

## Six Key Considerations of Estate Planning



### **What is Estate Planning?**

Estate planning involves arranging for the management and disposition of a person's estate after their death. It involves making decisions and setting up legal documents to ensure that assets are distributed according to the individual's wishes, to minimize taxes, and to provide for the financial security of their loved ones.

### **Why Do You Need an Estate Plan?**

There's a misperception that estate plans are only for the wealthy, but most people can benefit from one. Why?

- **Family Protection:** Ensure your assets are distributed according to your wishes.
- **Minor Children:** Appoint guardians for your children.
- **Incapacity Planning:** Make sure your financial and healthcare decisions are managed if you become unable to do so.
- **Tax Efficiency:** Minimize estate taxes and other transfer taxes.
- **Peace of Mind:** Provide clear instructions and reduce potential family conflicts.

## Key Considerations

### Planning for Incapacity

Incapacity planning involves preparing for a situation where you are unable to make decisions for yourself due to illness or injury.

Key documents include:

- **Living Will:** Specifies medical treatments you would and would not want to be used to keep you alive.
- **Durable Power of Attorney:** Allows someone to manage your financial affairs.
- **Healthcare Proxy:** Names someone to make medical decisions on your behalf.
- **A Do Not Resuscitate Order:** Directs life saving measures be withheld or withdrawn.

### Wills and Probate

A will is a legal document that expresses your wishes on the distribution of your property and the care of any minor children. Most wills must be filed with the probate court. Probate is the court-supervised process of authenticating your will, settling debts, and distributing your assets. An executor collects assets, pays debts, files tax returns, and distributes property to heirs.

The process can take months to a year, but there are things you can do to avoid probate, ranging from the use of trusts to making lifetime gifts.

## Taxes

Understanding the tax implications of your estate is crucial:

- **Gift Taxes:** A tax imposed on transfers you make during your life. The IRS allows you to give a certain amount each year to any number of individuals without incurring the gift tax.
- **Estate Taxes:** A tax imposed on transfers made upon your death. Federal estate tax applies to estates above a certain threshold. Some states also have their own estate or inheritance taxes.
- **Generation-skipping transfer (GST) tax:** A tax imposed on transfers to individuals who are more than one generation below you (such as grandchildren) both during your life and upon your death.

### Lifetime Gifting

Gifting during your lifetime can reduce the size of your taxable estate and provide financial support to loved ones. It also lets you see the recipient enjoying your gift!

- **Annual Exclusion Gifts:** You can give up to a certain amount per person each year without triggering gift taxes.

- **Educational and Medical Gifts:** Payments made directly to educational institutions or healthcare providers are not subject to gift tax limits.

## Trusts

Trusts are powerful estate planning tools that can provide benefits both during your lifetime and after your death. A trust is a legal entity that holds property and is managed by a trustee through an established trust agreement. Trusts can help protect against incapacity, avoid probate, and minimize taxes. Among their other advantages, trusts provide safeguards for minor children, elderly parents, or other beneficiaries.

- **Revocable Living Trusts:** Allow you to keep control of your assets while providing seamless management and distribution if you become incapacitated or pass away.
- **Irrevocable Trusts:** Once set up, they cannot be changed. These are often used for tax planning, asset protection, and charitable giving.
- **Special Needs Trusts:** Provide for a disabled beneficiary without disqualifying them from government aid programs. Learn more about this topic in our article [Strategies To Support a Loved One With Special Needs](#).

## Life Insurance

Life insurance is a critical part of many estate plans, providing liquidity to pay estate taxes, debts, and support your family:

- **Term Life Insurance:** Provides coverage for a specified period.
- **Whole Life Insurance:** Offers lifelong coverage and builds cash value over time.
- **Use in Estate Planning:** Can fund a trust, provide for immediate financial needs, and cover expenses such as funeral costs.

Estate planning is a vital part of managing your finances and personal responsibility. By taking the time to plan your estate, you can ensure that your wishes are honored, your family is protected, and your legacy is preserved. Consulting with an estate planning attorney and your financial professional can help you create a comprehensive estate plan tailored to your needs and goals.

## Additional Topics





## **Your Guide to Rollovers**

The money in retirement plan may be one of your largest single assets, but when it comes time to retire or leave your employer, what will happen to your retirement plan assets?

[Learn About Rollovers](#)



## **Maximize Medicare**

Navigating Medicare can be challenging, but with the right information and planning, you can maximize your benefits and ensure you receive the best care.

[Read About Maximizing Medicare](#)

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