

Sometimes, heirs just don't follow the family tradition

"The best-laid plans of mice and men ..."

Well, I don't know about mice, but the plans laid by Mom and Dad are not always followed even when Mom and Dad have spent the time to teach their children how to follow them.

A clash of family values may be relatively minor, such as a difference of opinion regarding whether charitable giving is important or which charitable causes each family member chooses to support.

Alternatively, parents may be worried that their children will not learn the value of hard work and accomplishment if they are handed wealth on a silver platter. Other differences are more concerning, such as when a child has an addiction or is a spendthrift.

These issues can be very distressing for parents as they consider their estate plan and they are far from uncommon. So what are parents to do when faced with the dilemma of how much (if any) inheritance to leave a difficult beneficiary?

If you find yourself in this situation, do not despair. There are several options, many of which include your favorite charity, that result in a positive outcome for all involved.

WHEN CHARITABLE VALUES ARE NOT IN SYNCH

In the situation where family members have different charitable values, a private family foundation is an excellent option. In short, a private foundation is a nonprofit created and controlled by an individual, family or business. Involving family members in philanthropy is an important motive for setting up a private foundation, as children and other family members can serve as foundation officers and directors.

Once the foundation is established, board members make annual decisions on how at least 5 percent of the foundation assets will be gifted. This allows for giving to multiple charities for multiple purposes with the flexibility to change donations from year to year.

If the children are not charitably inclined, the annual gifting can help nurture charitable values. When family members disagree about where charitable dollars should be spent, the foundation meetings provide a valuable platform for debate. If the board does not reach a consensus, individual family members can be given a grant budget to gift to the organizations they choose.

HOW MUCH IS ENOUGH? SECURITY VS. LUXURY

Many successful parents are concerned that leaving a large amount of money to their children will deprive them of a sense of purpose. Parents want to give their children a hand, but don't want to deprive them of the pleasure of making it on their own.

At the same time, parents may be deeply committed to their favorite charity and would like to take advantage of the tax benefits of charitable gifting.

Although some parents may choose to leave the bulk of their estate to charity rather than spoil their children, many prefer to ensure their children are taken care of during their lifetimes. A charitable remainder trust can address parents' dual concerns of providing for their children's security and supporting their favorite charity.

Consider Mr. and Mrs. Brown. As a result of their hard work and frugal ways over the years they have accumulated a



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large amount of wealth. Two of their three children are successful and working in their chosen profession, but the third is a bit of a slacker. He is able to provide for himself, but is used to being taken care of and believes his inheritance is his due.

The Browns are worried that if they leave their son with a big lump sum of money, he will never have the motivation to find and follow his dreams. They are also grateful to their local hospital,

where Mrs. Brown was successfully treated for breast cancer.

Instead of leaving an outright bequest to their son, the Browns set up a charitable remainder trust with their son as beneficiary. The trustee will manage and invest the trust funds and pay the son quarterly income payments for life.

Although the son will enjoy receiving regular and dependable trust payments, he will not be able to access the trust principal. This should encourage the son's motivation to build his wealth outside of the charitable trust.

Upon the son's death the trust assets will pass to the local hospital, which has meant so much to the Browns. The charitable trust also qualifies for special tax treatment and may provide additional benefits such as income and estate tax savings.

THE SPENDTHRIFT

On occasion, children grow up with little or no sense of living within their means. For these individuals an outright gift is not likely to last long. Therefore, language within the trust limiting their access to distributions may be the only way to ensure the funds will continue to be a resource for them. The language may limit annual distributions to a finite number, or for specific needs such as medical expenses or insurance.

The language in the trust may also restrict the beneficiary's ability to pledge the trust assets to creditors, possibly protecting them from themselves.

Let's examine Colleen. Colleen was always "Daddy's little girl." Daddy could never say no to Colleen. Not surprisingly, Colleen grew up with no budgeting skills and a sense that no matter what debt she incurred, no matter what trouble she got herself into, and regardless of her income, Daddy would always bail her out and take care of her.

Once Daddy passed, Mother soon realized the monster they had created. Knowing that the estate would never be able to support Colleen's spending habits, mother set up a trust for her daughter to include distributions only for health, education and support.

She further described each category to limit the distributions to those things that were truly "necessary" and not merely desired. The trust accomplished the desire of Mother and Daddy to pass their estate on to Colleen and ensures she will always be taken care of. Colleen won't be happy, but maybe she won't be homeless either.

Estate planning options for families with conflicting family values are as varied as the families themselves. With creativity and forethought, the right balance can be struck for the good of all concerned.

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