

## CHEAT SHEET

# Estate Planning

## What is an estate plan?

An estate plan is a collection of documents that protects your assets, your personal property, and your healthcare wishes at the end of your life and after you pass away. It provides instructions to your loved ones and the court on how your property and affairs should be settled and distributed after your death.

## Why is it important to have an estate plan?

An estate plan is key to carrying out the following tasks according to your wishes.

- Designating the heirs who will receive your assets after you pass away
- Protecting your loved ones from paying excessive court fees, taxes and probate costs
- Distributing assets to your heirs quickly and avoiding probate delays
- Designating a trusted individual to make healthcare and financial decisions on your behalf should you become incapacitated and unable to do so on your own
- Carrying out your end-of-life wishes

## What is probate?

Probate is the legal process of settling an individual's estate after he or she passes away. It typically includes the following tasks.

- Validation of the will
- Inventory of the deceased individual's property
- Appraisal of property
- Payment of outstanding debts and taxes
- Distribution of assets

The probate process can be expensive and time consuming. Your estate may need to pay court fees, taxes, real estate fees, appraisal costs and more, which reduces the amount of assets your heirs receive.

In some cases, probate can take up to two years, and the assets in probate cannot be distributed until the process is complete.<sup>1</sup>

## DO ALL ASSETS GO THROUGH PROBATE?

No, which is one of the reasons why it's so important to have an estate planning strategy in place. While probate laws vary by state, beneficiary-designated assets are typically not subject to probate and can be distributed directly to beneficiaries.

These assets include:

- Qualified retirement plans, such as 401(k)s
- IRAs
- Life insurance
- Annuities
- Assets held within a trust

<sup>1</sup> <https://www.findlaw.com/estate/probate/probate-process-and-timeline.html>

## End-of-Life Planning

It's important to have the following documents in place to ensure your end-of-life financial and healthcare decisions are handled according to your wishes

- **Living trust** – A trust is a type of legal entity that holds assets during your lifetime and efficiently transfers management of those assets to a successor trustee when you become incapacitated. Following your death, the assets are then distributed according to your wishes.
- **Financial power of attorney** – This document designates a trusted individual to make financial decisions on your behalf if you are unable to do so on your own.
- **Living will** – A living will provides end-of-life care instructions to your family and healthcare providers.
- **Medical power of attorney** – This document designates a trusted individual to make medical decisions on your behalf if you are unable to do so on your own.

Your estate plan can help protect your assets and your interests during your final days and after you pass away. It can also help your family navigate difficult decisions with the confidence of knowing they are acting in accordance with your wishes.

### WEALTH TRANSFER

Wealth transfer is the process of passing along assets to the next generation in a tax-efficient manner after you die. Based on your specific needs and goals, it may make sense to work with your financial professional to help you create a legacy planning strategy, one that helps you determine appropriate ways to pass on your wealth in a tax efficient manner.

### CHARITABLE GIVING

Another way to lower your taxable estate is by donating assets to charity. The following strategies can help maximize your impact and lower your estate tax liabilities.

- **Donate appreciated assets** – Instead of donating cash to charities, it may be more impactful and tax-efficient to donate appreciated stocks, bonds or mutual funds. Not only does donating appreciated assets prevent you from paying capital gains taxes, it also helps maximize the amount received by the charitable organization.
- **Use a “bunching” strategy** – It may make sense to “bunch” multiple years’ of charitable donations into a single, large donation. If you don’t typically file an itemized tax return, you’re probably not eligible to deduct charitable donations from your taxable income. A bunching strategy may allow you to reap the tax benefits of your charitable donation.

For example, if you typically donate \$5,000 per year to charities, you may want to consider making a single large donation of \$25,000 once every five years. The important thing is to make sure you donate enough that itemizing your taxes makes sense.

- **Consider a donor-advised fund** – A DAF allows you to make irrevocable donations of cash or securities, then determine in the future when and to what causes those assets should be distributed. Assets within the account grow tax-free and remain tax-free when donated to qualified charitable organizations.

Soon-to-be retirees often use DAFs to fulfill their charitable giving goals throughout retirement. It may make sense to front load your DAF during a high-income year to lower your taxable income in the year the donation is made, while setting aside funds to donate to charities during lower-income years. You can also use a DAF to pass along your charitable legacy to future generations, as your heirs can determine in how assets within the account are donated after you pass away.

# Could you use some help getting started with estate planning?

Schedule a call to learn how we partner with estate planning attorneys to integrate your estate plan with your overall retirement plan.



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