Leave As Much Joy As You Brought

By Wayne von Borstel

Based on 25 years of coaching clients in wealth management, Wayne von Borstel offers "Wayne's Rules," a set of fundamentals that will help clients recognize and appreciate the true value of money.

Most of us were welcomed into life amidst great anticipation and joy. Our parents held us in their arms and imagined the great things we might accomplish someday.

As estate planners, we have a unique opportunity to fulfill our parent's dreams. In fact, it is not just an opportunity; it is a responsibility inherent in the profession we have chosen. We can change people's lives, and in so doing, change the lives of people who follow them.

I am a financial advisor because I think I can change 300 people's lives. When I retire, my hope is that 300 people will think their lives and the lives of their children and grandchildren are better because of me. I hope I am able to lead my clients to a better understanding of money. I will know that has been accomplished when two things occur: they become less concerned about money and finances, and more concerned with life, and they leave a significant amount of money to someone they do not know. In my view, that is the true lasting value of money.

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One of my goals is to enable my clients to leave a footprint in this life, much like Charlie Davis, a man I worked for many years ago. Charlie, age 85, was a farmer. He lived in a shack and had gone bankrupt three times. He never went to college and he drove a 35-year-old car. He wore bib overalls every day.

When Charlie died, he left a significant amount of money to a local high school. My nephew, who was not even born when Charlie died, recently graduated from that school. He and every other student that attends that school is the beneficiary of a gift from a man they never met. Every graduating class will get a gift from Charlie Davis, a man who lived in a shack.

That is a footprint. Most of us die and our great-great grandkids will not know our name. But we can all leave a footprint. We can effect real and enduring change, and few people have the opportunity to make as meaningful a footprint as advisors who do estate planning.

Toward that end, may I suggest a few basic tenets that can help guide clients towards a better understanding of money

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and hopefully, a lasting legacy for their lives. After a quarter century of coaching clients, and having the privilege of teaching planning courses at local colleges and adult learning centers, the feedback I have received regarding the effectiveness of these fundamentals has been gratifying. They are not remarkable or revolutionary; they are, simply put, a set of rules clients can adopt to help recognize and appreciate the true value of money. In doing so, it's my hope they will someday leave money to someone they don't know. I call them "Wayne's Rules."

Never spend principal. We love our kids and feel they deserve everything we can give them, but unless we prepare them properly to receive our bounty, we risk having them destroy the capital we worked so hard to amass. The danger of leaving children a large sum of money if they have never had to work and save their own money is they have no basis for understanding the implications of suddenly having wealth. Depending on the family's finances and lifestyle, a large sum could mean $4M, $400,000 or $40,000. Giving an unprepared child a bundle of money is like turning over the wine cellar keys to a wino. It is just too easy for an inexperienced person to become addicted, what I refer to as a "moneyholic." The money makes everything easy. The first thing they do is to buy a luxury car and build a big house they do not realize they cannot afford. In a few years, they are broke and wonder what happened.

Three times in my practice I have seen kids inherit substantial money, build a big house, and be broke by the time they finished it. In each case, they were forced to try to sell the home either before or shortly after moving in. Typically, these offspring have been told by their adoring parents that they are smart and can do anything they set their minds to do. That is charming psychological reinforcement, but useless when it comes to managing money. Typically, by the time they figure out they have made some big mistakes handling their own finances, it is too late to do much to salvage the principal they need to generate future income.

It is sometimes difficult to decide what to leave our children. How much is enough? How much will they really need? How much do we give them before we hurt more than help them? How much have we done to prepare them to manage money? Most people I know discover it is far easier to teach their kids about managing money by having a financial advocate help them get through the process. Why children will believe what a stranger tells them about money (or almost anything else for that matter) rather than their parents remains a mystery. What is not a mystery is that a knowledgeable financial professional can help reduce the odds that kids will throw away their inherited investment capital.

Never put savings in a spending account. Everyone knows how his or her portfolio performed last year. They may not want to complain or brag, but they know. What many people do not know, and what is more important, is whether they made progress towards their financial goals.

Each year, in addition to whatever performance review they conduct, clients should measure four "vital signs" with their advisors:

- Did my assets go up?
- Did my debt go down?
- Is my net worth up?
- Is my debt to equity ratio down?

