

# Planning Your Legacy

Creating or updating your estate plan is one of the best things you can do to protect your and your family's financial future. Take some time today to plan your legacy...to decide how the assets you've accumulated will be used during your lifetime, as well as for the benefit of your surviving loved ones after your death.



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## What Is Estate Planning?

**Estate planning** is the process of accumulating, preserving and distributing assets to achieve the financial goals of people **during their lifetimes**, and to provide for their heirs according to the **estate owner's wishes at death**, while minimizing estate settlement costs. As such, estate planning is not a one-time event. Instead, it is an ongoing process designed to accomplish **accumulation, preservation and distribution objectives**, both during lifetime and after death.

Your estate consists of all property owned by you at your death, including:

- **The family home and other real estate**
- **Bank accounts**
- **Stocks, bonds, mutual funds and other securities**
- **Retirement plan assets**
- **Life insurance policies**
- **Business interests**
- **Personal property, such as jewelry, artwork and automobiles**

### Estate Planning Objectives

#### Accumulation

Estate accumulation objectives involve accumulating assets and net worth during your lifetime by systematically allocating money to savings, insurance, retirement and investment plans.

#### Preservation

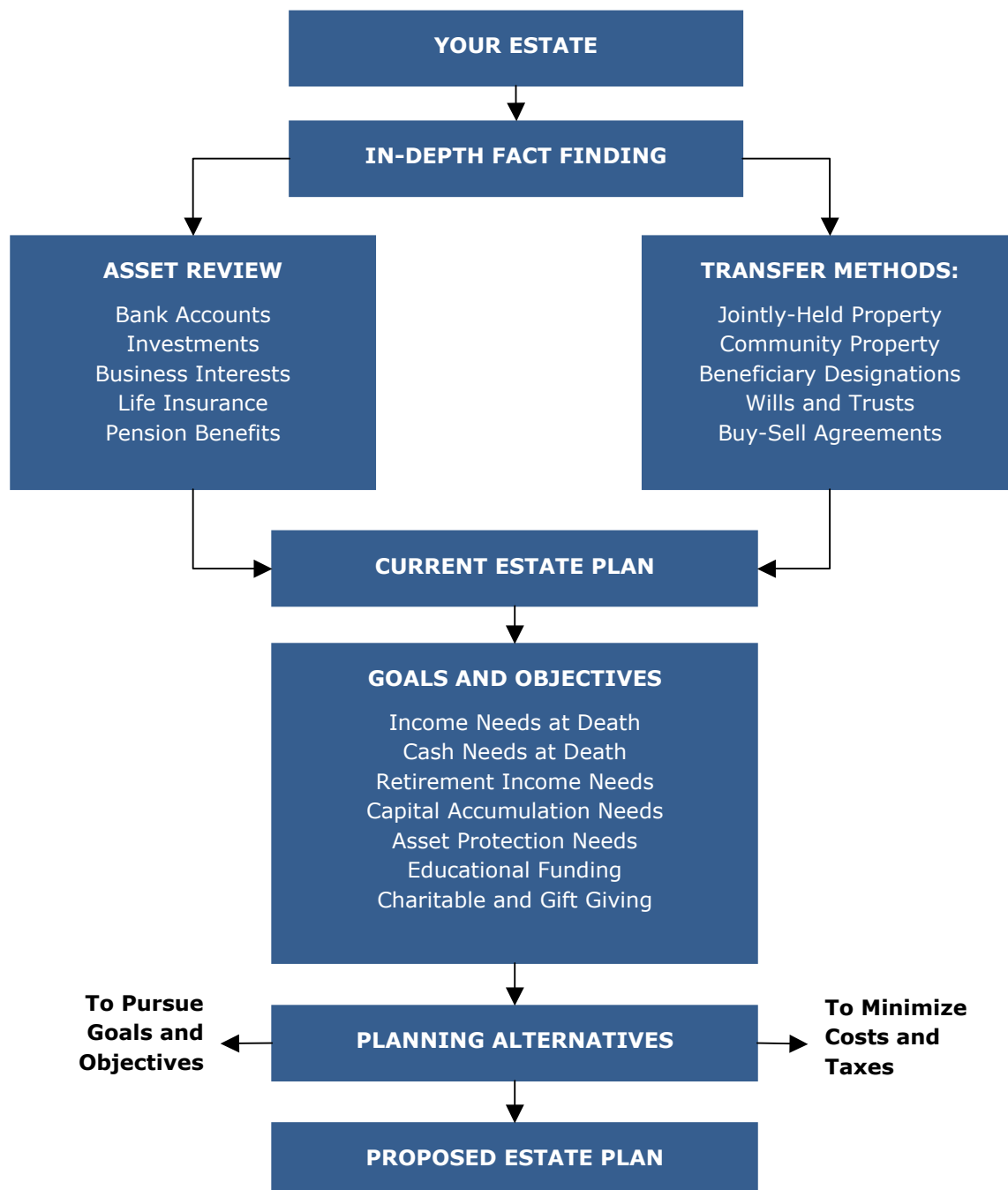
Estate preservation objectives include protecting your ability to earn an income during your working years and planning to minimize and offset estate shrinkage at your death.

