

## **Lost Wealth: Learning the Hard Way**

by Dr Robb Musgrave

How do you retain generational wealth?

### **Why do nine out of ten wealthy families lose their wealth by the third generation?**

In the course of my doctoral research I interviewed a number of financial planners, lawyers and accountants who had made surprisingly similar observations. They had known wealthy elderly clients who had succeeded in building their wealth from nothing. These clients had often grown up knowing what it was to go without, to make do, to sacrifice. This built character, patience, perseverance and appreciation. They learned the value of hard work and dedication, and accepted the old maxim that things worth having are worth working for and waiting for. *They worked for their money and saved well.*

However, they were determined that their children would have greater advantages and not have to learn the hard way. Their children would have a better education and would have their basic needs met, and more. They would not have to go without. Unknowingly, they raised a generation that could not do without.

The World War II generation raised us 'baby boomers', who are known to be materialistic and poor savers, perhaps as a result of not being accustomed to waiting to have our needs gratified and decades of being bombarded with "you deserve it" marketing. On the up-side, boomers are hard working, more comfortable with change (having grown up in revolutionary times) and are better informed about money, which makes them keen investors, who are more comfortable with calculated risk. *We make money work for us.*

As parents, we in turn have raised the 'Y generation' who have often been even more indulged, therefore more materialistic and have experienced less economic hardship, therefore are more risk tolerant. Characteristics of this generation are that they lack patience and are easily bored, having been highly stimulated by technology. They expect a more affluent lifestyle and know how to live well. Their strengths are that they are even more accustomed to change, are savvy with technology and can bear even higher levels of business and investment risk. *They make technology and money work for them.*

Historically, this seems to be a generational pattern and if each successive generation invests and grows their money wisely applying their different risk profiles intelligently, they should all prosper.

But what happens when this goes wrong? When one generation is so successful that the motivation for following generations to work for, invest and grow their money is taken away. The money that was once a family blessing, misdirected becomes their curse.

This is probably the reason that six out of ten wealthy families lose inherited wealth within two generations and nine out of ten lose it in three generations. Then the cycle begins again, or does it?

Over the next 30 years we will experience the greatest intergenerational transfer of wealth Australia has ever known. Estimates indicate about \$600 billion will be transferred to and from the baby boomer generation (1945 – 1964). As the oldest baby boomers are now 62, in 30 years they will be turning 92 which would be a good innings by anyone's standards. If the average life span is 85 this skews the estimates, so the bulk of this money will transition in the next two decades.

### **What does this mean for estate planning?**

To transfer wealth to the next generation without adequately preparing them, can do great harm. "If you ask a wealthy parent, 'Do you want your wealth to corrupt your kids?' there wouldn't be a parent on earth who would say 'yes,'" says Rodney Zeib, author of "How to Beat the Midas Curse".

What can we do to break the Midas Curse? Most importantly we can purposefully plan the nature and type of impact we want to have on future generations and create a structured legacy. Everyone who is loved by someone will leave a legacy in some form, but few people experience the power of a structured living legacy.

### **What is a living legacy and how can I create one?**

A structured living legacy has 3 essential elements, a financial legacy, a personal legacy and a social legacy. The financial legacy is the money and assets you leave after the bills are paid. The personal legacy is the sum of your life, your personal assets. It is your past and your future, your stories, values, hopes, love, wishes, advice and blessings, yours to experience and pass on if you desire. The social legacy is what you give back to society while ensuring you don't over-endow your family.

There is growing interest in producing written records, especially as our personal and financial affairs become more complicated. These personal legacies can include a range of documents from the more formal Memorandum of Wishes (or ethical will) to the less formal Family Legacy Plan which records a comprehensive range of important personal details.

To create a structured living legacy you need to address all 3 legacy elements and become involved in building the legacy as soon as possible, including passing on family stories which formed family values, improve family communication, plan for the future, align your values with your community giving and where possible involve other family members. It's never too soon to give back and it's never too soon to begin to live a life of significance.