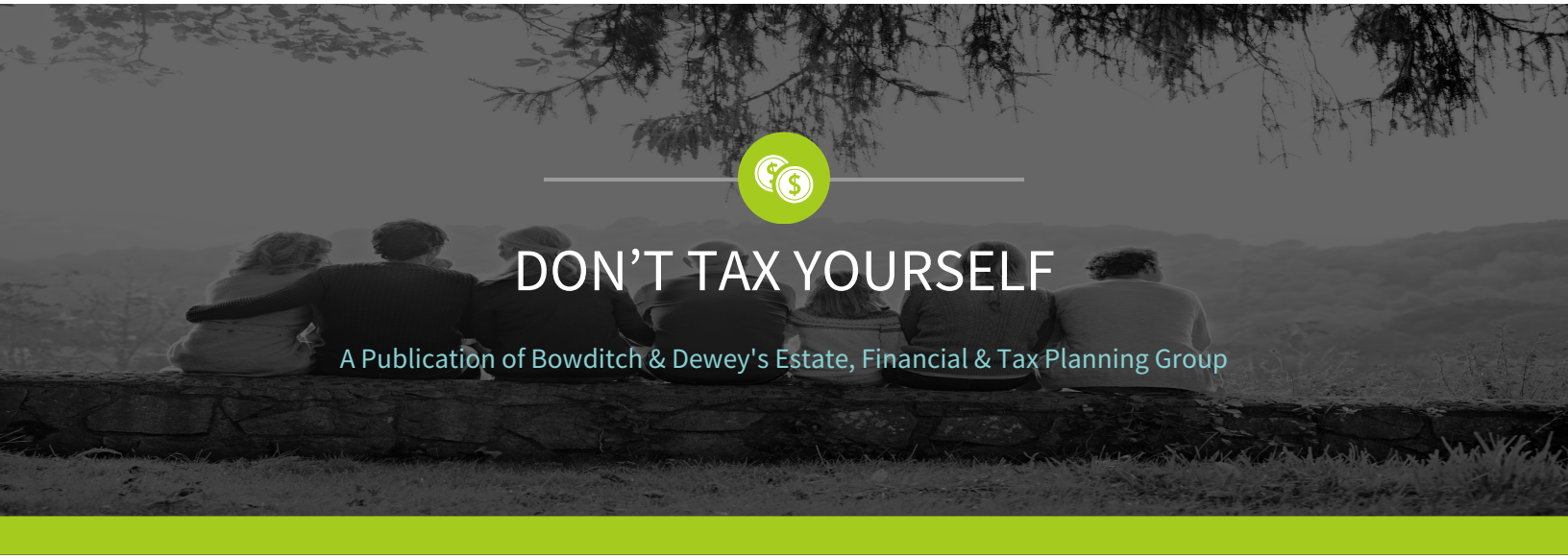


DON'T TAX YOURSELF

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Should You Have a Trust for Your Child?

BY NINA T. DOW • AUGUST 7, 2023

There may have been a time in your life when you had a piggy bank for your child – a fun and interactive way for you to teach money management, patience, and basic math. The money went in, but it was often difficult to retrieve.

Using a trust as an estate planning tool for parents provides a similar concept to that of the traditional piggy bank: money easily goes in but not out. Generally, there are two main ways your children will receive their inheritance: 1. Outright – into their hands all at once or 2. Through a trust.

Put simply, a trust is like a container: at your death, it could "hold" your financial assets or even real estate. When such property is held, you could give your child a right to withdraw certain amounts over time or hold the funds for the child's lifetime leaving them to benefit from the trust at the discretion of a Trustee.

The key is that a trust permits you, after your death, to name an individual (referred to as a Trustee) to control and manage your child's access to their inheritance preserving it for your child's health, education, and general well-being. Here are five things to consider when setting up a trust:

1. Spending Habits

Do you feel that your child is irresponsible with money or is your child too young for you to know? A revocable trust (one that can be amended or terminated) can hold funds for your child's benefit and if circumstances change, so can the trust.

2. Creditor Protection

A child's troubled marriage or a history of divorce should have you considering a trust to protect your child's inheritance. Depending on the state in which your child resides, an inheritance could be a marital asset subject to division between the parties. A trust can help keep your child's inheritance out of divorce court.

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Also, consider your child's profession and the risk of liability if, for example, they practice medicine or own a business.

3. Problems with Addiction

Often times, struggles with addiction, including alcoholism or gambling, impairs your child's ability to manage their assets appropriately.

4. Special Needs

If your child has a physical or cognitive impairment, a certain kind of trust can be used to preserve your child's inheritance without jeopardizing their eligibility for government services such as social security income (SSI) or public housing.

5. Career Instability

Perhaps your child is in an unstable career where income ebbs and flows or they have experienced frequent and long periods of unemployment. A trust can help provide a soft landing, helping to carry them through over a long period of time.

As you can see, these considerations require a review of your circumstances. Talking to an estate planning lawyer can help you determine whether a trust should be a part of your estate plan.

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