



Anyone Can Leave Money Directly to Children, but It Is Better to Leave It in Trust – How Not to Make a \$250,000 Mistake

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You don't have to roll the dice when you leave property to your children. Are your kids mature enough to handle new-found wealth? Do they have the knowledge needed to manage money? I think you need to love your children enough to protect them from themselves. Let me tell you my story.

My Mom and Dad were from the old school. My Dad left home when he was 17 to join the Navy. He never finished high school. While he was away fighting in the Pacific during World War II my Mom graduated from beauty school. When Dad returned home from the war, he married my Mom and decided to follow my Mom to beauty school to learn a trade so he could make money and raise a family.

After graduating from beauty school my Dad asked my Mother's father for a loan so he could open his own salon. My Dad was very successful. He ended up owning a string of seven beauty salons. He had a beautiful home in suburbia and an 88-acre horse farm in the Catskill Mountains. He and my Mom also raised me and my three older sisters.

Like I said, my Dad was old school and I became the first person in my family to graduate from college. I remember that day like it was yesterday: May 26, 1982. The day I graduated from West Point.

I am sure almost everyone has seen photos of graduation day at West Point. The Cadets are in their finest full dress grey uniforms. Brass buttons are gleaming over starched white pants. Then, the moment everyone has waited for: "Class dismissed." Thousands of white hats soaring through the air. Then, it was off to Lake Popolopen, at Camp Buckner, to picnic with my relatives.

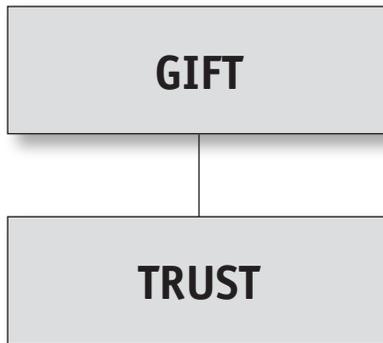
There we were by the lake enjoying our barbeque — my Mom, my Dad, my sisters, aunts, uncles, and cousins. At some point, my Dad called me away for a private

word. He hugged me and told me how proud he was of me. Then he thanked me for going to West Point and saving all that tuition money! Finally, he told me he was going to give me a gift of \$20,000 as a graduation present. About a week or two later I received a statement from my new broker letting me know I was the proud owner of \$20,000 worth of Exxon stock!

There I was — a freshly minted Second Lieutenant on my way to Fort Rucker, Alabama to attend flight school with all that money in my pocket! What do you think I did? Wrong. I didn't invest it. I didn't save it. After four years without any freedom I spent every penny on wine, women, and song. Irresponsible you say? Your child wouldn't do that? Can you be sure? A West Point education did not make me wise. It took experience.

Now that I am 48 with two children of my own I wish my Dad would have protected me from my youthful foolishness. He could have easily done so by leaving the stock to me in trust rather than giving me his gift immediately. Had he done so, a broker has told me the \$20,000 gift would be worth over \$250,000 today!

Here's how you should leave gifts to your children. This holds true whether you make the gift during lifetime or at your death. Knowing what I know now, I wish my Dad had left me the Exxon stock in trust. A trust is a separate legal entity requiring three things: a trustee who holds legal title to trust property; a beneficiary who gets to enjoy the property according to the terms of the trust agreement; and the trust property itself. The trust agreement spells out instructions for the orderly distribution of the gift. It is then up to the trustee to invest and distribute the trust property.



Do your children need to be protected from themselves? Are they just too young to handle money? Are they irresponsible? Do they have developmental disabilities? Do they have drinking, drug, or gambling problems? Do they have mental problems impacting their motivation to achieve and succeed? Do they have irresponsible spouses whom you believe married them for your money? The list goes on and on. If you, as a loving parent, are afraid of placing significant amounts of income or property in your children's hands, you should not make direct gifts to them.

Instead, love your children enough to protect them and provide for them during their lifetimes. Your trust agreement will direct your trustee to provide for your child's health, education, maintenance, and support. You could also leave written instructions instructing your trustee to take a look at your child's other sources of income and to decide whether or not the child's income should be supplemented from the trust funds. You can leave instructions for your trustee to help your child start a business or buy a home. This leaves you in control, even after you are gone. This is a loving way to protect your child. Finally, by leaving gifts in trust you can assure there will be something left for your grandchildren because you can decide where you wish your money to go after your child dies.

Trusts are not just for the rich and famous. They should be used by every day people who love their families and want to make sure they are always taken care of.

Robert M. Goldberg's special interest as one of Ed Slott's Elite IRA Advisors is helping clients expand their family wealth through intelligent planning for distribution of qualified retirement plans.