

Assisting a venture capitalist transfer wealth to the next generation

The situation

Our client is a venture capitalist with a net worth of approximately \$80 million. We manage all of his non-venture capital and real estate investments, which total \$50 million. He and his wife established several trusts for their two children, including one for their adult son that terminated when he turned 35 and disbursed the assets to him. The assets in that trust totaled \$2 million. The son was single, but lived with a long-time girlfriend. Our client contacted his attorney and us shortly before his son turned 35, and instructed us to arrange for the assets to be transferred into a separate account for him. We asked our client to wait until we considered alternatives and he agreed.

The strategy

The son explained that he hoped to follow his parents' investment approach, and that he wanted us to continue as his advisor. We discussed his longer-term plans, including whether he and his girlfriend might marry soon. After a lengthy discussion, we explained to him that because California is a community property state, if he and his girlfriend married and then divorced, she may be entitled to as much as half of the money. Furthermore, we explained that the trust provided a layer of asset or creditor protection he would not otherwise have.

The son was not certain he wanted to give up control of the assets he was to receive. In addition, he did not necessarily want his father to remain trustee. We suggested that the son agree to extend the term of the trust until he was age 40 and reform the trust so that he could terminate the trust within 30 days of his 36th, 37th, 38th and 39th birthdays. Lastly, we recommended that he replace his father as trustee with a close friend of his father whom he respected.

Our continuing relationship

The trust was reformed as we suggested. We continued to manage the trust's investments, as well as his father's investments. The son and his girlfriend never married and no longer live together, the new trustee and the son have worked well together, and the parents were relieved that the first portion of assets they intended to transfer to their son remained his.