# PBS Ep155 John N Part2 Trans Audio

**Eric Fuhrman**: Hello, ladies and gentlemen, and investors of all ages. Welcome to "The Patti Brennan Show." Whether you have $20 or $20 million, this show is for those of you that want to protect, grow, and use your assets to live your very best lives.

Folks, my name is Eric Fuhrman, Chief Planning Officer, here at Key Financial, and returning as your guest host for this episode of The Patti Brennan Show. Also, here in the studio once again is our very special guest, PIMCO's Head of Advisor Education, Mr. John Nersessian. John, welcome to the show once again.

**John Nersessian**: Thanks, Eric. It's a pleasure to be with you.

**Eric**: Absolutely. Well, John, we have a great topic for today.

**John**: Financial advice.

**Eric**: Yes, exactly right. And we're really going to be talking about an important issue that you and the folks over at PIMCO are really pushing the frontier on, which I think is great. This is really kind of the table side conversations that we would have with clients in the conference room or they might have at their kitchen tables. So I'm really excited today.

What we're going to be talking about is this concept of family wealth planning. To be honest with you, I think that some of our listeners today might not be familiar with that concept and certainly some financial advisors out there as well. Because really our role is to sit across the table from the client, understand their needs, listen to them, and ultimately help them accumulate and preserve wealth. Some of these items include minimizing taxes and distribution and transfer risks. The list goes on and on. But this is a unique concept that I think is important and needs to be essentially folded into the broader holistic advice that we provide.

**John**: I'm with you, Eric. Unfortunately -- I can't tell you why -- but, here in America, there's always been this perspective that we don't talk about money as a family. We talk about how was your day at school? What score did you get in the soccer game this afternoon? We talk to our financial advisors about rates of return and taxes. But for some reason, culturally, we're just not comfortable talking about money, expectations and values with our loved ones. So I'm glad that you're bringing up the topic.

**Eric**: Yeah, for sure. Where I'd like to start is this idea of family wealth planning, since you guys are really on the forefront of this concept. For our listeners today, can you just explain very succinctly what it is and why it’s important for clients and advisors. This is really a great opportunity to embrace this topic.

**John**: Yeah, that's a great question or a great segue, Eric. So look, at the end of the day, when I'm no longer here, my money is going to go to one of three places. It's either going to go to the government, hopefully not.

**Eric**: If you've got a good financial advisor. Right?

**John**: Exactly. We'll find ways to minimize the amount that goes to the government and go to charity. Causes that are important to me, or it will ultimately go to the people that I care about, the people that I love, my family members or others in that particular tranche.

So, the question is, when those individuals wind up receiving or inheriting this wealth, whether it's large or small, are they prepared for it? Have we done a good job transferring money, values, expectations, and responsibilities to these individuals.

Look, at some point in my life, I'm a little bit less worried about whether I have enough money to retire on. I think I've checked that box at age 65. What does keep me awake at night, Eric, are two things, and I'll tell you what they are. Their names are Margo and Daniel.

**John**: Margo is my 24-year-old daughter, dating some knucklehead over in Rome. And my son Daniel is 28 years old. He works for the Chicago White Sox. And at some point, they're going to wind up being the recipients of whatever money we've left behind.

So the question that I constantly think about, or I'm beginning to think about, is have I done a good job in preparing them? Are they prepared to not only handle the financial responsibility of wealth, but are they emotionally prepared for that experience? Whether that number is large or small. Will this transference of wealth have a positive impact? Or will it potentially lead to negative consequences that you sometimes see with families who do wind up leaving a large bequest to their loved ones?

**Eric**: Yeah, so you highlight an important aspect. At the end of the day, as the saying goes, you can't take it with you.

**John**: Bummer. I'm going to find a way to. You're selling me short, buddy. I got a lot of talent. I'm going to find a way to take it with me.

**Eric**: Oh, good stuff. Well, hey, let me know if you come up with something. But in thinking about this podcast today and this concept of wealth planning, I think we can look back in financial lore. You can always find these incredible stories of people that amassed a fantastic fortune, and then somehow, lost it or it was dissipated for one reason or another with the passage of time.

I'd like to get your response to this particular situation. Many people know the story of Cornelius Vanderbilt, known as the Commodore. Right?

**John**: And the university. Yeah.

**Eric**: Exactly right. He had amassed an incredible fortune for his age, I think something north of a hundred million dollars back at the time of his death. He passed roughly 90 percent of that wealth on to his son, Billy, who then subsequently doubled it in just nine years before his unfortunate death.

Now, the interesting part about the Vanderbilt story is when the wealth passed to the third generation, the wealth began to dissipate from that point forward.

