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For Law Firms, Newly Wealthy Startup Clients Bring in Big Business

Young wealth is fueling private-client practices in startup cities Across the country.

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The face of wealth in the United States is changing, at least in startup cities.

Hotbeds like the West Coast and Boston have seen a growing number of millionaires, and law firms in those regions are reaping the benefits from their private–client practices.

"The volume of work that we're doing is up tremendously, and it's up tremendously based on these new startup business owners," says Jeffrey Roberts, chair of the private-client department at Boston-based Nutter McClennen & Fish.

In a 2017 ranking of U.S. cities by percentage of millionaire households, San Francisco and Boston both landed in the top three, thanks to their dominance in the ever-evolving technology and biotechnology industries, respectively. Last year, there were 22 IPOs of Boston-area companies and 34 Bay Area IPOs, according to media reports.

In the midst of all that activity, private-client lawyers based in Boston and California say local startup successes have made their practices busier and their client base younger.

"As the public markets have blossomed in the past 20 months or so … I think you're really going to start seeing more clients at a younger age," says Andrew Erskine, a partner at Orrick, Herrington & Sutcliffe in Santa Monica, California, who works in the technology companies group.

Mitchell Edwards, a 33-year-old at Coblentz Patch Duffy & Bass in San Francisco, says under-40 clients with "new tech wealth" often need a bit more guidance than clients who come from multiple generations of money, shaking up the private-client practice.

Wealth With a Conscience

A lot of private-client work for entrepreneurs is bunched around IPOs. And 2019 is expected to be a blockbuster year for high-profile businesses going public.

Genevieve Larson, a private-client and tax partner in the San Francisco office of Withers, says she and her colleagues "like to get ahead of it," doing what they can to prepare founders before their companies go public—especially since they may have less-than-traditional intentions for their money.

"We're going to find in this industry that the new wealth is going to have a lot of education, [and] likely will have different goals than the generational wealth had, because it has a new way of thinking about money," Larson says.

Part of that perspective, according to Brian Bixby, co-chair of the private-client group at Boston-based Burns & Levinson, is the result of having gone from negative net worth to multimillionaire status "overnight."

"We've traditionally done a lot of estate planning for people who took many years or many generations to build up wealth," Bixby says. "Now we're seeing people where … it's all of a sudden built up over 10 minutes."

Most newly wealthy startup founders aren't thinking about passing on their assets—many of them haven't even started having children.

"[When] you're 30, the thought of death and planning for the next generation is a little bit further removed," Larson says.

Instead, charitable giving and socially responsible investing are becoming more prevalent topics of conversation in private-client practices.

"I've seen the owners of companies that were startups, but had liquidity events or a few years under their belts, become incredibly philanthropic," says Matt Hillery, a director at Goulston & Storrs in Boston who practices in the private-client group.

Hillery says a lot of his practice involves helping business owners make charitable donations and gifts in the most beneficial way.

"The younger generation in general is more activist," Roberts, of Nutter, says. He notes that high-profile business leaders like Bill and Melinda Gates, Warren Buffett and Mark Zuckerberg have contributed to greater awareness of how businesses can get involved in social issues.

Charitable giving also can be an attractive option for the tax deduction, Bixby says, especially for individuals who acquired wealth in one fell swoop.

Erskine, of Orrick, says the increased interest in charitable giving is characteristic of the millennial generation and unsurprising, given the culture of corporate responsibility overtaking the startup community.

"Many of them have built companies where they perceive social good to be at the heart of the company's mission," he says.

But even more so, he says he's seen a change in the last five or six years in how founders immediately invest once they reach liquidity—they still tend to stick with what they know, keeping their money in tech. But, instead of just starting a new company on their own, they're increasingly jumping to the investor side.

"It's happening in the Bay Area, it's happening in New York, it's happening everywhere," Erskine says.

Growing Complexity

Startup owners aren't just giving money away. They bring with them a number of other estate planning issues, like succession planning for their businesses, unique tax questions, and liquidity issues—since many of these clients have their wealth tied up in the business. It requires lawyers to help them predict the future.

"For a lot of startup owners, especially if there has not been a liquidity event yet, they have paper wealth, and they haven't reaped the benefit yet of all their hard work," Hillery says.

He says "the estate planning has to mesh with the client's stage in life and lifestyle."

A lot of young entrepreneurs want to retire early, Edwards says, so they're thinking about how to live off their quickly acquired wealth for a longer period. Sometimes that involves planning to leave California for a more tax-friendly state.

But, Roberts notes, taxes are only the beginning of the discussion.

"The trend is away from tax as the be-all, end-all," Roberts says. "We're seeing much more complicated work and much more time-intensive work with our clients as a result, because they're now focused on other issues."

Entrepreneurs tend to want more day-to-day involvement from their lawyers, as they seek "holistic" advising relationships, Roberts says.

Similarly, Bixby says Burns & Levinson has benefited from more cross-selling opportunities as some young entrepreneurs seek to keep all their legal needs under one roof. And in each of those areas, they're seeking more frequent advice. That's a departure from the past, he says, when clients would have discussions with their estate planning attorneys by appointment.

"It was a big deal, and the next time that would happen would be several years later," Bixby says. Now, by contrast, "we're seeing more communication, but it doesn't mean face-to-face appointments."

It means a lot of emails back and forth between lawyer and client—and the client expects an answer right away.

"They're OK with being charged [for the extra time], but then they expect you to drop in and give meaningful advice," Roberts says. "They want you to be a part of their advising team and to weigh in, and just like any other adviser they might take your advice, they might not, but they want that regular advice."

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