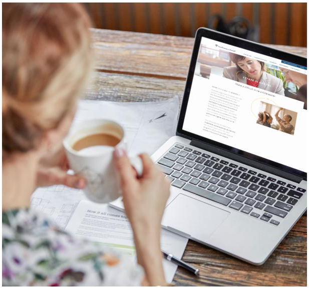
A Comprehensive Guide to Estate Planning

Estate plans aren't just for the super-wealthy.

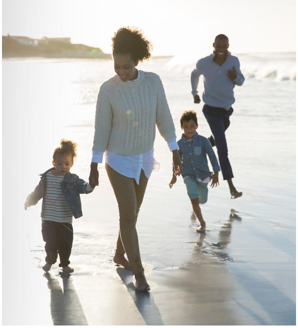
Working hard, spending wisely and saving for your future might sound like the trifecta of financial security. But in reality, it's only the start. Taking the time to plan your estate is critical to making sure the benefit of your hard work finds its way to your family after your death. This estate planning guide can help.



You might be thinking, "Wait; I don't have an estate." If you have assets (cars, a house, investments), then you do. And if you have an estate, you should plan for what happens to it if something were to happen to you — otherwise, state statutes will decide for you. It will be up to the courts to determine who cares for your children and manages your assets.

CONSIDER THE COST OF NOT HAVING A PLAN

Beyond the morose nature of the task, some people can be resistant to estate planning because of cost. But before the price tag scares you off, consider the price of having a plan versus not. In most cases, the cost of creating a plan prior to your death is less than what your estate would have to pay to settle your estate without one (not to mention the headaches you'd be saving your family).



Setting up a basic estate plan that doesn't need to take into account complicated assets can be as low as a few hundred dollars. One that's a little more comprehensive and includes a trust can range from $1,500 to $3,000, depending on the moving parts involved. (You may also still have to pay fees to settle your estate, even with a plan.)

On the flip side, attorneys and courts take a percentage of an estate's value (up to about 5 percent) when there is no estate plan set. For a $300,000 estate, that means fees could reach $15,000. Some states cap the amount a personal representative or executor of an estate can charge, but this varies by state law.

HOW TO GET THE BALL ROLLING

You can save a ton of time by considering these questions prior to engaging an attorney who will guide you through the formal process.

WHO DO YOU WANT TO RECEIVE ASSETS?

Think about exactly how much and when you'd like the assets distributed. A benefit of estate planning is that you can be specific about these details even after your death.

WHO SHOULD ADMINISTER YOUR ESTATE?

This person will be appointed to sell assets if necessary, and/or distribute them per instructions you put into place.

WHO SHOULD HANDLE ANY LONG-TERM MANAGEMENT OF ASSETS?

If you don't want to dole out all your assets right after your death or if you have minor children you're leaving money to, you'll need someone to manage your estate for you.

WHO SHOULD CARE FOR AND RAISE YOUR CHILDREN?

This can be the most difficult question to answer. Remember that the person who cares for your children and the person managing your assets can be different. Also take this opportunity to think about the type of life you want your child to have: Is it important that they grow up near a city? Do you want them living within a certain distance of other family members? Your estate plan is where you can specify those choices.

WHAT'S YOUR PLAN IN THE EVENT OF INCAPACITY?

Another key point to estate planning is picking someone to make decisions for you if you become seriously ill or are otherwise unable to make health and financial decisions on your own. If someone is not designated, the court might have to step in and name a guardian to make the decisions for you.

WHAT'S IN AN ESTATE PLAN

A basic estate plan will include a will, health care directive, powers of attorney and, sometimes, a trust, which helps when you have a more complicated estate.

1

POWERS OF ATTORNEY AND DIRECTIVES

These involve planning for what would happen if you were still alive but too incapacitated to make decisions. A **durable power of attorney for your finances** documents your wishes for who can manage your assets; a **durable power of attorney for health care** documents who can make health care decisions if you can't. In addition, you'll want a **health care directive** or living will, which directs your doctor in what to do in certain medical situations.

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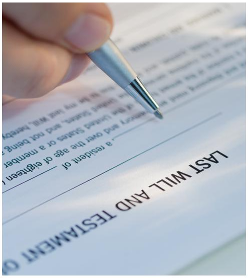
A WILL

A will outlines what should happen to your property and who should inherit it after your death. It can also include decisions like who should take care of your minor children, or even relay wishes for your funeral. After someone dies, his or her will goes through probate, the legal process through which a local court determines the validity of the will. Because it goes through the courts, a will is considered public.



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A TRUST

A trust is essentially a legal arrangement that documents how property will be managed for the benefit of a third party. A trust can manage assets that you leave to minor children or someone with special needs. It can also help reduce estate taxes and provide control over your assets following your death in a way that a will cannot guarantee. Plus, because a trust avoids probate, you keep your affairs private.

When you create a trust, you will have to identify at least three people: the **grantor**, who establishes the trust and funds it (you); the **trustee/co-trustee**, who is responsible for administering the trust and managing its assets (that can be an individual or a corporation); and the **beneficiary**, who is the person(s) the trust names to receive assets like income or property.

There are many types of trusts that you can look into depending on what your overall goal is for your assets, but foremost, it's important to understand that a trust can be either revocable or irrevocable.

Just as the name suggests, you can change or terminate a revocable trust. Typically, revocable trusts are created during your lifetime and you keep control of your assets (i.e., you act as grantor and trustee). Irrevocable trusts, by contrast, are very difficult to change; they can only be changed in very limited circumstances or by court order. But as a general rule, if your goal is to reduce estate taxes, you will need to use an irrevocable trust. Because the assets in

an irrevocable trust belong to the trust and not the grantor, they usually aren't included in your gross estate when determining estate taxes. In most cases, a revocable trust becomes irrevocable at death.

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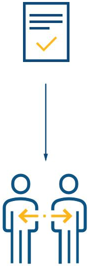
BENEFICIARY FORMS

Some assets can be transferred without using a will or trust. These include life insurance policies, bank accounts, retirement accounts and other types of financial accounts. Typically these accounts allow you to name a beneficiary or beneficiaries who should get your money should you pass away; sometimes the forms will be labeled **transfer on death (TOD)** or **payable on death (POD)** designations. Beneficiary forms are important to keep up to date because they trump what's stated in a will.



Bottom line: Estate planning and trusts aren't just for the extremely wealthy. If you're looking for more control over how your money is passed onto your family or the next generation, then it's important to start setting up your estate plan now. That way, your assets and your family are protected when you're no longer there.

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