There is a biography and they had quoted one of the Vanderbilt's grandsons, and he opined the following statement. "Inherited wealth is a real handicap to happiness. It has left me with nothing to hope for, nothing definite to seek or strive for." I think that it is such a fascinating thing to think if you to come into a significant amount of money that it would change your values, your perspective on life. What's your response?

**John**: It's counterintuitive, don't you think, Eric? I mean, the assumption is, oh gosh, I would love to be the recipient of somebody else's bequest. I'd love to wind up with a pile of money that maybe I didn't earn or count on and that was left to me, but I think you nailed something there.

It's the idea that, once again, when those dollars come to me, am I prepared for it? What kind of impact does that wealth have on me and my views on life? For some families, not all, but for some, they suggest that there's a real challenge.

My children would grow up without proper motivations. This significant wealth that they have is going to encourage them maybe to be a little bit less entrepreneurial or a little bit less involved in the workforce to make it on their own, so to speak.

How about this? Significant wealth can lead to materialism. I don't know about you, but I want to raise grounded kids. I want to give them financial resources and opportunity, of course, but I certainly don't want them to be materialistic. I don't want them to be entitled or arrogant.

I don't want them to judge their relationships with other people based on financial levels of wealth. I want them to view the world in a more holistic capacity. Warren Buffett had a great quote.

**Eric**: Oh, yes, please share this one. I love it.

**John**: I might get it wrong, but I think we'll get the general gist of it, which is, the perfect amount of money to leave my children is enough so they can do anything in this world, but not so much that they'll choose to do nothing.

So, how does a family find the right balance of providing financial opportunity for their children or to provide educational opportunities for their kids down the road? How do we do that in a way that doesn't have the negative implications that we've discussed so far?

**Eric**: Yeah, so I think you highlight an important part. Naturally people would worry that their children would engage in profligate behavior and squander the money.

**John**: It happens.

**Eric**: You bring up something much more important, which is psychology and how does it change how people view the world? And ultimately does it change their ability to be productive and decent members of society?

With that, there is this idea that wealth dilutes with the generations. There's this wonderful topic that you guys use called friction points.

**John**: Yeah

**Eric**: So, we're thinking about family wealth planning. Can you identify for our viewers what are the main friction points as it relates to this topic?

**John**: Yeah. Friction, meaning the wealth does get destroyed or it does dissipate from generation to generation. In fact, there's a famous phrase, shirtsleeves to shirtsleeves in three generations. And it ties in with your Vanderbilt story. The original family members, the patriarch, matriarch, create wealth. It passes on to G2. But what happens along the way as it goes from G1 to G2, eventually to G3?

What happens is, as our wealth level rises, so does our consumption. Right? We make more money, and we start buying toys.

**Eric**: Right.

**John**: Cars, airplanes, boats, and second and third homes.

**John**: Yeah, of course. So our level of spending rises commensurately. And then eventually when that wealth is transferred, there are friction points. Number one, the principal amount gets divided among a number of beneficiaries. They're accustomed to a higher standard of living. There are taxes that are incurred along the way.

There is inflation, which has a negative impact on our principle and ability to retain it. Then suddenly, what seemed to be an insurmountable level of wealth was dissipated from G1 to G2 to G3.

But to your point, Eric, it's not just the reduction in dollars that is maybe the greatest concern for families. It's the concern, are my children prepared for this? Or maybe more importantly, what can I do to help prepare them for this eventual experience? So, that they grow up in a world where they're appreciative of the financial opportunities that they've received as opposed to some of those negative attributes that we've identified.

**Eric**: Yeah, wonderful. This is a good time to bring these things head on when in the room with the client. What I want to go over and get your input on is the idea of family wealth planning given certain perspectives that we tend to observe in practice on a day-to-day basis.

Here's the first profile, if you will, that we tend to run into. We have meetings and we talk about estate planning, legacy and things of that nature. But there is a certain segment of the population that says, listen, I've raised my kids, and I put them through college. I bought a car and paid for their wedding. I might still be paying their cell phone bill; however, I've done my part, and I don't necessarily feel a need to leave a significant legacy to them.

**John**: I'm not going to subordinate my own expenses or happiness today so I can leave more money to my kids. Is that the profile you are?

**Eric**: Exactly right. I'm not going to engage in a parsimonious retirement so that my kids can have more money. And then there is other circumstances where they might say, look, my kids are doing better than I was at this age. They're financially secure. These types of viewpoints don't really see the importance and the need to still have that discussion. So, what do you say to that perspective?

**John**: I don't say anything, but I ask questions. So, let's talk about that because every family is different. For some families and I'll speak personally, I do want to provide my children with the opportunity to share in the modest success that I've achieved. That's important to me.

As to your earlier point, I'm not taking that money with me. And I'd like that success, that opportunity to transfer to my kids. I love and care about them, and I want to give them opportunities. So, that can be important to some families.

