

Investor education

Learn about estate planning

Having a voice in how your estate is settled

Just as your financial plan gives you control of your investments while you're alive, a carefully conceived estate plan allows you to decide how your assets should be handled when you die or become incapacitated.

The importance of a good estate plan

Estate planning is vital for ensuring that your property is distributed according to your wishes and that any taxes, fees, and work involved in settling your estate are minimized.

Your financial advisor has provided this guide to help familiarize you with the process and to answer some of the questions you may have about estate planning.

Estate planning offers a host of benefits

Spending the time to develop a sound estate plan helps put you in charge of how financial decisions will be made when you die and how those and medical decisions will be made if you become incapacitated. Besides peace of mind, an estate plan can help:

- Ensure that your assets are distributed in a timely manner with a minimum of legal hassle.
- Provide support and stability for your surviving spouse, children, or grandchildren.
- Preserve assets for future generations. This is especially important if your estate is large enough to be subject to estate and inheritance taxes or if you have children from a previous marriage.
- Ensure that your wishes are carried out if you can no longer manage your affairs or when you die.
- Support a favorite charity with a gift of money, securities, or other property. This is especially true if you plan to establish a charitable trust or legacy that is intended to exist for a specified period of time or for perpetuity.
- Minimize the taxes and expenses that may be incurred in settling your estate.
- Provide sufficient cash to meet the estate's expenses and avoid the forced sale of assets.
- Protect your privacy. A will becomes a public record once your estate is settled, so anyone with an interest in your finances can pry into them. An estate plan can be designed to prevent such an invasion of privacy.
- Set realistic expectations for your heirs, with the goal of avoiding confusion, resentment, and potential lawsuits.
- Make certain that your family business will pass intact to your heirs.

Consider these simple questions

Answering a few fundamental questions can help you appreciate the importance of an estate plan and the ways in which it can help protect your assets and ensure your legacy.

Whom do you want to inherit your assets?

How your money is handled after your death is, in many ways, as important as how you handle it now. You probably have specific ideas about the way your property is distributed, whether it's your home, automobiles, securities, jewelry, or other valuables. Through the use of a will or trust in your estate plan, you can state your wishes in a legally binding way.

Whom do you want to make financial decisions for you if you become incapacitated?

If you're unable to manage your affairs, a durable power of attorney lets you name a representative to act in your place, allowing a trusted family member or friend to manage your finances, access your records, pay your bills, and otherwise handle your affairs. It's easy to understand how critical such a decision could be.

Whom do you want to make health care decisions for you?

A durable power of attorney for health care lets you name a trusted person to make medical and end-of-life decisions for you if you're unable to make such decisions on your own. You can also specify your instructions for medical and end-of-life decisions by creating a living will.



Assessing your situation

An important step in establishing an estate plan is to consider what you hope to achieve with the assets you distribute.

An experienced estate planner will encourage you to focus on two key elements that will provide the basis of your estate planning: the goals you have for your assets and the characteristics of your intended beneficiaries.

Establish your goals

Consider these questions as you begin to formulate the objectives you have in mind for your estate.

- Do you have concerns about whether your heirs have the ability to manage or protect your wealth?
- Do you expect a change in the amount of your assets, such as an inheritance?
- Do you plan to make substantial gifts during your lifetime?
- Do you have a family business that you expect will continue in operation?
- Do you have interests in any trusts?
- Do you have family members with special needs?
- Do you have stepchildren from a previous marriage whom you want to include in the distribution of your estate?

Evaluate your assets

Your estate includes everything you own: investments, retirement accounts, real estate, personal property, and any business interests. It also includes the proceeds from any insurance policies, certain trusts, and joint accounts you own with your spouse or another person. Completing this worksheet will help as you begin your consultations with your estate planner.

Valuing your estate*

ASSET CATEGORY	ASSETS IN YOUR NAME	ASSETS IN YOUR SPOUSE'S NAME	ASSETS OWNED JOINTLY**
Taxable accounts	\$	\$	\$
	\$	\$	\$
Retirement accounts	\$	\$	\$
Life insurance	\$	\$	\$
Annuities	\$	\$	\$
Personal residence	\$	\$	\$
Other real estate	\$	\$	\$
Personal property (cars, furniture, jewelry, artwork)	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
Business interests	\$	\$	\$
Other	\$	\$	\$
Subtotal	\$	\$	\$
Minus debts	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
Total	\$	\$	\$
Date			

*This worksheet is intended to provide only an estimate of your estate values; you should not rely on it as an exact account.