#### Distribution

Estate distribution objectives deal with identifying and implementing the tools and techniques that will distribute estate assets to your heirs in an advantageous manner that is consistent with your wishes.

## Estate Analysis Process

**Estate analysis** is a process through which you, with the help of professional advisors, **analyze** your current situation, **identify** your goals and objectives and, finally, **develop** a plan designed to help achieve your goals and objectives during lifetime and at death, while minimizing costs and taxes in a manner consistent with your goals and objectives.



## Estate Planning Team

Depending on your unique situation and your estate planning goals, your **estate planning team** is composed of some or all of these professionals:

- **Attorney:** An attorney, particularly one who specializes in estate planning, will be needed to draft not only any necessary legal documents, but may also be able to identify estate planning techniques that can save your estate money on taxes and administration costs.
- **Accountant:** Your accountant may be called upon to provide specialized knowledge of your personal and business finances, to determine a valuation of estate assets, and to prepare required income and estate tax returns after your death.
- **Insurance Agent:** If life insurance is a solution identified to meet estate liquidity or other estate planning needs, an insurance agent can help you select the right policy and face amount, as well as recommend policy ownership arrangements that may result in estate tax savings.
- **Securities Broker/Financial Planner:** The services of a securities broker or financial planner may be needed to assist you in pursuing your estate accumulation, preservation and/or distribution objectives.
- **Trust Officer:** You may want to designate a bank or trust company officer as executor of your will or as trustee of any trust(s) established as a result of your estate planning efforts.
- **Charitable Planner:** If you plan on making charitable bequests, either during your lifetime or at your death, an expert in charitable planning arrangements can help structure a charitable gift program that benefits all parties.

## Estate Planning Tools

Your **estate planning team** will work with you to determine if and how you use any of these **estate planning tools** to achieve your estate planning goals:

### Wills

A will is the most **basic estate planning tool**. It states the actions you wish taken after your death in regard to the **disposition of your property**, the **guardianship** of any minor children and the **administration** of your estate. If you die without a will, you die **"intestate,"** meaning that the state in which you reside provides a will for you through the state's intestacy law. This means that the state dictates who will receive your property and in what proportion, appoints a guardian for any minor children and appoints an administrator of your estate.

### Trusts

A trust is a legal device for the management of property. Through a trust, one person (the **"grantor"**) transfers the legal title to property to another person (the **"trustee"**), who then manages the property in a specified manner for the benefit of a third person (the **"trust beneficiary"**). A trust can be a **living trust**, which takes effect during the lifetime of the grantor, or it can be a **testamentary trust**, which is created by the will and does not become operative until death.

### Property Ownership

The form of property ownership **determines how that property will be distributed at the owner's death**. For example, when two or more people own property through joint tenancy with right of survivorship, at the death of a joint tenant, the surviving joint tenant(s) automatically receive title to the property outside of probate.

### Beneficiary Designations

If you have an employer-sponsored retirement plan, an IRA, life insurance or an annuity, it's likely that you named a **beneficiary to receive the proceeds at your death**. Since rights to the proceeds will pass automatically to your named beneficiary(ies), it's important to **periodically review** beneficiary designations to make sure they reflect your current wishes.

### Advance Directives

Advance directives are a way to **"have your say"** about the health care you receive (or don't receive) in the event you become unable to make health care decisions for yourself. Each state regulates advance directives differently.

### Financial Power of Attorney

With a financial power of attorney, you give a trusted person the **authority to handle your finances and your property** in the event you become incapacitated and unable to handle your own affairs.

## Goal: Provide for Survivor Needs

### What Needs May Arise at Your Death?

Most people want to provide the funds necessary to meet certain needs that may arise at their death, including:

#### Income

Your earning power – your ability to earn an income – is your most valuable asset. If something happens to you, how will your surviving family members replace your earning power?

