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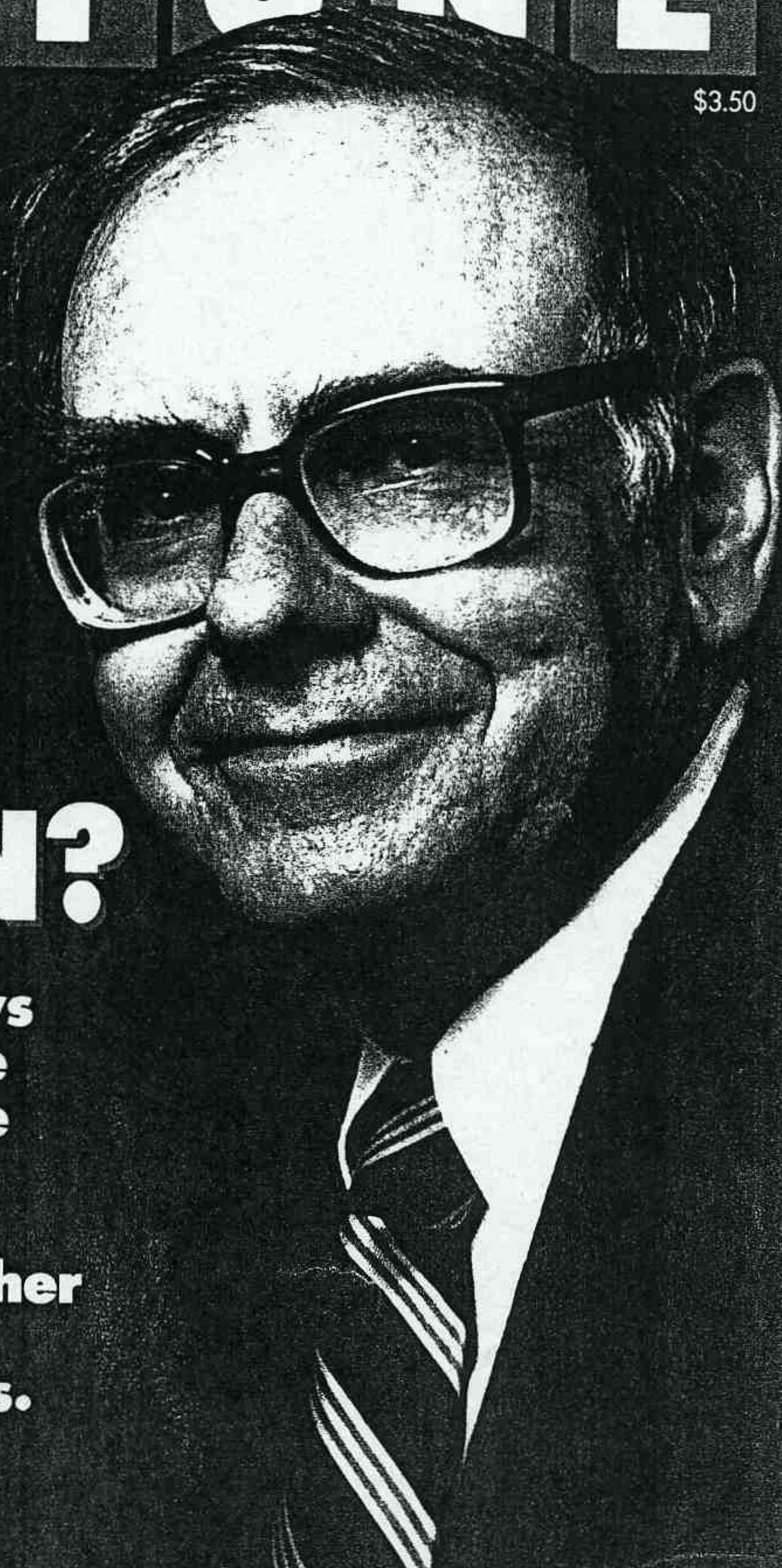
SHOULD YOU LEAVE IT ALL TO THE CHILDREN?



"No!" says self-made billionaire Warren Buffett— among other wealthy Americans.

SHOULD YOU LEAVE IT

If you do, you may not be doing them a favor. But if you want to, there are sensible ways of passing on what you have without depriving the kids of a feeling of achievement.

■ *by Richard I. Kirkland Jr.*

Travel magnate *Curt Carlson, left, asks, "How the hell do we keep our money from destroying our*

WARREN BUFFETT, 56, the chairman and guiding genius of Berkshire Hathaway, the phenomenally successful holding company, is worth at least $1.5 billion. But don't bother being jealous of his three children. Buffett does not believe that it is wise to bequeath great wealth and plans to give most of his money to his charitable foundation. Having put his two sons and a daughter through college, the Omaha investor contents himself with giving them several thousand dollars each at Christmas. Beyond that, says daughter Susan, 33, "If I write my dad a check for $20, he cashes it."

