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The Real Story Behind Trust Fund Kids

When we hear the phrase "trust fund kid," words like "entitled," "privileged," and "financially irresponsible" might come to mind. But another word we should associate with "trust fund kid" is "protected."

What Is a Trust Fund Kid?

According to a Forbes article published in 2021 about trust fund kids, three of the most common misconceptions are that trust fund kids all come from ridiculously rich families, they have it easy, and everyone who has serious money must have a trust fund.[1] While these misconceptions may apply to some trust fund kids, it does not apply to the majority. The reality is that a trust fund kid does not necessarily live a life filled with lavish trips, designer clothes, and expensive cars— they are simply a young beneficiary of a trust. When most people hear the word "trust," they envision an endless pot of money freely accessible to the beneficiary. Trusts are created for a variety of reasons, however, and are not just planning tools that benefit the ultrawealthy.

Why Do Trust Fund Kids Have Such a Bad Reputation?

This bad reputation stems from a fundamental misunderstanding of trusts and the benefits they can provide. The existence of a trust often indicates that an individual has taken the time to plan for the future of their children or loved ones, and instead of deciding to leave money to these individuals outright with no protections or conditions, they have decided to protect those funds. Whether the amount held in trust is millions of dollars or far less, trusts can be structured to ensure that the money lasts, is used for specific purposes, or even is held for the future benefit of children or loved ones. Added benefits of utilizing a trust are privacy, as trusts are not usually filed with a court and therefore are not subject to the public eye, and avoiding the probate process, which in some cases can be costly and time-consuming.

Preventing the Negative Consequences

Limit Control

After learning more about the real story behind trust fund kids, you may be curious and want to explore the positive ways a trust could benefit your own children or loved ones. To avoid the negative stereotypes surrounding trust fund kids, you will want to consider how much control you would want them to have over their own trust. Granting too much control could lead to uncontrolled spending or unreasonable purchases.

Make Your Beneficiary Earn Their Inheritance

You may want to avoid the perception that your children or loved ones have it easy and should therefore consider building in provisions that will require them to "earn" portions of their trust. This structure can incentivize your children or loved ones to achieve more by reaching certain milestones such as completing postsecondary education, finishing trade school, serving in the military, or starting a business. You can elect to have the trustee purchase certain assets, such as a home, in the name of the trust to ensure that the assets are provided to your children or loved ones, while the trustee is responsible for ensuring that they are properly maintained and not sold on a whim.

Consider Loans Instead of Outright Gifts

You have worked hard to build your wealth and want to leave protected funds that can benefit your children or loved ones in a different way. There are many wealthy individuals who do not want to leave money to their children or loved ones because they believe it may disincentivize them to pave their own way. As it is, the majority of young adults do not have the ability to obtain financing with favorable terms on their own. For those of you who want to provide a more conservative form of support, you can allow your trust to provide favorable loans to your children or grandchildren that they will have to pay back with interest, allowing the principal to grow for future generations.

We Can Help You Avoid the Downsides of a Trust Fund Kid

Although being a trust fund kid often has negative connotations, by working with an experienced estate planning attorney and exploring the positive aspects, you may want to make your own children or loved ones trust fund kids. We can help educate you further about how a trust can benefit you, protect your children and loved ones, and provide a way to support them in the future.

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1 3 Common Misconceptions about Trust Fund Kids, Forbes (Oct. 27, 2021), https://www.forbes.com/sites/qai/2021/10/27/3-common-misconceptions-about-trust-fundkids/?sh=38fbf5677b64.