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The Savvy Investor

Should You Have a Dynasty Trust?

When a family accumulates wealth, the wealth is often depleted by the time the second generation is ready to inherit it. A dynasty trust may help protect family wealth against several outside forces. Here's how a dynasty trust works differently than your living trust.

With a living trust (or no trust at all), your assets are distributed to your heirs when you die. These assets are subject to eroding forces after you die. **Here are just some of the forces that can reduce your heir's inheritance:**

- Your heirs inheritance is subject to claims of creditors
- Your heirs can lose all or part of their inheritance if they divorce their spouse.
- Upon death of your son or daughter, there is no assurance the assets will reach your grandchildren.
- Upon death of your son or daughter, the assets can be taxed by the IRS at a 55% tax rate or higher – totally defeating the purpose of your initial living trust.

By making a small change to your living trust, you can avoid these eroding influences. Rather than leave your assets to your heirs, leave the assets in a dynasty trust.

Because the assets are in trust, your heirs do not legally own them (even though you can give your heirs high accessibility or you can limit accessibility if you choose). Therefore, your heir's creditors can't touch the assets and neither can their spouse. Unspent assets can pass from generation to generation, free of additional estate tax (limited to the estate tax exemption). You gain assurance that assets stay in your bloodline if unspent and pass to your grandchildren.

So if you want to have your inheritance exposed to eroding forces, just leave your inheritance outright to your heirs. If instead you want to protect your inheritance, you can do so. Besides a dynasty trust, there may also be other estate planning strategies that can reduce your taxes and preserve wealth.

We work with an excellent team of estate attorneys to assure that your estate plans meet your wishes.