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Blended Families - the impact of a spouse remarrying on children's future inheritance

It can be easier to be disinherited than many people think especially when it comes to blended families

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A **BLENDED FAMILY CONSISTS OF A COUPLE**, their children from previous relationships and the children they have had together. Without a will, or dying intestate, it's unlikely to mean the right family members will benefit, whilst if relying on a simple reciprocal will, this requires the surviving spouse to determine who benefits and when.

In fact, according to our research* over three-quarters (76%) of parents in Singapore and Hong Kong are concerned that if their spouse was to remarry after they had died it could change how their wealth was distributed to their children in the future.

This can all happen very quickly too. For example, take Bob and Abigail as a case study. They are happily married and from the UK but living in Hong Kong with their two children Frankie (14) and Jack (11). Following the death of Abigail's father she received £500,000 in inheritance. She decided to invest the money for the time-being and aims to use it to fund her children's education and give them a helping hand when they are old enough to buy their own properties.

Sadly, Abigail is in a road traffic accident and passes away. While she had written a will, due to the age of the children, she had chosen to leave all her wealth to Bob for him to distribute to their children when they were old enough to use the money.

Bob continues to live in Hong Kong and after seven years he marries someone else, called Petra. According to our research 49% of those surveyed thought their spouse 'would' or 'probably would' remarry if they were to pass away with a further 26% unsure, showing that Bob's actions represent a concern for many Hong Kong residents.

Petra already had two children from her first marriage. Due to the high cost of accommodation in Hong Kong, Bob decides to use some of the money that Abigail left him to make adjustments to the family home to accommodate her two children as well as Frankie and Jack, instead of paying for his sons to go to university, as neither had chosen to go yet.

Sadly, soon after work on the home is completed, Bob dies of cancer. Bob had not written a will and therefore all the wealth automatically passed to Petra. His sons fight this decision as they feel they are entitled to the wealth, however, Petra refuses to pass on any money.

This creates a fractious relationship between Frankie, Jack and Petra and the two sons decide to move out the house as they are no longer dependents and try to move on with their lives.

Abigail would be devastated to know her wealth had been spent on home improvements and that her children had been disinherited. To ensure her children received the wealth, Abigail should have explored whether a trust might have been suitable for her needs. Trusts could have provided her with more control and certainty over how her wealth was distributed, combined with possible inheritance tax advantages.

Our survey found that 72% of respondents would like to control how their wealth is passed to their children. Additionally, 49% of respondents said they would use a trust with a further 41% saying they maybe would and just 4% would not.

Unlike wills, trusts are not public documents under UK law and are less likely to be challenged in court. There are a wide range of trusts to choose from, which have varying levels of access, flexibility and inheritance tax efficiency to suit the needs of different individuals. Trusts help ensure assets are passed to beneficiaries as and when required, and can be distributed immediately on death, avoiding lengthy probate delays.

There are two types of trust that can be considered by parents which can help to make sure wealth is not only passed to the right people but also spent in the desired fashion.

The first option is to use a bare trust. When using this type of trust the children are written as beneficiaries and will be entitled to their respective share in the trust at age 18.

In Abigail's case this would have been a good option as the beneficiaries are fixed, so as soon as the trust is declared, it is not possible to add (or remove) anyone. However, the children will have access to that money as soon as they turn 18 and they will be able to use it in any way they choose.

Another option is to use a discretionary trust. This type of trust would have given Abigail more control over when and how assets within it were distributed and to whom.

The trust is guided by the parent providing a letter of wishes to selected trustees, which sets out their preferences. Although the letter of wishes is not binding, it does provide the trustees with an insight into the settlor's expectations.

There are differences in how inheritance tax is applied to these trusts. Discretionary trusts are subject to the IHT relevant property regime for tax. The assets settled into the trust will be taxable as a chargeable lifetime transfer. In contrast, assets transferred to a bare trust are treated as a potentially exempt transfer.

With either trust, where the person making the gift lives for seven years thereafter, the gift falls outside their estate for IHT purposes. However, it is worth noting that a discretionary trust can attract further IHT charges every 10 years and when money is distributed to beneficiaries.

Another obvious way to ensure the right assets are passed down to the right people is through writing a will.

Being a widow or widower and then remarrying is not uncommon. However, the above case study places responsibility with Bob to ensure his children are financially looked after on his death.

Bob could have written a will to ensure his assets were fairly divided should anything happen to him. Following his death, his assets (and any life assurance) could have been fairly divided so both Petra and his two sons received some money. Petra's decision to disinherit her stepchildren is all too common and highlights the importance of planning, and the research shows this is an area of financial planning that many potential clients are keen to explore. ■

**Research carried out by Toluna for Old Mutual International in March 2019 and surveyed a total of 150 Singapore parents and 139 Hong Kong parents*