If three of those four conditions didn't occur, there must either be a valid reason why, or the client is likely a moneyholic. While these are excellent progress measurement criteria, the ultimate "stress test" is probably the simple question of whether the savings account is going up or down. I have people tell me they save $500 a month, but they save it in a spending account so at the end of the year the $6,000 isn't there. If they are saving $500 each month, where is it? They do not know.

Many otherwise savvy people are unable to differentiate between emergency funds, short term money, intermediate need money, and lifetime money. The latter can be invested with a greater level of risk provided there is an emergency fund and five year's of income need set aside.

Few young people seem to understand this concept. A young man who inherited wealth recently asked me to invest $100,000 into the markets for him to take advantage of what he believed to be a looming rebound. When I inquired about his financial status, he confessed there was a chance he might be laid off in the next 90 days and . . . "Oh, by the way,". . . he was also running a $2,000 monthly deficit on his real estate rental property. The easy response would have been to tell him, "I agree the market may rebound soon; let's take the plunge." But obviously, that would be imprudent: If I let him do it and he is subsequently laid off or fired, I would be helping him throw gasoline on the deficit bonfire already burning in his life.

An important aspect of estate planning and helping clients leave a legacy to the next genera-

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tion is to give them a tool to deal with wealth. How else will their children learn to divide wealth into emergency, short, intermediate, and long-term segments? How else will they learn to manage their investment capital conservatively and plan for market ups and downs in hopes of having sufficient money to live on and not be subject to liquidating assets at low prices?

It is not realistic to hand money to those who have never had wealth and expect them to figure this all out. Parents often have misguided faith that their kids will know to do the right thing. Worse, some parents do not care. I've heard people say, "I started with nothing and my kids will get a lot more than I ever had. If they cannot figure it out, it is their problem."

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But kids need instruction in how to play the game. Like learning baseball, they need a coach to help them recognize a fastball from a curve, when to sacrifice, when to bunt, when to take a pitch. They must be taught how to stay calm and think clearly in stressful situations. One thing I do for my clients is to instruct their children that the first thing they should do when their parent dies is to call me, because I'm the fellow their parents trusted with their lives. I had cards made up for my clients that say, "If you find me dead or disabled, call Wayne."

Yes I really did.

Never leave undivided real property to joint beneficiaries. Lots of things are more important than money and family harmony may be at the top of the list. If you want to trigger a vicious family feud, break this rule.

A number of my clients own farms here in the Northwest. For many of these families, virtually all of their wealth is tied up in their farms. When I do estate planning with them, they tend to dwell on how much their children love each other, having grown up and worked the farm together, shared each other's triumphs, sorrows and interests. The parents see how much their children have bonded and care about each other. Nothing has been more important to these families than sustaining the farm and preserving that way of life. They visualize the children continuing to work together to preserve this ethic after their parents are gone.

Once they do pass on, this dream can quickly vanish amidst a series of squabbles regarding individual interpretations and needs. The squabbles frequently escalate into full-blown eruptions, pitting siblings against each other and eventually tearing the remaining family apart. It is heartbreaking when the wealth intended to help everyone be more comfortable and keep the family heritage together for future generations becomes the source of emotional distress and even physical confrontations. Throw in the inevitable legal actions and the children may have been better off if the parents had left them nothing.

Parents assume their children will get along forever, but kids develop different interests and needs. Careers, marriages, accidents and other life events create dramatic changes and priority shifts. Some marry mates who impose significant influence over their thinking and decisions. Some acquire habits or addictions that require financing. Short versus long term needs collide. I have seen situations become so inflamed that children are prohibited from speaking to certain aunts or uncles, or visiting their grandparents.

I recall a recent situation where a farmer died and willed his farm equally to his four sons, who were in their late 30s and 40s. One had remained on the farm, working it for the previous 20 years. Another son since became a dedicated environmentalist and wanted to convert the farm into a public park. A third son was broke, needed money and could not care less what happened to the place. The fourth married a woman whose principal interest was restocking her wardrobe.

