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.

The needs of a blended family may be best met with a blended estate plan that is a combination of an otherwise traditional estate plan with an irrevocable life insurance trust to benefit only children of a previous marriage. With this strategy, a member of a blended family can demonstrate the intent to be fair and provide equally for all loved ones.

Market Opportunity

- Most men and women in the U.S. remarry within 5 years of divorce[1]
- 11.7 million children in the U.S. live in blended families[2]
- Half of the households formed by remarriage following divorce have co-resident biological children under 18[1]

Why is estate planning so important for a blended family?

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 generally 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 receive their inheritance. 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.

Client Profile

- Remarried individuals with children from a previous marriage

Available Materials/Tools

Producer

- Blended Family Producer Article (OLA 2174 0312)

Consumer

- Blended Family Consumer Brochure (OLA 1440 0611)

Ex-Factor. Without proper planning, a divorced and remarried 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.

Sample Scenario

- David and Caroline 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

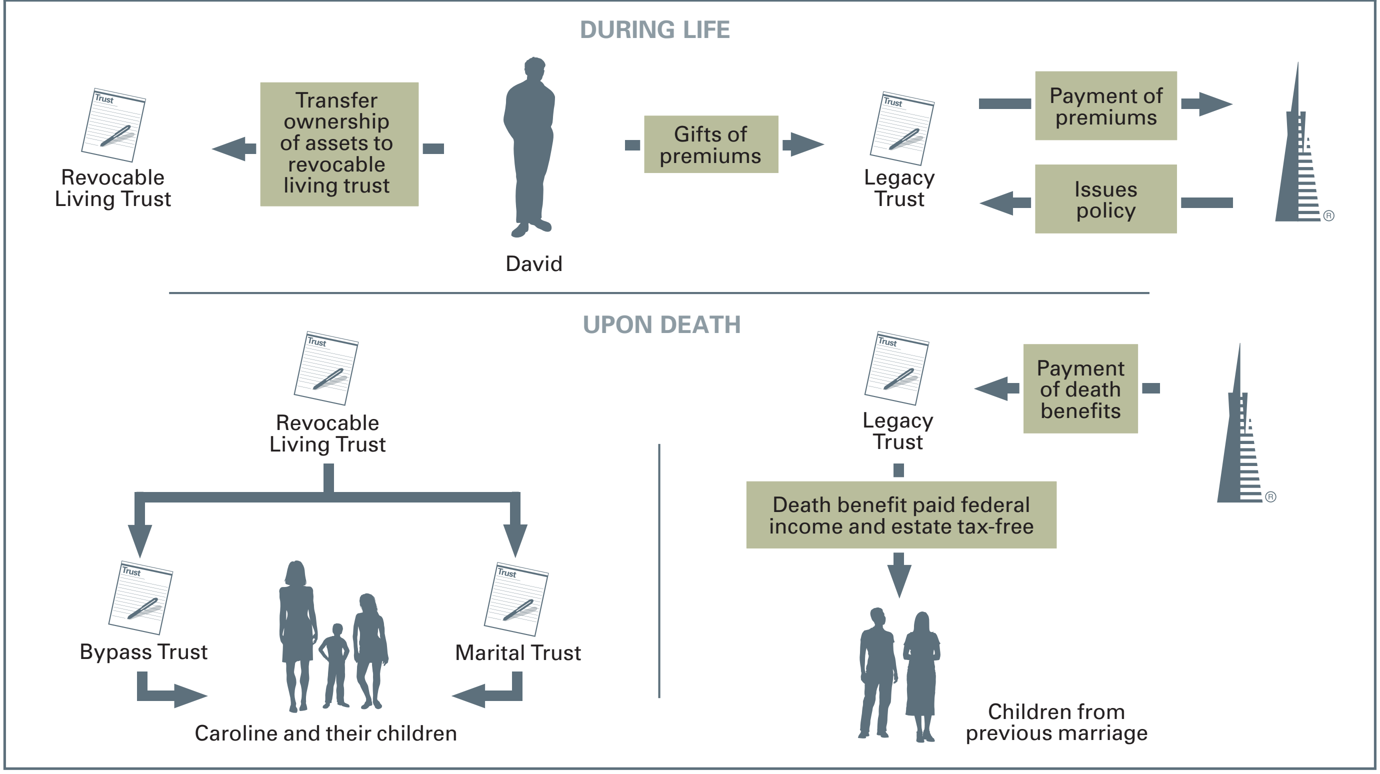
Action Taken and Results

- 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

[1] Source: US Census Bureau, Survey of Income and Program Participation, 1996, 2001, and 2004 panels, Wave 2.
[2] Source: US Census Bureau, Survey of Income and Program Participation, 1996, 2001, 2004 and 2009 panels, Wave 2

- 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.

Blended Family Estate Planning in Action: A Bird's Eye View



This diagram depicts the flow of assets during David's life and upon his passing—demonstrating that by incorporating life insurance into an estate plan, a blended family can effectively balance competing estate planning goals and preserve family harmony.

To find out more about this and other life insurance planning strategies, please contact us:

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