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Financial Briefs

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Estate-Planning Considerations for Your Children

It takes special care to create an estate plan that efficiently distributes your assets and meets your goals for every person and cause important to you. But no part of the process means more to most people than that which involves their children. After all, for most of us, our children are our most important legacy, and how your estate documents treat them will have an impact long after you're gone.

To help organize this process, it is useful to think of children in three categories: minors, young adults, and fully grown adults with spouses and children of their own.

Minor Children

Children from infancy through high school have a different set of needs than children of other ages. One is simply to be able to rely on an income for daily needs that approximates your income in case you're no longer there for them. Since the parents of young children usually don't have large savings or net worth, the challenge is to provide an instant estate for which life insurance may be the best answer.

There are a number of rules of thumb for how much life insurance to buy — from four to 10 times your annual income. The right amount should be the result of a thorough needs analysis of your entire family, which can be accomplished by asking your spouse and yourself a series of probing questions, including:

- How much do you already have saved?
- Will your spouse be able to work full- or part-time? If so, what will child care cost?
- Will your children go to public or private elementary and secondary schools?

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5 Facts about Estate Planning

When it comes to the future, most Americans have a blind spot: estate planning. Maybe it's because of an unwillingness to think about mortality or a sense that wills and trusts are only for the wealthy that leads people to ignore this important financial planning task. That's a problem, because not having an estate plan could put your family's financial future in jeopardy and cause other serious consequences. Here are five facts everyone should know about estate planning.

1. Everyone Needs an Estate Plan

Yes, estate planning is absolutely necessary for the wealthy. But the rich are far from the only ones who need to think about the future. Pretty much everyone needs an estate plan, regardless of how old they are or how much money they have. Most people can benefit from putting documents in place that clarify who should receive their property after they die, what kind of health care they'd like to receive if incapacitated, how surviving family members will be provided for, and more. Estate planning is especially important for those who have children, complicated family situations, special-needs family members, or own certain types of assets (like art, intellectual property, or a small business).

2. A Will Is Not Enough

Wills are an important part of estate planning, but they are just one piece of a larger puzzle. Wills clarify who should receive your assets after you die. But you may also need other documents, like a living will, which explains what kind of medical treatment you'd like to receive if you can't make decisions on your own; a health care proxy (a person to make heath care decisions on your behalf); and a power of attorney (a person who is authorized to make legal decisions on your behalf when you're not able to). In some cases, you may want to set up trusts to provide for your heirs or

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- How much will your children need in college funds by the time they're ready to attend?
- How much will your spouse need for retirement, and how much of that will he/she be able to accumulate on his/her own?

After you determine how much life insurance to buy, you need to think about who will raise your children if you and your spouse both die before they become adults. This calls for naming a guardian in both of your wills. If you don't have a will, a state court will appoint a guardian for you, and it may not be someone you or your spouse would have wanted for this role. In addition, parents might also wish to designate a person to manage the children's assets, known as a custodian or trustee. It can be the same person as the guardian; but designating an unrelated third party, like an attorney, banker, or trust company officer, who can be charged with thinking only of your children's welfare, appeals to some people.

Among the other major decisions you have to make is whether and how to split your assets among your surviving spouse and your children and, if you leave some assets directly to your children, how to determine the split among them. Often, it may make sense to leave all or most of your assets to your spouse and, for assets you bequeath to your children, divide them evenly. But this might overlook such considerations as children with certain medical needs or special abilities.

Young Adults

Once children reach the age of majority — which in most states is 18 — a new set of considerations enters the picture. By this age, your children no longer require a guardian and are legally capable of spending their money any way they want — and therein lies a potential problem. You may leave $250,000 for college but instead, your children decide to waste the money and skip college.

One way to control how the inheritance is spent is to establish a trust with a schedule for distributions. One option is to delay a full distribution until they reach a certain age, like 25 or 30. Another choice is to give them a series of partial distributions at ages that make sense given what you know about your child. Another strategy that is becoming increasingly popular is the incentive trust. This vehicle makes payouts contingent upon your child's achievement of specific accomplishments — like maintaining a certain grade point average; graduating from college, graduate, or professional school; marrying; or buying a home.

Adult Children

Many of the same kinds of considerations that apply to minors and young adults can also influence your decisions on how much money to leave to your adult children. Do they, their spouses, or their children have special medical needs? Have your adult children fallen on hard times or are they irresponsible with money and would only waste it? How many children do they have, and how much help will they need to finance their educations?