Buffett is not cutting his children out of his fortune because they are wastrels or wantons or refuse to go into the family business—the traditional reasons rich parents withhold money. Says he: "My kids are going to carve out their own place in this world, and they know I'm for them whatever they want to do." But he believes that setting up his heirs with "a lifetime supply of food stamps just because they came out of the right womb" can be "harmful" for them and is "an antisocial act." To him the perfect amount to leave children is "enough money so that they would feel they could do anything, but not so much that they could do nothing." For a college graduate, Buffett reckons "a few hundred thousand dollars" sounds about right.

How much *should* you leave the kids? Agonizing over that question is a peculiarly American obsession. In much of the world custom and law dictate that children, unless they have committed some heinous crime, automatically receive most of the parents' wealth when they die. Only Britain and her former colonies—common-law countries

ALL TO THE CHILDREN?

kids?" He and wife Arleen will leave most of their estate to their daughters, right, with their husbands.

all—give property owners the freedom to leave their children whatever they want.

And nowhere is the feeling about inherited wealth so ambivalent as in the U.S. No country so readily celebrates the self-made man, no culture is more suspicious that the silver spoon contains something vaguely narcotic. Says Curtis L. Carlson, 72, the Minnesota travel and real estate magnate (Radisson Hotel Corp., TGI Friday's restaurants, and the Ask Mr. Foster travel agency), who has a net worth of $700 million and two married daughters: "There's nothing people like me worry about more—how the hell do we keep our money from destroying our kids?"

Certainly nowhere else in the world do so many parents enjoy the privilege of grappling with this dilemma. The Federal Reserve Board estimates that some 1.3 million U.S. households enjoy a net worth of at least $1 million. The vast majority of millionaires inherited their wealth or built it on a business they founded. Plenty of corporate careerists have also racked up seven-figure estates by taking advantage of profit-sharing and pension plans. But concern for how best to provide for the offspring is not exclusive to the millionaires' club. Estate planning is fast becoming a major concern of the middle class.

Whatever their misgivings about inheritance, most Americans—rich, poor, and somewhere in between—keep the bulk of their estates in the family. Once formed, a chain of inherited wealth is rarely broken—until the money runs out. It has pretty much run out for some of the great names of U.S. business: the Dodges, Reynoldses, and Vanderbilts. The sons of Texas oil tycoon H. L. Hunt, whose fortune was once estimated at $8 billion, have just filed for bankruptcy protection for the family's corporate jewel, Placid Oil Co.

Of 30 multimillionaires recently surveyed by FORTUNE, six say their children will be better off with only minimal inheritances. Almost half plan to leave at least as much to charity as to their heirs. In an area where almost no research exists, Alexander Sanger, a partner with the law firm White & Case in New York, offers a revealing statistic. Of 20 wills Sanger has drawn up for newly wealthy parents with net worths of $20 million or more, 16 left at least half the estates to charity. Of 12 comparable old-mon-

Leaving nothing *to his children, $50-million man Eugene Lang, middle, lets his family help decide which worthy causes to fund.*

ey estates, only one gave so much away.

Old money tends to keep its wealth in the family. "After a generation or more, inheritance becomes a stewardship kind of thing," says Alexander Forger, head of estate law at the New York firm Milbank Tweed Hadley & McCloy. Sometimes, as in the case of one of the firm's clients, the Rockefeller family, the progenitor already fattened some foundation with a big endowment years ago.

