GFG Monthly

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Estate Planning Awareness Week is October 15th - 21st

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Estate Planning: An Introduction

By definition, estate planning is a process designed to help you manage and preserve your assets while you are alive, and to conserve and control their distribution after your death according to your goals and objectives. But what estate planning means to you specifically depends on who you are. Your age, health, wealth, lifestyle, life stage, goals, and many other factors determine your particular estate planning needs. For example, you may have a small estate and may be concerned only that certain people receive particular things. A simple will is probably all you'll need. Or, you may have a large estate, and minimizing any potential estate tax impact is your foremost goal. Here, you'll need to use more sophisticated techniques in your estate plan, such as a trust.

To help you understand what estate planning means to you, the following sections address some estate planning needs that are common among some very broad groups of individuals. Think of these suggestions as simply a point in the right direction, and then seek professional advice to implement the right plan for you.

Over 18

Since incapacity can strike anyone at anytime, all adults over 18 should consider having:

• A durable power of attorney: This document lets you name someone to manage your property for you in case you become incapacitated and cannot do so.

• An advance medical directive: The three main types of advance medical directives are (1) a living will, (2) a durable power of attorney for health care (also known as a health-care proxy), and (3) a Do Not Resuscitate order. Be aware that not all states allow each kind of medical directive, so make sure you execute one that will be effective for you.

Young and single

If you're young and single, you may not need much estate planning. But if you have some material possessions, you should at least write a will. If you don't, the wealth you leave behind if you die will likely go to your parents, and that might not be what you would want. A will lets you leave your possessions to anyone you choose (e.g., your significant other, siblings, other relatives, or favorite charity).

Unmarried couples

You've committed to a life partner but aren't legally married. For you, a will is essential if you want your property to pass to your partner at your death. Without a will, state law directs that only your closest relatives will inherit your property, and your partner may get nothing. If you share certain property, such as a house or car, you may consider owning the property as joint tenants with rights of survivorship. That way, when one of you dies, the jointly held property will pass to the surviving partner automatically.

Married couples

For many years, married couples had to do careful estate planning, such as the creation of a credit shelter trust, in order to take advantage of their combined federal estate tax exclusions. For decedents dying in 2011 and later years, the executor of a deceased spouse's estate can transfer any unused estate tax exclusion amount to the surviving spouse without such planning.

Married with children

If you're married and have children, you and your spouse should each have your own will. For you, wills are vital because you can name a guardian for your minor children in case both of you die simultaneously. If you fail to name a guardian in your will, a court may appoint someone you might not have chosen. Furthermore, without a will, some states dictate that at your death some of your property goes to your children and not to your spouse. If minor children inherit directly, the surviving parent will need court permission to manage the money for them.

You may also want to consult an attorney about establishing a trust to manage your children's assets in the event that both you and your spouse die at the same time.

You may also need life insurance. Your surviving spouse may not be able to support the family on his or her own and may need to replace your earnings to maintain the family.

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See disclaimer on final page

Life Insurance and Estate Planning

No investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.

There is no assurance that working with a financial professional will result in investment success.

Life insurance has come a long way since the days when it was known as burial insurance and used mainly to pay for funeral expenses. Today, life insurance is a crucial part of many estate plans. You can use it to leave much-needed income to your survivors, provide for your children's education, pay off your mortgage, and simplify the transfer of assets. Life insurance can also be used to replace wealth lost due to the expenses and taxes that may follow your death, and to make gifts to charity at relatively little cost to you.

To illustrate how life insurance can help you plan your estate wisely, let's compare what happened upon the death of two friends:Frank, who bought life insurance, and Dave, who did not. (Please note that these illustrations are hypothetical.)

Life insurance can protect your survivors financially by replacing your lost income

Frank bought life insurance to help ensure that his survivors wouldn't suffer financially when he died. When Frank died and his paycheck stopped coming in, his family had enough money to maintain their lifestyle and live comfortably for years to come.

And since Frank's life insurance proceeds were available very quickly, his family had cash to meet their short-term financial needs. Life insurance proceeds left to a named beneficiary don't pass through the process of probate, so Frank's family didn't have to wait until his estate was settled to get the money they needed to pay bills.

But Dave didn't buy life insurance, so his family wasn't so lucky. Even though Dave left his assets to his family in his will, those assets couldn't be distributed until after the probate of his estate was complete. Since probate typically takes six months or longer, Dave's survivors had none of the financial flexibility that a life insurance policy would have provided in the difficult time following his death.

Life insurance can replace wealth that is lost due to expenses and taxes

Frank planned ahead and bought enough life insurance to cover the potential costs of settling his estate, including taxes, fees, and other debts that his estate would have to pay. By comparison, these expenses took a big bite out of Dave's estate, which had to sell valuable assets to pay the taxes and expenses that arose as a result of his death.

