

Are your children prepared to handle your wealth?

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If you've built up a large estate and are eager to share your wealth with your children, you may be concerned about their ability to handle it. Fortunately, there are steps you can take to help ensure they won't blow through their inheritance at a young age.

Build incentives and flexibility into a trust

An incentive trust is a trust that rewards children for doing things that they might not otherwise do. Such a trust can be an effective estate planning tool, but there's a fine line between encouraging positive behavior and controlling your children's life choices.

Incentives can be valuable if the trust is flexible enough to allow a child to chart his or her own course. A so-called "principle trust," for example, gives the trustee discretion to make distributions based on certain guiding principles or values without limiting beneficiaries to narrowly defined goals.

Consider distribution amounts and timing

Many parents take an all-or-nothing approach when it comes to the timing and amounts of distributions to their children, either transferring substantial amounts of wealth all at once or making gifts that are too small to provide meaningful lessons.

Consider making distributions large enough so that your kids have something significant to lose, but not so large that their entire inheritance is at risk. For example, if your child's trust is worth \$2 million, consider having the trust distribute \$200,000 when your son or daughter reaches age 21. This amount is large enough to provide a meaningful test run of your child's financial responsibility while safeguarding the bulk of the nest egg.

Make your legacy last

If you plan on leaving a sizable amount of your estate to your children, consider incentive trusts and be smart with your distributions to them. Please contact us to learn additional strategies to prepare your children for their inheritance.

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