



Estate Planning for Blended Families



THE SHARPE GROUP



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It is estimated that more than half of all Americans have either been, or will be included in a blended family during their lifetime. A blended family is a family unit where one or both parents have children from a previous relationship. It can be hard to navigate the complexities of these different relationships and the death of a spouse can create even more complicated financial and emotional issues. The key to minimizing stress on any family members and heirs is a well thought out estate plan that makes it possible to honor your spouse and provide an inheritance that is protected for your own children.







Planning Discussions with a Blended Family

Not only are the financial issues for blended families more complex, but the emotions around those decisions can be even more intensified. Especially when you are dealing with the competing interests from your own children, stepchildren and a new spouse. Participating in family conversations early and often can better prepare everyone for what may come in the future.

Three Steps to Consider in the Planning Process

- 1** Have a discussion with all the members of your family on topics such as: guardianship, long-term goals, finances, and other contractual obligations.
- 2** Compile a list of individuals you want to be named in your documents including: individuals to serve as agents during your incapacity or upon your death and individuals whom you wish to receive your assets and possessions.
- 3** Consider the intended amount you want each party to receive, taking into account the financial needs of surviving spouses, young children and other dependents.

The Parties Involved in These Discussions Can Include

A surviving spouse

Children from the blended marriage



A former spouse

Children from a previous marriage



Next Steps in the Engagement Process

Once you have a basic overview of your goals, engaging in a collaborative discussion with your Financial Professional and Estate Planning Attorney will help guide your decisions. Here are a few common topics that may arise when you are having these conversations:



Setting up a Trust

One way to avoid disinheritance is by placing some or all of your assets and property in a trust. Establishing a trust will allow you to provide for your spouse during their lifetime, and when your spouse passes away, anything documented in the trust will be distributed to the children accordingly.



Trustee Selections

Choosing a trustee to manage your estate is a very important decision. Your trustee will oversee your assets in the event you become incapacitated. Upon your death, they are responsible for ensuring that the remaining assets are passed to your loved ones as directed. Most often a family member, friend or a professional such as a lawyer or accountant is chosen for this role. The person you consider should be trustworthy, financially capable and one who will understand your family's dynamics. It is important to consider how trust beneficiaries will respond to the designated trustee, and how all parties may interact together, especially during an emotional time.



Living Wills and Powers of Attorney

Any complete estate plan will incorporate a living will, healthcare power of attorney, and durable power of attorney. A *living will* is a document detailing your medical wishes should you become incapacitated. A *health care power of attorney* is someone you designate to make medical decisions on your behalf if you are unable to do so. A *durable power of attorney* is someone who handles your financial affairs when you no longer can. Individuals will often name their spouse, but in blended families it can become more complicated. Whether your family is blended or not, it is important to choose someone who is trustworthy and will provide an unbiased approach when dealing with family members.



Updating Important Documents

In addition to having a will or trust, other accounts and policies will require beneficiary designations. It is important to regularly review these designations to make sure they are up to date. Important life events such as marriage, divorce or birth of children or grandchildren should prompt a beneficiary review. One way to avoid probate is to designate beneficiaries for assets that will automatically pass upon your death.

These may include:

Bank Accounts

Brokerage Accounts

Life Insurance and Annuity Policies

Retirement Accounts



Home Ownership

If you own your home jointly with your spouse, upon either spouses passing, the full value of the home would transfer to the surviving spouse. If you own your home individually, upon your death, it would transfer as directed in your estate planning documents. If you do not have an estate plan it would be passed to your next of kin. If you have concerns about disinheritance after your passing, you can also consider establishing a residence trust. A residence trust allows the surviving spouse to live in the home during their lifetime, but upon their death, the home would be distributed to the beneficiaries of the trust.



Tangible Property

In addition to the financial components of an estate, there are sentimental items that may have little to no monetary value, but can often cause the most contention among family members. It is important not to overlook these items in your planning. If certain possessions are jointly owned with your spouse, and you have children from different marriages, it is important to designate who would be the recipient of these possessions in your estate plan.



Estate Planning Strategies to Protect Your Family and Assets

As family dynamics become more complex, so do the intricacies of creating an estate plan. Depending on a family's individual needs there are different strategies that can be used to create a successful plan.

Irrevocable Wills

Couples can execute an agreement not to revoke their wills without each other's knowledge. The intent with this agreement is to avoid a situation in which a surviving spouse immediately executes a new will that leaves everything to their children, excluding the deceased spouse's children.

Irrevocable Life Insurance Trust (ILIT)

An Irrevocable Life Insurance Trust is a type of trust set up to own a life insurance policy. The trust is typically designated as the primary beneficiary, and when the insured dies, the death benefit is deposited into the ILIT. It is then held in the trust for the benefit of the individuals named in the trust document. ILITs can be an attractive option for blended families seeking to reduce estate taxes and treat surviving spouses and children fairly.

Qualified Terminable Interest Property Trust (QTIP)

A QTIP trust is commonly used by individuals who have children from a previous marriage. This type of trust is setup to provide income to a surviving spouse, while avoiding disinheritance of the heirs of the deceased spouse. This allows individuals to maintain control of the ultimate disposition of their assets to ensure that the wealth remaining upon the death of the spouse is distributed for their own children, or other designated beneficiaries.

Spendthrift Trusts

If you have any concerns about a child or spouse spending down their inheritance quickly, a spendthrift trust could be a solution. This type of trust puts restrictions on the beneficiary's access to the trust principal. The beneficiary will generally receive benefits from the trust through the named trustee, often in the form of regular payments from the trust. How the trustee makes payments to the beneficiary is determined by the terms of the trust.

Special Needs Trusts (SNT)

This type of trust is established to separate assets from a special needs individual in order to maintain eligibility for benefits such as Social Security Income (SSI) and Medicaid. It is funded at the death of the individual who cares for the individual with special needs. The assets pass to the trust, thus avoiding being owned by the special needs individual. The proceeds from this trust will typically be put towards medical caretaker expenses, and the trustee will supervise the distribution and management of the funds.

Pre- and Post-Nuptial Agreements

One way of avoiding competing interests in a blended family is to set out your intentions for your estate plan in a prenuptial agreement. These documents can be a very important component as they can direct the distribution of assets, waive a spouse's right to his or her elective share, and can assist in providing an orderly transition following death or divorce.

The most successful estate plans incorporate the proper documents alongside open communication. Engaging in conversations often and in advance with spouses, children, step-children or other heirs can help to ensure a successful transition of assets for all members of a blended family.

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