Goodbye, Family Fortune

By MICHELLE SLATALLA Barron's 9/2012

Will your kids be prepared for great wealth? What you can do now.

After his mother died, John Mecom Jr. was supposed to make sure her money was preserved for his four children.

Instead, the son of a Texas oil tycoon looted a multi-million dollar trust he was supposed to oversee, a lawsuit alleges. It claims he failed to account for $536,691 he owed the fund, racked up "general office and administrative expenses" of more than $80,000 in one year and sold off nearly a million dollars' worth of his mother's art, antiques and jewelry.

Mecom Jr., who declined through his attorneys to comment for this story, said he was entitled under terms of his mother's will to do anything he wanted with her personal possessions, according to court documents.

But a lawyer who is suing him on behalf of his daughter sees the situation differently. "We think it was theft and that he was just a spoiled brat that was raised by a rich family that probably spent more time making money than they spent taking care of the kids," said James R. Lovell of Lovell & Lyle in Dumas, Texas.

Thomas Reis

More parents are wresting trust funds away from wastrel heirs.

These are the times that try rich men's souls. Even under normal circumstances, the average patriarch lives in fear that "a spoiled brat" who gets his hands on a family fortune will squander the inheritance. But these aren't normal circumstances. First there was the financial crisis of 2008 and the subsequent recession. Now there's the European debt debacle, which threatens to cascade through global banks and the world economy. The U.S. already is facing the real possibility of a new recession; economists put the odds at about 1 in 3. In other words, preserving a fortune is getting harder than ever.

The hysteria among the super-rich is palpable. They're worried their kids and grandchildren will fritter away the money it took forebears lifetimes to earn. They're asking: How do you prevent a child from growing up to be ne'er-do-well? Should you leave a spendthrift heir nothing? Or money with lots of strings attached? And what if a family squabble escalates into an expensive lawsuit?

"Families are saying, 'Oh my God, that last collapse was awful, and now we know there will be another big one, and when it comes it will be as scary as hell,' " says Maria Elena Lagomasino, chief executive of GenSpring Family Offices, which manages the money of some of America's wealthiest families. "And, 'What if I'm not around to manage the next one? How do I make sure the next generation really has the preparation to get through the crisis?' "

With at least $41 trillion in private wealth expected to be transferred from one generation to the next in the first half of this century, the stakes are high. As a result, rich families are sending kids to financial boot camps or giving them crash courses in money management at home. They're also crafting sophisticated "beneficiary rescues" to wrest trust funds away from wastrel heirs and hiring psychologists to help them broach the topic of money with kids. ("It's harder than talking to them about sex," one father confides.)

"Kids need education," said Sara Hamilton, chief executive of the Family Office Exchange, which advises ultra-wealthy families. Hamilton also teaches financial skills to 35 or 40 heirs at a time who enroll in a four-day private wealth management course that the University of Chicago offers twice a year (tuition: $8,950). The course covers the basics -- of investing, tax law, estate planning and philanthropy -- at the behest of parents who, Hamilton says, are "concerned about whether the wealth will disincentivize their kids from leading productive lives. That's the No. 1 concern that drives the education piece."

The good news is that despite all the hand-wringing, there's little evidence yet that family fortunes are taking big hits. Last year, the richest people in the world -- the segment of the population with $30 million or more -- saw their wealth increase by 11.5%, according to the latest annual World Wealth Report from Capgemini and Merrill Lynch.

Nevertheless, recent history is rife with, well, heir-raising horror stories. In Canada, there's the seemingly endless saga of the drug-abusing daughter of deceased media mogul Pierre Peladeau. Anne-Marie Peladeau sued her brothers -- after they cut off her $10,800 monthly allowance -- before heading off to a stint in a rehab center named for her family. In California, Korbel Champagne baron Gary Heck and his daughter, Richie Ann Samii -- whom he sued for defaming him on the Internet -- fought in court for three years over more than $9 million in trust-fund income following her arrest for sexually assaulting two employees. (The father and daughter eventually settled, for an undisclosed sum estimated to be in the millions of dollars.)

The Stages of Wealth

Start educating your child early, and keep at it well into adulthood.

AGE 8: Each week put a small allowance -- $1 to $5 in dollar bills -- into an envelope and hand it to your child. Explain that it's up to him to decide whether to buy candy or save up for, say, a skateboard. (Don't undercut the lesson by buying the skateboard yourself.)

AGE 10-12: Invite your child to start attending regular family meetings. Discussion items: How lucky we are to be financially comfortable and what we as a family think is the purpose of our money. Should we take fancy vacations or give to charities? Make it clear your kid's opinion matters.

AGE 12-14: Make sure your kid knows how to manage a checkbook. And at the family meetings, start making it clear where the family money came from–somebody's hard work! Start setting future expectations: Tell your child, "You're going to have to make your own fortune," or "Someday this will all be yours to preserve."

AGE 14-16: Don't be afraid to invite your banker or financial advisor to attend family meetings. It can be easier to have a neutral third party broach delicate topics such as a prenup and how much money you plan to leave your kids.

AGE 15-20: If the message isn't getting through, initiate steps for a "beneficiary rescue." Shift assets from normal investment accounts and minors' trusts into entities that you firmly control, such as family limited partnerships.

AGE 20-25: Make it clear you'd welcome your kid into the family business -- as soon as he's ready. College is a first step, and training at someone else's company can offer perspective. Remind your child that you love him and have total confidence in his ability to make his own way into the world. He'll thank you for it when he's 40.

AND BACK IN TEXAS, John Mecom Jr.'s daughter Katsy Cluck filed suit against him in 2008, in a messy and expensive case that names her three siblings as involuntary plaintiffs and involves five separate teams of lawyers, each trying to determine how much money matriarch Mary Elizabeth Mecom had at the time of her death in 1996.

In 1983, when Mrs. Mecom set up the trust, the multi-million dollar fund's assets included cash and bonds, more than 140,000 shares of stock in 16 different companies and the household possessions of her French château-style home.

As trustee, her son John Jr. was instructed under terms of the trust to distribute what was left of the assets to his four grown children upon her death.

But John Mecom Jr., a former owner of the New Orleans Saints football team, never gave the children a penny from the trust, according to the lawsuit. It pits against each other two generations of a family whose wealth was once estimated at more than $200 million.

"Dear Daddy," reads a plaintive letter Mecom Jr.'s four children sent him, asking what happened to the money. "We are all adults now with our own financial responsibilities and it is very difficult to plan for the future when we have these unresolved issues hanging over our heads."

The Mecom case, which has wended a slow, Dickensian route through the court system, is headed to trial after a state Court of Appeals ruling earlier this year determined that John Mecom Jr. demonstrated an "inability thus far to fully explain his activities as trustee, including his personal transactions."