These are the questions that we'll ask them. Tell us, have you thought about your legacy and what would you like that to be? Now, there's no right answer to that, but everybody has a different perspective. Tell us about your children. Are they financially literate? How would you rate or evaluate their level of financial responsibility or acumen?

What is your objective to support your children both today and when you're gone? Or would you rather provide them with the opportunity to earn it, make it and achieve it on their own? Once again, these are the questions that we ask because every family has a different perspective on it.

**Eric**: Yeah, absolutely. Well, so then there's another perspective here to explore as well. This might reside for a population of individuals that actually have true generational wealth. But yet they are reluctant to share that information because they're worried about what that information might do. They're worried about how it might change their behavior, perspective and relationship with their children.

So, how do they introduce this concept, if that is their primary concern?

**John**: I understand that. I bet you run into some clients who misinterpret the objective. Wait a minute, Eric, what you're encouraging me to do is to open the books and to show my teenage children all our resources. Including what our homes are worth, how much money we have in our brokerage accounts and our retirement accounts.

That's not the objective. It doesn't necessarily mean dollar disclosure. The conversation that we think is most important, the one that we're referring to now, is a discussion with our children about responsibilities and expectations. What is it that we want to transfer to our kids?

Dollars, yeah. But what I really want to transfer to them are values. And it's funny how children learn values, Eric. I've learned this at 65 years old. It's taken me a long time to figure this one out. I used to think that lecturing my kids would have the positive impact that I had hoped for. I don't know if your kids, as teenagers, listen to anything that you tell them?

**Eric**: No, it's funny. I'm not able to penetrate that edifice that keeps dad's wisdom from getting through to them.

**John**: Yeah. Welcome to the club. I teach financial stuff for a living and God forbid my kids listen to the financial advice I give them.

Children don't necessarily listen to or follow what their parents lecture them about. You know how they learn and how they eventually adopt their own values? They observe through our behaviors. So, if I'm materialistic as an individual, they observe that behavior in me, and it's something that they acquire themselves. My children are smart, they are sponges.

If I'm charitably inclined and choose to involve and expose them, they will grow up being charitably inclined. If I'm arrogant in my approach or if I'm more modest in my approach, children observe these behaviors in their parents.

If you want to transfer values to your children such as humbleness, gratitude, compassion, and philanthropy, the best way to do that is by exhibiting the behavior. And, by having conversations. Let's break down that wall where we were reluctant to talk about money.

My dad came over from Syria at the age of 18. He had no money, put himself through Columbia University, and became the director of research at Bristol-Myers. Because of his background, we never talked about money. I never really had an opportunity to learn about money until I was off on my own.

I look back now suggesting that there were opportunities for me to learn and prepare, to begin financial preparedness. As you know, I live in the state of Florida part of the year and Illinois the other part of the year. But, if the IRS is listening, I'm a Florida person.

**Eric**: Florida resident, yeah.

**John**: Exactly. In Florida, there is now a requirement that every school must provide a class on financial literacy to their students before they can graduate high school. What a great concept to fill the gap where parents and children haven't had the opportunity to talk about money, expectations and responsibilities.

**Eric**: I hope that becomes more pervasive throughout the education system. But you're exactly right. Most people do not have a personal finance course to teach them about the basics of investing. Yet every person, whether they like it or not, cannot opt out of the financial system. Whether it’s a job, a 401(k), borrowing money, or opening a checking account…everybody must interact.

Your point about education is so powerful. And what a beautiful way to present this. It's not about what I say, it's about what I do. That is really the key thing.  With my household, I'll have to embrace that more often to get through to my young kids.

**John**: Your goal of teaching these lessons or sharing them with your children is incredibly noble. There are a number of lessons that we need to teach our children. I'll share a couple with you now. Key lessons that children need to learn come from formal education or examples set by their parents.

First, children need to learn how to hear the word no. I don't know what your children are like, but many go to the store and see the candy on the shelf.  They want the candy, and they bug dad while pulling on your jacket. Finally, dad says, alright, here, take the candy. Gosh darn it. Let's stop the negotiations. Children need to learn how to hear no. Actually, maybe it's the parents who need to learn how to say no.

**Eric**: Yeah, right.

**John**: Children need to learn how to hear no. Secondly, they need to learn the difference between wants and needs. Do you want that particular item or do you need it? Let's help them differentiate between the two.

In addition, they need to learn the concept of delayed gratification. If I get it immediately, it's maybe less meaningful to me. I won't learn some of the important lessons in life.  Not everything's available to me as soon as I want it, and I'm not going to have every itch satisfied in quick fashion.

The last lesson is how to make tradeoffs. Maybe I'm not in a financial position where I can afford to buy a new car. I'm going to need to understand what is suitable or appropriate for me. Maybe it's a used car that makes sense at that time. These are some of the key lessons that we can teach our children to help them become better financially prepared.

