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## **Affluenza - Dealing with Family Wealth**

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While the nation prepares for a potential swine flu epidemic, families of wealth may be infected by a different type of flu – “Affluenza” -- which needs a powerful vaccine.

Parents express the following concerns – “I don’t want our wealth to destroy our family.” “If we make financial gifts to our adult children, they will become de-motivated and fail to develop rewarding careers and meaningful lives.”

Most families have difficulty discussing money – a taboo subject. While wealth is often an “undiscussable,” having straight forward conversations about wealth and the inherent responsibilities of wealth is the best vaccine that families can inject into their lives together.

The issues of wealth become more complex, in particular, when parents must deal with the financial needs of their adult children. Whether expressed or not, the financial interactions between parents and their adult children involve a “Deal” - a set of implicit, unarticulated expectations and assumptions about money.

In my work with families of wealth, we make the “Deal” explicit by using a process that my own sons have labeled “The Deal Sheet”.

This process requires that the parents are explicit about what they will support, and that the adult children make a formal commitment to their responsible use of financial support, their goals, objectives, and accountability standards as well as the long term purpose for receiving this support from their parents. In addition the “Deal Sheet” makes a distinction between gifts, grants, and loans. Gifts are unconditional with no strings attached. Grants are given with explicit accountability standards and expectations. Loans are structured to require repayment based on agreed upon terms.

Once the “Deal Sheet” becomes a regular method for addressing the financial interaction between parents and their adult children, the burden of responsibility for requesting and structuring “grants” rests on the shoulders of the adult children, not the parents. While too often the financial interaction is overly paternalistic since the parents control the wealth, and hence the power, the application for a “grant” requires that the adult child be proactive and accountable for their use of wealth.

For example, one of my clients recently structured an explicit “Deal” to provide financial support to help one of their children expand his new business venture. The parents agreed to provide a grant (which would not require repayment) and the son developed a budget outlining the specific use of the funds which were to be used both for sales and marketing support as well as the purchase of necessary equipment to overcome existing capacity constraints. He also made a commitment to report back on a regular basis to his parents on the success (or failure) of his business venture.

In their recent book, *Trust Me: Helping Our Young Adults Financially (2009)*, family business consultant Ken Kaye and his son Nick have provided an in depth and thorough approach to the financial interaction between parents and their adult children. I credit Ken with providing the framework for the “Deal Sheet” and the excellent distinction among gifts, grants and loans. They have also developed a web-site to help parents (or other mentors/coaches) and their adult children to manage and maintain their financial interactions. (See [www.EarnTrust.net](http://www.EarnTrust.net))

Besides outright grants, gifts, and loans, families should also consider using trusts as the vehicles for these “Deals”. Flexibility may be built into the trust to provide for making grants to the beneficiaries using the “Deal Sheet” process. A trust allows for a tax efficient structure to make gifts from the parents directly to the trust and then the trustee(s) in turn may negotiate distributions from the trust to the adult children. For example, one of my clients has recently created a family limited partnership to hold their liquid assets, and the limited partners are grantor trusts for the benefit of their adult children. For more information about the tax advantages of trusts in estate planning, please consult with your attorney and/or accountant.

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