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A plan for preventing children from squandering an inheritance



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The Parable of the Prodigal Son is a biblical story that is referenced often in the context of family estate planning. In short, the story is about a compassionate father and his two sons —one prodigal and one faithful.

The prodigal son demanded his inheritance, then squandered it only to return home in disgrace, but received his father's embrace and celebration upon return. The faithful son was upset about the celebration because his father had not given him a similar celebration. The father reminded the faithful son that he would inherit the father's entire wealth because of his faithfulness.

This story raises two key questions that most families deal with when developing an estate plan. Will children squander their inheritance, and should children receive equal shares of an estate regardless of their relationship to the parents?

For children, an inheritance can be like winning the lottery. It's "free" money that was not earned, so it is easily spent without regard for future needs.

The best way to address the potential of squandering wealth is to establish a trust either while living or at death (testamentary trust through a will) that places stipulations on the timing and amounts of the estate that children can receive after death.

Distribution schedules can range from immediate to waiting a lifetime and everything in between. You can control your wealth from the grave however you'd like, but the most common schedule I have seen implemented in practice is outright distributions of one-third of the estate at age 25, one-half of the estate at age 30, and the remainder at age 35.

By this time, the hope is that the child will be financially stable and free from any creditor issues. This type of planning also adds assurances that the family money stays in the bloodline and out of any unintended hands such as in-laws or others.

The parable also touches on the rights of beneficiaries. According to Jewish law of inheritance (Deuteronomy 21:17), the firstborn son receives two-thirds of the inheritance and younger son receives the remaining one-third. This unequal distribution came with the stipulation that the oldest son would take care of the aged parents.

Today if you die without a will, then the intestate laws set by each state apply. In both Kansas and Missouri, these rules state that children are to receive their respective shares in equal parts. If you die with a valid will or a trust, then intestate rules do not apply and the will or trust dictates allocable shares to children.

The question of whether to favor one child over another, or even disinherit a child altogether, is a deeply personal decision that requires a well-drafted plan preferably with the help of legal counsel and a Certified Financial Planner™ professional.

Most families have complicated situations that require tough decisions (e.g., problem/estranged child, children from multiple marriages, etc.). Without an estate plan with properly executed documents, these issues may not be dealt with appropriately and result in unintended outcomes.

Remember, it's your money. If you can't enjoy it, make sure you have a plan in place for those loved ones who will.

Dan Mathews is a Wealth Manager with Creative Planning, Inc. He works directly with clients to develop and implement a strategy to address their financial, investment, tax and estate planning needs. Dan is currently one of a select group of CFP Board Ambassadors throughout the country, whose mission is to provide personal finance resources to the community, policymakers and local media.



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