



Five Reasons to Never Give an Outright Inheritance to Your Children - and What to Do Instead!

If you're like me, you want to leave an inheritance for your children. It's likely part of what you are working so hard to do. But, far too often, the way we leave those inheritances actually does more harm than good. Something no parent wants.

Giving outright ownership of our assets to the kids could put everything you've worked so hard to leave behind at risk. Why, how and what can you do about it?

Let me share with you the five reasons leaving an outright inheritance to your kids is a mistake and how you can protect your kids' inheritance for many, many generations.

1. Your Child's Future Divorce

According to current statistics, forty-two percent (42%) of our children will divorce during their lifetime. In most divorces, property is divided evenly. So, if you have a married child, or a child who will get married in the future, and you leave them an inheritance, and they later divorce, as much as half of their inheritance could go to their ex-spouse. You aren't working as hard as you are to support your child's future ex-spouse, right? Good news, there is an alternative!

2. Extreme Debt/Bankruptcy

Your child may incur such extreme debt that the only possible relief will come through bankruptcy.

Possible causes of such debt are a business venture gone bad, large debts from health care costs, treatment for mental illness resulting from addiction or an accident that leave someone impaired, or a disease that results in either a temporary or permanent inability to work in combination with staggering medical bills.

It is a sad fact of life that bankruptcy happens to good people. Fortunately, you can ensure that the inheritance you leave behind will never be at risk due to a mistake or health issue.

3. Lawsuit

Unintended neglect that injures someone's person or property could wipe out an inheritance you leave your children. For example, ACE Financial Services, Inc. in 2012 found these lawsuit judgments:

- \$49 million in California for an automobile accident where the family of 21-year-old college student sued drivers of two vehicles involved in the multi-vehicle crash. The plaintiff's counsel claimed one defendant was sleep-deprived, while the other was on their cell phone. The plaintiff was in a coma for one month and is expected to require lifetime 24-hour care.
- \$11.9 million in Florida for an internet defamation suit brought by a Florida consultant against a Louisiana woman for posting defamatory statements about the plaintiff on an internet bulletin board. The defendant called the plaintiff a "crook" and a "fraud."
- \$5.9 million in Maryland in a dog-bite case where a 16-month-old child was attacked and killed by a pit bull kept at the home of a family friend.
- \$20 million in Florida for an ATV accident where a teenage male was killed while riding an ATV on the neighbor's property. The neighbor had invited him to drive the ATV, permitting him to operate it without proper safety equipment and without adult supervision. The teenage male struck a fence and was decapitated.

In the Florida ATV case, the defendants thought they were doing the neighbors' son an act of kindness by allowing him the "fun" of driving the four wheeler around the family property. Apparently, they didn't tell the young man about the barb wire on the property. Their well-intentioned neglect, resulting in the decapitation of their neighbor's son, was viewed positively by the court, who ordered the \$20 million judgment.

A fellow estate planning attorney her friend, who called because he accidentally left a faucet running at a friends' house where he was visiting and the resulting flood caused \$413,000 in damage that the insurance company is now looking to collect. If he had an inheritance, it would be wiped out by this potential claim.

As we can see, well intended, but neglectful behavior on the part of your children could wipe out any inheritance you leave them.

4. Mismanagement

Many clients do not trust their children to manage money. This could mean that their children are spendthrifts, unwise investors, or easily manipulated out of the money. And, the statistics support this for nearly 20% of inheritors.

According to Prof. Jay L. Zagorsky of Ohio State University, 40% of individuals inheriting less than \$100,000 will spend or lose the entire inheritance and 18.7 % of individuals who inherit more than \$100,000 will spend or lose the entire inheritance. It's quite likely

that if that inheritance was left in a different way those numbers would greatly improve. I'll share more with you about that below.

5. Lost Work Ethic:

It's been said that "some people can't handle prosperity." It's true; in fact, most people cannot.

For example, Thomas Stanley and William Danko in their book, The Millionaire Next Door, uncovered research showing that children who received an inheritance were worth four-fifths less than others in their same profession who didn't.

Vic Preisser, of the Institute for Preparing Heirs, says that unprepared children who inherit money are susceptible to excessive spending, identity loss, and guilt over receiving money they didn't earn. Preisser says, "In a year to 18 months, everything falls apart -- marriage, finances -- and if there is a drug problem it becomes worse." Consequently, leaving an outright inheritance to our kids may do harm instead of good. But there is an alternative!

As we can see, an outright inheritance is NOT the best answer for your kids.

Most lawyers would tell you that the answer is to leave your kids' their inheritance in a Trust and they'd be right, but they would likely still distribute that Trust outright to your kids at specific ages or stages.

We've got a plan for your family that is far, far better.

The Alternative

An alternative to an outright inheritance to your children ("outright" meaning they both personally own and can personally lose the inheritance) is to gift your assets to your children at the time of your death via a **Lifetime Asset Protection Trust**.

A Lifetime Asset Protection Trust can be drafted to give your children full control of their inheritance (if you choose), but ensure they never own the inheritance. And because the rule of law is you can't lose what you never owned, you are gifting your children with airtight asset protection, of the kind they couldn't give themselves at any price.

When you gift an inheritance to your children via a Lifetime Asset Protection Trust, the trustees of the trust own the property, not your children. Thus, if your children ever get divorced, file bankruptcy, or are ordered to pay damages in a lawsuit, they can't lose the inheritance, simply because they never owned it.

You can use the Lifetime Asset Protection Trust as a vehicle for educating your children about investing, giving, and even business by allowing them to become a co-trustee of the Trust, with someone you've chosen and trust to support their education.

And you can even build in provisions to allow your child to become the Sole Trustee of the Trust or the right to become Sole Trustee at specific intervals, as well, giving them effective full control without the risk of ownership.

There are quite a few nifty additional ways we can structure this trust to meet the needs of your unique family and children.

When you come in for a Family Wealth Planning Session, if you desire to provide the most airtight form of asset protection for your child, and set up a structure that incentivizes them to invest and grow their inheritance rather than squander and waste it, we will discuss all the options with you then.

One of the benefits of a Family Wealth Planning Session is that you will get more financially organized than you ever have been before and understand all of the options for ensuring everything you are working so hard to leave behind to the people you love is handled with the ease, grace and care you desire.

This article is a service of John W. Heck with the Heck Law Firm, your Personal Family Lawyer® who develops trusting relationships with families for life. That's why we offer a Family Wealth Planning Session™ where we can review your family wealth needs and help identify the best strategies for you and your family. You can begin by calling our office today to schedule a time for us to sit down and talk because this planning is so important.