

Leaving specific assets to specific heirs is an estate planning no-no

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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 a home, a car or stock — to specific people, you could end up inadvertently disinheriting someone.

Unintended consequences

Here's an example that illustrates the problem: Kim has three children — Sarah, John and Matthew — and wishes to treat them equally in her estate plan. In her will, she leaves a \$500,000 mutual fund to Sarah and her \$500,000 home to John. She also names Matthew as beneficiary of a \$500,000 life insurance policy.

By the time Kim dies, the mutual fund balance has grown to \$750,000. In addition, she has sold the home for \$750,000, invested the proceeds in the mutual fund and allowed the life insurance policy to lapse. She didn't revise or revoke her will. The result? Sarah receives the mutual fund, with a balance of \$1.5 million, and John and Matthew are disinherited.

Safer alternatives

To avoid this outcome, it's generally preferable to divide your estate based on dollar values or percentages rather than specific assets. Kim, 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 help ensure that outcome while avoiding undesirable consequences. For example, your trust might provide for your assets to be divided equally but also for your children to receive specific assets at fair market value as part of their shares.

Please contact us for additional details on planning strategies that can help ensure your assets are distributed as you wish without causing unintentional consequences.

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