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BLENDED FAMILY BASICS

Here are two trivia questions for you movie and television buffs. First, what big name Hollywood stars played on-screen spouses in the 1968 film *Yours, Mine & Ours*? The basic storyline of the movie paired a widow and her eight children with a widower and his ten children. Second, a year later Sherwood Schwartz (creator of *Gilligan's Island*) took the same



basic storyline and rolled out a hit television series that ran for 117 episodes. Can you name that show? [The answers are at the end of this article.]

One reason commonly given for the popularity of these two classics is that they gave traditional nuclear families a lighthearted glimpse into the lives of *blended families*. Times have changed. In the new millennium, blended families now outnumber traditional nuclear families. And the number is likely to grow, based on current statistics and trends.

Unlike the movies or 30-minute sitcoms, real life is not always so lighthearted for blended families,

whether due to widowhood or divorce. Many face unique social, psychological and economic challenges.

The Challenges

More than 60 percent of second marriages end in divorce. Fortunately, there are numerous organizations and support groups dedicated to helping blended families with these challenges. Unfortunately, little attention has been paid to the critical Life & Estate Planning challenges confronting blended families. These challenges include *disinheriting* your ex-spouse, *providing* for your new spouse, and

INSIDE

Is yours a *blended family*? If yes, then you face unique inheritance challenges, to include *disinheriting* your ex-spouse, *providing* for your new spouse and your own children, and *protecting* their inheritance. Keep this newsletter (and share it with others).

On page three we consider estate equalization planning to avoid disinheriting either your new spouse, or your children of a prior marriage. Insurance premiums and legal fees are cheap compared to the *costs* of disinheritance.

providing for your own children, and protecting their inheritance.

Your Ex-Spouse

Without proper legal planning, your ex-spouse (as surviving parent/guardian) would likely be appointed by the probate court to manage the inheritance you leave to your children. To make matters worse, what if your children later predecease your ex-spouse, and are single and childless at that time? Who would inherit your assets then? That is right ... your ex-spouse, as the *next-of-kin* of your children.

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Your New Spouse

Chances are you made a few solemn promises to your new spouse on your wedding day. Among them were promises to be there through thick and thin, personally and financially. Accordingly, most spouses in blended families tend to *blend* their wealth, too.

Warning: If you predecease your new spouse, then you may forever disinherit your own children from your share of such blended wealth! Thereafter, upon the death of your new spouse, your assets may be inherited by your stepchildren, or even by your new spouse's next spouse and their children.

Your Own Children

Whether children are reared in a traditional nuclear family or in a blended family, great care should be given to protect any inheritance both *for them* and *from them*. Wealth representing a lifetime of your hard work and thrift can be squandered in very short order, or can quickly vanish through divorces, lawsuits or bankruptcies.



Inheritance Protection

Want to make your Life & Estate Plan *heir tight*? If so, you should consider a *Discretionary Trust*. As the name implies, such a trust makes distributions only in the sole and absolute discretion of the Trustee. The key to a successful Discretionary Trust is selecting and entrusting an appropriate Trustee with broad discretionary authority to protect your wealth *for* and *from* your heirs. The non-fiduciary position of *Trust Protector* can be created to appoint and even remove such a Trustee to ensure

fulfillment of your objectives. As such, the Trust Protector serves as an ongoing Guardian Angel.

Final Thoughts

This has been a very cursory examination of a very complex subject. Be sure to engage appropriate legal counsel before you pursue any financial or legal strategy to overcome blended family challenges.

First answer: *Henry Fonda* and *Lucille Ball*.

Second answer: *The Brady Bunch*, of course!



Ask Yourself ...

These Questions Regarding "Blended Family Basics."