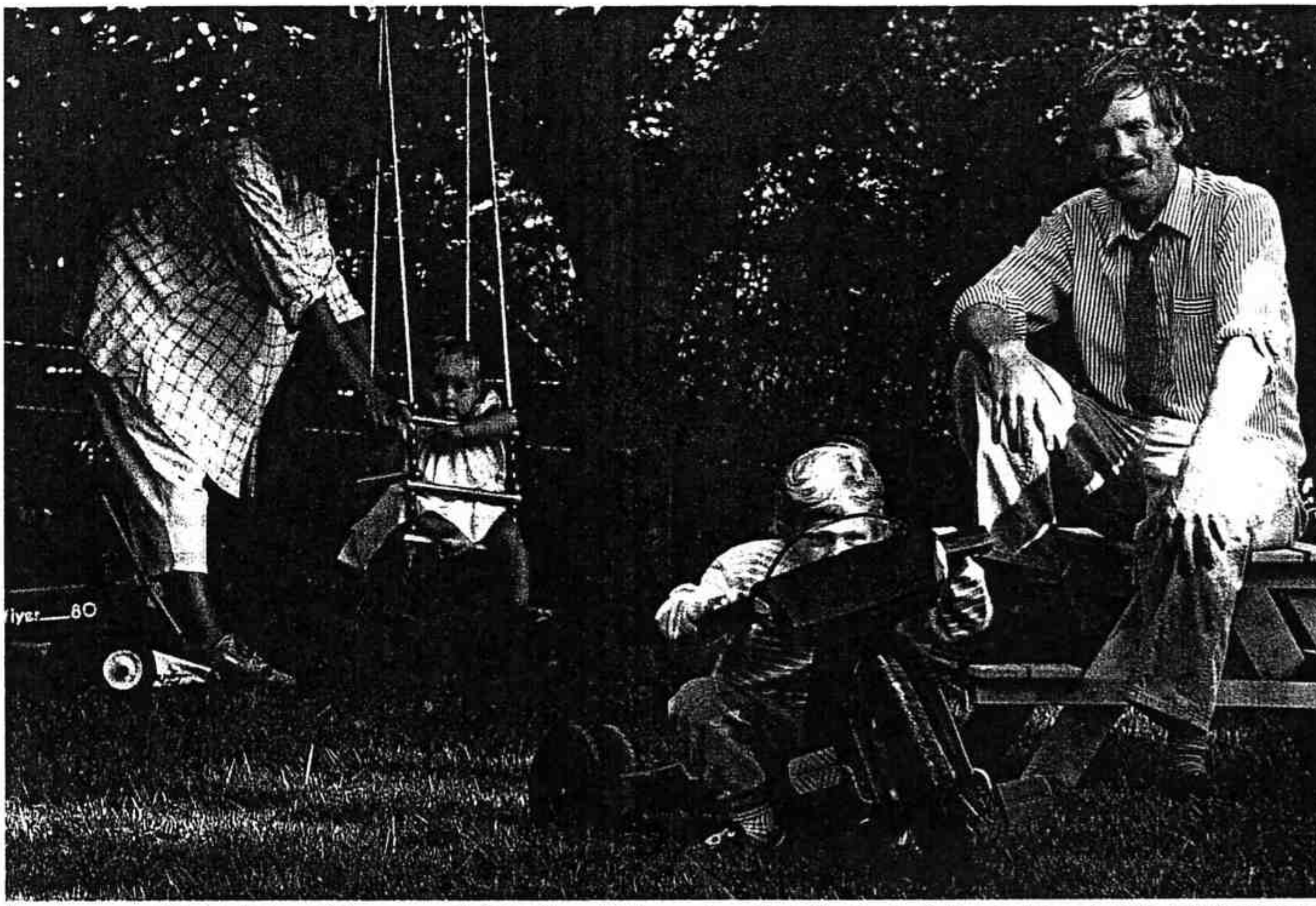
Even inheritors who want to give their money away feel duty-bound to pass on some of their wealth to their children. George Pillsbury Jr., 37, a scion of the Midwestern baking family, inherited more than $1 million while still in college. He has spent his adult life building and bankrolling a network of foundations that tap young inheritors for a variety of liberal causes. "Robin Hood was Right," declares one foundation pamphlet. Pillsbury believes in "much, much higher" inheritance taxes. Yet despite his politics, he says "it seems unfair" not to leave his two young children at least a few hundred thousand dollars.

Why shouldn't parents leave it all to the children? Newspaper headlines shriek the more lurid reasons—drugs, derangement, even murder. In July a Pennsylvania judge ruled Lewis du Pont Smith, 29, heir to $1.5 million of the Du Pont fortune, "mentally incompetent" to manage his affairs; Smith had been handing over thousands of dollars to political extremist Lyndon H. LaRouche Jr. This month a Florida judge sentenced Steven Benson, 35, heir to a $10-million tobacco fortune, to 72 years in prison for killing his mother and her adopted son with a car bomb.

WHAT usually troubles successful entrepreneurs and executives, however, is the mundane but far more likely prospect that large inheritances will encourage their offspring to do nothing useful with their lives. They worry that Commodore Vanderbilt's grandson William, heir to some $60 million in 1885, was right when he declared that "inherited wealth . . . is as certain death to ambition as cocaine is to morality." (An indifferent businessman and dedicated bon vivant, William suffered a fatal heart attack at a fashionable French race track in 1920.) Says centimillionaire Curt Carlson: "I know one extremely wealthy Minnesota family that has 63 heirs in the fourth generation, and none is gainfully employed. I think that's terrible."

One self-made multimillionaire wants to ensure that his heirs are leading productive lives before they get a share of his estate. He has set up trusts for each of his children—a sound estate-planning practice even for middle-income families (see box, page 24). None of the trusts pays a penny until the child reaches 30. Until then, the entrepreneur says, he expects his sons and daughters, all still under 30, to "live on the salaries that young adults who are college graduates can make." The terms of his trusts also allow him or his executors to withhold the kids' patri-

REPORTER ASSOCIATE *Carrie Gottlieb*



Leaving something *to his two children seems only fair to George Pillsbury, scion of the baking family. But he also believes in higher inheritance taxes.*

mony in certain situations. Says he: "I believe you've got to be doing right, or you don't get anything. If I end up with a 30-year-old who's not worth a plugged nickel, all his money goes to my personal foundation."

ENCOURAGING rich children to be self-supporting can be good for them. John L. Levy, executive director of the C.G. Jung Institute of San Francisco, has spent the past five years studying the effects of inherited wealth on 30 families. He concludes that many wealthy children experience "considerable suffering and deprivation" because they have little self-respect. "It's hard for them to take much satisfaction in their accomplishments since they always suspect that their successes are at least partly the result of the wealth and position they have inherited."