**Indicate if the joint owner is someone other than your spouse and if any of the assets are subject to community property laws. The following states have mandatory community property systems: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Alaska has an opt-in system, that is, both parties must agree that their assets are community property.

The basic tools of estate planning

At its most basic level, estate planning starts with understanding how the ownership of your property will pass to your beneficiaries when you die. There are a number of tools available to ensure that your wishes are carried out according to your plan.

Last will and testament

A will is probably the most commonly recognized estate planning tool. A will is simply a set of instructions explaining when and how property is to be distributed after the owner's death.

In most cases, a will is a formally prepared document that is signed in the presence of witnesses.

Perhaps the most important nonfinancial reason for creating a will is to name a guardian for any minor children. Without a will, a state court may dictate who will become the guardian of your children.

Why a will is important

If you die without a will, you die intestate and your property will be distributed according to state law. Each state has its own formula for distributing property. Often, half of an estate will go to the surviving spouse and the other half will go to the children. This arrangement has the potential to cause financial and emotional difficulties, especially if minor children are involved.

A will can also help minimize taxes, especially if you have a significant estate. In addition, a will allows you to name someone you trust to manage your estate. That person is usually called an executor or personal representative.

Wills don't cover everything

With a will, you can control the distribution of a wide range of assets, including investments, real estate, family heirlooms, and businesses. However, certain other assets will usually pass independently from your will. Among them are the proceeds from life insurance policies, retirement assets, and assets owned as joint tenancy with rights of survivorship and those stipulated as transferable on death. Your estate planner can help clarify your situation.

Personal trusts

Trusts are another important tool of estate planning that can be structured to help you meet your specific needs.

Actually, the basic concept of a trust is simple: A trust is an arrangement whereby one person (the grantor) transfers money or property to a trust to be managed by another person (the trustee) on behalf of a beneficiary.

Every type of property, including real estate, investments, life insurance, personal property, and even interests in certain limited liability companies, can be placed in a trust.

Trusts offer valuable benefits

Trusts allow you to place specific conditions on how and when your assets will be distributed after your death. They ensure that your assets are distributed efficiently and cost-effectively by avoiding probate costs, and they may protect your assets from creditors and lawsuits. Trusts are also an effective way to protect the interests of your beneficiaries who may need that protection, such as minors, those with special needs, or potentially spendthrift heirs.

Pick the right trustee

A carefully prepared trust arrangement can ensure that your assets are managed and distributed according to your wishes in a tax-efficient manner. However, many estate planning professionals agree that the most commonly overlooked aspect of establishing a trust is the critical importance of picking the right trustee.

Trusts can last for years, so take the time to make sure the person you choose has the time, the interest, and your complete confidence to perform his or her duties as you expect.

The essential elements of a trust

Every trust must include these four fundamental elements:

Grantor—The person who creates the trust.

Trustee—The person or institution that agrees to hold and manage money or property for another person's benefit according to the terms of the trust.

Principal or corpus—The money or property that is being held by the trustee.

Beneficiary—The person or institution that will benefit from the trust.

The basic types of trusts

The two main types of trusts are living (inter vivos) trusts and testamentary trusts. A living trust, as the name implies, takes effect when you're alive. The primary reasons for setting up this type of trust are:

- The desire for professional asset management in the event of your incapacity.
- The lack of time or inclination to manage your financial affairs.
- The desire for a professional trustee to manage your estate after your death, and the desire to "test" the arrangement.
- Property ownership in more than one state.
- The desire to avoid probate.
- The risk of your will being challenged in court or becoming public.

A testamentary trust is created within a will and only becomes effective after the grantor's death. Common reasons for choosing a testamentary trust are:

- The desire to control how your beneficiaries use their inheritance.
- The need to provide for stepchildren from a previous marriage.
- The desire to care for a child with special needs.
- The desire to optimize estate tax planning.
- The wish that trust assets eventually go to a charity or someone other than the initial beneficiary.

Trusts can be revocable or irrevocable

A revocable trust is created while you're alive and becomes effective when you sign the trust document and assets are transferred to the trust. It can be changed or revoked at any time, so you always have control. Only upon your death does the trust become irrevocable (unchangeable).

An irrevocable trust can be created either while you're alive or through the terms of your will after you die. Once it is created, it can't be changed or revoked without the permission of a court, in most instances.