If your estate is much larger than you and your spouse's combined estate-tax exemptions, you might want to shrink it with an aggressive campaign of gifts to your children and grandchildren. On the other hand, any funds you leave to your children might encumber them with estates equally as large as yours or larger with the same tax challenges. In this case, you might want to transfer some of your assets to a generation-skipping trust, which bypasses your children and names your grandchildren as the beneficiaries.

Don't go it alone when mulling over these decisions. Please call if you'd like to discuss this in more detail.

5 Steps to Protect Your Spouse

Many surviving spouses have been financially blindsided due to poor planning. The following steps will ensure your spouse is taken care of upon your death:

Update wills: Never assume that if you die, everything automatically passes to your spouse. While any jointly owned property is theirs, they're only entitled to up to half of your individual assets unless you specify otherwise in your will.

Review beneficiaries on retirement and other accounts: Many assets, including joint savings and checking accounts; 401(k) and individual retirement plans; and stocks, bonds, and brokerage accounts, require a beneficiary for disbursement. If you were married before, make sure your ex-spouse isn't still listed, as beneficiary designations typically trump wills.

Make jointly owned debt a priority: While your spouse isn't required to pay any debt owed in your name only, he/she is still liable for jointly owned bills, which could prove financially crippling. Consider paying down your jointly owned debt first.

Make sure there's enough: Will your spouse have enough to survive once you're gone? Age, work opportunities, individual debt, and future retirement are all important factors to consider. If you come up short, consider obtaining a new life insurance policy or even saving more.

Identity theft: Leave a note reminding your spouse to report your death in writing to the three main credit-reporting bureaus. He/she should also request a copy of your credit report so he/she is aware of all your open accounts. This prevents identity thieves from extending your credit line, making purchases, and opening new accounts, which could have devastating ramifications for your surviving spouse.

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charities. An estate-planning attorney can help you better understand which documents are necessary in your situation.

3. Your Beneficiary Designations Supersede Your Will

Many people assume that the instructions in their will take precedence over any other directions regarding their estate. That's not always the case. Beneficiary designations on retirement accounts and life insurance policies aren't superseded by your will. So even if your will leaves your entire estate to your surviving child, a retirement account that names your brother as the primary beneficiary will still go to him. That's why it's important that you review your beneficiary designations regularly and update them when your life changes (birth of a child, divorce, etc.).

4. How to Leave More to Your Heirs

If you have a sizable estate — one that exceeds the $5.45 million federal estate-tax exemption in 2016 — you may want to look into strategies that will allow you to pass that money to your heirs in a way that avoids estate taxes. There are numerous legal techniques you can employ to do this, such as transferring assets and property to a trust, making gifts during your lifetime, setting up family foundations, or leaving money to charity. Even those with smaller estates should keep taxes in mind. For example, did you know that life insurance proceeds pass tax free to beneficiaries? That's important to keep in mind when you're considering how to make sure your spouse and children will be provided for if you die unexpectedly.

5. Talk to Your Family about Your Decisions

Disagreements among family members about how to distribute an estate are far from uncommon. Often, those squabbles break out over unexpected or unclear provisions in the deceased's estate plan. If one member of your family feels he/she isn't getting his/her due, he/she can make things difficult for everyone. Drawn out legal battles that eat away at the wealth you've accumulated — and wanted to leave to your heirs — may result. Even if you think your family can handle your estate civilly, it may still be a good idea to sit down as a group or with individual family members to discuss your wishes and explain your estate-planning choices. If you plan to leave more of your wealth to one child than the other, make sure to inform your children so they don't end up feeling blindsided and betrayed after your death.

Please call if you'd like to discuss this in more detail.

Frequently Asked Questions about Estate Planning

What happens if I die without a will or trust? The state in which you reside will appoint an administrator to decide who receives your assets, barring jointly owned property and beneficiaries you have listed on bank and retirement accounts, life insurance policies, and investment accounts.

Can I draft my own will? Estate planning is a complicated process with many federal and state laws you may be unaware of that could negate your intentions. Even the slightest miswording could invalidate your will. Consulting with an estate-planning professional is recommended.