To let children grow up free of their parents' long shadows is the main reason rich individuals choose to withhold or limit their legacies. New Yorker Eugene Lang, 67, for example, built a fortune of more than $50 million by founding REFAC Technology Development Corp., a high-tech licensing company. Lang paid for the education of his three children and after college handed each "a nominal sum"—he won't say how much. Since then he has given them nothing but encouragement. Says Lang: "To me inheritance dilutes the motivation that most young people have to fulfill the best that is in them. I want to give my kids the tremendous satisfaction of making it on their own." Now in their 30s, his children are a lawyer, an actor, and an investment analyst. They will get nothing from their father's estate. Lang plans to provide "adequate security" for his wife and bequeath the rest to a charitable foundation. He has already given away more than $25 million to hospitals, colleges, and a scholarship program for Harlem schoolchildren.

Californian Gordon Moore, 57, who co-founded semiconductor maker Intel and is worth $200 million, agrees that "children ought to have a sense of accomplishment for what they've done." Moore set up small trusts for his two sons when they were young—"the sort of thing that let my older boy make a down payment on the house"—but does not plan to do much more. He expects to leave "almost everything" to charity.

Still, the urge to heap most of the wealth upon the family continues to be powerful. "I'd rather give my money to my kids than do anything else with it," says Jackson T. Stephens, 63, chairman of Stephens Inc. of Little Rock, Arkansas, the largest investment bank outside New York. "If my heirs want to clip coupons, that'll be their business. I can't control the future, and I'm not going to worry a whole bunch." Stephens, who has four children, and his older brother Wilton, who also has four children, share a net worth of at least $500 million.

Some entrepreneurs and their heirs argue that rather than being a disincentive to work, an inheritance can give a child a target to outstrip. "I feel I've got to make my mark equal or better than my father," says Warren Stephens, 29, Jackson's son. California real estate developer M. Larry Lawrence, 60, who has three children and a fortune worth more than $200 million, concurs. Says he, "If the children have been brought up right, they end up attempting to outdo the parents."

INEVITABLY those who hand on their wealth see proper upbringing as the ultimate safeguard against potential problems. Says Katharine Graham, 69, chief executive of the Washington Post Co. and head of a family whose fortune totals some $350 million: "My instinct would be to just pass the money on and hope that in doing so you also pass on your values—how to use it, the life to lead, the standards to have."

Besides, some rich individuals argue, not giving it to the children can cause problems too. Says one: "If you're the child and you see your father with all this dough and you get some but not much, I just can't help thinking resentment will enter in." Susan Buffett, who works in Washington as an administrative assistant to the editor of *U.S. News & World Report* and is married to a public interest lawyer, admits her father's position is tough to live with. "My dad is one of the most honest, principled, good guys I know," she says. "And I basically agree with him. But it's sort of strange when you know most parents want to buy things for their kids and all you need is a small sum of money—to fix up the kitchen, not to go to the beach for six months. He won't give it to us on principle. All my life my father has been teaching us. Well, I feel I've learned the lesson. At a certain point you can stop."

Parents who disinherit not on principle but because they disapprove of their young heir's behavior face a troubling prospect—they might be making a mistake. Just days before committing suicide in 1963, R. E. Turner Jr., the father of maverick television mogul Ted Turner, arranged a quick sale of his Atlanta billboard business to Curt Carlson. Recalls Carlson, who had no idea that the elder Turner was planning to kill himself: "He told me he wanted to have some money to leave his wife when he died, but that everything he had was tied up in his business. He said he was sure if Ted got his hands on the business, he would run it into the ground." Within days of Turner's death, Carlson got a call from his widow, Florence, and a visit from Ted, then 24. Says Carlson, "His mother wanted Ted to have the business back, and Ted, who can be very convincing, talked about how this was his one chance to get going in life." Persuaded, Carlson sold

A TALE OF THE RICH AND INFAMOUS

Imprisoned *in Virginia: Dexter Coffin III, right, with his lawyer*

■ Dexter D. Coffin III, 37, grew up with servants, yachts, private boarding schools, and a U.S. family tree that dates to the mid-1600s. That's when his Dexter and Coffin forebears settled Cape Cod and Nantucket Island. He is heir to more than $6 million, held in three trusts. Their principal holding is stock of Dexter Corp., a manufacturer of specialty chemicals that is the nation's oldest publicly traded company; his uncle is chairman. But Coffin's wealth has not helped him: He is serving a 17-year term in a Virginia state prison for prescription fraud.

His first skirmish with the law came at 24, when he was convicted of stealing a yacht in Florida. Four years later, after a bout with pancreatitis, he became addicted to Tussionex, a potent, opiate-based cough suppressant. He claims that treatment for subsequent illnesses reinforced his addiction. In 1978 he was first charged with using fraudulent prescriptions. The sentence: five years' probation.

Then Coffin attempted a comeback. Thrice divorced, he married for a fourth time, moved to Virginia, and invested in a computer store. Coffin's drug habit led to the store's bankruptcy. "I was out every single day trying to obtain drugs to keep myself from going through withdrawal," he says. He was up to 60 Tussionex pills and 30 other painkillers a day, a dosage doctors say could be fatal.