An irrevocable trust may offer tax advantages that a revocable trust does not. An irrevocable trust may remove assets from the grantor's taxable estate.

Other common trusts

The trusts described reflect the basic types available, but as you work with your financial advisor and your estate planner, you'll likely learn about specific trusts that might be suitable for your planning goals. Commonly used trusts include:

- Bypass or credit shelter trust.
- Marital trust.
- Charitable trust.
- Special-needs trust.

Because trusts can be customized to meet your goals, it's important to consult with your financial advisor or estate planning professional for detailed information about the types of trusts that best fit your estate planning needs.

Substitutes for trusts and wills

Property isn't always passed on through personal trusts and wills. You can also leave property through beneficiary designations, business contracts, and certain forms of ownership. These different will substitutes can often override the terms of your will with regard to the property they control.

Many people own property jointly with a right of survivorship. Property owned as a joint tenancy with right of survivorship or a tenancy by entirety will pass the property directly to the other tenant upon your death.

Beneficiary designations are a common way for property to pass outside of a will. Some examples include:

- Beneficiary designations on insurance or annuity contracts, 401(k) plans, IRAs, and qualified pension plans.
- Pay-on-death and transfer-on-death accounts that allow funds to be deposited for the benefit of someone else upon your death.



Other estate planning tools

Even if you have a will and a personal trust, there are a number of other tools that can help you and your family to plan for contingencies. These include:

- An advance directive for health care (often called a living will), which provides instructions for your physician on the types of life-sustaining treatment you do and do not want if you're unable to make your wishes known.
- A health care power of attorney, which enables a trusted relative or friend to make decisions about your medical care in the event that you're unable to do so.
- A financial power of attorney, which provides for the handling of your affairs and the management of your assets if you're no longer willing or able to handle them.
- A letter of instruction, which informs your family of your wishes regarding matters such as funeral plans and obituary information that aren't covered by other documents.
- A comprehensive listing of personal and financial details to help your family easily locate all your assets and key contacts, such as your lawyer, accountant, and others whom they may need to consult.

Once again, your financial advisor and estate planning professional can help you create a plan that's right for you and that conforms to the laws of the state or states where you live or own property.

The importance of tax planning

The larger your estate, the more critical it is to minimize your tax liability.

Ask yourself a few questions

For tax year 2023, for estates valued at more than \$12.92 million, federal transfer taxes can be as high as 40%. Failure to plan for the impact of estate and inheritance taxes could leave your family's property vulnerable.

Keep in mind that everything you own, from investments, real estate, insurance proceeds, and retirement plans to jewelry and collectibles, is subject to the estate tax. So it's essential to develop an effective estate tax plan. Tax laws may change in the coming years, so work closely with your financial advisor or your tax professional to ensure that you're taking full advantage of all the tax planning opportunities that may be available to you.

As you think about your estate plan and work with your financial advisor or estate planning professional, consider these questions.

- How important is it for you to control all your assets during your lifetime?
- How much complexity can you deal with, and how much work are you willing to do to save on taxes?
- How willing are you to undertake aggressive estate tax strategies?

Your answers could help you determine the level of tax planning that's appropriate for you.

Manage your estate tax by transferring assets

One basic tool for estate tax planning is to give away money so it's no longer part of your estate. Here are some common ways to transfer assets.

- Give money or property to family members, or friends. You can make annual gifts of up to \$17,000 each (subject to cost-of-living increases) to as many people as you wish without owing tax.
- Give an unlimited amount to charity.
- Contribute to a family member's or friend's 529 college savings plan or prepaid tuition plan. Special tax rules can make this option an especially powerful estate planning tool.
- Pay any amount toward another person's tuition or medical bills.
- Give any amount to your spouse.

Consult with your financial advisor and your tax professional to ensure that your giving plans fit with your overall estate plan and conform to existing tax rules.

Estate planning and children

Estate planning takes on special meaning when children are involved, especially when a child with disabilities needs to be provided for.

Estate planning for parents of a disabled child

If you have a child who is disabled and unable to live independently or assume traditional money management responsibilities, you will need to discuss with your estate planner what additional steps must be taken to protect your child's welfare. These steps may include having provisions in your will naming a guardian to care for your child, sometimes called "guardian of the person," as well as a guardian to manage the assets you may leave the child, sometimes called "guardian of the estate." You can choose different people for these roles or authorize a single person with the responsibility.

The question of establishing a trust

Depending on your child's disability and whether the child may need lifetime care, you also might consider establishing a trust for the benefit of the child or acquiring additional life insurance to provide the resources the child might need.