What's the difference between a will and a living will? A will specifies where your assets will be directed after your death, while a living will outlines your health care preferences should you become incapacitated. Living wills have evolved throughout the years to address a variety of concerns, including bathing, grooming, and pain management preferences, as well as spiritual or religious assistance. You can also indicate funeral and disposition of body preferences.

I have verbally discussed my medical preferences with my family. Do I still need a living will and health care proxy? While it's beneficial to discuss your preferences with loved ones, a living will and health care proxy ensure that your wishes are carried out in spite of dissenting opinions from family members.

What should I include in my estate-planning folder? In addition to your will and living will, you should include the following:

- Titles to your property and vehicles.
- Copies of insurance policies, safe deposit box keys, and retirement, bank, and investment accounts.
- Names and numbers of everyone you want your family to contact in the event of your death: advisors; any clubs, associations, and social groups you belong to; service professionals; health care providers; creditors; etc.
- Instructions for locating your online accounts and passwords.

I'm not wealthy — should I still consider a trust? If you have a special-needs child or spouse, a financially irresponsible heir, or even younger heirs, a trust may be a good option. Trusts can place stipulations on how and when an inheritance is spent and prevent loved ones from either becoming disqualified from government benefits or losing their inheritance to creditors. Furthermore, a trust keeps the details of your estate private and shields your family from the probate process.

How often should I have my estate plan reviewed? Your estate plan should be reviewed every two to three years to ensure it evolves with any changes in your life — whether the birth of a child or grandchild, the death of a spouse or heir, a divorce, a move, or changes with your chosen appointees.

News and Announcements

From the Thurman Household

This has been quite a month. Levi had his tonsils and adenoids taken out and acute mono. Because of this he has had to drop most of his classes this semester, but plans on getting back into gear soon.

He is continuing, however, his personal trainer business and building a clientele. Learning about people, motivating them to stick with the plan, helping them to not worry about the bad weeks, joining them to celebrate the good weeks, etc. is a great experience for him. He also wonders where all that money goes from his paycheck.

My dad is doing better and is currently at Bridges, a skilled rehab facility. We've been very pleased; dad is improving, but not as fast as he would prefer (which would be overnight).

I'm back into running after taking a couple of months off. It's certainly easy to put on pounds and really hard to take them back off. Seems harder every year. What's up with that? The Remember the Ten race is here soon, and I hope I'll be ready.

Take good care,

Randy Thurman, CFP®, CPA/PFS

From the Flinton Household

As far back as I can remember, I have always enjoyed watching movies. Going to the movie theater was quite the treat, and I can still recall some of my favorites from when I was a kid.

My wife and I still love getting out for movies quite frequently; however, my new favorite movie watching experience is going to the movie with my children to watch a kid's movie. I can always be found grinning ear to ear with delight as all the children in the theater bustle with excitement prior to the film's beginning. Once the movie trailers begin, it's wonderful to listen to the pure glee that all the children experience in watching the funny previews. Uninhibited laughter, screams of elation, and the unfiltered question or comment that is certain to be pronounced to the entire audience is absolutely heartwarming. Like most parents, I spend a good portion of the movie watching my daughters, Samantha and Emerson.

Capturing those sweet, innocent moments when they are full of delight in a darkened theatre is my newest, favorite pastime. I hope they will one day reflect on the happiness that they experience during these outings, and may they also one day be blessed to look over and experience the joy through children of their own.

Here's to everlasting memories,

Andrew Flinton, CFP®

From the Bolander Household

Our new grandson has arrived! Luke was born on March 5, weighing eight pounds and two ounces, and mother and child are both doing great. My family is elated to have a newborn after five years. His big sister, Stella, is quite taken with him as well. She drew a colorful picture for the wall by his bassinet and loves singing to him. My husband John says Luke looks just like him. I stop by as often as possible to help out with meals, laundry, and, of course, the cuddling and rocking!

Over spring break I took Stella home with me for a few days. We had a great time reading, playing tea party and other games. She's an expert at My Little Pony Memory Game, so we only played that a couple of times! We joined my sister and her granddaughter for a day at the Science Museum Oklahoma. It is a fantastic place to see live science experiments, some with explosions, and all manner of hands-on activities. We saw some friends and even ate a "mouth-watering" lunch in Pavlov's Café. We had a great time and took lots of pictures. Let me know if you want to see my "brag" book!

Brenda C. Bolander,
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