**Eric**: Do you have extra time to come talk to my kids today, or...?

**John**: Absolutely.

**Eric**: They would probably listen to you, for sure.

**John**: Well, it's funny. They don't listen to what their parents tell them.  I lecture for a living, and God forbid they'd listen to me. They would probably listen to a stranger instead.

**Eric**: Oh, for sure.  This is a wonderful concept, so let's put some structure around it.

When you think about the mechanics of how this ultimately unfolds, what is the framing, plumbing, and electricity?  What does this process look like? And let's ask the question, when do you start? Behavior is a lifetime thing and eventually there's a conversation that must occur. How does that take shape, John?

**John**: You nailed the key thing, Eric, which is having a conversation. As I mentioned a little bit earlier, sometimes families don't talk about money.  The parents just don't know how to do it. Maybe they are a pharmaceutical executive or work in the technology field. What do they know about teaching financial literacy to kids?

They may say, Eric, it's important to me, but I'm not sure how to teach them and what the first step is. Even if I had a path forward, I'm not comfortable doing it. I'm not sure my kids are going to listen to me, so your involvement as a financial advisor plays an important role. Our family can then start a conversation that is critically important.

One way to do it is through family meetings. We get together for dinner, soccer games, and significant family events like weddings and births. How about a regular family meeting where we put aside the day-to-day things that we're involved with? And we begin to talk about values. We talk about our family, our legacy, our longer-term desires and the financial responsibility of the different family members.

Even though all of us are individuals, we are also part of a family legacy and entity. Each of us have a role in the success of that family entity. Family meetings can be a great way to do it by appointing a director to run the meeting. They can provide learning on a regular basis. And include something in there that's fun.

Maybe we will go to a baseball game together or the Sixers-Knicks game tonight. Maybe we wind up going to a wine tasting (if it's age-appropriate to do so) so that we build memories and gain experiences. We can benefit from enjoyment by sharing time with people that we care about and love. Family meetings can be a great way to accomplish that.

**Eric**: I like how you're pairing it with certain events. I'll certainly have to take a cue from you because my family meetings tend to be when my wife and children are in the car with me and we're traveling six hours to go somewhere.

**John**: That's OK.

**Eric**: Yeah, then they have no choice.

**John**: Exactly. They're a captive audience.

**Eric**: Right.

**John**: What a great way to take advantage of the opportunity as opposed to simply blasting the radio. Maybe you set an agenda, just don't be too rigorous with it. Kids, mom and dad want to talk about a couple of things. We want to share some of our goals, desires and our best wishes for you. We want to share things that we haven't had a chance to talk about yet. I think that starting a discussion, whether it's in the car or around the kitchen table, is a good thing.

**Eric**: Wonderful. Bringing this topic to a close, a lot of times when you think about this concept of family wealth planning, many think this is something they would discuss with an estate planning attorney. When we sit down every few years and look over the will, isn't that the time we would do this?

When we think about this type of planning topic, why should clients look to their financial advisor for this type of guidance? And what should they expect from the financial advisor? Why is this an opportunity for the financial advisor and the client?

**John**: Yeah. The estate planning attorney plays a very important role in terms of drafting documents and creating an estate plan. The primary goal is getting money efficiently from one generation to the next. But what we're discussing today, Eric, goes beyond that. What we're discussing is financial literacy, financial responsibility and financial education. I just started watching a new show on Netflix. It's called "The Gentlemen." Have you seen it at all?

**Eric**: I have not.

**John**: Ok. It's about this very wealthy English patriarch who has a beautiful, humongous estate and the patriarch passes away. All the children are gathered together -- this is something we'll all be facing -- for the reading of dad's will.

**Eric**: Ah, right. And nobody knows.

**John**: Nobody knows because they never had the conversation. And sure enough, the money went and the responsibility of managing this family estate went to an unexpected recipient. Suddenly, you have this conflict that emerged.

**Eric**: Chaos.

**John**: It's absolute chaos. Chaos in terms of relationships, emotions and responses. It's chaos in terms of how do we now begin to manage the very significant family business and estate that's been passed on? But because nobody talked about it, nobody told them what the plan was.

**Eric**: Well, the interesting part about that is that makes great drama for TV, but it's not the kind of drama that you want in your own life.

**John**: It's a lot of fun to watch, but I certainly don't want to experience it.

**Eric**: Yeah, absolutely. Well, listen, John, thank you so much again for your time and being a part of this conversation and educating our listeners. Once again, thank you very much for taking part in the show.

For all of you listeners out there, thank you so much for being with us today. We are Key Financial, wealth management with wisdom and care. If you have any questions about the show or an idea for a future topic, please feel free to reach out to the office or go to our website at www.keyfinancialinc.com. Thank you so much again for being with us today.