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## Getting Going

### **Keeping It in the Family: Protecting Your Money From Your Daughter-in-Law**

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It's many parents' secret fear: Their kid marries some no-good, know-nothing, reckless financial parasite. Suddenly, the new spouse is merrily spending all the money they gave their child or walking away with half of it when the couple divorces.

Harboring a few doubts about your new son-in-law or your future daughter-in-law? Here's how to help your children financially -- while controlling where your dollars go.

- **Buying direct.** Suppose your daughter is struggling with some hefty expenses, but you don't want your son-in-law getting his hands on your cash.

"If you're concerned about what will happen with the money, don't give money," advises David Handler, an estate-planning attorney with Kirkland & Ellis in Chicago. "Instead, pay for the vacation, pay for the summer camp, pay for the private school, take your daughter shopping for the afternoon."

## Family Affairs

How to help your children financially, without enriching their spouses:

- Pay directly for their **medical or education costs**.
- Fund a **529 college-savings plan** for the grandchildren.
- Stash financial gifts in a trust or tell your children to keep the money in a **separate account** that's solely in their name.
- Encourage your children to sign a **prenuptial agreement**.

Don't, however, constantly crack open your wallet, or you risk fostering an unhealthy dependency. Instead, focus on paying for occasional big expenses, like the grandchildren's education or an onerous hospital bill.

In fact, paying directly for schooling and medical expenses can be especially attractive. In any given year, you usually can't give more than \$11,000 to another person without worrying about the gift tax. But there's no annual limit when it comes to helping with tuition and medical expenses -- provided you pay the school or medical provider directly.

- **Keeping control.** Like the idea of paying education costs? Consider funding a 529 college-savings plan for your grandchildren.

That way, you help your son or daughter with a major expense, but you keep control over how the money is invested and when it's disbursed. And the benefits don't end there.

You can invest as much as \$55,000 in a 529 in one shot and count it as your \$11,000-a-year gift for the next five years. It also appears the federal government will view 529s favorably when doling out financial aid, especially if the account is set up by the parents or, better still, the grandparents. Best of all, withdrawals for college costs are currently tax-free, though this tax-free treatment will disappear in 2011 unless Congress acts.

- **Making matches.** Let's say you want to help with college costs, but you figure your son and his new wife should also contribute. To that end, you might offer to stash \$1 in a 529 for every \$1 they contribute.

"If you structure it as a match, you encourage good savings habits, without being too controlling," says Sheryl Garrett, founder of the Garrett Planning Network in Shawnee Mission, Kan. "It can be a healthy way to gift money, and it makes the children invested in the goal."

- **Divorce protection.** Maybe you don't have a particular goal in mind. Maybe you just want to pass money to your children without enriching their spouses.

If estate taxes aren't an issue, the safest bet is to bequeath the money upon your death, so the assets don't get squandered by your children in the meantime or caught up in a divorce. This year, the estate-tax exclusion is \$1.5 million, and next year it rises to \$2 million.

Alternatively, you could give your kids money now, but counsel them to keep the cash in a brokerage account or mutual fund held solely in their own names. When property is

divvied up in a divorce, certain sums are typically excluded, such as assets owned before the marriage and any inheritances and gifts received during the marriage.

"As long as you keep the money separate from marital property, it maintains its identity as a nonmarital asset," explains Sally Ann Martin, a domestic-relations attorney in Chicago. "The minute you start mixing it with marital assets or using it to pay marital bills, you run the risk that it loses its identity and it's considered a marital asset."

One mistake: Your kids wisely set up a separate account to hold gifts and inheritances, but then they toss in money that's considered a marital asset, such as a few bucks out of the regular paycheck they collect during their marriage. "That'll create an accounting nightmare at the time of the divorce," Ms. Martin warns.

- **Trusts and prenups.** Even if your children are diligent about keeping gifts in a separate account, divorce could still come with a nasty financial sting. The reason: In some states, they may be forced to split the income that these accounts earned during the marriage, and possibly also the capital gains.

To sidestep this risk, you could direct all your financial gifts into a trust, with your children named as beneficiaries. Problem is, trusts typically aren't cheap to set up or administer.

Want to avoid those costs? You could encourage your children to sign prenuptial agreements with their future spouses, says Pittsburgh attorney and accountant James Lange. The agreement would specify that each spouse gets to keep all investment growth on inheritances, gifts and premarital assets.

Of course, prenups aren't popular with prospective spouses who are about to get carved out. But it can actually work to their benefit, because the prenup will encourage their in-laws to be more generous.

"When I talk to the son-in-law, I tell him not to be a jerk about it," Mr. Lange says. "You'll get an indirect financial benefit, because your spouse will have more money. It's not likely that she'll eat steak, but give you hamburger."

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