The New York Times

MARCH 18, 2008

Breaking the Silence

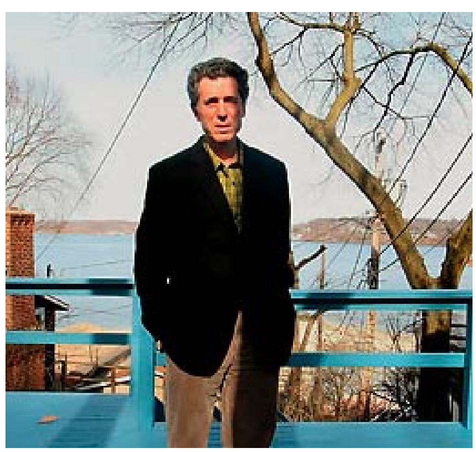
SETTING PRIORITIES Martin Rothenberg, with his granddaughter Rachel Batizfalvi, set up charitable foundations for his children to run instead of giving them lots of money to spend on themselves.

By JOHN LELAND

WHEN Dal LaMagna, founder of the Tweezerman company, considered how to leave his wealth to his two children, he thought back to his early 30s, just before he achieved success. At the time, said Mr. LaMagna, 61, "I thought if I could get 600 bucks a week, I could retire on that, and I would be very happy."

So Mr. LaMagna, who built a $30 million company — which makes beauty tools like tweezers — before selling it in 2004, set up charitable lead trusts for his son and daughter to provide them weekly incomes of about $600, starting when they turn 30 years old. (They are now 19 and 27.)

"If you give them more, it's counterproductive to their motivation," said Mr. LaMagna, who has spent some of his children's potential inheritance on antiwar causes, including his own campaigns for Congress and president. "I didn't want to take away from them the drive to do things for themselves."

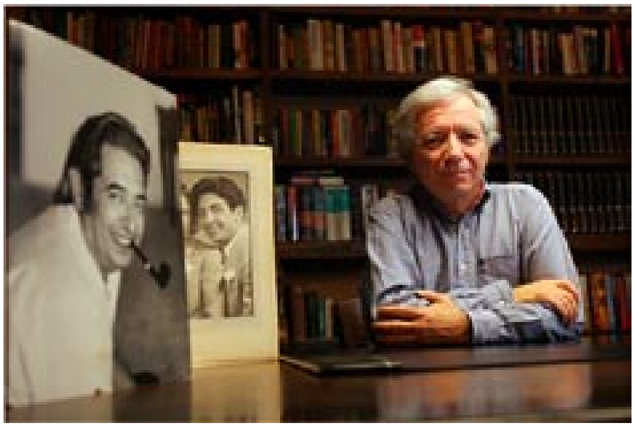


MOTIVATION Fearing complacency, Dal LaMagna, founder of the Tweezerman company, set up trusts to provide only small incomes for his children. "If you give them more, it's counterproductive to their motivation," he said.

With the largest intergenerational transfer of wealth in American history now under way — the Boston College Center on Wealth and Philanthropy has estimated that $41 trillion will change hands by 2052 — Mr. LaMagna and others are reconsidering the meaning of inheritance, thinking not just about the money but about the values they want to pass with it.

Families have often avoided the discussion of inheritance, which involves both death and money. But as the nature of wealth in America changes, many people are beginning to talk more openly about their money and the purpose it has for them.

These discussions are taking place against a backdrop of changing estate tax laws, innovative trust instruments, armies of newly minted wealth advisers, a troubled economy with markets in upheaval and family ties that are complicated by divorce, remarriage, adoption and domestic partnership. Not to mention the public spectacles of Anna Nicole Smith and Paris Hilton.



TREASURES Amy Wallace and David Wallechinsky, the children of the writer Irving Wallace, in their father's library. "I suppose I should be concerned about the money, but I want to leave my kids a family history and a family intellectual history, because we're fortunate enough to have one," he said.

Among the parents' considerations are whether to give now or later; how to provide for the companies or foundations they started; whom they want to manage their children's trusts; and how to protect themselves from catastrophic health care costs. Add to the mix new financial services like children's wealth camps, family mission statements, "ethical wills" and, above all, the question: What sort of lives do they want their children to lead?

Patricia Angus, principal of wealth advisory services at Shelterwood Financial Services in New York, said that many of her clients were changing how they define wealth.

