

Trusts for children

There is a new message that the very wealthy are delivering to their children, a message heard more and more often. And it is a message that could just as well be delivered to the children of parents with somewhat more humble accumulations of assets.

To state it bluntly, the message is: Don't automatically assume, kids, that we are going to leave it all to you. Or: Though you may get it, it may be later rather than sooner—and with a few strings attached.

What are the concerns that have led many parents to reconsider their children's legacies? None are that unusual. One oft-expressed concern is that a child's inability to handle money or a freewheeling approach to spending is likely to mean that he or she will squander an inheritance. Another is that the child will use an inheritance to support a lifestyle that his or her parents find unacceptable. When an inheritance is substantial, sometimes parents feel that handing over a large sum will sap the child's ambition.

The most radical approach for the very rich is to leave their offspring with only a small percentage of the family wealth; the rest usually goes to charity. (The perfect amount to leave children, said Warren Buffett, is “enough money so that they would feel they could do anything, but not so much that they could do nothing.”) But for the less wealthy, the concern is not how much the children will get but when they will get it.

The simplest solution is for parents to structure a child's inheritance by using a trust. By setting up a trust, and making specific provisions in the trust agreement, parents may be able to make the kind of arrangements that will put them at ease about the financial future of their children.

For example, the age at which the child receives his or her inheritance may be set forth in the agreement. While a bequest in a will becomes operative upon death, a trust agreement can specify that a child receive only income from the assets in the trust until the child is a certain age—25, 30 or older. Or, the agreement may specify that payments from the trust fund, along with trust income, be spread out over a number of years.

Language may be included in the trust agreement to allow a child to use trust funds for approved purposes; typically for “health, maintenance, welfare and education.” On the opposite end of the spectrum, parents may want the funds to be untouched; some states allow

the insertion in the trust agreement of what is known as a “spendthrift” clause, prohibiting the child from borrowing from the trust fund.

Sometimes parents establish “incentive trusts,” which may match or double the income a child receives from his or her salary. The trust agreement also may provide that trust funds will be paid to a child only if he or she achieves a particular objective, such as obtaining a college or professional degree or holding a job for a certain number of years.

A word about trustees

A trustee is responsible both for the investment of trust funds and for carrying out the provisions in the trust agreement. Naming a professional trustee, such as our institution, ensures not only professional management of trust funds but also can avoid putting a family member or friend in the uncomfortable position of dealing with a child who is frustrated by his or her parents’ decision about an inheritance. An appointment with a trust officer will allow you to explore the many possibilities for the distribution of family assets with the help of a professional trustee.

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Any developments occurring after January 1, 2009, are not reflected in this article.