



Estate Planning Four-Step Guide

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To All The Wonderful Dads



Estate Planning: A Four-Step Guide

Estate planning is the process of creating a master plan for managing wealth during disability or after death. It's an opportunity for choosing to whom, how, and when assets will be distributed—ideally, at the lowest possible cost.

Common issues addressed in the process include navigating estate taxes, protecting family assets, funding charitable causes, providing financial security for loved ones, planning for minor children and children of a previous marriage, equalizing inheritances, and retiring from a family business.

Working with your financial advisor to coordinate the estate planning process might be different than what you would expect. The term estate planning often conjures up thoughts of efficiently transferring wealth to loved ones, but articulating your family's goals is much more nuanced. In fact, a successful estate plan should always consider your family's unique values, even if they result in less tax-efficient planning.

With the guidance of a financial advisor, identifying gaps or inconsistencies in an existing plan as they apply to your family's values ensures that you pursue the most efficient estate planning strategies. This guide is designed to help you do just that. It also provides interview questions, alerts you to key issues, and points you to practical tools and resources.

Step 1: Organize Your Current Plan

Take some time to gather all your current estate documents, such as account forms, beneficiary designations, recent tax returns, and financial plans drawn, with your advisor. Next, draft a summary of documents on hand and outline how they protect your estate goals. This will help you and your advisor figure out if anything is lacking in your current plan.

The most common estate planning documents include:

- **Will.** Allows you to choose to whom and how you will give property to beneficiaries and to set up trusts to protect them in the event of your death. You can also name someone to handle your affairs in your will or nominate a guardian for minor children. Wills don't avoid the probate process, but they do assure that your wishes will be executed. Without a will, property is distributed to heirs according to state law.
 - **Note:** Sometimes trusts are created in the will for the benefit of the surviving spouse, children, or grandchildren. When the creator of the will dies, the will serves as the trust document and directs the trustee in how to manage the trust assets. When reviewing your will, look for language accounting for how beneficiaries will be affected by divorce, disability, or inability to manage wealth. Your designated trustee(s) may direct how to manage distribution depending on the circumstance.
 - **Note:** Wills only govern the distribution of so-called probate assets. Generally, probate assets are assets held in the decedent's own name alone with no beneficiary designation attached.

- **Power of attorney.** Allows someone else, an attorney-in-fact, to handle your financial affairs on your behalf if you are unable to do so. Important powers typically include the ability to make a revocable trust irrevocable, apply for government benefits, change beneficiaries of insurance or retirement plans, facilitate long-term care planning, or exercise stock options.
- **Health care proxy.** Designates who can act as a patient advocate and who can make medical decisions on your behalf. This is not to be confused with a living will, which deals with issues of artificial life support. Your primary doctor should have a copy of this document.
- **Revocable living trust.** A legal entity that can help avoid the probate process in the event of your death. Assets are given to the trust by a “grantor,” who may be motivated by achieving a smoother transfer of asset process in the event of your death, among many other benefits of having a revocable trust. While alive, the grantor retains all rights to the trust and its assets, but a successor trustee can step in without disruption.
- **Beneficiary designations.** Non-probate assets—like jointly owned property, life insurance, annuities, and retirement plans—aren’t governed by the terms of the will or revocable trust. It’s important to coordinate the beneficiary designations of these assets with the estate plan.

Step 2: Assess Your Needs

After organizing all your documents, meet with your advisor to evaluate whether your current estate plan is in line with your wishes. This meeting can be most effective if you come with a list of questions you have about your estate plan. Your questions can address issues that go beyond what’s covered in the written documents.

Your advisor will likely have questions of their own as well to help them prepare when they meet with your attorney or accountant. Some common questions include:

General Questions

1. How do you want your wealth to benefit your children, grandchildren, or community?
2. Has your wealth increased more than 25 percent since you last reviewed your estate plan?
3. What do you want your trusts to do for you and your family? Will your spouse need income from the trusts after your death?
4. Do you have a special asset—such as a business or a home—that your family should retain?

5. Are you currently making gifts to (or performing volunteer services for) a church, school, or charitable organization? Do you plan to continue to have these gifts made upon your death?
6. Explain your choice of trustee, executor, and/or successor trustee for your revocable trust.
7. Are you currently helping family members reach their goals? Have you made loans/gifts to them?
8. Are you concerned about the negative effects of wealth on future generations?
9. How can life insurance help with your estate plan?
10. Has your health changed since you last reviewed your estate plan?
11. Is creditor protection a concern for you?