Only the attorneys will get wealthy from this well intentioned but misguided plan. The sons have been fighting over the disposition of the farm since their father's funeral and continue to this day. I doubt there will ever reach a satisfactory accommodation and I know they will never sit down for a meal together again. Their children will likely take up the battle someday and probably hate each other forever.

Remember that "equal," "equitable" and "fair" are different words with completely different meanings. There is nothing more important than having a family get along and stay connected. Wealth sometimes has

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the opposite effect, although unintentionally.

Never name co-trustees or co-executors of your estate. Next to poor planning, litigation can be the biggest financial drain on an estate. Minimize the number of trusted decision-makers, and you reduce the chances for litigation.

An estate needs a single final decision maker. Clients may say, "Oh, don't worry about my children; Joe and Annie always get along." What the clients do not think about is that someday in the future, Joe may be married to a woman who despises Annie, or Annie may run into financial straits and want Joe to sell the farm or business their parents left them because she sees no other way out of her troubles. In many cases, either sibling could have made competent decisions had the plan been executed properly, but by forcing them to agree, they come to hate each other.

Many otherwise savvy people are unable to differentiate between emergency funds, short-term money, intermeditate need money, and lifetime money.

Often, a client hesitates to name one child over another for fear the omitted child will be hurt or angry. But if not being named trustee will anger a child, he or she should not be the decision maker in first place.

We don not know what circumstances will exist down the road, or how our children's lives will change. I have seen children go to war with each other over an inexpensive piece of furniture or some Christmas ornaments that happen to hold a special memory for one of them. Nothing, regardless of its value or emotional attachment, is worth destroying a family over.

Insure what you cannot afford to lose, but only that. I know wealthy people who refused to spend a few hundred dollars for an umbrella policy because they thought it was unnecessary. I was told of an incident where the teenage son of a wealthy family tried to pass a truck on a rain-slickened highway and crashed head-on into an oncoming vehicle. The young man and the occupants of the oncoming vehicle were killed. Two of his friends who were passengers in his car suffered paralyzing injuries.

On top of the tragic loss of a child, that family later suffered a devastating financial loss as a result of the litigation brought by the other accident victims and their families. At least the financial loss could have been mitigated. People tend to believe bad things happen only to others, despite knowing that tragedy can happen to anyone.

Never allow your parents to put your name on their assets. Lawsuits are bad enough without providing a potential creditor with a legal conduit to your parents' assets. Minimizing the impact of the unexpected comes from managing the things you can control. If you put your name on your parent's assets, every lawsuit, divorce, or bankruptcy that occurs in your family could affect your parents' finances and peace of mind.

If my dad puts my name on his assets and I cause an accident, the resulting lawsuit could claim half of my dad's assets in addition to my own. So literally overnight, half of what he spent a lifetime accumulating is gone. If I get divorced, if a neighbor's kid, despite my frequent warnings not to play in our yard, steps on a rake lying there and pokes her eye out, my dad could lose everything. Every divorce, lawsuit, bankruptcy or bad personal decision I might make leaves him liable or susceptible to what I call the "Four Predators of Wealth." How does an 88-year-old man sleep after losing half of everything he owns? He doesn't. So avoid opening up too many doors to the predators that are always on the prowl for unsuspecting victims with full pockets. The more people whose names appear on an asset, the greater the likelihood that asset will become the target for the four predators.

Always double check an existing estate plan. Never assume a plan created by someone else is correct. Among the 600+ clients for whom I have done planning, I have consistently found ways to enhance existing plans to better reflect the wishes of the owner. A review of ownership, beneficiaries, and other documents inevitably reveals a disconnect between what the plan documents say and what the owner intends to be carried out.

As advisors, are we willing to go the extra mile and conduct a comprehensive discovery process for our clients? Are we willing to force our clients to think about the things they do not know they should be thinking about?

Another terribly important consideration is to see if any living trusts in the estate plan have been funded. It no longer astonishes me to find unfunded or partially funded trusts in existing plans. I estimate

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about one in four trusts I examine are not fully funded with assets. People would pay more attention to this if they understood that the nightmare called probate becomes a reality when a living trust has not been properly funded.

There are, no doubt, many reasons why this happens so often. I suspect there are some people who make their living creating trusts for people but omit funding them because there is no money to be made on that activity. Or, the client agrees to do it but forgets, and there was no follow up to see that the trust funding took place.

