

Better Estate Planning



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Four financial challenges

An effective estate plan involves recognizing and coping with four common financial challenges:

1. **Dying too soon.** For those who bear financial responsibility for others, one of the greatest concerns is providing for them sufficiently over time. Savings plans, retirement accounts, life insurance and other plans are just a few of the ways to help assure that adequate financial support is available for loved ones.
2. **Outliving one's resources.** As times goes on, the possibility of outliving one's financial resources can be an increasing concern. Balancing present and future needs can indeed be challenging.
3. **Emergencies.** Effective estate planning may also ease the financial impact of illness, accidents and other unforeseen economic hardships. While we can accumulate savings in order to be prepared, insurance assumes greater importance as costs increase. Medical, automobile, homeowners, and other insurance policies can help alleviate concerns that an emergency will unnecessarily deplete economic resources.
4. **Mental and physical disability.** It is also important to plan for adequate income and management of assets should mental and/or physical disabilities impair a person's ability to manage property. A number of financial arrangements, including various types of trusts, have been created to help deal with the need for assistance in asset management.

Addressing each of the above concerns is the essence of an effective estate plan.

The many benefits of thoughtful estate planning

The term “estate planning” means different things to different people. And it should, because effective estate plans reflect the unique needs of those who complete them.

In its broadest sense, estate planning includes the process of accumulating, managing and distributing property over the course of a lifetime. This booklet presents a practical and helpful overview of a number of planning tools and how they can be used to accomplish a variety of goals.

Regardless of whether you are considering your estate plans for the first time or reviewing plans you already have in place, satisfaction comes from identifying your objectives, taking realistic approaches to achieve them, and avoiding hazards in the process.

Knowing where to begin, what to look for, and what you might expect can help turn this challenging task into effective plans.

You may wish to pay special attention to your current and future financial plans in light of recent estate and gift tax law changes.

A practical approach to planning

An organized approach to estate planning can bring order to what may otherwise be an overwhelming task.

As a place to begin, focus your planning on four elements: the **people** in your life, the **property** you own, your **plans** for the future, and the **planners** who will assist you in achieving your goals.

People: List the individuals for whom you would like to provide, beginning with yourself, your spouse, children, parents and others. Some choose to include one or more charitable interests in this list as well.

Property: Next, make a list of the property you own or expect to own in the future. Include bank accounts, real estate, stocks, bonds, mutual funds,

the value of life insurance policies and expected proceeds, retirement plan balances, and personal property. Beside each item, place a conservative estimate of its current value and the original cost.

At this point, you should also make a list of sources of income and any outstanding liabilities, such as mortgages and other debts.

Plans: Think about what you wish to accomplish financially over the remainder of your life. Do you anticipate having adequate income to support yourself and your dependents? Who would you like to receive your property when you no longer need it?

Would you like for heirs to receive property, an income or both? At what ages? Will a trust or other special plans be necessary in order to carry out your wishes? Have recent tax law changes affected your plans?

Planners: To make sure your estate plan performs as you intend, the assistance of one or more advisors will normally be necessary. You may need to call on your attorney, accountant or a trust officer, for example.

Others, such as financial planners, investment advisors, life insurance professionals, real estate brokers and similar specialists may also be needed to help implement your plans. Make a list of your primary advisors. Consider choosing the one in whom you place the greatest trust to help coordinate the process.

Estate planning tools

After you have given careful thought to the people in your life, your property, plans and the planners you would like to help you, it is time to set your plan in motion.

Like a building project, you will start with a blueprint and then, with the help of advisors, your plan will become a reality.

Your planners can help you explore the advantages of using one or more of the following estate planning tools as the building blocks of your plan.

The will as cornerstone

A well-planned will is at the center of many estate plans. While there are other ways to distribute various types of property, many rely on a will to:

- Distribute possessions that will not be transferred through joint ownership arrangements, insurance policies, trusts or other plans.
- Determine ownership of property that may be acquired in the future.
- Distribute assets that may be converted to other forms over time.
- Back up any plans that may no longer be in existence at death.

In addition to distributing property, a will can include recommended guardians of minor children. You can also make provisions for the management of assets should a recipient be unable to manage property left to him or her due to age or other factors.

Placing property in trust

In addition to a will, a trust can often help in the management and distribution of property.

As the name implies, a trust is a tool that allows you to entrust property to a person or institution with instructions to manage it on behalf of one or more persons for a period of time.

At the end of that period, the trust terminates and its assets (the remainder) are distributed as you directed when the trust was created.

Trusts are often established to manage funds for those who are disabled, the elderly, or for younger persons until they reach an age at which they are able to responsibly manage property.

Under the terms of what is known as a **revocable living trust**, you and/or others may serve as trustee of your property for a time, with someone else

appointed to take over management of assets, if necessary. Such an arrangement may also result in probate expense savings and speed the process of estate settlement.