Special Family Needs

1. Who is dependent upon your income and support?
2. Have you named a guardian for your minor children?
3. Do you have children from a previous marriage?
4. What do you want for your spouse after your death?
5. Do you have a family member with special needs?
6. Does each of your children have equal resources to provide for your grandchildren's education?
7. Do you have a family member who is inexperienced with money?
8. Do you have family members who are independently wealthy? Will an inheritance increase their likelihood of incurring estate taxes?
9. Do you have in-law issues that concern you? Do you think it's possible that your children may have to share their inheritance with former spouses?

Business Needs

1. When will you step down as head of your business? Do you have a target retirement date?
2. Do you have a formal buy-sell agreement? Is it funded?
3. How much of the ownership will you relinquish at retirement?
4. Are any of your children active in the business? What are plans for the children who are not working in the business?
5. How will you tap into the business to pay out retirement income? What if your successors bankrupt the business?
6. What assets will the estate liquidate to pay estate taxes?

Tax Needs

1. How will the estate taxes and other costs be paid? From what assets?
2. Does your family understand how IRAs are taxed when inherited and what options are available for deferring those taxes? Have you included

provisions in your plan to ensure that IRA distributions are not accelerated?

Telling Your Family About Your Estate

1. How prepared is your family to receive your wealth after your death?
2. Have you explained your estate plan to your family?
3. Have you given your executor and trustees separate letters of instruction to provide guidance for managing your wealth?
4. Have you made provisions for the distribution of your personal property?

Step 3: Implement Your New Plan

Now that you've gathered your documents and articulated your goals and concerns, it's time to act. Below are steps you can take to conduct estate planning with your advisor before meeting with an attorney.

- **Create a family tree.** Having a single document with all relevant family members and their financial situation(s) can be a useful tool during discussions with your attorney.
- **State your net worth.** Your financial advisor can help you draft a statement outlining your net worth. The statement will break down the value of each asset and how it's owned. It will also reveal the beneficiaries for non-probate assets, such as IRAs, and help estimate estate taxes.
- **Title your assets.** Properly titling all assets to reflect your plan is key to protecting your estate. If titled improperly, other aspects of your state plan can go awry. Although a trust is a powerful estate planning tool, it's ineffective if the newly drafted trust doesn't own and control your assets.
- **Name beneficiaries.** There are several situations in which you are responsible for naming beneficiaries—to a retirement account, a transfer-on-death account, an annuity contract, or a life insurance policy. It's crucial that your beneficiary designations are aligned with the intentions of the plan. These contractual beneficiary designations supersede the intentions in a will or a trust.
- **Purchase life insurance.** You might consider life insurance as a tool for your estate plan. Many insurance carriers allow you to submit a trial application in which the owner and beneficiary are listed as "trust to be established." The insurance company can perform underwriting but hold off on issuing the policy until the trust is put into place. Once the trust documents have been established, the final application can be submitted.

- **Consider gifting some assets.** To reduce the size of the taxable estate, many people gift assets—especially assets that may appreciate in value. Your advisor can help identify which assets are best for gifting.
- **Review your business succession plan.** If you own a business, an annual review of your buy-sell agreement—as well as all other documents—offers a jumping-off point for discussion of both estate and retirement planning.
 - The viability of a succession plan depends on a realistic base price; however, few business owners are aware that the terms of the agreement could require annual updates. In addition, events such as a partner's departure could justify a major revamp.

Step 4: Review Your Plan Regularly

An estate plan is dynamic and requires continuous reviews and updates. If you experience a life event (e.g., a remarriage, the birth of a child, a divorce, a disability, or a change in residence), consider the impacts on your family legacy and contact your advisor to discuss potential updates to your plan. Even a small oversight could diminish the effectiveness of your estate plan if missed.

A helpful way to stay on top of these changes is by scheduling regular family meetings. It's an opportunity for family members to express changes or concerns in their lives that may impact the current estate plan. Lack of communication is often one of the greatest barriers to estate planning. So, carving out time from busy schedules is an effective way to aligning estate planning goals with the family's values.

Estate planning often has lots of moving parts. But the process is smoothest when family members and their experts stay organized and optimize communication. Leveraging an estate planning guide can help you and your financial advisor stay on track to reaching your goals.

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My staff and I deeply appreciate the continuing opportunity to work with you. Please let me know if you have any questions or requests. Thank you.

Sincerely,

Paul Bonapart, JD, RFC, AIF®
Accredited Investment Fiduciary, President
Financial Security Planning Services, Inc.

520 Tamalpais Drive, Suites 103 & 104
Corte Madera, CA 94925
(415) 927-2555
www.FinancialSecurityPlanning.com
CA Insurance License No. 0808412

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