Articulate and well groomed, Coffin got the drugs by impersonating doctors and lawyers. Says his attorney, Michael Morchower: "Put him in a suit and tie and put him in front of a doctor and he could pass for anyone." His impersonations landed him in a Charlottesville, Virginia, prison. In April he escaped. He had been returning from a psychiatric session with his wife and two armed guards when he sneaked out of a roadside restroom and sped away in his wife's Lincoln Continental. He says he ran because he felt his life was in danger. He was caught trying to buy drugs in New Hampshire.

While Coffin was on the lam, the Connecticut Bank & Trust Co., the family's bank for generations, cut off his trust funds. They had not been paying much: $185,000 in 1984; $109,000 in 1985. One trust has been the subject of a six-year court battle in which Coffin, his mother, and his three siblings sought the removal of the bank as trustee. "The problem is these bankers play God," Coffin says. "They decide how much you're going to get, and how you're going to live." Citing client confidentiality, the Connecticut bank declined to comment.

Reflecting on his early life of privilege, Coffin says, "I had everything and more." With his lawyer nearby, he is not now willing to blame his problems on his inheritance. But in June he told a *Washington Post* reporter: "If I had not known there would always be money, I would have done something more constructive with my life." **—Carrie Gottlieb** the business back to Ted, who has been going fast ever since.

Estate planning is particularly tough when the legacy is a family business. Most entrepreneurs do not plan to sell out, as R. E. Turner did, but try to keep the business in the family. Says Curt Carlson, whose privately held Carlson Cos. brought in revenues of more than $3 billion last year: "You think of your company as your own baby. You hate to think of someone buying it and then the name is gone."

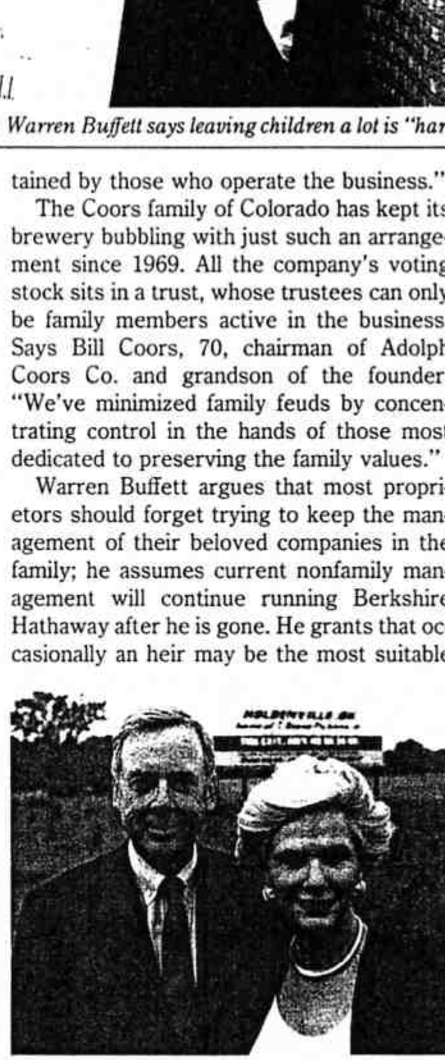
Investor *Warren Buffett says leaving children a lot is "harmful."*

But leaving it to the children will not guarantee that the business stays in family hands. Because of fraternal fights, the Bingham family's Louisville newspaper and broadcasting empire went up for sale last January. Destructive squabbles are most likely to break out when family members try to sell company stock to outsiders, an act viewed as disloyal by those desperate to keep control. In St. Louis the heirs of legendary Joseph Pulitzer staged a noisy row this year over the attempted sale of some Pulitzer Publishing Co. stock. The family members who wanted to sell backed a takeover bid by Alfred Taubman, a Detroit-based real estate developer. Chairman Joseph Pulitzer Jr., his half brother, and a cousin struck a deal to buy out the dissidents' shares at three times the pre-feud price. Taubman is still fighting in the courts.

Chicago centimillionaire Lester Crown, 61, worries that mercenary motives among family members could one day force the breakup of his very private business empire. The Crowns' holdings range from building materials, hotels, and real estate to 23% of General Dynamics, one of the largest U.S. defense contractors. Over the years, says Lester, he and his father, Henry, 90, have "always treated our operations as a common pot." They have handed out voting shares and limited partnerships in the various businesses to Lester's uncles, cousins, brothers, nieces, and nephews, as well as his seven children. Lester predicts that "one of these days we're going to get hit in the back of the head because we did this." If he could do it over again, he would still give the family "the ability to enjoy the good life" by setting up a single trust to pay out a guaranteed income to everyone. But he would make sure that control of the companies was "retained by those who operate the business."

The Coors family of Colorado has kept its brewery bubbling with just such an arrangement since 1969. All the company's voting stock sits in a trust, whose trustees can only be family members active in the business. Says Bill Coors, 70, chairman of Adolph Coors Co. and grandson of the founder: "We've minimized family feuds by concentrating control in the hands of those most dedicated to preserving the family values."