#### Final Expenses

Will your family have the cash to cover the immediate expenses that arise at death, such as medical and funeral expenses, debt liquidation, estate settlement costs, federal and state death taxes and any bequests?

#### Housing

Do you want to enable your family to stay in their own home by liquidating the mortgage, or do you want to provide a rent payment fund?

#### Education

Do you want your children to benefit from a college or vocational education?

#### Special Needs

Do you have a disabled child or other family member with special needs?

#### Emergencies

Will your surviving spouse be able to pay for large, unexpected expenses, such as auto or home repairs, from income?

#### Personal Services

Will new expenses related to child care, household duties or home and yard maintenance be created at your death?

## Goal: Plan for Retirement Needs

When you retire and your earning power ceases, you will have to depend on three primary sources for your retirement income:

### Social Security

According to the Social Security Administration, the average retired worker in 2023 receives an estimated \$1,827 monthly benefit, about 40% of average pre-retirement income. As pre-retirement income increases, however, the percentage replaced by Social Security declines.

### Employer-Sponsored Plans and IRAs

You may be eligible to participate in a retirement plan established by your employer and receive pension income at your retirement. You may also be able to contribute to an individual retirement account (IRA) to supplement Social Security and pension benefits.

### Home Ownership and Personal Retirement

For many people, there is a gap between the retirement income they can expect from Social Security and employer-sponsored plans/IRAs and their retirement income objectives. Home equity can be used to bolster retirement security. Personal retirement savings, including bank and brokerage accounts and insurance and annuity contracts, can be used to bridge a retirement income gap.

A financially-secure retirement is the result of understanding and answering these essential questions:

- How much income will you need?
- Where will the income come from?
- How much time do you have before retirement?

## Goal: Protect Assets

You work a lifetime to accumulate assets to benefit yourself and the people you love. Without proper planning, however, a serious accident or illness, or just declining health with age, can undermine your financial security and that of your loved ones:

### Disability

Getting sick or hurt can be expensive! In the event you get sick or are injured and cannot work, how will you and your family replace your income?

### Long-Term Care

Whether provided in a nursing home, an assisted living facility or through home health care, long-term care services can be expensive. Without advance planning, it is possible to exhaust assets paying for needed long-term care services.

## Goal: Accomplish Charitable Objectives

People give to charities for a variety of reasons. They give:

1. Because they have compassion for the less fortunate.
1. From a belief that they owe something back to society.
2. To support a favored institution or cause.
3. For the recognition attained by making substantial charitable donations.
4. To benefit from the financial incentives our tax system provides for charitable gifts.

A charitable gift is a donation of cash or other property to, or for the interest of, a charitable organization. The gift is freely given with the primary intention of benefiting the charity. Whether given during lifetime or after death, charitable gifts are eligible for a tax deduction, **but only if made to a qualified charitable organization**, which includes churches, temples, synagogues, mosques and other religious organizations, colleges and other nonprofit educational organizations, museums, nonprofit hospitals, and public parks and recreation areas.

Whether given during lifetime or after death, there are a variety of charitable giving techniques that can be used to maximize the value of your gift...to you, your heirs and the charity.

## Goal: Minimize Estate Taxes and Settlement Costs

There is a mistaken impression that, at death, your assets will automatically be distributed to your loved ones.

**Instead, several "unwanted heirs" may step forward **FIRST** for their share of your estate.**

These "unwanted heirs" include:

- **Federal Estate Tax**
- **State Inheritance Tax**
- **Estate Administrative Costs**

The problem is that the "unwanted heirs" can siphon off a **significant portion** of an estate's total value.



## FEDERAL ESTATE TAX

The **federal estate tax** is a transfer tax imposed on the privilege of transferring property at death, while the **federal gift tax** is imposed on the transfer of property during the property owner's lifetime. Both taxes are levied on the **right to transfer property**, and not on the property itself. The amount of tax payable, however, is measured by the **value** of the transferred property.

**In 2023**, the federal estate and gift tax applies only to amounts **in excess of \$12,920,000**, as adjusted for inflation. This means that an individual currently can transfer property valued up to \$12,920,000, whether during life and/or at death, without incurring a tax liability. In addition, **a surviving spouse can elect to take advantage of any unused portion of the estate tax unified credit of a deceased spouse**. As a result, with this election and careful estate planning, married couples can effectively shield almost \$26 million (as adjusted for inflation) from the federal estate and gift tax. **This means that very few estates today are subject to federal estate and gift taxation.**

## STATE INHERITANCE TAX

**Estate or inheritance taxes levied by a state vary widely from state to state.** It may be possible for an estate that is too small to be subject to the federal estate tax to still have a state inheritance tax levied against it. Your estate planning team can assist you in planning for any potential state inheritance tax.

