R. J. Kelly
Founder & Chief Visionary Officer
4540 Kearny Villa Road, Suite 114
San Diego, CA 92123
Email: rj@wealthlegacygroup.com
Office: (858) 569-0633
Toll Free: (800) 975-5355
Fax: (858) 333-4942
License: CA #0697059

Estate Distribution Options for Beneficiaries

Today, with the size of the Federal estate tax exemption ($11.7/$23.4 million if single/married), a frequent question I am asked – and ask – is "how much is enough?" That is, just because parents can pass $23.4 million to their children free of Federal estate tax, should they? This is an important issue to think through carefully, especially if you are philanthropic or charitably minded.

As important as the above issue of how much to our children or heirs, is *how* and *when* to distribute assets to them. At what age or ages are your children/beneficiaries emotionally and financially mature enough to receive a sizeable distribution of assets? There are various ways to distribute your assets, but in general, the options can be broken down as follows:

- **Outright distribution**—the beneficiary receives their entire share of estate assets after you die. This is frequently the least attractive idea (although commonly done) and invariably leads to very poor outcomes. According to MetLife (*Paycheck or Pot of Gold Study* published April 2017), those receiving a lump sum distribution exhaust the money in only *5 ½ years*

- **Installments at Certain Age Milestones**—a common formula is 1/3 of assets at age 35 (or 40), 1/2 of assets at age 40 (or 45), and the balance of assets at age 45 (or 50). Using this option breaks the distributions into smaller "bites" that are easier to handle. As well, if a portion of the inheritance is lost due to creditors, divorce or other reasons, there will be another "bite out of the apple" coming

- **Discretionary**—you leave all your assets in a "discretionary trust" for the benefit of each beneficiary. The Trustee can pay expenses related to the beneficiary's health, education, maintenance and support. Depending on the language used in your Living Trust, you could also have the Trustee purchase a home, motor vehicle, vacation property, etc. or even pay for business startup costs for the beneficiary. This option protects the assets against loss due to divorce or creditors and keeps them free of Federal estate tax (and State inheritance tax if there is one in their state or country of domicile). As well, should a beneficiary develop an addiction or adopt a lifestyle that is unsafe, the Trustee can work with the situation to provide safe lodging, counseling or provide for recovery options

- **Combination of the Above Options**—you can combine the options listed above in any way you desire. For example, you could say that your children/beneficiaries will receive $X upon your death, and then will receive installments of 1/3 of the remaining assets at ages 30 and 40, and the balance of assets at age 45. Or, my favorite combination is to have an outright distribution, but have the bulk of the assets held in trust … where it is kept safe from creditors, divorcing spouses, and the IRS and can be kept protected for generations without erosion. The beneficiary(ies) have the right to change the institutional Trustee for any reason, but only for a new institutional Trustee … not their surfing or golfing buddy

A good friend from an enormously wealthy family once remarked to me, "Money is neither good nor bad. It is 'amoral.' It either makes good parenting better … or bad parenting worse." Having outright distributions or even distributions over time has led to more "bad outcomes" than having money protected and used thoughtfully for the benefit of the beneficiaries. Additionally, when parents are involved with the process of teaching the usefulness of money as a tool – and not a crutch – it has the best possible outcomes … for generations to come.