SmartMoney

Therapists Tackle Emotional Burden of Being Rich

By Lisa Scherzer
November 8, 2007

FOR ULTRA-RICH CLIENTS, financial-advisory firms provide all kinds of specialists. There are wealth planning specialists, risk management specialists, insurance specialists, trust specialists, and so on. Firms are starting to recognize, however, that this array of specialists isn't qualified for the more emotional — and sometimes darker — side of big bucks.

That's where the money shrink comes in.

About six months ago, Wells Fargo's Private Bank hired two part-time "wealth psychologists" to work in its family wealth group. They're not paid to diagnose depressed employees, but rather to help integrate the bank's financial-planning services with the sensitive family issues involved in acquiring and inheriting wealth.

Most readers won't be sorry to learn that the newly mega-rich often have a hard time adjusting to their good fortune.

The main issue facing high-net-worth individuals, says Jim Grubman, a clinical psychologist who works as a consultant to wealthy families, is how to pass on wealth from one generation to the next. Inheritance can be fraught with family tensions, jealousy and uncertainty. Mostly, though, the anxiety stems from parents' fear over how their children will handle a large windfall — or even the knowledge that it's coming.

Grubman estimates that there are about 25 financial-planning firms that have some sort of established relationship with therapists who work as wealth counselors. He says it's a growing niche as the number of world-wide millionaires multiplies. Aside from his own practice in Turner Falls, Mass., Grubman works as a consultant for **Wachovia's** (WB[1]) wealth management division, Calibre. "When they need extra expertise or need special input, they can get me involved with the clients themselves on family issues," he says.

Natives in the land of wealth, as Grubman calls those in "Immigrants and Natives to Wealth," a paper he co-wrote with Dennis Jaffe for the Journal of Financial Planning earlier this year, grow up in a culture of affluence that often inhibits the formation of any kind of sense of self. They also miss out on the simple learning opportunities that come with everyday money transactions. The result is parents panicking at the thought of passing on millions of dollars to clueless and irresponsible children.

"So they grow up without those skills," says Grubman. "There are places that provide educational workshops to teach kids about trusts, how to manage and budget your own money, how to even take care of the car you have."

Parents of Paris Hilton, take note.

SmartMoney.com: Why is inheritance such a big problem?

Jim Grubman: The idea of inheritance really is at its core the last gift that parents give to children. Sometimes it's passed on in parents' lifetime. As any gift, it relates to the quality of parenting, and the degree to which parents have been able to raise kids to have responsible, good lives. It touches on many basic issues between the generations.

SM: How do you work with financial advisors?

JG: The analogy here is like the new trend in health care. Patients have been seeing doctors for many years; now there's a trend of therapists working inside a practice, being available in the normal course of health care. Doctors learn, for example, how to deal best with chronic-pain patients, how to pick up on depression and how to work with that, and people struggling with emotional aspects of cancer. They like having a therapist there on site to help them listen to patients really well and provide support. The analogy now in financial services is therapists working with wealthy clients, and how to train the advisors themselves, to help them be sensitive to the emotional issues that come up in the normal course of financial advising.

SM: What are the main differences between a financial advisor dealing with an average client and a high-net-worth client, besides the number of zeros in the account?

JG: One big difference when you work with the ultra-wealthy is that you're really dealing with families. When you work with affluent clients with financial planners, you're more often dealing with couples or individuals. When you're with the wealthy, you're dealing with family systems, sometimes multiple generations — sometimes two, three or four generations of clients. You might have grandparents passing on, and the parents and children inheriting. You're dealing with complex family dynamics around trusts, custodial assets.

For example, one adult child is an overspender, which is a very common issue, so you have to really understand the family system, not just the client sitting across the desk from you. The issues are often different because you're dealing with complex issues also around family businesses. That's usually the main method by which people become wealthy. That's also an emotional jungle that has to be moved through. You're talking about succession planning in family businesses, different generations having different roles.

SM: Why do you think wealth counseling is a trend now?

