Foundations and Children

Nearly a hundred years ago, Andrew Carnegie observed that leaving enormous sums to one's children was "most injudicious" because "great sums bequeathed often work more for the injury than for the good of the recipients." He also declared that the "thoughtful man" would say, "I would as soon leave to my son a curse as the almighty dollar." Although many individuals don't subscribe to Carnegie's beliefs, Bill Gates certainly does. "One thing is for sure," the Microsoft founder told *Forbes*, "I won't leave a lot of money to my heirs because I don't think it would be good for them."

In their best-selling book, *The Millionaire Next Door*, Thomas J. Stanley and William Danko confirm Carnegie's and Gates's misgivings. After years of studying wealthy families, Stanley and Danko found that "the more dollars adult children receive [from their parents], the fewer dollars they accumulate, while those who are given fewer dollars accumulate more. This is a statistically proven relationship."

Most parents want to leave their children better off than they were themselves. This is noble and understandable, and wealthy parents are fortunate because they can realize this desire. However, like Carnegie and Gates, many also realize that there can be downsides to a large inheritance. Parents worry that "making it too easy" will undermine their children's discipline or give them a false sense of entitlement. They worry that the children will become preoccupied with the external trappings of wealth, at the expense of cultivating the very traits that helped the parents achieve success in the first place.

Affluenza

Practitioners who counsel wealthy families use the word affluenza to describe just these kinds of psychological problems. Affluenza isn't an official psychological diagnosis, but the list of symptoms is long and clear: low self-esteem, addictive or compulsive behavior, guilt, shame, fear, rampant materialism, an unwillingness to delay gratification or tolerate setbacks, and an inability to establish lasting friendships or to find a worthy purpose in life.

"Parents need to prepare children for the opportunities and pressures presented by wealth," says Dr. Ronit Lami, a London-based therapist. "Children develop problems around inherited wealth because they are not prepared to handle it." Psychologists offer an array of suggestions, including proper discipline, structured schooling, and exposure to different ways of life. Philanthropy as a tool for preventing affluenza is unique in that it incorporates discipline, education, and exposure to different environments, while encouraging children to help others and contribute to society.

Charitable or philanthropic activities, Dr. Lami says, are a vital way to inoculate children against affluenza. As she put it in *Private Client Magazine*:

> Parents who emphasize offering assistance to those in need will reinforce learning by modeling and will contribute to their children's increased value of themselves as leaders and contributors to society rather than "a trust benefit person."

Few people would argue that parents should leave no money to their children. Rather, the question is, how much? It is entertaining to view the wide range of answers to the question “how much is enough?” Famed investor Warren Buffett has offered the oft-quoted wisdom that parents should leave children “enough that they can do anything, but not so much that they can do nothing.” Buffett is reported to have given each of his children $5 million. Gates is reportedly planning to leave about 1 percent of his money to his children. (That doesn’t sound like much until you realize that his wealth is around $53 billion.) Families at less exalted heights, of course, have similar dilemmas. We spoke with a successful insurance agent who didn’t want to spoil his kids, so he planned to leave them only $2 million each, and a money manager who was limiting his kids to $12 million.

Affluenza? Really?

As popular as the idea of affluenza may be, that does not mean it is real in the sense of being caused by money. There are many people who exhibit many or all of the traits associated with affluenza, except those that directly require money. Affluenza may be perceived as far more prevalent than it really is because of the media’s love for a juicy story. Paris Hilton makes the evening news. But you probably haven’t heard of Evan and Daren Metropoulos, or their billionaire father. That’s because they aren’t colorful screw-ups. Plodding, unspectacular success doesn’t make headlines, doesn’t sell advertising, and just isn’t considered that interesting to the public.

But plodding, unspectacular success is probably how you made your money, and it’s probably what you wish for your kids.

In the end, we believe that the “how much” question is best decided within the family. Parents know their own children better than anyone else and thus have the best idea as to what the right amount should be.

The more important question for our discussion is how to prepare children to handle their wealth. Probably the best way is for them to develop their powers of self-discipline, hard work, and clear thinking. But that's just about what you'd want them to do if you didn't have great wealth. So wealth really isn't the issue.

Giving away money isn't a terribly difficult task to do poorly. Getting children involved in charitable activities is probably a good idea on its own, but it isn't a substitute for them to develop the habits of self-discipline and hard-work.

Still, a foundation may be a useful tool to bring children into your philanthropic activity. By using a private foundation as their primary charitable vehicle, parents need not choose between their philanthropic goals and their children's inheritance. They can serve both. In fact, the powerful tax advantages of a family foundation often mean that a family can give more to charity than they otherwise would and still have more for themselves and their heirs.

