The Pilot Light Trust™ Story

Learn from the John F. Kennedy's dad how to leave your money to generations hence…. in a way that helps them AND the money.


Father, Joseph Son

Much of what I am about to tell you about JFK's dad, Joseph Kennedy, I cannot prove, and the people who can verify it are unlikely to want to do so, as you will understand.

However the common sense of this view is unmistakable and most people in a position to leave significant assets behind grasp it fully.

There are two things that I think are true when it comes to money:

1) Accumulating a sum of money is not easy. In normal times in America most people can find work and pay their bills and even have a little "extra." But very few ever accumulate wealth because it's so hard to do.

2) For those few people who manage to accumulate wealth or a sum of money, when they pass it on the wealth is frequently scattered to the winds (in other words, squandered!) within a generation or two because the people who get it are typically the same ones who have trouble accumulating it in the first place. This is how our great system works.

JFK's dad knew this when he started accumulating some wealth, and vowed that it would not happen to his profits, which, according to legend, he made running liquor during prohibition. While the details are sketchy we know enough of them to confirm that when he left money to his children and grandchildren he left it to them in trusts. The reasons for this are probably the two I mention above. He didn't want the money dissipated, and he wanted it run by people who knew what they were doing so that his children and grandchildren could have the financial freedom to seek public sector occupations, including of course, President of the United States.

You may not have any interest in your children or grandchildren becoming President of the United States one day, but the wisdom Joe Kennedy used to deal with the money is obvious and applies to most all situations when money is being transferred between generations.

The Creation of Wealth

As you already know (or you wouldn't be reading this) the process of making money and keeping it, especially in larger amounts, is not an easy one.

I wish to compare that process to the starting of a fire.

To start a fire you need three elements: **Fuel**, **Oxygen** and **Heat**.

Likewise to create wealth you need three elements: **Opportunity**, **Life**, and **Money**.

You need the **opportunity** to create wealth. For Joe Kennedy it was perhaps prohibition; for Bill Gates, the invention of the PC; for you it might have been real estate prices or the successful creation or operation of a business. Some people create their wealth by taking the opportunity not to spend any (the wealthy school teacher scenario.) Whatever it is, there has to be opportunity before you can create wealth.

You need **life**. This is the imagination, desire, vitality, and perseverance to be able to save or create wealth. You cannot get wealthy when you are dead, nor can you do so if you have no real desire or energy.

You need **money** to create wealth. You don't need a lot and that is the wonderful thing about our system. Most of the largest fortunes these days, and even going back through the years, started with very little capital. Perhaps the capital for Steve Jobs' startup of Apple Computers was just his parents giving him a place to stay and letting him use the garage. This money might be referred to as "rent money" so that a young entrepreneur can work fewer hours in a low paying job and devote that much more time to his big idea.

The really big takeaway here, which I feel is key to the wisdom I am trying to impart, is that in our society it doesn't take a lot of money up front to be successful; in fact, I suggest to you that if one of your descendants has the **opportunity** and **life** to become really successful, giving them a lot of money up front may actually hurt their chances of success, as they may spend the money you leave them before they focus on making their own!

What your money <u>can</u> and <u>cannot</u> do for them:

Your estate or trust <u>cannot</u> give your children and other descendants, the "**opportunity;**" that they must find on their own and the good news is, it's everywhere. We are surrounded by opportunity!

Your estate or trust <u>cannot</u> give your children and descendants the "**life**" portion of the mix. They will get and use the imagination, desire, vitality, or perseverance from some other source or they won't. This may be one of those innate things where they either have it or they don't. Maybe they don't have it initially, but it comes later in life after a crisis or a big change.

The point I see here, and that Joe Kennedy and many other successful people like him have learned through the years, is that the most important thing (if not the only thing) that your estate plan <u>can</u> deliver to your heirs is the **<u>money</u>** it takes to get them started in life and to teach them to be independent. They will then have the chance to be financially successful if that's the course they choose.

If you agree with this even a little, then learning about the "Pilot Light Trust™"[1] is essential, as the only way the money is going to survive long enough to deliver the result I am speaking of to future generations is if it's in a trust.

Why is this trust called a Pilot Light Trust™?

A pilot light is that little tiny flame that is always burning in your furnace or other gas appliance, that allows the flame to be there when the fuel (the gas) and the oxygen are supplied. A pilot light keeps the spark there so that when you are ready to have your house heated, you can do so by simply turning on the fuel switch.

A Pilot Light Trust™ operates just like that. It keeps that little fire going by supplying a level of income to your heirs that they can use to start a fire (i.e. a business) or perhaps just subsidize them if that is what you want. We call it a Pilot Light Trust™ because it's designed to be there when it's needed, at some unknown time in the future.

