

Some readers will not agree with what I'm about to write. Perhaps many won't. After all, my ideas run counter to the usual advice that appears in the financial press and numerous books. But I don't present my thoughts lightly: they come from approximately 30 years as a trusts and estates attorney working with wealthy families. And I am convinced my thesis is not only thought-provoking but valid. Simply put, I believe the "limited inheritance" approach most frequently attributed to Warren Buffett is an unfortunate idea. In fact, it may be destructive. Distilled (and distorted) in the caustic lens of social media, the Tweet might read: "Warren Buffet, who I hear is very over-rated, has a really terrible plan. Will hurt children. Sad!"

Later I will explain an approach that I suggest. I will cut to the chase, however, and let you know from the outset that accumulated wealth can be used productively as a tool by descendants and other inheritors in support of their reaching their full potential. I encourage families to be thoughtfully engaged in preserving family wealth to that end. Superlative, yet bombastic, Tweet: "Preserve family wealth to support children reaching full potential – awesome idea, inclusive and positive, best plan ever."

How I reach these conclusions is involved and textured, a story that will take time to unfold (not a story for a 140 character limit). Now, the limited inheritance idea.

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Parents and grandparents universally desire that their children and grandchildren lead productive and engaged lives. Every parent can identify with this goal. The image of a ne'er-do-well rich kid, idle and without purpose is disturbing and contrary to much of what parents and grandparents believe is wise or appropriate.<sup>1</sup> The goal of having productive and engaged descendants is laudable and few would argue with that.

To remedy this concern, much focus has been given to one "sink or swim" strategy that limits the descendants' inheritance (often referred to as the "limited inheritance" approach). Some are of the opinion that money can ruin children and that they should not be given much – i.e., give them just a

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<sup>1</sup> See generally, How Not to Raise a Spoiled Brat, Town & Country (June/July 2017).

little and let them sink or swim. The idea is that the children should struggle, and that this will build character and instill proper values.

Those who can afford to leave their children considerably more, frequently and purposely leave them less. Their hope is to better motivate their beneficiaries.<sup>2</sup> Warren Buffett asserts that 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.”<sup>3</sup> Following the model of Mr. Buffett and others, parents adopting the limited inheritance plan are giving the bulk of their wealth to charity. It’s not just billionaires that are using the approach. According to CNBC, many baby boomers of far less wealth are following this path.<sup>4</sup> For the uber-wealthy, Mr. Buffett has for years been promoting his “Charitable Pledge,” which is a commitment by the world’s wealthiest individuals and families to dedicate the majority of their wealth to philanthropy.

This post is not suggesting that charitable giving stop. Quite the contrary. Families can use charitable planning inclusively and positively to support overall goals. Charitable planning can allow families to accomplish desired philanthropic goals and to keep control of “social” wealth that otherwise is frequently paid to the government in the form of taxes. In effect, charitable planning can work synergistically with the goal of maintaining generational wealth.

It is my belief that this limited inheritance plan is a questionable approach for numerous reasons. Here is the first of four such reasons. The others will be forthcoming in future posts.

### **Reason #1: Reaching Full Potential**

You probably recall Maslow’s chart of needs or motivations from college Psychology 101. This chart, developed by Abraham Maslow in his 1943 paper “A Theory of Human Motivation,”<sup>5</sup> stuck with me since learning about it – probably the only concept that I could point to from that class. The chart resonated because it illustrates certain markers (I thought of them at the time as prerequisites) to attaining one’s full potential, completing one’s purpose -- Self-actualization!

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<sup>2</sup> Northern Trust, *LEGACY, CONVERSATIONS ABOUT WEALTH TRANSFER*, p. 154 (2d. 2011, TriMark Press).

<sup>3</sup> Roxanne Roberts, [Why the super-rich aren’t leaving much of their fortunes to their kids](#) (Wash. Post, Style section, Aug. 10, 2014).

<sup>4</sup> Julie Halpert, [Boomers mimic Warren Buffett when it comes to inheritances](#) (CNBC, March 9, 2015).

<sup>5</sup> Maslow, A.H., *A Theory of Human Motivation*, *Psychological Review*, vol. 50, p. 370 (1943)(accessible [here](#)). For purposes of illustrating the ideas expressed herein, I do not attempt to outline or contrast other models of human behavior with Dr. Maslow’s theories on motivation. In this sense, the reliance on Dr. Maslow’s work is in the interest of simplification and brevity.



