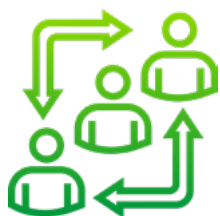


A Guide to Passing on Wealth and Values to the Next Generation

By: Peter Simon and Leslie Quick



Wealth acquisition provides abundant opportunities and financial security for a family, but it also brings its own set of problems. Parents fear that sharing wealth with their children may demotivate them, create a sense of entitlement, and even infect them with a serious case of affluenza. We all know examples of spoiled children in affluent families, and of sad cases in which the second or third generation blows the family fortune or descends into family feuds. The theme of this paper is how to raise productive children and pass along healthy values to them, along with your wealth—and, ideally, how to perpetuate family success for multiple generations. The advice we provide below is based on our decades of experience with innumerable wealthy families, as well as what we experienced with our own families.



Time to Talk

One question we are often asked is, when is the right time to start discussing family wealth with children? Since each family is different and age is an imperfect indicator of readiness, it's difficult to provide a blanket response. Prior to speaking to children in concrete terms about money, you may want to discuss the responsibilities, opportunities, and expectations that come with it.

Peter suggests starting the money conversation with children when they are in their teens and waiting until they are in college before discussing inheritance. To



prepare his own children for the day when they will come into family money, he related to them cases of families that inherited fortunes and then proceeded to fritter the wealth away. In fact, one of these examples occurred in his own family. His great grandfather made a large fortune in the silk business, but his grandfather managed his inheritance poorly and, at age 56, needed to get a job to pay the bills.

Parents can discuss wealth with young children in a limited way, says Les, but he suggests waiting until the youngest child is a year or two out of college before engaging in an extensive discussion of family wealth. This is (presumably) well in advance of estate settlement becoming an issue and will help to calibrate expectations. There is a certain balance between communicating when children are ready while not discouraging them from establishing their own careers and following their own dreams.

Financial Education

Another question we often encounter is how (and when) to teach children about money. One way to start is by giving them an allowance at a young age. This will provide a basic education in concepts such as saving, spending, and budgeting. Peter made his children work to receive their allowances—and advises saying no if kids burn through an allowance and ask for more.

Encouraging kids to take part-time jobs while they are in school will help them learn fiscal responsibility and living within their means. When Peter wanted to visit Europe during his school days, his father required him to get a job to pay for the trip himself.

We are big believers in philanthropy, which is another way to teach children about money and responsibility to society before they acquire wealth. Les suggests getting them



acquainted with donor-advised funds, to which one can make individual gifts, before they are investing sums of their own money. This will enhance their understanding of their surroundings and of people less fortunate than they are.

Unfortunately, we generally cannot rely on our public education system to provide a solid grounding in financial education for our children. Over meals and other family gatherings, parents can teach children from a relatively young age about many important concepts such as debt, inflation, accounting, taxes, insurance, investing, risk diversification, and the time value of money. Encourage them to sign up for relevant courses in school or online and to read illuminating books on topics such as these. You may be surprised at how even kids can grasp vital concepts in finance and economics. In her biography of the legendary investor from Omaha, Nebraska, “Snowball: Warren Buffett and the Business of Life,” Alice Schroeder recounts how Buffett had an epiphany one day when he was 11 years old and first learned the concept and basic math of compound interest from a book





he had borrowed from his local library. She writes: “He could picture the numbers compounding as vividly as the way a snowball grew when he rolled it across the lawn.”

Let's Talk Values

“The true wealth of the family is not reflected in a numerical balance sheet.”*

Wealthy families face qualitative, as well as quantitative, issues; in legacy planning, you want to transfer more than just wealth. Whether your family (and family business) stays intact and remains prosperous in succeeding generations depends more on instilling healthy values in your children than on the amount of inheritance. We all know of well-publicized cases of rich families that are torn apart by greed, jealousy, indolence, conflict, and often litigation; TV series and movies, perhaps tapping into a feeling of *schadenfreude* in audiences, delight in telling these sad sagas of the rich and famous. It is remarkable how many cultures and societies around the world have versions of the epigram shirtsleeves to

shirtsleeves in three generations. In Chinese, for instance, the proverb *cai bu guo san dai* can be translated as wealth does not survive the third generation. There is, sadly, much truth in these sayings: an estimated 70% of wealth transitions in the US fail by the third generation.

The challenge is how to pass important personal or family values to the next generation. Peter recommends that, before children are granted any family money, they take a job, which will teach them basic responsibilities, and that they demonstrate a commitment to sports or the arts, both of which instill discipline. Les' recommendation is that the job be a customer-service one, which demonstrates how people treat one another and will bring the child into contact with low-income workers. Peter also suggests a community-service requirement—volunteer work - in which each child needs to log a certain number of hours before they can inherit money. Obviously, avoid spoiling the kids: “Don't buy them the fancy car!” cautions Les.

Keep in mind that you are automatically communicating and transmitting values through





your own lifestyle and behavior as the kids grow up. If you live a lavish, materialistic lifestyle, then you know where your children will learn those habits. Likewise, if you possess a strong work ethic and are actively involved in philanthropy, then you're a positive role model for the next generation. As mentioned earlier, we urge wealthy parents to involve their offspring from a tender age in charities and other philanthropic work, which helps to imbue them with values such as compassion. It is telling how some of the wealthiest donors in history, such as steel tycoon Andrew Carnegie (who essentially built the public library system in the US, among other large charitable endeavors), are remembered more for charitable contributions to society than for their business accomplishments. Carnegie obviously felt very strongly about donations for good causes: "The man who dies rich, dies disgraced," he said.