This is not an indictment, but rather a statement of fact based on experience. Simply put, no one took the time to follow up and help the clients transfer their assets once the trust was created. Even in cases where a trust was funded, if some time has since passed, the owners have often purchased a new home, a second home, a boat or other asset. It is possible that no one reminded them to put the new asset into the trust or take the old assets out.

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Sign documents the day your child turns 18. Immediately after a child's 18th birthday celebration, parents should create a plan for that child's potential incapacity or death. The child should sign a Power of Attorney, medical directives, and appropriate documents.

If a child is injured while away at college, parents lacking these documents will not be able to direct the college, the hospital, or the doctors what to do for their child. Not only will the child be hospitalized and unable to take care of himself, but the parents will not be able to help either because they lack the documents that permit them to do so. The same is true of unmarried couples living together. Without documents attesting to the relationship, the hospital simply will listen.

Healthcare professionals want to do the right thing. We need to give our clients the capacity to help their loved ones when they are injured or incapable of helping themselves. Without the appropriate paperwork, people cannot help those they care about most at a time when they most need help.

Be satisfied with what you have. If we cannot convince our clients to be satisfied with what they already have, how can we expect them to be happy? If someone told me 25 years ago where I would be today I would have laughed. I could not think that big.

Would I take more today? Sure. Would I spend more if I had it? Probably. But if I am not happy with my financial condition and what I already have, when will I be happy? If I am dissatisfied because I do not have enough "stuff" it means I am a moneyholic and I will always want more.

People must learn to accept and be content with what they have. The alternative is to spend their remaining time on the planet accumulating, consuming, and spending assets, which leads to the disease of moneyholicism; They will never arrive at where they think they must be. They will never have enough!

Finding acceptance with what we have is a vital step on the path to financial success because it is far easier to accumulate wealth and reach goals if we first accept that what we already have can lead to our ultimate satisfaction, which includes permitting us to leave more to others. That result will leave us and those we endow better off. The less we try to accumulate toys and trappings, the more likely we are to have financial success.

So we need to learn how to be content with what we have, so we will be better off physically and psychologically. It will lead to financial success and the ultimate satisfaction of leaving behind a footprint.

Introduce your children to their financial advocate. That young fellow who called to ask me about investing $100,000 knew ahead of time I was going to tell him it was a bad idea, but he needed to hear it from someone. As advisors, we need the courage to yank our clients out of the Porsche showroom when we know they are about to make a decision based on yearning versus learning. We have to keep them from straying too far into the surf and getting swept away. It may be exciting and fun out there in the surf, but it is dangerous.

We have a lot of meandering roads in Oregon, and even more deer. The last time I hit one, I am pretty sure the deer was having a perfectly wonderful time right up until the moment I came around the bend and broadsided it. That is how it is with people. We give them all kinds of things because we love them

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and want them to enjoy themselves. We buy them a hot little car because they beg us for it and we can afford it, then we send them off to play on the highway and expect they will be safe. Or we leave them money with no instructions and they do the same thing for themselves.

Who looks out for our clients' children? Who is their advocate? Who will tell them what they need to know about money when they do not want to hear it? Too often, their parents will not or cannot. Even smart, successful parents often find it almost impossible to have these discussions because it is such an emotional issue.

I try to train the young children of my clients about money; to give them some basic rules and help shape their ideas about wealth. It was Andrew Carnegie who spoke about families going from shirtsleeves and back again in three generations. The first generation earns it, the second tries to deal with it; and the third generation falls so far short of the skill set it took to create it that they cannot preserve it. So the money is gone before the fourth generation can benefit from it. That is not leaving as much joy as you brought or teaching the next generation anything of lasting value.

As advisors, we are the ideal third party to assume the responsibility for preventing generational tragedies, and hopefully instilling the desire to leave something of importance behind. After all, we know more about their parents, their financial history, and their wishes for their children than anyone else. We have been the coaches and caretakers of the flame; it's only logical that we should be the financial advocates to help preserve both the assets and the values for the next generation. To do that, we have to promote multi-generational meetings and get to know and advise these kids, hopefully long before their parents are no longer here to help them.

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