

Estate Planning Today



The Estate Planning Challenge

When it comes to estate planning, there are a variety of challenges. Luckily, there are also a number of reliable, time-tested planning approaches that are both effective and economical. The first and most central component is a will, but it is also important to separately consider substantial assets—retirement plans, jointly-owned property, life insurance—that pass directly to named beneficiaries. And of course, estate planning is not just about what you pass on but to whom—family members, friends, loved ones, and often meaningful charities. In fact, creating a charitable legacy can be a positive and integral part of estate planning.

Does It Pass by Will?

Some assets pass through probate before they are distributed to heirs (probate assets) while others bypass the court process and go directly to beneficiaries (non-probate assets). Let's look at an example.*

Paul recently passed away, and his estate is typical. He was married, and his house and bank accounts were jointly owned with his wife, Agnes. Paul owned a portfolio of stocks, bonds, and mutual funds. He was retired and Agnes was the named beneficiary of his retirement plan. He owned two life insurance policies—Agnes was the beneficiary on one, and his grown son, William, was the beneficiary on the other. Paul's will described the division of his assets, but did it govern the distribution of *all* his property?

No—only the investment portfolio was subject to probate under the terms of Paul's will. The rest of his property was distributed like this:

- Property he jointly owned with his wife passed directly to Agnes.
- Retirement plan assets also passed directly to Agnes, since she was named on the plan's beneficiary designation form.
- Life insurance proceeds passed directly to the named beneficiaries, Agnes and William.

Planning Your Will

Each state has statutes that specify the requirements of a valid will. It's important to consult an attorney to ensure that your will meets the requirements of your state (if you move or own property in another state, it's important to consult an attorney in that state as well).

*All examples are for illustrative purposes only.

In general, you can:

- Bequeath a sum of money, a specific property, or a specified percentage of the value of your estate to a beneficiary of your choosing.
- Create a trust through your will or during your life.
- Nominate one or more executors to manage the settlement of your estate (typically a family member, a friend, your attorney, or a bank or trust company) and define the executor's powers.
- Name one or more beneficiaries (such as a charity) to receive the residue of your estate—any property not specifically bequeathed.

A GIFT TO CHARITY IN YOUR WILL

If you would like to discuss a memorial bequest, or if you would simply like to know more about planning a gift in your will, please contact us.

A Revocable Living Trust

There is also another method for directing the transfer of your assets—a revocable living trust. As the name implies, this is a trust you create during life that you are free to change or revoke at any time.

When you transfer properties to a revocable living trust, the trust becomes the legal owner of those properties. You can serve as trustee, making certain to name a substitute trustee to take over in the event of death, disability, or incapacity. You can reserve the right to receive all the trust income for life, add or remove property, or modify or cancel the trust arrangement at any time.

A revocable living trust takes more money and effort than a will, but it can accomplish more. The trust can:

- Manage assets during life, then distribute them at death.
- Minimize probate costs, since assets transferred to the trust are usually not subject to probate.
- Make income and principal available to your beneficiaries immediately, since it won't be tied up in probate.
- Keep transfers private, away from the public scrutiny of probate.

Steps to an Effective Estate Plan

Probate assets are often only a fraction of the total value of an estate, so a will is only part of any estate plan. A good estate plan coordinates the disposition of all of the assets.

One: Determine Objectives

It is important to look at your ultimate objectives—not in terms of dollars, but in terms of what you want to accomplish. Do you want to provide security for your spouse? Financial protection for dependent children? An inheritance for adult children? A gift for certain friends? A donation to express your commitment to one or more meaningful charitable organizations?

Planning Tip: Take the time to write down your ultimate estate objectives. At this early stage, forget about dollars. Simply think about your legacy and what you want to accomplish for yourself and your beneficiaries.

Two: Prepare an Estate Inventory

Make a list of your assets:

- Securities (stocks, bonds, mutual funds)
- Real estate (including vacation property and investment property)
- Bank accounts (savings, checking, CDs, money market)
- Personal property (art, collections, jewelry, furniture, cars, etc.)
- Life insurance (cash value, term, universal, group, etc.)
- Retirement assets (IRAs, 401(k)s, pension plans, etc.)
- Digital assets (digital currency, online payment services, online banking, etc.)

Planning Tip: Be sure to include all your assets, even jointly owned property.

Three: Consider Trusts

One early decision you will need to make is whether you want to leave property outright in your will or in trust. Certainly, if the beneficiary is a minor, or ill or incapacitated, it makes more sense to place the property in trust. You might also consider a trust when you want to:

- Save the beneficiary from the task of managing property or other assets.
- Ensure that property or income will be available to provide security for the beneficiary's lifetime.
- Pass property (or income from the property) to one person immediately, then to charity or another person at some later time.

Planning Tip: Your attorney can draft a trust to accomplish your objectives. You name the trustee and define the trustee's powers and duties. You name the beneficiaries and define their rights, along with what they will receive.

Four: Consider Life Income Gifts

Because estate planning includes coordinating charitable giving with estate and retirement planning, it can be helpful to know about life income gifts. A life income gift can accomplish two important goals at once—supporting our mission and providing a lifetime income for you and/or someone else. There is flexibility in how you plan and structure a life income gift, who receives payments, and when the income period begins.

A charitable gift annuity is the simplest life income gift. It is easy to set up and can provide income to one or two beneficiaries for life.

A charitable remainder trust is another option. It can have more than two income beneficiaries, and while it offers greater planning flexibility than a charitable gift annuity, it usually requires a higher gift commitment and more complex planning.

Contact us for additional information—life income gifts are an appealing way to meet philanthropic goals *and* provide income for retirement.

The Rewards of Estate Planning

Effective estate planning takes time and effort. Frequently, the process involves making complicated or difficult decisions. Nonetheless, the rewards more than justify the costs. We encourage you to contact our office if you have questions or concerns.