Warren Buffett argues that most proprietors should forget trying to keep the management of their beloved companies in the family; he assumes current nonfamily management will continue running Berkshire Hathaway after he is gone. He grants that occasionally an heir may be the most suitable candidate to manage a company but believes the odds are against it. Says Buffett: "Would anyone say the best way to pick a championship Olympic team is to select the sons and daughters of those who won 20 years ago? Giving someone a favored position just because his old man accomplished something is a crazy way for a society to compete."



Oilman *T. Boone Pickens, with wife Beatrice, will give half his estate to charity.*

Buffett especially admires how fellow Omaha businessman Peter Kiewit solved his legacy problem. Kiewit arranged his affairs so that when he died in 1979 his 40% stake in the family's enormously successful construction company was sold to employees. The proceeds from the sale then went to a charitable foundation that he had established to promote education and social services in Nebraska. Kiewit left approximately 3% of his $186-million estate to his widow, his son, Peter Jr., 60, and other relatives. Peter, a successful Phoenix lawyer, was surprised by the $1.5-million legacy he received at age 53. Says he, "I was raised to expect nothing, and supported myself all my life. In the end, I think my father was saying from the grave that he approved."

FOR WEALTHY PARENTS, and even for those with more modest estates, the question of how much to leave the kids is a highly subjective matter. But here are a few points worth keeping in mind.

▶ **Don't play hide-and-seek.** Forget locking your will away in mystery like some 19th-century miser. Bring the family finances into the daylight, so the children will know what they are getting and where it came from, and will have some idea how to hold on to it. They should also, of course, know if they are not getting anything. For example, George Pillsbury knew that he would get more than $1 million when he turned 21—"It's tough to be unaware of your wealth when you have a brand name," he says. But many of his friends had no idea what was coming to them. "A lot of them were shocked," he recalls, and some had trouble coping with their new fortunes.

John Train, whose investment firm claims to be the largest in New York City serving rich families, recommends that talks about money, like those about sex, begin as early as possible. These can evolve into full-scale sessions on the family finances. Lester

HOW TO—AND NOT TO—GIVE IT AWAY

■ Go ahead, give it all to darling daughter Debbie. And while you're at it, disinherit John Jr. He can't spend it in reform school anyway. But remember, merely putting such desires in a will may not ensure that your estate winds up in the right hands.

Debbie may need some elaborate trust arrangements. She is too young to handle all that wealth now, and her favorite beau is a no-good whose principal aspiration is to marry your money. You must also make sure Johnny will not have his day in court and collect an inheritance anyway. Finally, you must account for that other needy, if much-unloved, relative that estate planners refer to simply as "Uncle." If your estate runs into the millions, he could get 55 cents on the dollar.

The first estate-planning priority is usually to provide for the surviving spouse; the kids can always inherit the second estate. You can leave your entire estate to your spouse without paying federal estate taxes. But if you do that, you will miss an additional break: $500,000 can go to your children or other beneficiaries tax-free. Next year the limit will rise to $600,000. If you hang in till then, you can use the $600,000 exemption two ways. First, you can leave that amount to the children outright. Or you can set up a $600,000 trust that gives income to your spouse and principal to the children when your spouse dies.

If you set up a "qualified terminable interest property," or QTIP, trust, you can control the destiny of the unlimited amount you leave to your spouse tax-free. After you are gone, your spouse will collect the income on the trust but will not be able to tap the principal, except in emergencies. When the spouse dies, the principal will go to the beneficiaries you have chosen, probably your children. Your spouse's estate will have to pay taxes, but only on the amount over the $600,000 exemption. The QTIP trust is popular in the case of second or third marriages. It prevents the surviving spouse from diverting the wealth to someone other than the original heirs.

Tax incentives should make you want to give some of your estate away while you are still alive. Every year you can give $10,000 to each of your children or anyone else. Your spouse can give yet another $10,000 to each. Thus a couple can pass $20,000 a year to a child.

A logical gift for children is an asset that may well appreciate, such as a growth stock or undeveloped real estate. Such a gift will not hurt your pocketbook much and could easily fall under the annual exemption. But if you continue to hold on to the asset, it could trigger a huge tax later on.

Larry Biehl, a financial adviser in San Mateo, California, recommends another way to avoid estate taxes. When you purchase a condominium, say, you can divide the ownership into two parts: a "lifetime interest," which you buy, and a "remainder interest," which your child buys. The Internal Revenue Service requires that the child put up the money, although gifts from grandparents could boost his purchasing power. Your life expectancy, according to IRS actuarial tables, determines how the ownership is split—80% to 20%, for example. When you die, the lifetime interest is legally dissolved and—presto—the child assumes full ownership tax-free.