Such a trust is called a “living” trust because it is established during your lifetime, and “revocable” because you may choose to change or end the trust at any time.

Power of attorney

It can be wise to make provisions for someone to handle your financial affairs for a period of time should you be unable to do so. Under what is known as a **power of attorney**, property management and disposition rights are granted to another. Your attorney can provide details.

Joint ownership

Homes, automobiles, bank and investment accounts, and certain other types of property may be owned jointly with others with rights of survivorship.

In this case, the property passes outside of probate to the survivor upon the death of one joint owner. There are various types of joint ownership, so make certain the one chosen is best suited to your needs. Remember, a will does not generally affect the future ownership of jointly held property.

Living will

A **living will** makes your health care wishes known to your physician and others. A living will can be very important in helping guide loved ones and others in making decisions regarding medical care.

Not to plan *is* to plan

What if you decide not to make an estate plan? In that event, your state of residence will step in and apply an all-purpose plan. Your state’s standard plan will typically result in the following:

- Someone you do not know may be appointed to settle your affairs.
- The state will direct this person to distribute

your property according to state law, which assumes you would wish to treat all recipients more or less equally depending on their relationship to you, regardless of individual need.

- No gifts to special friends or charitable wishes will be considered, regardless of your friendships, or philanthropic interests during lifetime.

Most who have witnessed the application of the state-made plan would agree that it is much better to take advantage of your right to make your own plans. See your advisors for more information about the laws of your state and for assistance as you make plans for the short- and long-term management and disposition of your property.

The charitable dimension

Many of us enjoy making gifts in support of charitable interest in which we believe. But out of necessity, our own economic security must come first.

As a result, you may wish to consider making charitable gifts from assets that remain after you have first assured your economic security and that of our loved ones. This can be accomplished through a bequest in your will, a remainder interest in a revocable living trust, a beneficiary designation of life insurance or retirement plan proceeds, or one of a number of other convenient vehicles.

You may be surprised to learn that through effective estate planning, it can be possible to make charitable gifts in a variety of ways that feature tax savings and other financial benefits as well.

Income and asset management

For example, there are charitable gift planning tools that can provide management of assets for you and your loved ones while providing a fixed or variable income for your or others for life or other period of time. At the end of the time period you determine, the assets are put to charitable use.

Potential tax savings

Substantial income, gift and estate tax savings can be enjoyed through the thoughtful use of charitable

estate planning techniques.

Generous income tax deductions are allowed for gifts completed during one's lifetime, and assets that will eventually pass to charity can help reduce or eliminate estate taxes that may otherwise be due. Recent tax law changes may result in lower estate taxes for many, making more assets available for the enjoyment of loved ones and your charitable interests.

For many, charitable gifts made through various types of trusts and other planning tools can be an excellent way not only to minimize taxes, but also to provide for asset management for those who might not be able to adequately oversee their own financial affairs.

Income for life

John Williams, 78, is concerned about reduced income from a portion of his long-term investments. His sister, 75, lives with him, and he assists with her financial support. Through a carefully planned charitable gift, John learns that he can arrange a gift that will provide an attractive income stream for both his lifetime and that of his sister. He is thus assured a source of regular income along with the knowledge that he and his sister will benefit from professional management of assets. A charitable interest they both support will receive the remainder of the assets following their lifetimes.

To summarize, John enjoys—

- Fixed or variable income for life.
- Responsible management of assets.
- An immediate income tax deduction for a portion of the value of the assets used to fund his plans.
- No capital gain taxes at the time the gift is made.
- Reduction or elimination of estate taxes that might otherwise be due.
- The reward of knowing that property will even-

tually be used to further his charitable interests.

Arranging a temporary gift

Did you know that you can make charitable gifts that provide immediate funding for charitable purposes for a period of time before benefiting you or your loved ones?

You can set aside assets in what is known as a **charitable lead trust**. Payments from the trust are devoted to charitable purposes for the time period you choose. The assets in the trust are then returned to you or others you designate.

This method can be used to fund a meaningful charitable gift over a period of time while reducing or completely eliminating state and/or federal gift and estate taxes that might otherwise be due on assets transferred to children, grandchildren or other loved ones.

If you wish to temporarily delay an inheritance in a way that helps reduce estate and gift taxes while also funding charitable gifts, the lead trust may be an appealing addition to your plans.

A number of possibilities

As you can see, carefully balancing your needs with those of loved ones and favorite charitable interest can lead to surprising and welcome benefits for all concerned.

For further information, contact Lisa Evanylo (552-9716) or Bill Baker [(552-1727) or email him at bakerw98@warmhearthva.org].

Information in this booklet does not constitute legal or tax advice. It is recommended that you consult with your attorney and tax advisor for such advice.



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