Whichever way an estate is divided between foundation and heirs, it is important that parents explain well enough in advance what their intentions are. If children are not old enough, parents might consider writing a carefully worded explanation of their thinking. This way, hurt feelings and dashed expectations are avoided. As Myra Salzer, founder of the Wealth Conservancy, a group that advises the suddenly wealthy, told the *Wall Street Journal*, "I haven't ever seen an heir who was resentful because they didn't get more. But I have seen them get angry because what they did get was unexpected."

In our work, we see three main advantages for families that create foundations: They bring families closer together; they are excellent ways to transmit family values; and they provide valuable skills for children (or grandchildren) that will help them as they grow up, go to college, and develop their careers.

Bringing Families Closer

Karen Maru File, a professor of marketing at the University of Connecticut, surveyed a group of philanthropists who had established their own foundations. Sixty-two percent said the foundation had brought their family closer together.

The reason is simple: A foundation offers a safe yet significant environment in which family members can come to understand one another better and develop a shared sense of values and mission. Most families never develop an explicit mission beyond the goals that everyday life imposes: earning a living, educating the kids, and taking a vacation now and then.

A private foundation facilitates the development of something more explicit and ambitious—a real mission. And the task of using one's money to do good in the world offers a natural venue for the discussions, storytelling, debate, philosophizing, and shared problem-solving which can bring families closer together.

Transmitting Values

Not only can parents or grandparents leave money to heirs, they can leave something that can't be taxed, dissipated, or lost to bad investments. The clichés are true: Actions speak louder than words, and example is often the best teacher.

As Lynn Asinof wrote in the *Wall Street Journal*: "If your real goal is to transmit your values as well as your wealth, you can't wait until you're dead." Setting the right example for children can tremendously affect their behavior. Theresa Odendahl, the author of *Charity Begins at Home: Generosity and Self-Interest among the Philanthropic Elite*, heard this view from one philanthropist she interviewed: Philanthropy "was a philosophy that I learned, as many of us do, from our families. My father particularly was involved in the community, both from a tradition of donation and of service.

I continue that. I think in a larger measure all of us have had that history.…We have followed our parents and grandparents."

Similarly, the values transmitted to your children will prepare them to live their own lives, carry out their visions of success—and carry on the family's philanthropic vision after you are gone.

Providing Valuable Skills

A family foundation enables children of all ages to develop important life skills. Our firm, Sterling Foundation Management, has developed a structured way for parents to involve their children in their philanthropy. We call it the Vision, Values, and Family Program. Emphasizing hands-on involvement, the program provides an excellent framework for encouraging charitable behavior and developing a family's own tradition of philanthropy.

The concept is simple: The foundation helps the children develop and implement a series of increasingly ambitious philanthropic projects, based on age and skill levels. The founder and the foundation provide guidance, support, and resources to ensure an interesting, fun, and rewarding experience for the child, who takes an appropriate amount of responsibility for various aspects of the project, such as identifying a goal or problem that should be solved, generating possible solutions, selecting an approach, and implementing a plan. Children can then see their work yield actual results. Charitable giving becomes not some abstract concept, but a hands-on, real-world process.

One important teaching venue is the foundation board meeting. Properly used, a foundation board meeting can become a valuable learning experience for all involved. For example, a board might meet to decide what grants to make, and in what amounts. Even children too young to be on the board can attend and be included in meetings. If the participants have prepared well, enlightening discussion will result.

"When [children] get on the board of a foundation, they learn about cash flow and how to invest," said one financial adviser quoted in *Barron's*. "It becomes a hands-on experiment."

Often successful business founders want to see their children become more sophisticated in handling money and business affairs. And a foundation can be used to train children in some of the basics. By working through the foundation instead of the business, the founder avoids the risk of alienating nonfamily employees.

Consider the case of Hewlett-Packard cofounder William Hewlett and his eldest son, Walter B. Hewlett. The younger Hewlett earned a degree in physics from Harvard in 1966. That same year, William Hewlett created the William and Flora Hewlett Foundation. His son Walter, under no economic pressure to earn a living, went on to spend the next 12 years at Stanford studying subjects ranging from engineering (he earned a Masters) to music (Doctorate), but also paid close attention to his father's activities and pursued his own philanthropic interests actively.

Bill Hewlett had great confidence in his son Walter. Upon his father's death in 2001, Walter took over the chairmanship of the Hewlett Foundation, which was then one of the largest shareholders in HP. Operating for the first time out of the shadow of his father, Walter, then 57, and also serving on HP's board, was quickly thrust into one of the most difficult business situations in which a foundation head is likely to find himself: at the center of the controversy over the proposed merger between HP and Compaq Computer.