"The definition is broadening to include not just financial capital but human, social and intellectual capital," Ms. Angus said. "Professionals used to think it was just, How do I transfer my financial assets at the lowest tax costs? Now people are asking, What is the purpose and meaning of what I'm doing here, and how do I pass those down? It's not about death. It's about an experience in life, an opportunity to talk as a family about purpose and values that might not otherwise come up. For people who just write a document and put it in a drawer to be opened on their death, I don't see that opportunity coming up."

Many still want to pass down as much wealth as possible. But for others, the change in philosophy reflects the fact that there are more millionaires who have earned their wealth rather than inherited it. A 2007 U.S. Trust survey of people with $5 million in investable assets found that only 20 percent of their wealth was inherited. Other surveys put the figure lower.

In the U.S. Trust survey, half the respondents said they did not fully discuss their estate plan with their children.

But once you get them talking, the conversation is often more about values and meaning than about tax strategies. An entrepreneur might see a dollar in his or her pocket as an incitement to work harder or think more creatively, but in an heir's wallet it can be an invitation to slough off. As more Americans hire advisers to manage the financial content of their wealth, they say they are busy managing its philosophical or ethical legacy themselves.

For Gary Williams, 57, the question of how much is too much has changed from year to year. When his son was 18, he said, "I wouldn't have handed him a dime. He wasn't responsible. I've seen it happen. If you do, it's just money to them."

Mr. Williams, who runs a debt collection service in Rock Hill, S.C., said that money was not the biggest consideration in his children's legacy. He and his wife have had detailed conversations about their finances and charitable giving with their son and daughter, who are now 31 and 27, and have asked them to help direct their gifts.

"They understand that they're not going to receive our entire wealth," Mr. Williams said. "They may inherit the company and some of our wealth, but the things we believe in — the church, scouting, serving youth — we hope to sustain those when we pass on."

He said he had not fixed a number for their inheritance, and that the final distribution may not be equal — maybe his son, who is now more involved in the family business, will get a greater share of the company, and his daughter, who wants to stay at home after she has children, will get the beach house.

In the meantime, he gave them a total of $48,000 to invest, with the profits going toward an annual family retreat. "The long-term result is them learning to work together," he said. At least once a year, the family sits down together to discuss investments, charities and other issues.

"Our goal is not to give them all of our assets as much as give them the knowledge to manage the assets they have, and give them the ability to do what they want in life," Mr. Williams said. "Your self worth comes from how you get where you're going. If it's given to them in a limousine, they're not going to get there very well."

SPARE TIME Frank Butler, a retired chief executive, wanted to give his fortune to charity. His wife, Ruth, however, wanted to subsidize the education of their three grandchildren. So they divided their resources in half, creating an educational trust from Mrs. Butler's side and a charitable foundation from Mr. Butler's

Charitable foundations and trusts have multiplied in the last decade, to the point that "now everyone and his mother can set up a foundation," said Mina Sirkin, a lawyer who specializes in estate planning in Woodland Hills, Calif.

In a 2007 survey of people with assets above $500,000, by PNC Financial Services Group, 30 percent said that their heirs had to meet certain conditions to receive their inheritance. Fourteen percent said they put restrictions on how the heirs could use the money.

Like other Americans, the PNC sample expressed contradictory positions about inheritance: only 17 percent said it was more important to give to charities than to family members, but the majority, 62 percent, said that every generation should be responsible for creating its own wealth.

Ms. Sirkin said that among her clients, "no one thinks there's too much to give to the children. Your view of money is usually relative. The other day a couple came in, they're worth $15 million; in a little while they'll be worth $30 million, and if you ask them, Is this too much for your 21-year-old, they don't believe it, because they're accustomed to it."

Frank and Ruth Butler disagreed about how much was enough. Mr. Butler, 78, a retired chief executive of Eastman Gelatine, a subsidiary of Eastman Kodak, wanted to give his fortune to charity. Mrs. Butler, 76, wanted to subsidize the education of their three grandchildren. So they divided their resources in half, creating an educational trust from Mrs. Butler's side and a charitable foundation from Mr. Butler's, to be administered with their children. The grandchildren have all finished college now, and there is still money in the education fund.

