Estate planning

Leaving your things in the right hands

Special Report

Everyone has an estate. And everyone dies. But not everyone has a plan for their estate when they die. That's when things can get messy. By getting your estate in order now, you can help avoid potential problems at a time when family members are already dealing with the loss of a loved one.

Now what happens?

When you die, what happens to your assets? If you still have young children, who looks after them? Will estate taxes leave little for your heirs? Proper estate planning can help ensure these and other important issues are addressed before you die – so you don't leave behind a legacy of headaches.

Contrary to many people's beliefs, estate planning is not only for the wealthy. It's for anyone with an estate. And that includes just about everyone.

An estate – simply stated

An estate is all the things you own at death – from your bank accounts, life insurance and retirement plan assets to your house, furniture and jewelry. An estate plan communicates how you wish to distribute those things upon your death. An estate plan can also limit the impact of estate taxes on the assets you leave your heirs, while providing instructions for family and friends regarding your final arrangements.

Where there's a will, there's a way

Most people assume that their assets automatically get passed on to their spouse, children or other family members. Not necessarily. Without a will, all your assets are transferred to your estate, and then a probate court determines who gets your stuff. Do you really want someone else deciding how to allocate your things among family members?

A will provides a basic list of instructions that tells the courts exactly how you want your estate settled. If you die without a will, your estate will be left to the courts, which could tie up your assets for a long time and diminish your estate with taxes that might have been avoided. And, most important, your estate may not be distributed according to your wishes.

Choose wisely

When planning your estate, in addition to deciding how to distribute your assets, a number of other important choices must be made, including:

- **Beneficiaries** – Determine your intended heirs and who would benefit most from your accumulated assets. Be sure your beneficiary designations on life insurance, retirement accounts and other investment contracts reflect your wishes. Note that the beneficiary designation for these types of financial instruments will be governed by the beneficiary designation on record with your plan sponsor or investment provider, and not according to the beneficiary designations under your will. So be sure to keep them up to date.
- **Executor** – Choose an executor of your estate who will be responsible for carrying out your wishes, paying applicable taxes and handling other aspects of your estate. Whether you choose a family member, friend or financial institution, be sure to discuss your decision at length with the person.

- **Guardian/Trusts** – Appoint a guardian if you have children under age 18. This becomes important if either the other parent is not living, or if both parents die at the same time. If you do not name a guardian, a family court will do it for you. Also consider establishing trusts to fund children's care.
- **Living Will/Power of Attorney** – Consider a living will, or health-care proxy, that appoints someone else to make decisions about your medical care should you become incapacitated and unable to make such decisions yourself. A more powerful document to consider is a durable power of attorney, which permits someone else to make financial decisions on your behalf.

Taxes – even in death!

Estate taxes can take a large chunk from the value of your estate upon your death. The recently enacted American Taxpayer Relief Act of 2012 (ATRA) established an exemption base of $5,000,000 for gift taxes, estate taxes and generation skipping transfer taxes. This base is indexed for inflation annually and in 2014 the inflation-adjusted exemption for gifts, estate taxes and generation skipping transfers is $5,340,000. Inflation adjustments in future years should cause these exemption amounts to increase further. Transfers that exceed the applicable exemption amounts are subject to a top marginal tax rate of 40%.

The bill also provides for "portability," which would allow a surviving spouse to elect to take advantage of the unused portion of the estate tax exclusion of his or her predeceased spouse, thereby providing the surviving spouse with a larger exclusion amount.

Final considerations

Final arrangements can become a topic of contention among family members if they don't know your personal wishes. Be sure to record your wishes regarding funeral, burial or other arrangements in a document other than your will. Discuss your wishes with loved ones, if you can, and make sure someone knows where you recorded your preferences.

Also, be sure to have enough money available to cover the immediate costs of settling your estate. If properly structured, life insurance can provide your family with immediate access to money, since it does not pass through probate and is not subject to estate or income taxes.

Getting your estate in order

Estate planning is important if you want to settle your estate the way you see fit – and not leave it to someone else. By drafting a will, updating your beneficiaries and talking to your family about your final wishes, you'll be taking the first steps towards getting your estate in order, while helping your family avoid possible problems later. To learn more about estate planning, contact your Financial Professional or Tax Consultant.

For more information, contact the local office today.

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