily, is left to us. While I might disagree with other people's views, I agree that in the end it shouldn't be made by anyone else. ■

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# SPEND

## Inheritance is inherently bad.

BY STEPHEN M. POLLAN AND MARK LEVINE

IT'S A SAD LESSON BUT A GOOD ONE: THE EVAPORATION OF billions of dollars of net worth during the past decade shows that plans to pass on wealth can vanish as quickly as they are devised. Cold comfort as it may be, this lost dream gives us a chance to focus on the foolishness of inheritance. Patrimony is a curse for parent, child, and society. To die broke is a blessing.

Far from a mark of prudence, a sizable estate is, for a parent, indicative of a life not lived to the fullest. Unspent dollars represent missed opportunities: vacations not taken, financial help to children not offered, and charitable donations not made.

For a child, inheritance is anesthetizing rather than empowering. Wealth earned by the accident of birth and obtained through the death of a loved one can erode the work ethic, poison family relations, and kill the soul. Inheritance is also harmful to society. Since most people who receive very large inheritances already have incomes that are more than twice the median family income, patrimony helps the rich get richer, further dividing the nation into haves and have-nots.

For most of U.S. history, inheritance wasn't this much of a problem. In rural, agricultural America, only tangible items such as a farm, a business, a set of tools, or furniture were passed down, because only a handful of people had any intangible assets. Inheritance was, in effect, an intergenerational contract—an agreement that Junior would take title to the farm after having assumed more and more of the burden as Ma and Pa aged.

In an industrial and increasingly urban United States, working- and middle-class families had fewer hard assets. Whatever scant intangible assets they had acquired, such as stock portfolios, were lost in the Great Depression. Inheritance became the stuff of fantasy. Icons such as Charles Foster Kane and Longfellow Deeds, the Gary Cooper character who inherited \$20 million, entered the culture,

along with the late-1950s television show *The Millionaire*, in which an anonymous benefactor handed an average Joe a check for \$1 million.

In information-age America, the 1970s real estate boom, the 1980s tax cuts, and the 1990s stock market bubble allowed the middle class to accumulate unprecedented intangible wealth, making widespread, large-scale patrimony a real possibility. But in the transition from fantasy to reality, and from tangible to intangible assets, inheritance lost its contractual nature.

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# IT ALL NOW

## Who needs a good death when you can live a great life?



**A WILL, A BAD WAY:** Could inheritance be more about control from the coffin than anything else?

It became an emotional entitlement rather than a physical reward.

Although families traditionally followed accepted societal patterns for the disposition of concrete assets—oldest son gets farm, daughter gets silver, youngest son gets tools—no consensus exists on splitting up intangible assets such as stock portfolios. Animosity or feuds occur whether families divide wealth equally or by need, since money can serve as a psychological substitute for love.

Even the expectation of an inheritance can disrupt a family. Every dollar spent by the parent diminishes the child's future windfall, creating an endless cycle of guilt: The child is hurt by the parent's pursuit of happiness, and the parent is forced to choose quality of death over quality of life. What is the long-term effect of waiting for a parent's death to finally come into your own?

Perhaps the greatest irony surrounding inheritance is that all the justifications for it are more easily and efficiently pursued during life rather than after death. Providing for your children is commendable, but why wait until you're no longer of this world? Give to your children when they're young, when the money can do the most good. An estate left to a 60-year-old translates to a Caribbean cruise, new furniture, or a smooth transition into

retirement. Money given to a 30-year-old can finance a home or a business. Help while you're still kicking and you can provide counsel and cash without seeking to wield control from the coffin. You'll see the fruits of your gifts—and get to attend the dinner held in your honor.

Similarly, charitable gifts are better made when you can see how they're utilized. Tax deductions are most valuable to someone who's still paying taxes. *Largesse* can be converted to an income stream through devices such as charitable remainder trusts.

Dying broke need not mean living broke. Savvy insurance planning can mitigate the lack of a nest egg and allow for the greater use of assets. Abandoning the outdated notion of traditional retirement can eliminate artificial deadlines. Intelligent financial planning and the use of annuities and reverse mortgages can be combined into customized longevity insurance, guaranteeing a lifelong income stream. Such actions also reduce vulnerability to the violent market fluctuations we've seen recently.

The philosophical keystone of inheritance is that assets should be maintained and preserved

beyond the life of the owner. It's a view that financial life is separate from corporeal life. Such a philosophy leads to unnecessary current sacrifices that outweigh any future benefits. It implies, falsely, that money has an intrinsic value of its own rather than being just a tool. It fosters family conflicts. It enforces a strict and arbitrary schedule of living above your means in early years and beneath your means in later years. It is an old attitude designed for a long-extinct world.

Choosing to die broke allows for a more holistic attitude toward money and life. Treat assets as resources to be used rather than as treasures to be hoarded. Live up to but not beyond your means *throughout* life. Human beings are not corporations; their wealth should not outlive them. People should exit life as they enter it: penniless. Assets should benefit you and your loved ones now, when they're needed. Your priority should be the way you live, not the way you die. Die broke and ensure that you'll live rich. ■

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