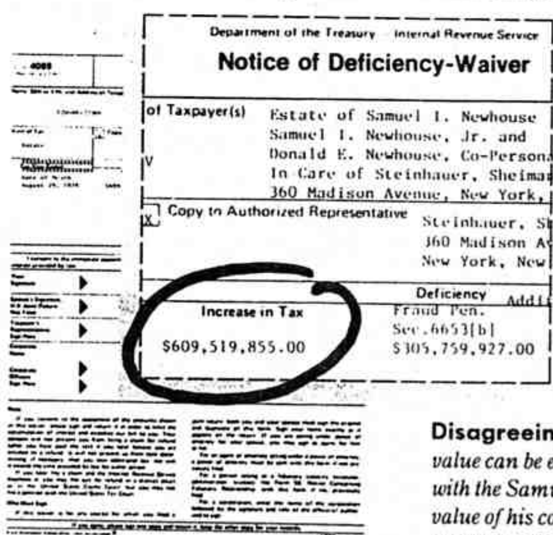
After a lifetime of lavishing gifts on the kids, you might want to turn over most of your estate to your grandchildren. In the past that made sense, particularly since wealth could pass to several generations in trust, with estate taxes paid only once. Congress tightened this loophole in 1976 with a tax on "generation skipping" trusts, though direct transfers to grandchildren were not affected. The current tax reform bill would also apply the generation-skipping tax to direct transfers. But only the very rich need worry: You can leave up to $2 million to each grandchild without paying the extra levy.

If you do plan to skip your children altogether, you had better say so in your will. If you simply omit any reference to Johnny in that document, rather than specifically disinheriting him, he might have the makings of a successful will challenge.

Where big bucks are involved, a will contest can be a real grave-spinner, like the case brought by the children of multimillionaire Charles S. Payson, who died last year at 86. Most of Payson's wealth came from industrialist Payne Whitney, the father of his first wife, Joan. When she died in 1975, the bulk of her $172-million estate went to Charles.

His will gave his son a cemetery plot, land, and personal property; his three daughters got only some paintings. Payson gave $20 million in cash, stock, and real estate to his second wife, Virginia, and put much of the rest in a QTIP trust. The income from the trust goes to Virginia.

But this case demonstrates a flaw in the QTIP setup: stepmother Virginia and the Payson children are of the same generation (at 56, she's younger than two of them), so the "kids" may not live long enough to collect the QTIP principal. Charles's children are challenging the will on many grounds, including a claim that the second Mrs. Pay-


Department of the Treasury Internal Revenue Service

Notice of Deficiency-Waiver

of Taxpayer(s) Estate of Samuel I. Newhouse
Samuel I. Newhouse, Jr. and
Donald E. Newhouse, Co-Person
In Care of Steinhauer, Sheima
360 Madison Avenue, New York,

Copy to Authorized Representative Steinhauer, S
360 Madison A
New York, New

Increase in Tax	Deficiency Addi Fraud Pen. Sec. 6653[b]
$609,519,855.00	$305,759,927.00

Disagreeing *with the IRS over an estate's value can be extremely costly. The feds clashed with the Samuel I. Newhouse estate over the value of his company's stock. The result: an overdue notice of $609 million and change.*

son used "undue influence" in directing so much wealth her way.

Such squabbling is not limited to the rich. "Will contests are more a matter of frustrated expectations than anything else," says Jonathan Blattmachr of the New York law firm Milbank Tweed Hadley & McCloy. Blattmachr tells of a widower who sought to leave 95% of his $200,000 estate to his impoverished daughter and 5% to his son, a successful doctor, who was worth about $2 million. The son challenged the will and settled out of court for another $5,000.

"Uncle's" appetite for a share shows up dramatically where estate assets are hard to value, notably family-held companies. For example, take the estate of Samuel I. Newhouse, the newspaper king who died in 1979. In valuing his Advance Publications Inc., estate experts at Chemical Bank looked at price-earnings ratios of similar but publicly traded companies and set a market price of about $1 billion. The bank then assigned a substantial part of the value to the nonconvertible preferred stock, owned by the Newhouse heirs. The patriarch's holdings, all the common stock, came to only $179 million.

The IRS saw things differently. It calculated the company's market value at $1.5 billion, then discounted that price by the cost of liquidating the preferred stock. (The assumption is that an outside buyer would have balked at the burden of paying the preferred dividend.) The remaining value, all assigned to Newhouse's estate, was $1.2 billion. In 1983 the IRS mailed off a "notice of deficiency" to the estate, levying more than $609 million in additional taxes and a $306-million penalty for fraud. The valuation is still in dispute.

Marion Fremont-Smith, an estate planner at the Boston law firm Choate Hall & Stewart, suggests that founders of growing companies consider swapping their common stock for preferred stock and a new issue of common. Such transactions are tax-free. The preferred shares can provide steady income for an aging founder, while the new common stock can be given to children through annual exclusions and the one-time exemption. Their stock will appreciate as the business thrives. So if you want to leave your children a legacy, let it be something other than a dunning notice from the IRS. **—Maggie McComas**

BOB EAST III—PICTURE GROUP

Ross Perot, *with part of his family in 1982, says children should not grow up in "fairyland."*

Crown is a big booster of this idea: "We started when the kids were young and put the dollar signs in as they got older."

