

Beware if your estate plan leaves specific assets to specific heirs

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Planning your estate around specific assets is risky and, in most cases, should be avoided. If you leave specific assets — such as homes, cars or stock — to specific people, you may inadvertently disinherit them.

Illustrating the problem

Let's say Debbie has three children — Abbie, Mary Kate and Lizzie — and wishes to treat them equally in her estate plan. In her will, Debbie leaves a \$500,000 mutual fund to Abbie and her home valued at \$500,000 to Mary Kate. She also names Lizzie as beneficiary of a \$500,000 life insurance policy.

When Debbie dies years later, the mutual fund balance has grown to \$750,000. In addition, she had sold the home for \$750,000, invested the proceeds in the mutual fund and allowed the life insurance policy to lapse. But she neglected to revise her will. The result? Abbie receives the mutual fund, with a balance of \$1.5 million, and Mary Kate and Lizzie are disinherited.

Even if Debbie continued to own the home, it could have declined in value after she drafted her will (rather than increased), leaving Mary Kate with less than her sisters.

Avoiding this outcome

It's generally preferable to divide your estate based on dollar values or percentages rather than specific assets. Debbie, for example, could have placed the mutual fund, home and insurance policy in a trust and divided the value of the trust equally between her three children.

If it's important to you that specific assets go to specific heirs — for example, because you want your oldest child to receive the family home or you want your family business to go to a child who works for the company — there are planning techniques you can use to avoid undesired consequences. For example, your trust might provide for your assets to be divided equally but also provide for your children to receive specific assets at fair market value as part of their shares. If you have questions regarding the division of your assets to your heirs, please contact us. We can review your plan and address your concerns.

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