JG: Several trends are beginning to converge. There is an increase of wealthy people. One statistic has it that the high-net-worth population is growing at 8% a year. So more families are becoming wealthy, requiring more services. And the demographics are such that you have baby boomers becoming wealthy. These people are more used to talking about psychological and emotional issues. They're more open to and asking for help with family dynamics. Their biggest issue is: How do I raise my kids responsibly with all this money? Third, financial firms are realizing they're all competing in relatively similar ways on the financial side. Clients are seeing that the menu of financial services varies slightly, but most places are offering similar things. Firms want to differentiate themselves in the marketplace, and one way to do that is to provide more services aimed at the family.

For example, I know of one large financial firm offering help with services with elder geriatric care management. Baby boomers have aging parents who need services, called geriatric care management. Say you're wealthy, you have parents in Arizona who have Alzheimer's. Your financial advisory firm says we know of a [medical care] firm in Arizona that deals with this, and we'll recommend them as a value-added service.

SM: You say in your paper that most parents don't know how to raise responsible children with regard to wealth. Why is that?

JG: With natives in the land of wealth it can go two ways. Because they don't have adversity in life, they're at risk of being passive and sort of clueless about money because there's always someone else taking care of it for them. So they grow up without those skills. There are places that provide educational workshops to teach kids about trusts, how to manage and budget your own money, how to even take care of the car you have. Many young adult inheritors are interested in not being unskilled; it helps their self-esteem to know that they can take care of themselves.

SM: How does a parent "train" a beneficiary to receive an inheritance, as you put it in your paper?

JG: Parents have to teach their children financial skills throughout childhood so the child avoids a sense of entitlement, that if they don't have enough money for something they wait until they do. They have to know the difference between a credit card and a debit card and how to live within their means, how to delay gratification, how to not get sucked into sales just because they want something. If you teach that to your 10-year-old or 21-year-old, you're teaching them to be a wise and thoughtful beneficiary when they get the big money. The convenience of wealth skips all the basic steps; you end up getting a beneficiary at age 35 who doesn't know the value of money, who's not thoughtful about the purchases they make. You need to train a beneficiary from when they're 10 years old, not when they're 21...

It's like putting off talking about sex. I'll do it someday. They figure they'll always have enough time. What they don't realize is that if you wait until they're an adult, you're actually doing damage. I will very often get a call from a panicking parent. They're panicking for one basic reason: There are legal things that have to be done, the clock is running out. There is some trust document or custodial account which is now coming due, and the kid needs to sign it when they're 18. Parents are terrified. They don't want the secret to be out, that the child is coming into an interest income on a $6 million trust when they're 21. I call it the "Oh my God" call.

SM: What do the parents do?

JG: The parents are faced with a dilemma. A lawyer puts a document in front of [the child] and says "we need you to sign this," and they don't really explain what it is. And they actually sign away the money for another five or 10 years. Do you do something deceptive with the child? Or do you explain to the child how much money they're coming into and then go crazy because they're not ready for the money? A lot of lawyers actually advocate to have them sign away the money. I say begin to work on it, tell your children. They don't know how. That's where I come in. I work with many other top independent advisory firms with their high-net-worth clients. Firms realize they want to be good listeners, and they want to deliver the best advisory services they can, and that means understanding the psychological aspects.

SM: Warren Buffett is known to have a distaste for inherited wealth. In 2006 he said he plans to give 85% of his fortune away, specifically to the Bill & Melinda Gates Foundation, and not leave it to his three children. He's avoiding all these kinds of issues.

JG: How much they're actually getting gets lost in it. They're already high net worth. He may have been doing wealth transfers all along. I think they're getting $10 million, $20 million. He says, "I'm going to give my kids enough money so they can do anything, but not enough money so they can do nothing." He's worth about $50 billion. He decided to give them $10-$20 million each. It's not like they have $100,000 and they have to make their way in the world. Everyone misinterprets this. Buffett is just not giving them a billion dollars. He's giving them enough that they don't have to work for a living, they can do anything. But they could do nothing, too. He is the classic immigrant to wealth. He's raised responsible children, taught them to handle money. He's trained the beneficiary.

The most important thing that you teach, whether you're middle class, blue collar or wealthy, you have to teach your children the financial skills needed for adult life. Unfortunately, that happens all too rarely in most families.

Links in this article:

[1]http://www.smartmoney.com/cfscripts/Director.cfm?searchString=WB

URL for this article:
http://www.smartmoney.com/theproshop/index.cfm?story=20071108