

Is Outright Distribution the Perfect Fit for Your Loved Ones?

Although Americans are living longer and spending more time—and money—in retirement, many parents intend to leave an inheritance to their children. The exact amount can vary greatly depending on individual circumstances and wealth levels, but even a small inheritance can be meaningful and help set a child up for long-term financial success, provided they are ready to handle it, which may not be the case.

Most families fail to discuss wealth transfers to ensure that younger generations are prepared for an inheritance. Parents need to decide how they want to pass their *assets* (accounts and property) to their children and other beneficiaries so they can plan the transfer in a way that fits their goals and their loved ones' abilities to manage their inheritance. The wealth transfer process includes deciding whether to leave a loved one an outright inheritance or to pass their wealth down in a more controlled manner.

Pros and Cons of an Outright Inheritance

Over the next 20 years, an estimated \$84 trillion in assets is expected to change hands from older Americans to younger Americans in what financial experts are calling the “Great Wealth Transfer.”¹

According to a USA Today survey, about 76 percent of Americans receiving an inheritance say they plan to save or invest it, 40 percent say they will use it to pay off debt, and 21 percent want to leave the money to their children.²

Another survey found that, among those expecting to receive an inheritance, 50 percent consider it “highly critical” or “critical” to their long-term financial security and retirement.³

The most straightforward way to transfer wealth is by outright distribution. An outright distribution is fast and simple, and there are typically no fees associated with it. There are also no strings attached. When a beneficiary receives an outright distribution, they are free to use, sell, or manage the money and property however they want, with no conditions, restrictions, or oversight.

However, an outright inheritance may not be in the beneficiaries' best interest. For someone unprepared to handle an inheritance, not only could the money fail to solve their financial problems, but it could also worsen them or lead to new ones.

In spite of their best intentions to budget, invest, and responsibly spend an inheritance, your loved ones could just as easily squander it on impulse purchases, risky investments, or financial scams.

¹ Julie Sherrier et al., *Study: Gen Z and millennials plan to use inheritances to invest, pay off debt*, USA Today (June 6, 2024), <https://www.usatoday.com/money/blueprint/credit-cards/study-great-wealth-transfer-plans>.

² *Id.*

³ *As \$90 Trillion “Great Wealth Transfer” Approaches, Just 1 in 4 American Expect to Leave an Inheritance*, Northwestern Mutual (Aug. 6, 2024), <https://news.northwesternmutual.com/2024-08-06-As-90-Trillion-Great-Wealth-Transfer-Approaches,-Just-1-in-4-Americans-Expect-to-Leave-an-Inheritance>.

More than a quarter of respondents admitted to USA Today that they plan to use their inheritance for travel or luxury spending.⁴ Many (72 percent), according to a Citizens Bank survey, also admit that they are unprepared to manage an inheritance.⁵

One downside of an outright distribution is that if a beneficiary has debt, something many young people struggle with, a creditor might be able to make a claim against the beneficiary and take their inheritance even before they can benefit from it.

Certain beneficiaries may not be legally able to receive an outright distribution. If the recipient is a minor child, for example, or is *incapacitated* (unable to manage their affairs) and does not have an agent under a financial power of attorney, a court-appointed conservator may be necessary to receive and manage their inheritance for them.

Alternatives to Outright Distribution

None of this is to say that outright distributions are inherently bad. Deciding whether to leave an outright inheritance to a beneficiary depends heavily on their personal situation. Even within the same family, children can have wildly different financial aptitudes and attitudes. Some are perfectly capable of managing their inheritance. Others struggle to plan and save for the future.

There can also be a gap between what children plan to do and what they end up doing. Parents may sometimes need to protect their children from their own bad habits.

No matter how much you plan to leave to a beneficiary, it can be a source of pride and fulfillment to know you are making a difference in their life. A Northwestern Mutual survey found that, among those expecting to leave an inheritance, more than two-thirds (68 percent) said it is their “single most important financial goal” or is “very important.”⁶

However, leaving an inheritance can also be a source of trepidation. Six in 10 parents told Northwestern Mutual that their children do not value financial responsibility the same way they do, with more than half expressing concerns that this difference in values could negatively impact the family’s assets when they pass from one generation to the next.⁷ And only about a quarter of adults feel prepared for, and confident in, the wealth transfer process, Edward Jones research found.⁸

When deciding what method of distribution is best for your child, it helps to know their current financial situation and their short- and long-term financial goals, such as paying down debt, buying a home, giving to charity, and saving for education. This knowledge starts with a family discussion about wealth transfers. We would love to be part of the conversation and answer any

⁴ Julie Sherrier et al., *Study: Gen Z and millennials plan to use inheritances to invest, pay off debt*, USA Today (June 6, 2024), <https://www.usatoday.com/money/blueprint/credit-cards/study-great-wealth-transfer-plans>.

⁵ *Most Americans aren’t ready for the ‘Great Wealth Transfer,’* Citizens, <https://www.citizensbank.com/learning/great-wealth-transfer-survey.aspx> (last visited Mar. 21, 2025).

⁶ Northwestern Mutual, *supra* n. 3, <https://news.northwesternmutual.com/2024-08-06-As-90-Trillion-Great-Wealth-Transfer-Approaches,-Just-1-in-4-Americans-Expect-to-Leave-an-Inheritance>.

⁷ *Id.*

⁸ *The Great Wealth Transfer Starts with the Great Wealth Talk, Edward Jones Research Finds*, Edward Jones (Feb. 27, 2024), <https://www.edwardjones.com/us-en/why-edward-jones/news-media/press-releases/great-wealth-transfer-research>.

questions you and your family have about inheritance-related matters, such as taxes, ways to invest and budget an inheritance, and estate planning after an inheritance.