Beach House Succession Planning
A Case Study

Christopher Cahill, J.D., CFP®, CAP®

As soon as James and Holly McDonald saw the house, they knew *it was the one.* They'd been thinking about buying a Cape Cod beach house for several years, but none of the properties they viewed seemed quite right.

Their three kids were approaching adolescence and the McDonalds wanted their vacation home to be within walking distance of the beach, large enough to accommodate friends and family, close enough to their Boston-area home to allow for day visits, and in a neighborhood with lots of similar-aged children.

The 19th-century ship captain's house in Falmouth Heights met all their needs and, despite needing substantial repairs and remodeling, they made an offer on the spot.

They never regretted the purchase. James and Holly spent several years and a significant amount of money returning the property to its original glory -- all the time creating family memories that turned the house into a beloved home. They watched their children grow up, attend college, begin careers, fall in love, and suffer broken hearts.

Today, as their oldest son got engaged to his college sweetheart on the beach by their house, they realized they wanted to do everything possible to keep the house in the family long after they were gone. Not knowing where to begin, **the McDonalds scheduled a meeting with their wealth manager, Chris Cahill of Twelve Points Wealth Management, to discuss the various options available to them.**

The first thing Chris advised was to take a step back and take a holistic view of their entire financial picture. While the Cape house was uppermost in their minds, its disposition would impact the McDonalds' other assets. Chris provided a detailed listing of their investment portfolio; and as with many other clients, James and Holly were surprised to learn exactly how much wealth they had accumulated.

When tallying the value of their primary residence, retirement accounts, brokerage accounts, stock options, deferred compensation, plus the Cape house, the McDonald had a net worth in excess of $11 million. **And while substantial wealth is a good problem to have, it can also create substantial estate tax problems for heirs.**

Based on this high-level look at their assets, the McDonalds wanted to explore two parallel avenues: *how to keep the Cape house in the family while simultaneously helping to reduce their overall estate tax burden.*

With the clarity of this more targeted goal, Chris brought an estate planning attorney into the conversation. Working with Attorney Tim Borchers at Borchers Trust Law and the McDonalds, Chris helped them design a plan that suited their vision and values.

This is how the implemented plan addressed the desire to bequeath the Cape house to their children:

- The property ownership was split into fractional shares.
- The shares were valued by a qualified appraiser.
- James and Holly each contributed their respective share of the property to a Qualified Personal Residence Trust (QPRT).
- At the end of the trust terms (15 years for James and 20 years for Holly), the ownership of the property would pass to a continuing trust for the benefit of the children.
- James and Holly retained the right to rent the property from the trusts at the end of the trust term for fair market value.
- A survivorship life insurance policy -- which would pay the death benefit after both James and Holly had passed away -- was purchased to help the children fund the ongoing maintenance costs associated with ownership of the Cape house.

While this plan was right for James and Holly, there is no one-size-fits-all succession plan for passing along a second home to the next generation. The McDonalds made the decision to work with estate planning specialists to ensure their goals were met, and that is the one approach that does indeed work for everyone.

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