On the bottom of the pyramid is physiological needs, shelter and clothing, etc., then safety and security above that. Dr. Maslow observed that if a person's physiological needs are unsatisfied in an extreme fashion, then all other needs may become non-existent or pushed to the background. When the essentials are satisfied, then the person's motivations will become dominated by the next higher need. Progress is, however, frequently disrupted by failure to meet the lower level needs.<sup>6</sup>

As stated above, parents universally want their children and grandchildren to be productive and engaged. But what does that mean and who determines when the standard is satisfied – the parents, the child? Productive and engaged are subjective terms. As a starting place, consider a more refined statement of the goal for the development of family members based on Maslow's writings: to self-actualize. "It refers to the desire for self-fulfillment, namely, to the tendency for him to become actualized in what he is potentially. This tendency might be phrased as the desire to become more and more what one is, to become everything that one is capable of becoming."<sup>7</sup> Shouldn't the goal be for children and grandchildren to reach their full potential? Imagine Shakespeare's dad, attempting to produce the productive and engaged child, encouraging Will to be a solicitor, doctor or wool merchant<sup>8</sup> (anything other than a writer) and what a waste that would have been. With this new goal,

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<sup>6</sup> McLeod, Saul, *Maslow's Hierarchy of Needs*, Simple Psychology (published 2007, updated 2016). Dr. Maslow observed that only one percent of the population becomes fully self-actualized because our society rewards motivation primarily based on esteem, love and other social needs – not necessarily rewarding a person for achieving one's full potential. But even these motivations, esteem, love and other social needs, are higher on the scale than the foundational survival motivations.

<sup>7</sup> Maslow, A.H., *A Theory of Human Motivation*, Psychological Review, vol. 50, p. 370 (1943).

<sup>8</sup> At one time, the father, John Shakespeare, was a wool merchant. See Mabillard, Amanda. Shakespeare of Stratford: Shakespeare's

just being productive and engaged takes on a roll of secondary importance. Then the question becomes, assuming this restated goal, is the limited inheritance approach wise?

Consider that by maintaining the family wealth, families help future descendants beyond the chart's foundational levels. Why wouldn't parents want to give children a leg up the hierarchy and spending less of their time on the basic levels? During his time in Paris, John Adams wrote to his wife, Abigail, that it would be delightful and instructive to describe with eloquence the gardens and statuary around the city. He recognized his responsibility and that of his children in creating the favorable circumstance whereby his grandchildren could study the higher arts. While written about 150 years before Dr. Maslow published his chart, President Adams reflected the desire of many parents that their children and grandchildren be positioned to function at a higher level – not struggling to build the foundation, again and again:

*I could fill Volumes with Descriptions of Temples and Palaces, Paintings, Sculptures, Tapestry, Porcelaine, &c. &c. &c. -- if I could have time. But I could not do this without neglecting my duty. The Science of Government it is my Duty to study, more than all other Studies Sciences: the Art of Legislation and Administration and Negotiation, ought to take Place, indeed to exclude in a manner all other Arts. I must study Politicks and War that my sons may have liberty to study Painting and Poetry Mathematicks and Philosophy. My sons ought to study Mathematicks and Philosophy, Geography, natural History, Naval Architecture, navigation, Commerce and Agriculture, in order to give their Children a right<sup>9</sup> to study Painting, Poetry, Musick, Architecture, Statuary, Tapestry and Porcelaine.<sup>10</sup>*

Dr. Maslow's hierarchy, however, recognizes that functioning at a higher level, including the higher arts as President Adams describes it, is not just a means to itself, but a step on the journey towards reaching one's full potential – to become self-actualized. Therefore, in creating the favorable circumstances that more fully allow for this journey, isn't the wealth likely to be useful?

Once I heard a presentation that argued individuals are more creative and productive when functioning in the "heart" frequency rather than the "survival" frequency. The presenter illustrated this idea in the context of a work or employment setting. We have all experienced times in the work world when we are just trying to survive – i.e., functioning in survival mode. The speaker pointed to

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Parents. Shakespeare Online (September 18, 2000).

<sup>9</sup> It is fascinating to consider that President Adams used the word "right" here. Consider that, "a right to study painting..."

<sup>10</sup> Letter from John Adams to Abigail Adams, post 12 May 1780 [electronic edition]. Adams Family Papers: An Electronic Archive. Massachusetts Historical Society. <http://www.masshist.org/digitaladams/>

evidence that workers function at a higher level and are more creative and productive when they experience a comfortable, safe work environment. The analogy to Dr. Maslow's chart is spot on with survival mode being the functional equivalent of physiological, safety and security needs. Why would an employer want employees struggling in survival mode rather than operating at a higher level where more is possible? Likewise, the suggestion is that needlessly imposing survival mode on future descendants through a limited inheritance is misguided.

It is also important to distinguish between struggling to satisfy the base levels, the physiological, safety and security needs, and striving to achieve higher aspirations, those labors associated with achieving one's highest purpose. The former struggles are not necessarily helpful or instructive in the latter, though they might be in some cases. Moreover, the time and energy involved with the former may, in some cases, detract from the time and energy that could be devoted to the latter.

I would wager that if we could ask President Adams his opinion of the limited inheritance approach that he would agree it's an unfortunate idea. Assuming the goal is for family members to reach their full potential, consistent with Maslow's chart, it seems to me that preserving the family wealth is more likely to be supportive of that goal than not. In later posts, I will develop this line of reasoning further.

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In my next post, as we delve deeper into the pitfalls of the limited inheritance approach, I will explain one the main reasons it's a troubling idea – it's negative, pre-emptively negative.

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