Life insurance lets you give to charity, while your estate enjoys an estate tax deduction

Using life insurance, Frank was able to leave a substantial gift to his favorite charity. Since gifts to charity are estate tax deductible, this gift was not subject to estate taxes when he died. Dave always dreamed of leaving money to his alma mater, but his family couldn't afford to give any money away when he died.

Life insurance won't increase estate taxes - if you plan ahead

Before buying life insurance, Frank talked to his attorney about the potential tax consequences. Frank's attorney told him that if his estate was large enough, it could be subject to federal and state estate taxes, depending on the applicable law at the time of his death. Frank and his attorney put a plan in place that would allow Frank's survivors to use his life insurance policy to help pay for some of the potential estate taxes that might be owed at his death.

Be like Frank, not like Dave

Throughout his life, Dave worked hard to support his family. Frank did, too, but went one step further - he bought life insurance to protect his family after his death. Here's how you can be like Frank:

- Use life insurance to ensure that your family has access to cash to help them meet both their short-term and long-term financial needs.
- Plan ahead - buy enough life insurance to cover the potential costs of settling your estate and to ensure that the assets you leave to your survivors aren't less than you intended.
- Consider using life insurance to give charity
- Consult an experienced attorney about income and estate tax consequences before purchasing life insurance.

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Should I cut the cord on cable?

In the last few years, it's become common for consumers to ditch cable television in favor of streaming services and devices. Many affordable streaming options are available, making it easier for consumers to give up cable without necessarily sacrificing their favorite shows. But there are some drawbacks to relying exclusively on streaming services for television viewing. Consider the following before you decide to cut the cord.

The most obvious benefit of cutting cable is the money you'll likely save each month. Compare what you spend on your monthly bill to how much of your cable subscription you actually use. Are you regularly watching all the channels you pay for, or do you watch only a few of them? Are the channels you watch worth what you pay each month? If not, it might make sense to cancel cable and switch to an alternative entertainment source.

You may decide to replace cable with a streaming service or device. In addition to being less expensive than cable, most services are user-friendly. You won't need to flip through hundreds of channels to find your favorite shows, and as long as you have an Internet connection, you can view them on the go on your cell phone or tablet. Plus, streaming services typically let you stop and start month to month without termination fees.

But depending on your viewing preferences, a streaming service might not be the right option for you. There is often a delay in the online release of many television shows, which can be frustrating for dedicated viewers. And if you're a sports fan, you might be disappointed to learn that you won't have access to live sports coverage through most streaming services. Comprehensive sports packages are offered by some services, but they can be expensive and are not available in all regions.

Another disadvantage of switching to streaming is that you may need to subscribe to multiple packages or invest in special streaming devices to access the programs you want. You might also consider the cost of high-speed Internet — you won't be able to stream without a relatively fast Internet connection. Between multiple subscriptions and reliable Internet, the cost of streaming can add up quickly. Be sure to compare prices and take advantage of any free-trial offers.

What are the gift and estate tax rules after tax reform?

The Tax Cuts and Jobs Act, signed into law in December 2017, approximately doubled the federal gift and estate tax basic exclusion amount to $11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exclusion is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, federal gift and estate taxes remain the same.

Gift tax. Gifts you make during your lifetime may be subject to federal gift tax. Not all gifts are subject to the tax, however. You can make annual tax-free gifts of up to $15,000 per recipient. Married couples can effectively make annual tax-free gifts of up to $30,000 per recipient. You can also make unlimited tax-free gifts for qualifying expenses paid directly to educational or medical service providers. And you can make deductible transfers to your spouse and to charity. There is a basic exclusion amount that protects a total of up to $11.18 million (in 2018) from gift tax and estate tax. Transfers in excess of the basic exclusion amount are generally taxed at 40%.

Estate tax. Property you own at death is subject to federal estate tax. As with the gift tax, you can make deductible transfers to your spouse and to charity; there is a basic exclusion amount that protects up to $11.18 million (in 2018) from tax, and a tax rate of 40% generally applies to transfers in excess of the basic exclusion amount.

Portability. The estate of a deceased spouse can elect to transfer any unused applicable exclusion amount to his or her surviving spouse (a concept referred to as portability). The surviving spouse can use the unused exclusion of the deceased spouse, along with the surviving spouse's own basic exclusion amount, for federal gift and estate tax purposes. For example, if a spouse died in 2011 and the estate elected to transfer $5 million of the unused exclusion to the surviving spouse, the surviving spouse effectively has an applicable exclusion amount of $16.18 million ($5 million plus $11.18 million) to shelter transfers from federal gift or estate tax in 2018.