As you consider what core values you feel are important to pass on, you might consider memorializing them in a written vision statement or other such document. Each family will accentuate different core values, but examples might be integrity, personal responsibility, hard work, respect and compassion for others, generosity, gratitude, and

family closeness.

Passing on Wealth

Finally, allow us to address the common question of when is the right time to start providing the next generation with wealth. As with so many of the money issues that affluent families face, there are no one-size-fits-all prescriptions. We will provide some principles and guidance. For example, before making pecuniary gifts, you should ensure that the money will be used for productive purposes such as education, instead of creating dependency or disincentivizing a child from completing education or pursuing an appropriate career. Avoid creating a sense of entitlement in children; stress the responsibilities that come with money, and that you want them to use it to make a positive impact on the people around us and the world at large.

Les and Peter both endorse the strategy of establishing a Family Limited Partnership (FLP), in which the parents are the general partner, to test and groom children well before it's time for the inheritance. Les notes that participation in the FLP will help siblings learn how to work together and will provide them with hands-on experience in budgeting and investing large sums of money. In addition, the FLP will require frequent meetings, during which family members can learn more about the estate plan. If you think a child isn't mature or responsible enough yet to receive sizeable chunks of money or an inheritance, consider tapping a trustee (who ideally is not a parent; it is better to maintain separation, says Les). The trustee can assess when the child is ready to properly handle funds from the trust; this quite likely will entail sequenced access to trust money (rather than unlimited access), with increasing amounts unlocked at various ages as the child grows older and matures.





Conclusion

Passing on wealth to children presents several challenges for affluent families. But through skillful planning and adopting certain practices, such as ensuring that children have a solid financial education and are well exposed to core family values, parents can greatly increase the odds of raising productive children and perpetuating family success for years to come.

*Hausner, Lee, Douglas K. Freeman. "The Legacy Family: The Definitive Guide to Creating a Successful Multigenerational Family." Palgrave Macmillan, 2009.



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About Peter

Mr. Peter Simon became a partner at Simon Quick in 2017. Prior to that, Peter Simon co-founded William E. Simon & Sons, LLC along with his late father, former Treasury Secretary William E. Simon, and his brother, William E. Simon, Jr., in 1988. He currently serves as Co-Chairman of the Firm and The William E. Simon Foundation.

Peter Simon was previously employed by Kidder Peabody in New York City from 1975 – 1988. At Kidder Peabody, he rose to Managing Director in the Convertible Securities Department. During his time at Kidder Peabody, he was part of the Institutional Equity Trading Department specializing in convertible securities. The department established themselves as a leading underwriter and market maker in convertible securities. It also developed one of the first

research products focused on converts. Peter Simon earned a BA in Psychology from Lafayette College and also attended NYU's Graduate School of Business.

Currently, Mr. Simon is an emeritus member of the Board of Trustees at Lafayette College. At the University of Rochester, he is an emeritus member of the Executive Advisory Committee at The William E. Simon School of Business. At the present time, he is a member of the Board of Trustees of the Richard Nixon Foundation. He is Chair of the Board of Trustees of the Arnold and Mabel Beckman Foundation, a member of the New Vernon Cemetery Association Board of Trustees and a provisional member of the Charles Hayden Foundation. In all of these Board roles, he has been Chair of their Investment Committee. Peter also serves as a Lector at Christ the King Church in New Vernon.

Past philanthropic commitments include: an appointed member of the New Jersey State Board of Education, Chairman of the Foundation for Morristown Medical Center, the Alliance for School Choice Board of Trustees, the Gladney Center Board of Trustees, the National Council for Adoption Board of Trustees, and the Peck School Board of Trustees. He was also a past member of the Covenant House New Jersey Board of Directors.

Peter Simon and his wife Janet reside in Green Village, New Jersey. They have four grown children.





About Leslie

Mr. Quick founded Simon Quick in 2004. He began his career in 1975 as the fourth employee

of Quick and Reilly Inc., the first New York Stock Exchange (NYSE) member to offer discount stock brokerage to the investing public. During his 28 years with the firm, he served in many capacities. He was a key member of the management team that built the branch network, started and grew a major clearing firm, acquired and ran a major NASDAQ market making firm, made many acquisitions of NYSE specialist firms and built one of the industry's first electronic internet trading platforms. Mr. Quick was the company liaison for Quick and Reilly in 1983 when it offered stock to the public and became listed on the NYSE.

Mr. Quick completed his tenure as Chairman of Fleet Securities, Inc. in 2003 after Fleet Bank had acquired Quick and Reilly Group, Inc. in 1998.

Mr. Quick has served on many industry boards and committees, including the NYSE Hearing Board, the Board of Governors of the Chicago Stock Exchange, the Board of Directors of the Securities Industry Association and District Committee #10 of the NASD. Currently, Mr. Quick is Chairman of the board for Big Brothers Big Sisters of Hudson, Essex & Union Counties, he also serves on the boards of the Bishop's Finance Council for the Diocese of Metuchen and the Finance Council for Our Lady of Perpetual Help. He serves on the Investment Committees for the Diocese of Metuchen, St. Mary's Abbey/Delbarton, and the Franciscan Friars of the Holy Name Province. He also served as the Chairman of the Campaign for the Heart at Morristown Memorial Hospital and is a Trustee for the Foundation for Morristown Medical Center. Mr. Quick sits on the Order Friar Minors Finance Committee in Rome, Italy and St. Patrick's Cathedral in New York City. He served on the Board of Trustees for St. Bonaventure University for 25 years and was named a Trustee Emeritus in 2015.

Mr. Quick earned a BBA in Finance from St. Bonaventure University, which awarded him an honorary doctorate degree. He is a recipient of the Ellis Island Medal of Honor and the Flame of Charity's Man of the Year award.

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