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When One Spouse Gets an Inheritance, It Can Be Hard on a Marriage

Most states recognize inheritances as separate property, and many experts say keeping them separate is often the best approach

By: Cheryl Winokur Munk, Sept. 13, 2020

It can be a blessing for a couple when one partner receives an inheritance. But it can also be a curse.

While there often is an emotional high that comes with being given money, property or some other valuable asset, inheritances also are associated with legal issues, emotions and life-altering decisions that can put pressure on even a healthy partnership. Spouses, for instance, may disagree on how an inheritance should be used or whether it should be set aside for children from a previous marriage. There also is the question of what might happen to the inheritance in the event of a death or divorce.

Couples are advised—perhaps with the help of financial advisers, trust-and-estate attorneys and other experts—to start formulating a plan as soon as they know an inheritance is coming their way.

“An inheritance can really cause a lot of turmoil in a marriage, so it’s often best that couples discuss these issues before receiving it,” says Megan Gorman, managing partner at Chequers Financial Management in San Francisco.

Cleaner and simpler

For starters, couples should familiarize themselves with the legal issues surrounding inheritances. Most states, even community-property states, typically recognize inheritances as separate property. However, if a married couple co-mingles an inheritance—say, by putting it in a joint account or putting both of their names on a deed—it will become much harder (perhaps impossible) to separate it out again should the need arise.

“Even in the happiest of marriages, it just keeps matters cleaner and simpler and ensures the funds are always protected in a worse-case scenario,” says Michele Lee Fine, president of Cornerstone Wealth Advisory in Jericho, N.Y.

That doesn't mean inherited funds can't—or shouldn't—be used for the family's benefit.

Allison Kade, age 33, and her husband, Boris Kerzner, age 37, had been married for about two years when Mr. Kerzner's grandmother died, leaving him an individual retirement account, which can only be in one person's name. They spoke about what was important to him, what felt like an appropriate use of the funds and what his grandmother would likely have wanted. Together, they decided the funds should be used to allow Mr. Kerzner to attend graduate school, which he did full-time until June.

Had they not used the inheritance this way, they would have had to take on debt, making it a good solution for both spouses, says Ms. Kade, editorial director and millennial money expert at Fabric Technologies Inc., a company that offers life insurance, wills and tools to organize a family's finances.

“It would have affected my finances if we had to take on student loans,” she says, “yet it still allowed the use of the money to feel special to him.”

Couples who decide to use part of an inheritance to make a big purchase—say, a vacation home—should be careful about how that purchase is structured and recorded. Experts advise writing a check directly from an account designated for the inherited funds, and keeping records to show the withdrawal. In the event a check for such a purchase needs to be drawn from a joint or single account, the inherited funds should

only be placed in that account for a short period, close in time to the purchase, so it is clear that the funds were transferred for “convenience purposes” for that particular transaction, says Adam D. Citron, partner at Davidoff Hutcher & Citron LLP. He also suggests having a written agreement, signed or acknowledged by the other spouse, that the money was contributed with the understanding that upon a sale (or divorce), the inherited funds and any appreciation would be credited back to the contributing spouse.

Addressing the emotions

Even when there are legal reasons for spouses to keep inherited funds separate, digesting this emotionally can be a sticking point for their partners.

“Even when rational, educated people say, ‘I get it, it is not my money, it is his/hers and it is a law...there is still an acknowledged feeling of ‘but why wouldn’t he/she see it as ours,’ ” says Lynn Zakeri, a licensed clinical social worker and private practice therapist with offices in Skokie and Northfield, Ill.

Instead of ignoring these emotions, couples should talk them through, and there shouldn’t be secrets, Ms. Zakeri says.

Sometimes taking a fact-based approach can help ease the resentment one spouse may feel. Natalie Slagle, a certified financial planner, offers the example of a husband in his 50s who inherited \$100,000 from his parents and wanted the funds to be set aside for his children from a previous marriage.

His wife felt hurt because, in her mind, she had every intention of giving the funds to the children in the event of her husband’s death, and she didn’t see the need to formally keep the funds separate, says Ms. Slagle, who with her husband, Daniel Slagle, owns Fyooz Financial Planning, a registered investment adviser in Rochester, Minn.

The advisers ran projections showing the wife that she would be sufficiently provided for in the event of her husband’s death, since the majority of his roughly \$1 million estate was earmarked for her. They also helped her understand that by co-mingling the funds, the inheritance could be at risk if, for example, she racked up significant medical bills later in

life or creditors went after her estate. "It's not just a matter of trust," Ms. Slagle says they told the wife. "It's how do we protect this money from other people?"

Of course, there can be valid reasons to co-mingle an inheritance but couples should be sure they understand the risks before doing so.

Storey Jones, founder and chief executive of dtour.life, a divorce-management platform based in New York, offers the example of a couple who expected to receive a sizable inheritance from the husband's family. Because they planned to use that for their retirement, they were very lax about retirement savings, and used up the wife's inheritance to pay for their children's college educations. When the husband filed for divorce, the wife was left without access to her ex-husband's expected inheritance and without a comfortable retirement nest egg. In her late 50s, she had to ramp up her hours at work to keep a roof over her head, Ms. Jones says.

These can be uncomfortable conversations to have, she says, but couples need to look past the emotions. "Because it's difficult is not a reason to avoid the conversation," Ms. Jones says. "It's far more difficult to face the consequences of it during your divorce."

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