



ESTATE PLANNING FOR BLENDED FAMILIES

Strategy Summary

The evolution of the family structure poses new challenges—traditional estate-planning techniques are no longer as effective in addressing the needs of today's blended families.

What is a Blended Family?

- A family in which one or both spouses have merged assets and children from a previous marriage.

Why Does a Blended Family Need an Estate Plan?

- **Not Having a Plan is Problematic.** State law provides everyone with a default estate plan that will, in most cases, allow a surviving spouse to inherit the bulk of a couple's estate. However, if the survivor's relationship with stepchildren sours, he or she may later draft a will that disinherits the stepchildren—leaving them out in the cold.
- **Traditional Plan May Effectively Disinherit Children From Former Marriage.** Under a traditional estate plan, children from a former marriage do not inherit directly from their biological parent if he or she is the first to die. Rather, these children are forced to wait until the surviving spouse (their stepparent) dies to inherit. This arrangement has the potential to effectively disinherit children from a prior marriage if they are close in age to the surviving spouse.
- **Traditional Plan Fosters Family Discord.** Tension between family members may arise if it appears that the surviving spouse is spending the stepchildren's inheritance or affecting their financial future by having control of a family business.

- **Ex-Factor.** Without proper planning, a divorced or twice (or more) married spouse may inadvertently leave an inheritance to an ex-spouse as custodian of minor children—a disturbing notion if he or she fears the ex-spouse will mismanage the inheritance or, worse yet, spend the money intended for the children's livelihood.

What are the Advantages of Having an Estate Plan for a Blended Family?

- Allows family member to provide for previous and current family in a manner seen as fair and timely
- Gives family member control over the way that his legacy will be distributed
- Avoids conflict among remaining family members

Example: The Duran Family

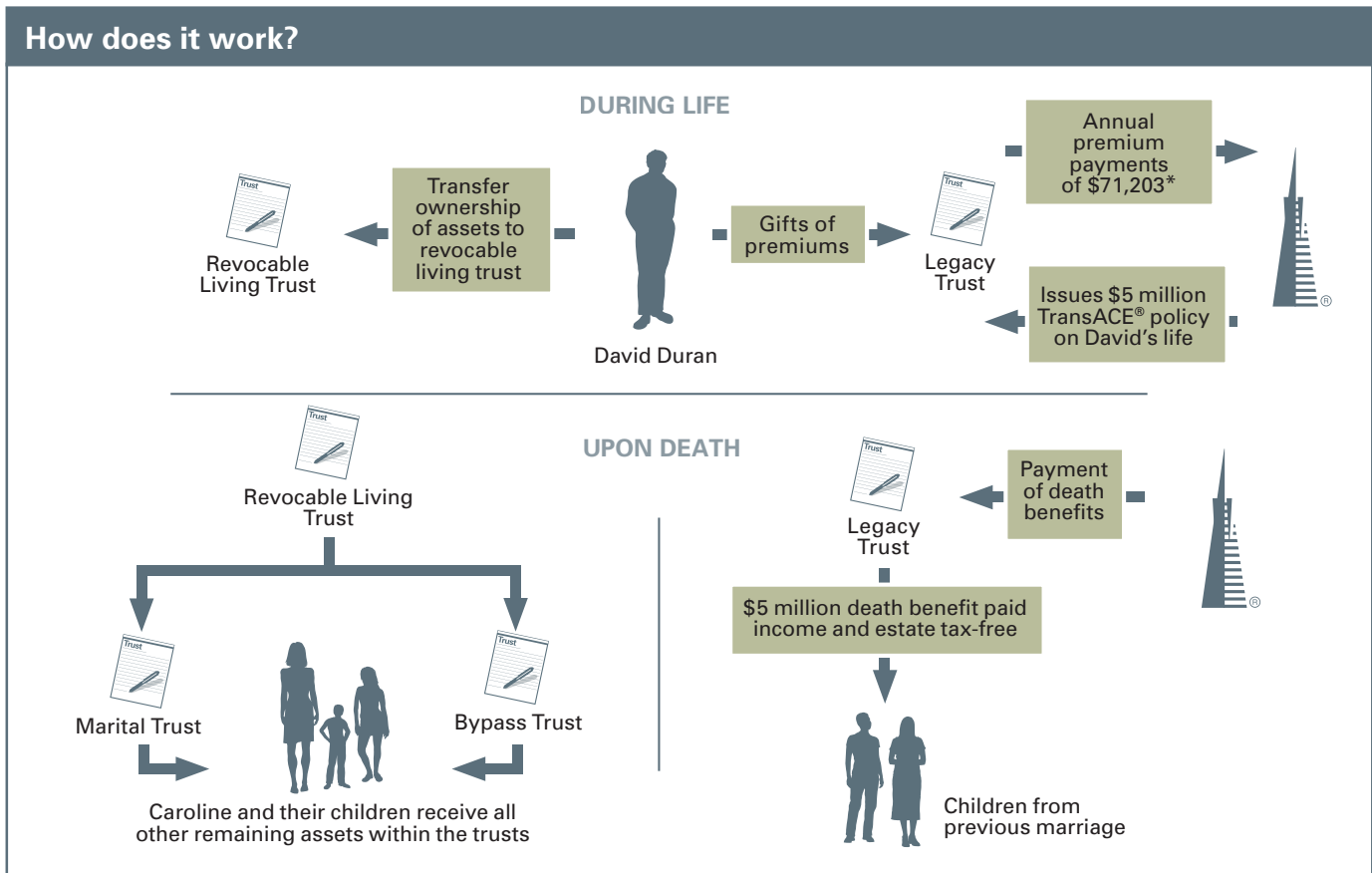
- David and Caroline Duran have been married for five years and have two small children.
- Caroline is 38 and has not been married before.
- David, who is 58, has a substantial estate. He has two children, from a prior marriage, aged 26 and 28.

Goals and Objectives:

- David's primary concern is having his estate plan show that he does not favor either family.
 - He wants to leave Caroline and their children a significant income stream
 - He wants to leave a sizeable inheritance for his children from a prior marriage

Action Taken and Results

- David establishes a revocable living trust that includes a marital and bypass trust
- David also establishes and gifts premiums to an irrevocable life insurance trust (ILIT) or legacy trust
 - The trust uses these funds to purchase a \$5 million life insurance policy on David's life
- Upon David's death, the ILIT should receive the \$5 million death benefit free of income and estate taxes
- The death benefit will be distributed to his children from his first marriage immediately upon David's death. They do not have to wait until their stepmother's death to receive an inheritance. And since Caroline is only 10 years older than the oldest of David's children, it is possible that they would otherwise not receive an inheritance.
- David's remaining assets will be poured into the marital and bypass trusts, providing for Caroline and his children born of the current marriage.



**Based on a 58-year-old male, preferred non-smoker, TransACE®*

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