Former Treasury Secretary William Simon, who has made tens of millions in leveraged buyouts since leaving Washington, says that at one of his family's regular meetings, his seven children had to read and discuss 19th-century steel magnate Andrew Carnegie's essay "The Gospel of Wealth." (Carnegie argued that by giving away their great fortunes, rich men would produce "an ideal state in which the surplus wealth of the few will become, in the best sense, the property of the many.")

Though the children of Eugene Lang will not share in his estate, they and Lang's wife are trustees of his private foundation and join in deciding where to give. Says Lang: "In a way they're spending their inheritance with me here and now and getting a lot of satisfaction and joy from it."

No amount of family talk will guarantee that the children will not turn out like Tommy Manville, the asbestos heir who went through 13 marriages and millions of dollars, or Huntington Hartford of the A&P fortune, who has lost a reported $90 million in a lifetime of bad business deals. But it should help.

▶ **Shelve the silver spoon.** Psychiatrists say the lack of work experience not only alienates heirs from humanity, but also contributes to insecurity about their ability to survive without their inheritance. H. Ross Perot, 56, the Texas billionaire who founded Electronic Data Systems, a computer services company, and sold it to General Motors, puts it this way: "If your kids grow up living in fairyland thinking that they're princes and princesses, you're going to curse their lives."

T. Boone Pickens Jr., chairman of Mesa Petroleum and worth tens of millions of dollars, remembers his middle-class upbringing as "the best a boy could have." When he graduated from college, Pickens thought his father, a buyer of oil leases for Phillips Petroleum, might give him $500 or so. Instead, all he got was "good luck." Pickens plans to leave at least half his estate to charity; he has arranged what he considers small trusts for his five children and three stepchildren. Says he: "If you don't watch out, you can set up a situation where a child never has the pleasure of bringing home a paycheck."

▶ **Don't be afraid to experiment.** Robert D. Rogers, chief executive officer of Texas Industries, a manufacturer of cement and steel, swears by a Texas-size version of every parent's basic financial training tool—the allowance. At 18, each of his three children began receiving annual stipends that covered living expenses and then some—college costs, clothing, travel. The youngsters were not accountable for the money, but if it ran out, tough luck. As an incentive to save, the children could claim whatever remained when they reached 25. "My oldest son ran through his first year's income in nine months and had to go to work," recalls Rogers, who credits a Texas Instruments co-founder, Eugene McDermott, with the idea. Young Rogers never ran out again. If you are going to leave money to your children, a generous living allowance

EXECUTIVE LIFE

Phoenix lawyer *Peter Kiewit Jr. received only $1.5 million of his father's $186-million estate.*

should give you a good idea what they will do with it.

Parents who want to encourage their offspring to work, and provide them a little extra money besides, can create incentive income trusts designed to match or double the child's salary. The trusts also can be set up to pay out principal if a child achieves some objective, such as attaining tenure at a university or even holding down a steady job.

▶ **Give later rather than sooner.** Most estate advisers now agree that 21, the age of majority, is too early for most children to reap a windfall. Warns John Train: "Very large sums handed over to children who have done nothing to deserve them almost inevitably tend to corrupt them." Ross Perot, as usual, is more blunt: "Anybody who gives kids a lot of money at 21 doesn't have much sense." Bill Simon suggests that "sensible parents" put a reasonable amount in trust that only starts paying interest at, say, 35, and then allows access to principal in two installments at 40 and 45. What's a reasonable amount? Says Simon: "Everybody has to define that for himself."

▶ **Trust in God and take short views.** It's 2075. Do you know who your great-great-grandchildren are? Do you really care? Louis Auchincloss, the novelist, estate lawyer, and scion of one of America's most prominent families, believes the "dynastic impulse" is on the wane in America. "When I came out of law school, people were always deeply concerned about their great-grandchildren," he says. "Not now." That may be no bad thing: the U.S. is littered with indolent people who were ruined by trusts set up by adoring grandparents.

Besides, Congress has tightened tax loopholes that encourage generation-skipping trusts. If you want to ensure some accountability among your heirs, you might consider Ross Perot's advice to make bequests one generation at a time. Says he: "Let your children decide how much to give their children."

▶ **Don't live and die in Louisiana.** The Bayou State adheres to the Napoleonic Code, which requires forced heirship: A single child is entitled to claim one-quarter of any estate, two or more children split half. If you want to give more, that's no problem. If you want to disinherit, Baton Rouge lawyer Gerald Le Van says the state recognizes a few reasons as valid—attempted assault against the parent, conviction for a felony, and a debatable rule, just passed by the legislature last session, "failure to communicate for two years without just cause." If you want to give it all to charity, Le Van advises moving to another state.

▶ **Put child rearing before estate planning.** Chicago psychoanalyst Roy Grinker Jr. worked with the children of the very rich for 15 years. Often the problem in wealthy households, he says, is that parents pay too little attention to their children's upbringing. "Rather than give rich parents money advice, I would give them child-rearing advice," says Grinker. "I would say, 'Pay attention to your kids, spend some time with your kids, love your kids.'" Warren Buffett cheerfully agrees: "Love is the greatest advantage a parent can give." ◼