## ESTATE ADMINISTRATIVE COSTS

**Estate administrative costs** include funeral expenses, probate costs, professional fees, final expenses and debts.

**Probate** is the Latin word for **prove**, which means that the estate probate process is the process by which your will is brought before a court to prove that it is a valid will. Supervision of the estate settlement process by the probate court can result in **additional expense**, unwanted **publicity** and, depending on the state in which you reside, **delays** of a year or more before estate assets are distributed to your heirs. **The impact of the probate process can be avoided** through the use of strategies that include living trusts, joint ownership of assets, beneficiary designations, lifetime gifts and life insurance. If your objective is to avoid the estate probate process, consult with a qualified professional advisor.

## Planning for Blended Families

**If one or both spouses have children from a previous marriage, the potential for acrimony over the division of estate assets takes on a new dimension.**

The most common type of will among married couples provides for all assets to pass to the surviving spouse, generally with the understanding that at the surviving spouse's death, the remaining assets will pass to the couple's children. In blended families, however, problems can arise when the surviving spouse then leaves the remaining estate to his or her biological children, potentially disinheriting the children of the first spouse to die.

Working with a qualified estate planning team, there are steps that can be taken now to help protect the interests of both the surviving spouse and children from both prior and current marriages. In the case of a blended family, it's particularly important that all components of the estate plan be carefully reviewed in order to eliminate any conflicts between the components.

### Prenuptial

A prenuptial agreement can be used to prearrange the division of assets and the custody of children in the event of a future divorce, as well as to protect an inheritance by stating the assets to pass to the respective spouse's children at death.

### Wills and Trusts

Depending on your situation, a simple will may be sufficient. When substantial assets are involved, however, you may want to consider a more extensive plan involving a will and one or more trusts. For example, if your objective is to have your assets ultimately pass to your children from a previous marriage, but only after your surviving spouse has died, a trust can be used to give your surviving spouse the income produced by the assets in the trust during his or her lifetime, with the remainder of the trust assets going to your children at your surviving spouse's death.

### Beneficiary

All existing life insurance and retirement plan beneficiary designations should be reviewed for potential conflicts and changed as necessary to achieve the owner's estate planning objectives.

### Life Insurance

Life insurance proceeds can be used to equalize inheritances, as well as provide financial support for a survivor. If, for example, you want to leave your assets to your children from a previous marriage, but also want to provide financial support for your surviving spouse, you could purchase a life insurance policy naming your spouse as the beneficiary. Another alternative would be to leave your assets to your spouse, but name your children as life insurance beneficiaries. In the case of minor children, consider having the life insurance proceeds paid to a trust established for the benefit of your children.

## Life Insurance in an Estate Plan

Life insurance is frequently considered the most economical method of providing needed estate liquidity at an estate owner's death.

In addition to serving as a source of estate liquidity to provide for survivor needs, equalize inheritances, accomplish charitable objectives and provide funds needed to pay any estate taxes and estate settlement costs, life insurance provides a variety of other advantages:

- **Payment is prompt and certain.** Life insurance proceeds are not subject to the time and expense of the probate process.
- **The event creating the need for cash** -- death -- **also creates a source of cash** -- the life insurance death benefit. The life insurance policy provides the dollars for a certain need -- estate liquidity -- that arises at an uncertain time -- death.
- **If the death benefit exceeds the total premiums paid, this gain generally is received free of income tax.** For example, if only 20 cents of each death benefit dollar received has been paid in premiums, the 80-cent gain is received income tax free!
- **The premium payments are spread out.** No matter how long you live, it is unlikely you will ever give the insurance company more than 100 cents on the dollar. In addition, the life insurance policy can frequently be structured to accommodate your unique premium payment requirements.
- **Life insurance avoids all of the problems associated with other methods** for providing estate liquidity, such as accumulating sufficient cash when needed at death, borrowing to pay estate settlement costs or liquidating sufficient estate assets to provide needed liquidity.
- **By giving up ownership of the policy, the proceeds may be estate tax free.** An attorney can provide you with the popular "Irrevocable Life Insurance Trust" for this purpose, or an adult child can be named as owner.

## Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, VSA, L.P. is not engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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**NOTE ABOUT THE FEDERAL ESTATE TAX:** Whether your estate is actually subject to the federal estate tax will depend on the size of your estate, the year you die and whether future Congressional action modifies the estate tax rules.

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