



WHY DO I NEED AN ESTATE PLAN? I DON'T HAVE AN ESTATE.

Anyone who owns assets has an estate. With increased life insurance, increased home values, the effects of inflation, and larger retirement accounts, many people have larger estates than they realize. Furthermore, Congress continues to target estates as a source of revenue. You may not need complicated trusts or a sophisticated gifting program, but you should develop an estate plan to ensure that your current and future assets will be distributed to your beneficiaries with maximum ease and minimum cost.

Remember, if you haven't prepared your own estate plan, then your state will determine one for you in accordance with state law—one that you and your beneficiaries may not like.



WHAT'S INVOLVED IN ESTATE PLANNING?

In a nutshell it involves the consideration of:

- Wills, power of attorney, medical power of attorney, and living wills.
- The designated beneficiaries for any qualified retirement plans, individual retirement accounts, pension plans, insurance policies, annuities, and other investments you may own.
- Trusts during lifetime or upon death.
- How assets are titled.
- Insurance needs.
- Net worth.
- Estate taxes.



WHAT WILL AN ESTATE PLAN DO FOR ME?

A tailored, well-prepared estate plan can accomplish several things:

- Direct the distribution of your estate after your death according to your wishes.
- Minimize state and federal estate taxes.
- Ensure that your estate will have sufficient cash to pay any taxes the estate may owe.
- Avoid probate, if that's recommended. Some estates can be tied up for years in court and their assets eaten away by taxes and legal fees.
- Minimize the emotional as well as financial burden on your estate's beneficiaries.



WHERE DO I START?

Begin the estate planning process by determining your net worth. Your net worth statement, sometimes called a balance sheet, is a snapshot of the current financial health of your estate. It tells you the total value of all the assets you own and in whose name, plus all that is owed to you, minus all your debts.

Once you know what assets and liabilities you have, you can start to design an appropriate estate plan. Because estate planning can be complex, no one boilerplate plan fits all estates.



HOW IMPORTANT IS THE ISSUE OF OWNERSHIP IN AN ESTATE PLAN?

Ownership of property is an overlooked estate-planning issue. For example, married couples commonly have joint tenancy, or joint ownership, of their assets. This allows the assets to bypass the sometimes costly and slow probate process. But joint tenancy is not always the most appropriate or cost-effective form of ownership when it comes to distributing estate assets at death. Even if you're

single, ownership may be an issue if you share ownership with a relative or friend. Your CERTIFIED FINANCIAL PLANNER™ professional and an estate-planning attorney can review the ownership of your assets to determine the best ownership form.



I'M STILL YOUNG. DO I REALLY NEED A WILL?

Absolutely. As many as 70 percent of Americans don't have wills. Yet a will is critical regardless of your age or the size of your estate. A will specifies who receives what assets when you die. If you have young children, a will can set up a trust for them and designate a guardian.

Dying without a will, known as dying "intestate," means the state will dictate, in accordance with state law, how your assets are distributed. For example, you may want all of your assets to go to your spouse, but if you don't have a will the state may decide that half goes to your spouse and half to your children (who may not be old enough or mature enough to handle it), or half to your parents if you have no children. Dying without a will can also increase the cost and the time for legally distributing your estate (known as probate).

Update your will regularly. Tax law changes may necessitate updating. Your personal circumstances may have changed or your net worth may have increased or decreased, warranting revisions in the will. However, don't assume that all you need for an estate plan is a will. A will alone may not minimize estate taxes or provide other important components.



WHAT ARE A POWER OF ATTORNEY, MEDICAL POWER OF ATTORNEY, AND A LIVING WILL?

A power of attorney is a legal document that allows you to designate a representative to perform certain duties for you in the event you can't. If you become incapacitated or ill, for example, the representative could write checks or make legal decisions on your behalf. A medical power of attorney, sometimes called health-care proxy, gives a designated representative the power to make medical decisions for you (to continue or not continue life support, for example). A living will is a statement of your personal wishes as to what life-sustaining medical treatment you want or don't want should you become terminally ill. These three tools can be vital in the administration and preservation of your estate, and most adults, regardless of age, should have all three.



DO I NEED A TRUST?

There are dozens of types of trusts, and each provides advantages and disadvantages. A bypass or charitable remainder trust can provide income during a lifetime and save estate taxes at death. A Q-TIP (qualified terminable interest property) trust can be useful for providing income to a second spouse while bequeathing the assets themselves to children from a previous marriage.

Trusts can provide control that you don't have with outright gifting, such as specifying that your child can't use the money until a particular age. Professional management of trust assets can relieve the trust beneficiaries of that burden. You can use certain types of trusts to avoid probate costs and escape the reach of creditors.

