In Posts #1 -- #3, I addressed why I believe the "limited inheritance" approach is an unfortunate idea. This post continues the analysis by focusing on its close relative, the "right sized" inheritance.

Reason #4: "Right Sizing" the Inheritance

Many parents believe that their values have contributed to their financial success and the quality of their lives. They want to protect against the risk that their accumulated wealth will undermine those values in their children. Some of these parents seize on the idea that they can dial-in (or "right size") the inheritance so that it is sufficient to enable their children to "do anything," as Warren Buffet suggests, but not so much that it encourages laziness or profligacy. Northern Trust, in its book LEGACY, CONVERSATIONS ABOUT WEALTH TRANSFER, attempts to recast the question to focus on how much is *too* much?[1]

Just as there are concerns with the limited inheritance approach, there are hazards attempting to "right size." Most important among these is deciding what amount is needed to "do anything." Consider the example of Elon Musk (who is by any possible standard, productive and engaged). Musk invested $100 million of his own money into SpaceX (the rest of the $180 million he made from the sale of PayPal he invested into Tesla). The first three Falcon rocket launches failed. Musk said of his most difficult time in 2008: "It's bad enough to have three strikes. Having four strikes is really kaput."[2] Investment money had dried-up, the company was in debt and running on financial fumes. It achieved new life, however, when its fourth attempted launch was successful and SpaceX's Falcon 1 rocket became the first privately developed liquid-fuel launch vehicle to orbit the earth. Three months later, NASA awarded it a contract to resupply the International Space Station and new capital from investors flowed into the company.

Now suppose that fourth attempt had *failed* and Musk needed a fifth launch for SpaceX to achieve viability. If he had been an inheritor from a family of great wealth, a "right-sized" inheritance may

[1] Northern Trust, LEGACY, CONVERSATIONS ABOUT WEALTH TRANSFER (2d. 2011, TriMark Press).
[2] FAST CARS AND ROCKET SHIPS, 60 Minutes Interview with Scott Pelley (March 30, 2014).

have made that fifth launch financially impossible. To some inheritors, accumulated family wealth could be a useful resource in achieving their full potential and flourishing. The amount needed to “do anything” might just be “everything.”

Some may think, “Well, Elon Musk is not a good example. He is one in a billion and we can’t plan our estate on the possibility there will be an Elon in our family.” Okay, so let’s suppose instead the potential inheritor is an attorney who went to a top 25 law school and thereafter had a 20 year career as a litigator at a large law firm. She is by all accounts skilled and well regarded, has earned a good income and been financially independent. Suppose further that she comes to believe that women’s rights are under attack and in jeopardy. She concludes that all of her litigation experience has been for the purpose of starting her own firm – one devoted to pursuing women’s rights cases on a national basis, strategically selecting cases for the greatest potential impact. She has the experience, national network of connections, and committed passion to make a meaningful difference. Accumulated family wealth could be a useful resource to her in capitalizing the new firm and pursuing her vision. How much is needed to counter a national reversal in women’s rights?

Someone else might argue, “Where is the wisdom in allowing someone like Musk – a grand scale thinker and entrepreneur, to risk losing the family wealth on a risky venture? Perhaps some limits may be appropriate, but one of the advantages of having wealth is that it allows for risk taking that is often not possible for people with less resources. What better way is there to use family wealth than in opening the door to innovative and creative efforts? Parents want their children and descendants to be productive and engaged, and to be passionate about accomplishing something meaningful. Keeping wealth in the family where it can support and further these endeavors is, as the adage goes, “putting your money where your mouth is.”

Having access to family wealth in order to support innovation and creativity is an advantage that’s not available to much of the world’s population. Another possible pitfall of the “right sized” inheritance is that it potentially limits innovation and creativity and associated risk taking. The Musk story is again instructive. He thought that Tesla would likely fail, but that the goal – the viability of electric cars – was important enough to try. This type of risk taking, whether it’s in the for-profit space (like Musk with SpaceX and Tesla) or non-profit space (like the Bill and Melinda Gates Foundation and its pioneering work in the developing world), is by some measure limited to those of substantial financial means.

Consider another point related to Musk and SpaceX. Since 2013, Musk has considered the possibility of SpaceX becoming a publicly traded company. Yet his fear that the company would be used for near-term profit has caused him to reject any IPO.[3] After all, Musk wants SpaceX to have regular missions to Mars! He wants innovation and creativity to be at the core of his company, and his vision for SpaceX is on-going. In similar situations, preserved family wealth could strategically support such efforts. Families can simply choose to have a long-term investment horizon, which may not be possible with public or private equity investors. Again, the amount needed to "do anything" might just be "everything."

Finally, with respect to "right sizing," consider that the individual in the family who could most benefit in this manner from the family wealth may not even be known right now. It could be a child, but the need may not arise during the parent's lifetime. It could be a great-grandchild the parent never meets.

Future posts will develop the positive and inclusive approach that I suggest families consider – an approach that is not just for the uber wealthy, but for families of all means.

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[3] *See Generally*, SpaceX: This Is Why Elon Musk Will Never Have a SpaceX IPO, Profit Confidential (July 24, 2016).