This cash flow from the trust might be used by your heirs in a variety of ways:

- Take night classes to better their education
- Attend college or graduate school
- Start a small business or professional practice, or buy into one
- Make a small investment in someone else's business

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[1] A Pilot Light Trust TM is a type of Dynasty Trust, but with special control provisions.

- Get a job or career that they enjoy and are fulfilled by, but which offers low pay, because they get a supplement from the trust. (It's not ALL about money.)
- Perhaps the freedom to have more children or take a dream trip
- Or whatever ways you suggest in your 'Statement of Values,' (but more on that later)

How It's Done:

You set up a trust either outright or in your will. (You will need a lawyer!) That trust continues for a long time, and after you are gone it is managed by someone you designate to be the trustee.

The trust holds the bulk of your estate and the trustee, with your guidance, decides who gets what, how much they get, and when they get it, with all these decisions being made in such a way as to see that your desires are carried out. Any money not paid out stays in the trust and grows.

Because the trust isn't owned by any of your heirs directly (it's not their property, they are all just "beneficiaries" of the trust) the trust and the money that's in it are out of reach of some big dangers:

- Creditors- That's people suing them for who knows what?
- Their estate tax man
- Divorce settlements
- Poor investments made by someone who is not good at investing
- Reckless spending

Overall, the biggest thing that saves the money and makes the trust a good idea is that it causes the money to be less likely to be spent. While the trust will help support your heirs if that is what you want, it will generally do so in a way that preserves the money for future generations. People setting up these trusts generally don't want to have their children spending their entire lives not working and living the easy life with an unlimited expense account, so the trust can be set up in a way that prevents that.

Better Freedoms for the Heirs

Many people think that trusts like this lock up their heirs and remove their freedoms when it comes to getting their hands on the money. I argue that the only freedoms the heirs lose are ones that aren't good for them in the first place.
Examples of <u>bad freedoms</u> that the trust removes might include:

- The freedom to lose the money either by making bad investments or simply ignoring their investing responsibilities

- The freedom that the money will allow them not to have to work, grow and contribute. Sure, the trust will help them a little, but if set up properly, it will not give them a completely free ride in life. Such a freedom is generally a bad thing for people, often with very costly results.

- The freedom to think ill of themselves because they are undeserving of such privilege and therefore treat themselves with a lack of respect. (Believe it or not, this is actually a common result when people are simply given a vast amount of wealth outright.)

And while the trust takes away bad freedoms, it may provide some good new ones:

- The freedom to seek a career or vocation that suits them, with the knowledge that they have a source of some financial aid if their chosen career doesn't pay well. For instance, they can choose a vocation with low pay but high service, like teaching, police, military, clergy or similar, and they will likely get some help from the trust on an ongoing basis.

- The freedom to explore and experiment and find the particular vocation, business or employer that suits their needs and brings them the happiness and success they desire. This process may take several attempts, and the trust may help with that.

- The freedom from the headache and worry of managing the funds themselves, when they have not been trained to do so and don't have the necessary interest, knowledge, skills or even desire to take on that chore. If they do have such interest, there are many high-paying jobs for them out there!

- The freedom to fail. Sounds crazy, but you probably had that permission when you started out and maybe you failed a couple of times. If you vest your children with your wealth and they fail, in business or marriage or just in being a responsible investor, your wealth may be lost in that. Given the freedom to fail, they will learn a lot from the experience and have a richer life because of it!

Perhaps my rather extreme opinions on this strike a cord with you, perhaps not. I hope I have described the reasons why, if you want your money to last more than a generation or so, your only choice is really a trust. Now let's discuss the challenges of longer-term trusts and how the Pilot Light Trust™ overcomes these challenges.

Challenge #1: Who is going to be trustee?

This is a big question and the one that follows is even bigger. How will the successor trustees be picked over the years, and who will look over them?

Furthermore, if the trust you set up to last a long time (so that it's ready when the Steve Jobs in your family needs it!) it **will** have a bad trustee eventually; the odds favor that. So how do you deal with it when it happens? If you name a trustee who turns out to be a bad trustee, how easy is it to have them replaced?

Our Pilot Light Trust™ has what is called a "Trust Protector." They might also be named a trust advisor or another similar term. Their job is to replace trustees. If there is a problem with the trustee and the trust advisor sees it, the trustee can be replaced with a simple letter.

Conversely, a trust without such a trust protector would require court proceedings to have a trustee replaced, and if the bad trustee hires a lawyer to defend his position, his lawyer's fees will be paid for by the trust. That's a potentially bad outcome- but our trust protector solves this.

Putting in a trust protector is quite an improvement over most existing trust arrangements, and just the fact that a trust protector exists and can remove a bad trustee at the drop of a hat will keep most trustees in line, and keep their attention on the business of the trust. However, even that level of protection is still not enough to give me peace that the trust will be well run, because what happens if the trust ends up with a bad trustee AND the trust protector is oblivious to that and doesn't notice or care?