Despite their advantages, trusts aren't needed in many estates. Living trusts, for example, are

widely hyped and oversold and, in many instances, provide little or no value for the average estate. For example, although they can avoid probate, living trusts don't avoid estate taxes.

Trusts can be expensive to establish and manage. Trustees have to be chosen carefully, especially if they are relatives or close friends who may not be financial experts. Trust assets can be mismanaged or intentionally abused. In many cases, you're giving up permanent control of assets. Your CFP® professional and attorney can advise you if a particular type of trust would benefit your estate.



I HAVE A SMALL ESTATE. DO I NEED TO WORRY ABOUT ESTATE TAXES?

Total estate taxes valued below a certain amount are exempt from federal estate and gift taxes, though not necessarily from state taxes. Estate values that exceed the exemption amount are subject to tax, starting at 37 percent. While the value of your estate may not currently reach these exemption amounts, the accumulation over a lifetime of a home, insurance, investments and retirement account balances could push the value of your estate above the threshold.

Under the 2001 Tax Relief Act, the amount exempt from federal estate taxes is scheduled to rise periodically to a maximum exemption of \$3.3 million, while the maximum tax rate is scheduled to steadily decline to 45 percent. The maximum exempt from gift tax is \$1 million. The estate tax is scheduled to be repealed entirely in 2010, but would be reinstated in 2011 with a maximum exemption amount of \$1 million and a top tax rate of 55 percent. Congress may or may not permanently repeal the estate tax, or it may modify the law in other ways. In the meantime, estate owners should maintain a flexible estate plan to avoid potential complications.



HOW CAN I REDUCE MY ESTATE TAXES?

Before you start worrying about saving estate taxes, you and your CFP® professional need to determine how much money you'll need to live on during retirement. Even if your estate already exceeds the exemption amount for estate and gift taxes, you probably will spend down some or much of its assets to see you through your retirement years. People need a comfortable financial cushion in light of increasing longevity, higher medical costs, and long-term inflation. If estate taxes remain an issue after you've determined the minimal amount of resources you need for retirement, then you might consider the following:

- Gifting to each beneficiary up to the maximum amount the federal government allows to be gifted annually free of gift tax (you can double the amount if you and your spouse gift jointly).
- Removing the value of insurance from your estate.
- Donating assets to charity.
- Setting up a bypass trust (also called a credit-shelter trust) if you're married.



WHAT ABOUT THE USE OF INSURANCE IN AN ESTATE PLAN?

Insurance can play an important role in estate planning.

- Auto, home, and liability insurance protect against losses of property in your estate.
- Life insurance can provide the surviving family members with cash for living expenses and for expenses associated with the death.
- Life insurance proceeds can be used to pay for estate taxes if the estate doesn't have sufficient liquid assets available.
- Estates whose principal asset is a small business often need life insurance for co-owners to buy out the deceased's estate or for the deceased to provide an equitable share to heirs who won't be involved in running the business.

Issues of ownership, the type of policy (such as a "survivorship life" policy), and the use of insurance trusts make this a complicated area. Life insurance can cause unwanted estate-tax consequences if it is not carefully structured.



DO I NEED TO UPDATE MY ESTATE PLAN ONCE IT IS IN PLACE?

Yes. Estates change over time. Typically, the value of your estate grows, perhaps pushing you into a higher estate-tax bracket. You may have become divorced, or one of your heirs has died, or a host of other changes may have occurred since the plan was first put into place. New tax laws may necessitate changes.



SHOULDN'T I USE AN ESTATE-PLANNING ATTORNEY INSTEAD OF A CFP® PROFESSIONAL?

Estate-planning attorneys can provide an invaluable service helping people carry out their estate plans, using their training and legal expertise to set up trusts or draft wills. A CFP professional often does the groundwork and coordinates your estate plan with the other aspects of your overall financial picture, such as investments, retirement planning, and saving for your children's education. The planner will bring in other professional experts, such as an estate-planning attorney or accountant, when needed, to work in tandem with your estate planning attorney if you already have one.



HOW DO I KNOW A CFP PROFESSIONAL IS QUALIFIED TO HELP ME?

Not everyone who calls themselves a financial planner is a CERTIFIED FINANCIAL PLANNER™ professional. To obtain the CFP certification, a person must study and demonstrate competency in six areas vital to comprehensive financial planning, including insurance, retirement, investments, and estate planning by successfully completing the CFP™ Certification Examination. The emphasis of the educational program is the interrelationship of the financial areas and the need for an objective analysis of a client's circumstances and goals. The CFP professional must also meet educational, work experience, and ethical standards to maintain the right to use the CFP mark.

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