

Leaving Little to Chance — A Trust for Your Financial Legacy

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By Lee Carpenter



Receiving an inheritance can seem like winning the lottery. A financial windfall lands on your doorstep and promises to change your life for the better. But an inheritance and lottery winnings differ in many important ways, starting with the likelihood of receiving one.

You are much more likely to receive an inheritance than win the lottery, especially if you are already well off. About 20 percent of Americans inherit money at some point in their lives, but that number jumps to almost 40 percent for people in more affluent households.

Lottery winners, on the other hand, tend to be less well off, and they often have trouble managing their newfound wealth. They may also view their windfall differently.

Someone who wins the lottery feels like a “winner” and may show little restraint in spending the prize money. When a sprawling house, luxury cars, and European vacations are all within easy reach, there may seem to be little reason to hold back.

Someone who receives an inheritance is a different kind of winner—a person who has earned enough love and devotion to be remembered in someone’s will. Instead of being called a winner, the recipient is a “legatee.” (The word comes from the legal term for an inheritance, a “legacy.”) Whether the benefactor is a parent or grandparent, a partner or spouse, the recipient may well view the gift as that person’s personal legacy. It’s not a prize from government coffers but wealth passed down in love after a lifetime of hard work and careful investing.

Viewed in this light, an inheritance is not a license to become a spendthrift. It’s a legacy that carries the implicit obligation to husband the assets in a way that honors the donor and perhaps considers the next generation.

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The government has recognized this difference by making lottery winnings taxable to the recipient while inherited assets generally are not. (In Maryland, one exception is the 10% inheritance tax, which applies to a bequest left to anyone who is not a close family member, such as an unmarried partner, niece or nephew, or friend.)

One way in which lottery winnings and inherited wealth are the same is that they are both easy to squander. A disproportionate number of lottery winners declare bankruptcy within five years. For those who inherit, the money that had been earned through hard work may be lost through fast living. This is especially true of legacies left to a young person or

someone with money-management problems.

You can't guarantee that someone will win the lottery, but you can leave them a legacy designed to last. Speak with an estates and trusts attorney about preparing a will that provides for the people you care about. If they include a young person or someone who struggles with being responsible, ask about including a "spendthrift trust" in your will.

This kind of trust can protect your bequest by putting someone responsible, called the "trustee," in charge of administering the assets. As the gatekeeper, the trustee can ensure that the money held in trust is spent for worthwhile purposes. The principal may also be shielded from your loved one's creditors.

Take care of the people you care about by having your will prepared by an estates and trusts lawyer who understands your needs on a personal level.