

# Blended Family Planning: The Unpleasant Truth

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According to several studies, more than four in ten Americans are part of a blended family. And, while seven out of ten report being satisfied with their step-family relationships, the studies revealed that people typically feel a stronger sense of obligations to their biological families. That's what makes estate planning for blended families complicated.

Below are a few tips to consider when addressing the complexities of planning for a blended family:

## **1. Determine your primary objectives.**

For most people, primary objectives include a balancing act between providing for their spouse and providing for their children. However, perhaps you have been married for decades and your respective children are grown and successful, and you feel no obligation to provide an inheritance to your children. If you have no concern about the possibility that your children could be disinherited, then an outright distribution to your spouse may be the best option for you.

On the other hand, if providing for your children is important, leaving assets to your spouse in a trust may be a better option. That way, your spouse has access to the income from the trust to provide for his or her health, support, maintenance or education, but you can direct that any remaining assets be distributed to your children after your surviving spouse dies.

## **2. Consider your spouse's relationship with your children.**

Children of blended families can easily form a strong bond with their step-parent, especially if the children are very young when the relationship forms. Alternatively, blended families can contain very contentious relationships as well. It is important to identify where your family falls on this scale. If the relationship between your spouse and children is hostile, creating a trust with an independent trustee to administer the trust assets may be a good idea.

## **3. Consider making a bequest to your children at the outset.**

Rather than leaving all your assets to your surviving spouse, consider making a distribution to your children immediately upon your death. This can include anything from personal property to beneficiary proceeds. However, make sure that this type of distribution will not result in an economic hardship for your spouse.

#### **4. IRA and 401k Considerations.**

The general trend in our country is the reduction of employer pension plans which have now been replaced by 401k plans and other deferred tax recognition plans which ultimately are converted to IRA's upon retirement. This presents a variety of issues for a parent in a blended family because of the complex tax rules surrounding distributions from IRA's. IRA's typically name a beneficiary or multiple beneficiaries and the IRS notes the age of each beneficiary and assigns a "measuring life" to determine required minimum distributions, which are taxable to the beneficiary. Many people name their spouse as the primary beneficiary of an IRA. However, with a blended family, there is no guarantee that a surviving spouse will pass along an IRA to children of the original IRA owner. In fact, the surviving spouse is free to leave the remainder of an IRA to anyone he or she chooses - even a future spouse! So, care must be taken in crafting the distribution provisions for an IRA, especially now that most people's life savings are heavily concentrated in these investment vehicles.

#### **5. Life Insurance Considerations.**

Another option is to consider purchasing a life insurance policy that will pay directly to either a new spouse or children from a prior marriage to ensure that funds will go directly to the intended beneficiary upon the death of the first spouse. Then, remaining assets can be left to the other intended beneficiaries without concern of "returning" the rest of the assets to another family member someday. In some circumstances, the children can actually pay the premiums on the life insurance policy (and own it) so that they are in control of their inheritance. This is just another option to accomplish the intended goals - and it's tax free in Pennsylvania!

#### **6. Talk about your plans.**

Whether you are part of a nuclear or blended family, sharing the details of your estate plan is one of the best ways to limit disagreements after your death. If your heirs feel like they've been left in the dark, the likelihood of their dissatisfaction increases.

The Attorneys at Julian Gray Associates have over 100 years of combined experience and regularly counsel blended families on their options to preserve and protect what is important to them.