We need another protective measure in there that says that if the <u>beneficiaries</u> feel that the trustee is making poor decisions, and further- that the trust protector is asleep at the wheel, the beneficiaries have a way of replacing the trust protector.

In the Pilot Light Trust™ the beneficiaries have the right to plead to an arbitrary panel to make their case, and if they are successful, they get a new trust protector appointed. That new trust protector will then look at the work of the trustee and determine if they need to be replaced, and if so then the trustee will be replaced.

You may ask, "Why not let the beneficiaries just replace the trustee?" This is generally a bad power to give them, as that allows them to have too much influence over the trustee. You see, a trustee needs to make difficult decisions about distributions, investments and related matters that may from time to time differ from what a beneficiary thinks is the right choice. The beneficiaries are naturally going to have a subjective viewpoint, as they are the ones getting the money. The trustee needs to be able to remain objective.

<u>A case in point:</u>

As happened recently to the estate of a client of mine, his heirs had the power to changes trustees of a large trust he left behind. They thought that the trust should be more invested in real estate (because you can't lose money in real estate, right?), and pressured the existing trustee to do that.

The trustee wisely refused and the heirs, since they had the power to do so, found a replacement trustee who agreed with them and changed to that trustee, since he would permit the overemphasis on real estate. The result was not a pretty one. A lifetime of savings was damaged by a bad design and some well-meaning people.

We called what happened in that example '*trustee shopping*.' As the trustee gets paid for his services, there will always be a potential trustee who will be happy to agree with whatever the beneficiaries want (buying more real estate or whatever) if he is getting a new account.

Clearly, it is a bad idea to give the beneficiaries the power to directly change the trustees. This is like the checks and balances system that runs our government. Like them or not, these types of rules have kept our government functional for well over 200 years. Keeping checks and balances within the structure of your trust (i.e. not giving the beneficiaries the direct power to have the trustee replaced), will help keep your trust functioning well for many years.

With all this said, let's get back to the original question of <u>who should be your trustee?</u>

This is a complex question, but it becomes a lot easier one to answer when you know that they can be replaced quickly and easily if they start to lose interest in the beneficiaries. I have written a guide, <u>How to Choose a Trustee</u>. Any clients of mine are welcome to a complimentary copy of it.

Challenge #2: How do I know the trustee will make the same decisions that I would make?

Obviously, you can't know with 100% certainty that the trustee will always be as wise as you are and deal with your family and make decisions on their behalf with the same knowledge and experience that you would.

But you can help to make sure that happens as much as possible. You can do this by providing the trustee with your *statement of values*. Don't be scared of doing this; I have written such a statement, and I will be happy to share mine with you to give you a head start on doing this.

If the beneficiaries have this statement, along with the trust protector, and then the trustee makes decisions that are totally contrary to your ideals and views, the trust protector may replace the trustee as we described above.

We are designing a trust and administrative team that will last a long time so some flexibility is needed. A *statement of values* is not part of the trust, but a separate document to provide the trustee with guidance when the really tough decisions need to be made. It can't cover all things but can give them a taste for how you think and what kind of decisions you would make, and then the trustee is better equipped to do their best to interpret your wishes, given the challenges they face.

With the combination of a trust protector to replace the trustee, a way to replace the trust protector should that be warranted, and a *statement of values* that gives them and the beneficiaries a glimpse into your heart, mind and values, you have a Pilot Light Trust™ that will be there to help your heirs in a way that best enables them to be successful!

Challenge #3: Will I need an attorney to set this up?

Think of this not as a challenge but as a positive feature. You are setting up something that is intended to save huge sums of taxes and unnecessary losses, and allow your wealth, be it $500,000 or $1 billion or more, to last a very long time, benefiting your heirs, many of you may never know, as they won't even be born until after you are gone. But rest assured, they will know you.

With proper counsel, you will put your trust together to avoid estate taxes on succeeding generations, and to keep the money intact so that it can service your heirs for a long time to come.

Summary

Please consider a Pilot Light Trust™ as you make the choices of how to wisely leave your wealth to your children.

This type of strategy was used by Joe Kennedy, Benjamin Franklin and many other successful people and families to preserve their wealth for their descendants.

I used the analogy of a fire earlier to describe the accumulation of wealth. You found your own way of building your fire -your wealth- or you wouldn't be reading this. I am asking you now to design your plan so that the miracle of what you have accomplished, so rare in our society, can live on and help your heirs accomplish their own miracle. Pass the flame!

Perhaps what we are talking about is teaching your heirs how to fish, and not giving them a credit card! It's up to you.

Please contact me at cstoll@thewinningpoints.com for complimentary (for my clients) copies of my *Statement of Values,* that I prepared for my children, and my guide, How to Choose a Trustee.

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