"My feeling is that our children have already benefited greatly from being in our family," Mr. Butler said. Mrs. Butler said her view was: "I felt our children would not be able to help their children as we helped them. I wanted it to be clear that they didn't have to limit their choice of colleges."

The idea of not handing down one's wealth — and of making that decision in the name of class values — fits a society in which wealth is increasingly entrepreneurial. In more aristocratic societies, benefactors expect heirs to assume their class values along with their estates. By contrast, many self-made millionaires say that too much inheritance might work against their values — specifically the values that enabled them to make the fortune in the first place.

Martin Rothenberg, 74, who started a company that makes voice-recognition software, said he hoped not to leave his children anything. "My goal is to have my bank account run out on the day that I die," he said.

After Mr. Rothenberg received $10 million in the sale of his company, Syracuse Language Systems, he set up a charitable foundation and a community foundation for his three children to run, with assets of just under $5 million. With some of the remainder, he started a company called Glottal Enterprises, which makes speech aids for people with impaired hearing — "a small company that loses money," he called it.

"I think they all probably would like more money," he said of his children. "In one case that was communicated directly, as money for grandchildren for schooling, but not strongly. But by giving out the money early, that settled it. They can't think of my money as their money because there isn't any money."

Mr. Rothenberg's daughter Sandra, 39, said that it was she and her siblings who pressed to settle the inheritance early.

"The kids wanted it earlier, not after he died, so we didn't have to spend the rest of our lives wondering, if we did this, would he cut us out of his will?" said Ms. Rothenberg, who teaches corporate social responsibility at the Rochester Institute of Technology. "We didn't want money to be a factor in our relationship. I think part of him wanted it over with, too."

Mr. Rothenberg said that he gave his children some money for basic needs, but that for large sums, "giving them money that they can give away is more valuable than giving them money that they can spend. And as a practical matter, there are times when they might make a donation to a local charity, say $10,000, and it would be hard for them to take their own money to do that. That's been very freeing for them."

Even in close families, inheritance often gets messy, especially when children have different needs and abilities to manage money, said Beth Kaufman, an estate planning lawyer at Caplin & Drysdale in Washington.

"There's a tension," she said. "Do you give the responsible children money outright and put the others' money in a trust? Do you make the responsible kid trustee for the irresponsible one? That can really damage a sibling relationship."

A sure recipe for disaster is leaving a vacation property jointly to the children, she said. "All of us as parents want to believe our children will be friendly when we're gone," Ms. Kaufman said. "The reality is you're leaving them a white elephant."

In the end, the parents are gone, and the heirs must deal with what remains — a statement of purpose, a foundation they may or may not support, a trust they may not feel they need. David Wallechinsky, the son of the writer Irving Wallace, said he managed his mother's finances for the last seven years of her life. Now, at 60, having his inheritance meted out by trustees feels like an indignity, he said. "It was as if we had entered a looking-glass world in which, instead of gaining an inheritance, we lost control of the family trust."

But recently he received copies of his parents' papers, which are archived at the Claremont Colleges in California. He said this was his real inheritance.

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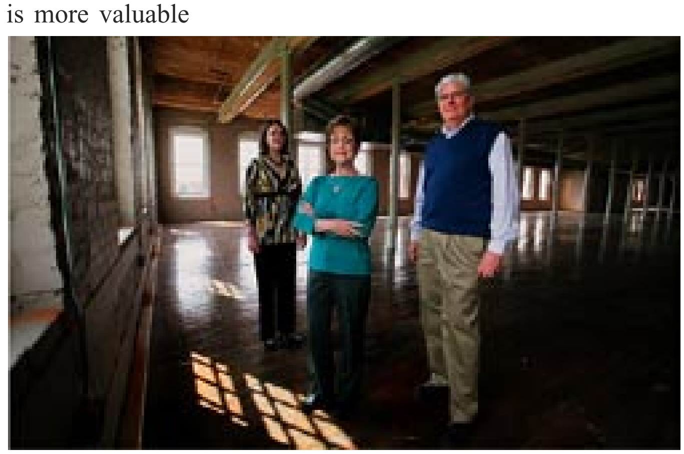
Fred Bierman contributed reporting for this article.



HEIRS Gary Williams, who owns a collection agency in South Carolina, with his wife, Peggy, and daughter, Alice Davis. The couple talk about their finances and charitable giving with both their daughter and son, and have asked them to help direct their gifts.