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|---|-----|----|----------|
| 1. I have protected the inheritance of my children from being managed by or even inherited by my ex-spouse. | Yes | No | Not Sure |
| 2. I have protected the inheritance of my children from their potential squandering, divorces, lawsuits and bankruptcies. | Yes | No | Not Sure |
| 3. I have made legal arrangements to provide for the lifetime financial support of my new spouse, yet to control the ultimate disposition of my assets for my own children. | Yes | No | Not Sure |
| 4. My new spouse and I have arranged our legal affairs to protect the inheritance of our own respective children from their potential squandering, divorces, lawsuits or even bankruptcies. | Yes | No | Not Sure |
| 5. I have coordinated my financial and legal plans to increase my estate value and equalize the inheritance left to my new spouse and my own children upon my death. | Yes | No | Not Sure |

ESTATE EQUALIZATION

Quick. If your family is a *blended family*, would you rather disinherit your new spouse or your own children? Without proper planning it likely will be one or the other. Either way it is a lose-lose proposition.

Alternatively, what if you could create a plan that actually may increase your overall estate value, without increasing your estate value for death tax purposes, and may allow you to equalize the inheritance left to your new spouse and to your own children?

First Things First

Before continuing, however, you should know that your insurability for life insurance is the financial planning key to making this win-win inheritance arrangement work. It is an age-old financial planning maxim that *your health actually buys your life insurance and your wealth merely pays the premiums*. Assuming you are insurable, we now turn to the legal planning.

Your New Spouse

To provide financial security for your new spouse and to minimize your estate tax exposure, arrange for a tried-and-true *Estate Tax Exemption Trust (ETE Trust)* and a *Qualified Terminable Interest Property Trust (QTIP Trust)* to be created under either your Last Will and Testament or your Revocable Living Trust. Through this arrangement you may maximize your estate tax savings as you provide income and even principal to your new spouse for life. Thereafter, upon the death of your new spouse, the assets of both Trusts may pass to your own children.

Your Own Children

Having taken care of your new spouse, we now shift our focus to providing a concurrent inheritance for your own children.

First, you create an Irrevocable Life Insurance Trust (ILIT) with your own children as the beneficiaries. Select the amount of life insurance that will represent their inheritance upon your death, according to your estate equalization goals. Note: While you may not serve as a Trustee, you may select the current and successor Trustees.

Second, you make gifts to the Trustee on behalf of your beneficiaries in an amount roughly equal to the insurance premiums. The Trustee then provides written notice of the completed gift to each ILIT beneficiary, giving each a designated period of time (not less than 30 days is typical) to request distribution of their respective share of the gift. After the designated period has lapsed, the Trustee applies for the appropriate amount of Life Insurance and pays the initial premium. [Note: This annual gifting ritual continues until your death.]

Third, assuming all of the ILIT steps have been followed, the



death benefit will be estate tax free when paid to the ILIT for your own children. Properly structured, this inheritance will be protected both *for* and *from* your own children, as well.

Later, upon the death of your new spouse, the assets of the ILIT may be merged with the assets of the ETE Trust and the QTIP Trust for more economical and efficient administration for your own children (and even grandchildren).

POCKET PROTECTORS

Tips to help you protect your pocket!

Blended Family Resources

Family life can be stressful in any family these days, whether yours is a traditional nuclear family or a blended family. The latter, however, often face some unique social, psychological and economic challenges.

Fortunately, there are many organizations available specifically for blended families. Here are just a few resources to get you started:

- **The American Association for Marriage and Family Therapy** can be reached at (703) 838-9808 or online at www.aamft.org.
- **The Stepfamily Foundation, Inc.** can be reached at (212) 877-3244 or online at www.stepfamily.org; and
- **Blended-Families.com, LLC** can be reached online at www.blended-families.com.

Many excellent books are available on the subject of blended families. Find them in your local library, bookstore or online.

“Life consists
not in holding
good cards
but in playing
those you
hold well.”
— Josh Billings

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This Newsletter is my way of staying in touch with you and highlighting issues that may affect you personally and financially, now or in the future. As always, feel free to give me a call anytime at the office. I never charge for these calls, and enjoy hearing from you.

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