Walter Hewlett opposed the merger, which was favored by HP's management. Hewlett raised a number of objections, and came very close to defeating the proposal. In the end, many of Hewlett's concerns were addressed, and the merger went through. Some analysts credit Hewlett's opposition with forcing the company to prepare a much more thorough merger plan than it originally had, and therefore give much credit for the early merger success, ironically, to Walter Hewlett.

Doug, a successful businessman in Southern California, is at the beginning of his story, but is following a similar path. After leaving the navy, where he was a dentist, Doug turned to real estate development, and over the course of 30 years has built a $25 million empire in the self-storage industry. Doug has seen his friends' children make a mess of thriving businesses, and he is determined to make sure that this doesn't happen when he turns his business over to his own son Tom.

Doug and his wife are using their foundation as a low-risk training ground for Tom, now in his early twenties. Doug has dedicated a fraction of his cash flow each year to the foundation, with the intention of building a large foundation over time. He has made Tom a board member, with the understanding that Tom's responsibility and authority will increase provided he demonstrates an interest and a willingness to learn.

Doug's main philanthropic interest is education, and he gives a great deal of money to help support his alma mater in California. But Doug and his wife have set aside about 20 percent of the foundation's expenditures each year for Tom to use as he sees fit. Tom gets a chance to operate on his own, without jeopardizing the business or the foundation, and his parents have the opportunity to evaluate their son's performance and growth. It's too early to tell whether Tom, now in graduate school in England, will join his father in the real estate business. But if he does, it won't be the first time they have worked together, or the first time Tom has had significant financial responsibility.

The skills that children and grandchildren can acquire in foundations may have an even more immediate payoff: The experience can make them outstanding candidates for elite colleges. As college admissions grow ever more competitive, young people who get involved in the administration of a family foundation can demonstrate a distinctive drive to be involved, a willingness to reach out beyond themselves, the ability to solve problems, and the perseverance to implement solutions. These are qualities universities see little of, even in the most elite pools of applicants. Top colleges are deluged with applications from bright kids with good grades—but not from kids who have administered grants, shaped a new nonprofit program, or helped build community services. This distinction is particularly useful if your kids rank low on the "diversity" scale that is an important part of elite college admissions today.

Many parents find that involvement in a foundation can give teenagers a sense of purpose, especially for those who initially lack direction or who tend to be self-absorbed. Donors often tell us that their foundations have fostered greater maturity and depth of character in their kids, qualities they don't see in kids who are not involved in philanthropy.

For older children already embarked on a career, the approach is different. One benefit of foundation involvement at this stage is networking. There are few more effective methods of networking than helping people with projects close to their heart, backed up by the ability to help finance them. Of course, for this to work most effectively, there must be a sincere desire to help.

Conclusion

People want to give their children more than just material wealth. They want to give them the tools necessary to live happy, productive, meaningful lives. There is, of course, no sure way of doing this, no magic bullet. But more and more, thoughtful people are putting into practice Helen Keller's wisdom that "True happiness is not attained through self-gratification, but through fidelity to a worthy purpose." Their private foundations are an important place to develop such fidelity.

“A copy…should be in the library of every philanthropist and foundation.”

Thomas L. Norris, Jr., Of Counsel, Poyner Spruill LLP

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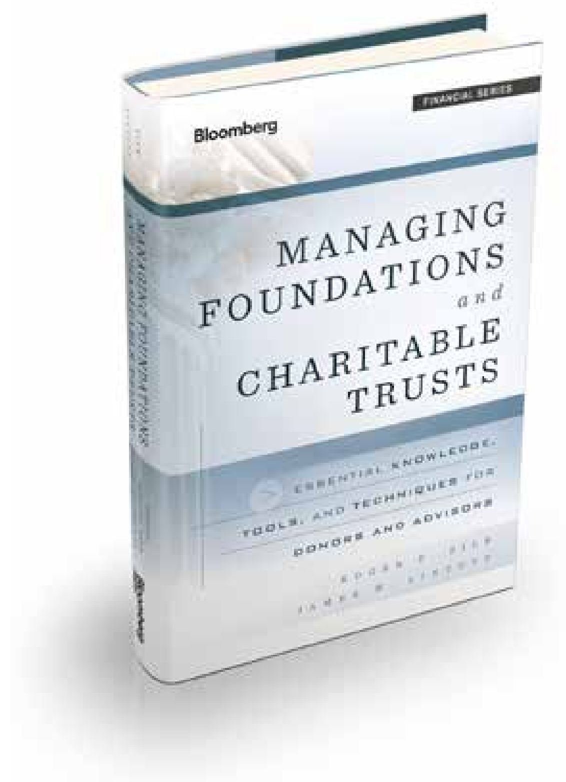

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