

The Wealth Holder's Dilemma:
To Help Or Not Help
Children Financially

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By Charles Lowenhaupt

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Charles Lowenhaupt is a regular commentator for Family Wealth Report, the author of a study of family wealth issues, and member of our editorial advisory board. And we are delighted that he's back with comments about the decisions HNW families have to make about how and whether to aid their children's financial needs. The editors are pleased to share these insights and invite responses. Email tom.burroughes@wealthbriefing.com and jackie.bennion@clearviewpublishing.com

One of the most difficult challenges for wealth holders is whether and how to use wealth to help their children. Answering that question raises a number of always-sensitive questions. How should love and caring be translated financially? How much is enough help? Perhaps most importantly, when is it too much? And what about assisting your children's children and future generations? How much help might they need?

If your goal is to create functional children who can become all they can be – to fully self-actualize and chase their dreams, as academic and author Mark Rank notes – financial security is a critical underpinning. Those of us advising families of significant wealth have long known that financial certainty, not deprivation or drowning your offspring in money, leads to secure, well-balanced children of wealth.

What cannot be denied is that housing and education - the basics for adult children and their families - is more expensive than ever before. Education has been outpacing inflation for decades and is increasingly essential for future success. The total cost of private elementary and high schools, boarding schools, colleges and graduate education can now exceed \$750,000 per child. In high-cost urban areas, it is not unusual to find elementary schools and high schools charging \$40,000 per year. All-in college expenses can be \$75,000 to \$100,000 per year.

Likewise, there are many US cities, such as San Francisco, New York, Los Angeles or Chicago, and many foreign cities, such as London, Singapore, or Sydney, where a "modest" house starts at \$2 million. Many wealth inheritors will need to spend \$5 million or more to find a home similar to the one in which they were raised.

On the other end of the spectrum, an enterprising child may ask for start-up funding. Friends and family rounds of \$10 million are not uncommon. Then what?

What are my options?

All of this begs the question about the best way to help children.

But before you think about whether you're giving them too much or not enough, it's important to focus on the first order of business: Yourself. What might you need to live your golden years on your own terms? That is not an easy question and, in our experience, many people underestimate the costs of living too long. If your choice is between having too much money because you die relatively young or too little because you live too long, plan on ending up with more money than you need.

How much money might that be? Begin by considering that 24-hour medical care may well exceed \$250,000 per year in today's dollars. To generate that kind of income, you'd need \$5 to \$10 million. Now assume that you want to live a bit larger. Let's say you're the kind of person who spends six months a year on cruise ships or you want a 24-hour chauffeur. With those kinds of additional expenses, you may easily need to triple your investment reserve.

Or suppose you want your financial affairs handled by a single-family office. That may ultimately help your children. After all, it is a "family" office. But it's essential to have that family office designed to help with your wealth management and care services, not to mention your reservations and bookings for dinners, hotels and/or flights. That is likely to add \$1 million or more per year to your income needs, which requires another \$30 million of principal.

We can add and add and add, but it is not unreasonable to say that you may need the first \$60 million for yourself.

You shouldn't feel a bit sheepish about setting aside so much for yourself. Instead, consider that one of your children's responsibilities is caring for you. In other words, the more you can do to ensure your own care, the more you are helping your children.

Of course, there is no universal formula to determine a reserve for yourself. All we suggest is that you run the numbers and make decisions based on how you want to live in old age. Until you have done that, you are not really prepared to start giving money to your children.

Setting your priorities

Once you define your own needs, you have to set priorities that reflect your attitudes about helping your children. In our experience with wealth holders, the priorities can include the following:

-- Education of grandchildren and great grandchildren. Tax laws encourage wealth holders to fund the education of future generations. In an uncertain world with a seemingly endless number of problems, educating future generations can help your family members thrive, while enshrining your legacy for decades. This was exactly the approach taken by one of our clients, who long ago set up education trusts for her grandchildren and great-grandchildren. "I will pay for education no matter what," she said. Seventy years later, three generations have been educated by this wise woman. Most of her funds have been exhausted, but she has descendants who are all educated and functional.

-- Food and shelter fundamental to life. Providing for basic food and shelter – not million-dollar houses – will help ensure that your descendants don't become destitute. Clients in high-cost urban centers who want children and grandchildren living nearby may need to find the millions of dollars to buy each house for their adult child. But is that for your children and grandchildren? Or is it for yourself, so you can be involved in the lives of the next generations? The answer is never entirely clear, but that house may well be a priority – sometimes even higher than education.

-- Vacations and retreats to keep the family together. Another priority in preserving family unity and legacy are the "family vacations." They can cost hundreds of thousands of dollars. When parents pay for that cruise to include all children and grandchildren, is that payment really for the children and grandchildren? Or, is it again for parents who want to remain connected and relevant to their children? The answer is fairly obvious.

-- Philanthropy rooted in community. An important priority may be strengthening your community through philanthropy. Allowing children and grandchildren to grow up feeling part of the community which created and nurtured their wealth – and to live in a world of peace, beauty, health and enlightenment – is not a completely altruistic goal. Indeed, it may be as important as education and may even be an element of education.

-- Caring for your children in their old age. To complete the circle, you should place a high priority on ensuring that your children have enough in their old age. The same process and financial assumptions you used to determine your own needs in old age can be applied to the needs of your children. Although providing for your children in old age is not an unreasonable priority for a parent, it has substantial challenges. Consider the possibility that support of a descendant may result in or require the support of in-laws, partners and step-children.

All of these priorities need to be carefully considered, but the key priority - taking care of yourself - should always come first. It is difficult to imagine any situation in which your own support should not be your top concern. If there is unlimited money, the other priorities can be funded and then some more. But for most of us, considering the possibilities and the needs our wealth, doing everything is impossible. We would be well-served to set priorities to determine what the wealth is for and then stick to the plan.

A wonderful life

As parents, the natural instinct is to be concerned about the welfare of our children. Most probably, we also want to play a meaningful role in their lives. All of that is possible if you are thoughtful in planning for old age. Remember, you can't take care of anyone if you can't take care of yourself.

About the author

Charles A Lowenhaupt is managing member of Lowenhaupt & Chasnoff, LLC, a law firm founded in 1908 that develops wealth strategies and provides counseling to individuals and families of significant wealth. He is also founder and director of Lowenhaupt Global Advisors Australia, a family office based in Sydney.