



Family Firm Resources

Family Business Strategies • Assessing the Present • Assuring the Future

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The Fifth Child

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A retired banker friend is now the executive director of a regional community foundation. The foundation is the recipient of bequests from people who want part of their estate or wealth to be used for charitable purposes. Recently a mutual friend of ours, a retired, widowed attorney, passed away leaving the bulk of his estate to his four adult children. I'm sure it was a sizeable estate from his long time law practice and from his influential and prosperous client base. As he was doing his estate planning he told my friend, "I've got 4 children and I want my charitable estate to be my fifth child." The concept of the fifth child as an inheritor is a compelling image.

While there was no family business to keep the family connected around the wealth, our attorney friend set up a trust account in the foundation which the children would run. This corpus doesn't belong to the children, but by establishing the fund he created a vehicle for them to remain connected and to learn to work together. Granting gifts to worthwhile causes upon which they must have substantial agreement is a great piece of legacy for a family; perhaps more valuable than the dollars. Here is a connection for them that doesn't involve their own money, and it provides them a way to continue giving for the benefit of their community. It keeps them working together on a project of mutual interest. Many family wealth lawsuits come from those who feel disempowered. By giving voice and input to all family members a real harmony has a chance to develop as the children age and work together. After all, isn't this one of the greatest gifts we can leave, an opportunity for growth and development of relationships among our children and grandchildren?

One of the presentations I do from time to time is called "The Human Side of Wealth Transfer." Part of the presentation is that so often a pool of family wealth or a family business is quickly dissipated in the next generation. It's estimated that 80%+ of wealth transfers are largely dissipated in the lifetime of the subsequent generation. Our dear attorney friend had come up with a way for the family to keep in touch around a common project for years to come. The money is held in trust and managed by the foundation, but the earnings (in years when such things actually occur) will be helpful in this community hit hard by severe job losses and housing decline. The real genius of this plan is that there isn't a business about which they can disagree and argue, only money from which they can make grants. The plan gives the children an opportunity to deepen their understanding of financial matters and to experience the satisfaction of watching their father's hard work pay off into the future.

If the inheritors get all the cash at once upon death of the grantor, there's a strong likelihood that some of the recipients are going to run through it like—well, you know the analogies that might apply here. That will leave them disgruntled and yelling "Foul!" Having responsibility around a pool of money they can't touch is a learning device for them that might just educate them to wiser ways of using the gifts they have been given.