5 Tips To Creating An Effective Estate Plan

Over time our life situations change and so should our beneficiary designations in an estate plan. Spending time up front in the planning process will help you identify key areas or gaps in your current estate plan that need to be addressed. Life events are always a great time to review designations. Some major life events that should trigger a review include a marriage, a divorce, a new baby, death of a family member, an illness, tax law changes, and/or a recent inheritance. It is not uncommon to find unintended individuals still named as beneficiaries, such as an ex-spouse on a retirement plan who is no longer the intended heir on that plan. Enclosed are five tips on how to create an effective estate plan.

Tip #1: Create a list of your assets and liabilities.

Taking inventory of your assets is a great starting point for creating a well thought out estate plan or updating an existing plan. To ensure you are meeting your planning objectives, it is important to take the time to inventory your assets and liabilities. This can help you avoid unfortunate outcomes that can occur when beneficiary designations or title assets aren't properly assigned. Asset control is achieved through proper asset titling so title with care. It can also help in gaining peace of mind that your beneficiaries will receive the right assets at the right time, and in the manner that you think best.

How do I create an asset summary?

First you want to identify if your assets are owned individually or individually with a "transfer on death" designation, jointly, or in a trust. For example, do you own a savings account jointly with a child? This might put your savings at risk if your child is in an accident or is getting divorced. Do you own real estate with another person other than your spouse? If so, is it owned jointly with rights of survivorship (passes to the surviving owner) or jointly as tenants in common (your half passes under your will at your death and not to the surviving owner)? How you own an asset can have a significant impact on who ends up receiving that cherished asset.

Check your beneficiary designations when reviewing how your assets are owned. Life insurance, annuities, and retirement accounts are all governed by contracts. Beneficiary designation on an asset is vital and can supersede what is stated in a will or trust. The beneficiary designation will determine for example, who receives your life insurance proceeds or IRA account. Naming an individual or charity will guarantee that these assets bypass the probate process and will not pass under your will but according to the beneficiary designation.

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Tip #2: Identify who your beneficiaries are and how you want to distribute your assets to them.
Do your beneficiaries include a spouse, an adult or minor child/children, a blended family and/or a charity? If you have young children you may want life insurance proceeds to flow into a trust for their benefit until they reach a certain age. A trust also works well with blended families to secure assets for different family members at different times with different restrictions or flexibility. Some assets are also better suited for charitable beneficiaries such as retirement assets.

Tip #3: Determine who you will entrust to carry out your carefully thought out plan.
A plan does not just entail a decision on where your assets will land; rather there are several questions you should prepare answers for. Who do you envision carrying out your plan - will be it a family member, an attorney, or a corporate trustee? Who would you feel comfortable giving ownership to wind down your affairs and distribute your assets? How much control or flexibility do you want them to have in administering your estate?

It is important to consider who you would like to be responsible for the administration of your plan, but also your family care. If you have young children, who would you want to take care of your children's wellbeing? This requires a different skill set and may not necessarily be the same person you want to manage your assets on behalf of minor children. While you are alive, who would you want to name as your agent to make health care decisions or financial decisions if you became incapacitated.

Remember that a key aspect of an estate plan is appointing the right people or institution to manage your affairs if you are unable to do so yourself. It is very important to carefully plan which trusted individual or corporate fiduciary will fill these roles.

Tip #4: Plan for any possible future incapacity.
Some of the most important documents while alive that are often forgotten about are health care proxy statements, living wills, and durable powers of attorney. These are critical documents should you become incapacitated. For example, with a health care proxy the key is naming the right individual as your agent to make health care decisions for you if you can no longer make them for yourself. Often children will disagree on the right course of action for a parent's medical treatment. This can also present challenges in blended families with a spouse and children from a prior marriage. This individual should understand your medical situation, your wishes, and have the ability emotionally to carry out your desires under difficult circumstances.

Tip #5: Plan for your digital assets.
The average person has more than 90 online accounts to manage, and by 2020 this figure is expected to balloon to over 200.[1] Whether it be domain names and electronically stored photos, or social media and e-mail accounts, it is important to inventory these assets and find a safe method, such as a password management system, to store your passwords. We often think only of tangible personal assets such as our mother's cherished jewelry, but what about the new treasure trove of digital photos? We don't want to lose access to these photos therefore, identifying someone with the right authority who can manage access to these assets can avoid the threat of losing your precious keepsakes.

Since the laws are still evolving including company practices and agreements this is a complicated area to plan. We advise taking a three-pronged approach. First, make an inventory of all of digital assets in your own name. Identify which ones you want your personal representative to access and which ones should be deleted - record detailed instructions. You should also check the terms of use or terms of service for each digital asset. Some companies provide their own method for transferring digital assets at death. Finally, you should consult with your attorney and add specific language to your trust and/or will that specifies your wishes for transferring digital assets to your intended heirs.

Creating an estate plan that reflects how you would like your assets to transfer will help to ensure that your intended heirs are provided for in the best possible way, minimizing taxes and avoiding unnecessary delays. Updating and/or creating a new estate plan can be complex, contact Rockland Trust Investment Management Group (IMG) for advice and guidance.

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[1] https://blog.dashlane.com/infographic-online-overload-its-worse-than-you-thought/

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