If there is a possibility that your child might need government-provided benefits, your planner might suggest that you establish a special-needs or supplemental-needs trust. These trusts are designed to protect the assets for your child's additional needs, above the basic support provided by the government. These are just a few of the planning tools available to help you ensure the care for your disabled child. If you have a disabled child, you should consult with your estate planning professional to discuss all the options available to you.

Providing for stepchildren from a previous marriage

Remarriage can present special estate planning issues when it comes to providing for stepchildren from a previous marriage. Especially important is planning your estate to avoid potential conflicts between stepchildren from a prior marriage and your spouse and children from your current marriage.

Here are some questions to consider.

- How will your spouse and all children be provided for?
- Is everyone being treated fairly?
- Are there other people who can care for a minor child if the child's parent dies?
- Are there other resources available to one or more of your intended heirs?
- Are the children minors or adults?

Although providing for stepchildren from a previous marriage may present special challenges, there are a number of estate planning steps you can take to ensure that all your children are provided for according to the wishes of you and your spouse.

Depending on the circumstances, your financial advisor or estate planning professional may suggest any of the following solutions.

Create a prenuptial or postnuptial agreement. Marital agreements, whether written before or during the marriage, can clarify your and your spouse's wishes as to how assets will be distributed (including those brought into the marriage).

An alternative to a marital agreement may be the establishment of trusts that stipulate the wishes of both you and your spouse.

Create a marital trust. Many planners will recommend that instead of leaving assets outright to your spouse, you leave the assets in a trust that will provide for your spouse's needs during his or her lifetime but leave any balance at your spouse's death to your heirs. A common trust used for this purpose is known as a qualified terminable interest property trust, or a QTIP trust. Such trusts will protect your spouse but ensure that any remainder goes to your named beneficiaries, usually your children.

Use life insurance. There are several options available. You can name your stepchildren as beneficiaries of a life insurance policy you own. You can establish a trust to hold life insurance purchased specifically for their benefit. You can give premium payments to your stepchildren to enable them to purchase life insurance policies on your life.

Name your stepchildren as beneficiaries of your retirement plans. Though this can be an effective way to ensure that your stepchildren receive an inheritance, you will need your spouse's written consent to name anyone other than your spouse as the beneficiary of certain employer-sponsored retirement plans.

These are just a few of the many ways you can ensure that your estate plan includes provisions for stepchildren from a previous marriage. Consult carefully with your estate planning professional to determine the best alternative for your circumstances.

Picking experienced estate planning professionals

Estate planning is a dynamic process that can affect your financial, tax, medical, and business planning—not to mention the people you love. Ensure the effectiveness of your estate plan by consulting with a team of skilled professionals.

As your financial and personal situations change, your estate plan will inevitably need to evolve. In addition, federal and state laws affecting estate and inheritance taxes are complicated and subject to change. That's why it's crucial that you entrust your estate plan to knowledgeable professionals who can help you create a plan that will fit your needs now and into the future.

Your estate planning team

Use your existing relationship with your financial advisor as a starting point for putting together a team of qualified estate planning professionals. Depending on your financial advisor's technical expertise, he or she may be prepared to assist with a variety of aspects of your estate plan.

In all likelihood, though, you'll also need to include some or all of the people listed below on your estate planning team.

Attorney. It's the attorney's responsibility to draft all necessary legal documents and provide legal advice. Be sure to hire an attorney who specializes in estate law.

Accountant. An experienced accountant is critical to effectively implement an estate plan that is tax-efficient. Depending on the size of your estate, your accountant may need to be familiar with estate and gift taxes, as well as income taxes.

Insurance agent. Your insurance agent can help you determine the types of insurance and level of coverage that you'll need to meet your estate-liquidity and survivor-income needs.

Trust officer. Your trust officer will administer the trust arrangements according to the trust document drafted.

While your financial advisor is a good source for helping you find qualified people for your estate planning team, family, friends, and trusted colleagues can also provide valuable recommendations. However, before you hire anyone, take the time to conduct an interview, getting detailed information about his or her capabilities.

Anyone you hire should be able to provide you with a reliable estimate of the cost of his or her services. It's also very important that you and your family are comfortable with whomever you hire, since estate planning can involve some very private and personal issues.

You've probably spent a great deal of time and energy accumulating your wealth. A good estate plan keeps you in control of everything you've worked for and protects your interests and those of your loved ones.

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