

The Building Blocks of Estate Planning

Many people share the common misconception that estate planning is something only very affluent individuals should do before they die. However, estate planning is an important part of life, even for those individuals of modest means. Planning for the disposition of one's assets upon death offers significant benefits to all parties involved.

The greatest benefit may lie in knowing that your wishes will be respected. Naming your heirs—and relieving them of unnecessary costs and stress by carefully designating which assets they will receive—is preferable to having a court make such decisions for you.

The estate planning process not only includes designating your heirs, but may also include establishing vehicles—such as trusts—to protect your assets. This will help ensure your assets go to the people you care about, and can help minimize estate taxes. In the event of mental or physical incapacity, an estate plan can enable other people to help care for you and your property through a durable power of attorney and a health care proxy. You may also want to include a living will among your estate planning documents, so your health care providers know your wishes regarding the possible use of life-sustaining measures in dire situations.

Writing It Down

A will is the basis of any estate plan, whether it is simple or complicated. In drawing up your will, consider using the services of a qualified attorney. Although you may think you can do it yourself, an estate planning professional has the experience to ask questions you may not have considered. For instance: Would your elderly parents be able to manage an inheritance if they were to survive you? Would you want your children's spouses included in your estate? If your estate were affected by a divorce or the death of a child, how would you want those situations to affect the distribution of your assets?

Naming Names

The first name to settle on is that of your executor. Next will be the beneficiary(ies) of your insurance policies. Beneficiaries, and contingent beneficiaries, of assets in retirement accounts, such as pensions, 401(k) plans, and Individual Retirement Accounts (IRAs), are kept on record with the retirement plan administrator, and these nominations take precedence over your will. Retirement assets pass directly to the beneficiaries, bypassing probate court, unless the executor is the estate is named.

What about Estate Taxes?

Assets transferred to a spouse will not be subject to estate taxes, regardless of value. However, transfers to other beneficiaries, such as children, may be subject to estate tax if they are in excess of the applicable exclusion amount (\$2,000,000 in 2007).

Certain advanced planning tools can be used to fund the payment of estate taxes, such as life insurance and trusts. For high value estates, a gifting program is often used to reduce the value of the estate, thereby minimizing estate taxes. For specific guidance, consult your qualified tax and legal professionals.

Regardless of your net worth, there are a number of reasons why you should consider an estate plan. Take steps now to ensure your wishes will be followed and that provisions will be made for your dependents and loved ones.