

Estate Planning Essentials

Wills, trusts, powers of attorney—what do all these things mean? No question, estate-planning jargon can be confusing. So, when Jan and Zack¹ decided to create an estate plan to protect their family, they turned to their financial professional for help. Their advisor talked to them about their goals and explained some of the “tools” of estate planning they could use to accomplish them.

A Will Comes First

The most basic estate-planning document is a will. So the first step Jan and Zack take is to have separate wills drawn up stating how they want their property distributed when they die. They each name an executor, or personal representative, in their wills. The executor will be responsible for paying any final bills, overseeing finances while the estate is being settled, and filing a final income-tax return. Now Jan and Zack feel comfortable that their wishes will be followed. It's a big relief.

Protecting Their Children

Like most parents, Jan and Zack are concerned about who would care for their children if they both were to die while the kids are still young. To make sure their daughters would be raised in a loving home by someone who shares their values, Jan and Zack name a guardian for them in their wills. That way, this important decision won't be left up to a court. They choose Jan's sister Alice because she is close to her nieces, has a lifestyle that will easily accommodate children, and is willing and financially able to care for them.

Making Wishes Clear

Jan and Zack have strong feelings about what they would and would not want in the way of medical treatment if a terminal illness/accident/injury prevented them from speaking for themselves. Like most of us, they've heard horror stories about what can happen when families or friends try to guess about the treatment a loved one would want.

To make sure their families and healthcare providers know their wishes, Jan and Zack each have legal documents created—called advance directives—that will come into play if they're unable to make their own decisions:

- a living will, which spells out the conditions for receiving or not receiving life-sustaining treatment and
- a durable power of attorney for healthcare (sometimes called a healthcare proxy) authorizing a trusted person to make medical decisions for them if they're unable to make them themselves.

In addition, Jan and Zack each have a durable power of attorney for finances, naming someone else to act for them in financial matters if they are incapacitated.

Trusts—Another Tool

Jan and Zack know that spouses can pass an unlimited amount of assets to each other free of federal estate taxes through the unlimited marital deduction. But, instead of simply leaving everything to each other, they've decided to use a trust strategy that could save taxes on their combined estates and leave more for their kids. Trusts also can be created to hold a life insurance policy and benefit a charity, among other things. Jan and Zack may decide to create additional trusts in the future.

Creating an estate plan can be complex. Why not talk to your financial professional and legal advisor soon?

Source: Alight Solutions

¹ Jan and Zack are fictitious characters and their situation is hypothetical.