



Planning Your Estate: Focusing on Your Spouse

Scott Thoma, CFA, CFP® • Investment Strategist

What You Need to Know

- » A proactive strategy for a surviving spouse should include a financial review of the household's finances, a review of your income strategy and potential estate considerations.
- » A flexible income strategy should account for how the death of either spouse could affect income, expenses and assets to ensure the surviving spouse has enough resources for his or her retirement.
- » Reviewing legacy goals can also help couples understand each other's goals and how they may affect the financial resources available for retirement.

When you envision your legacy, your thoughts may turn to your children, extended family or a favorite charity. While there are many important considerations, it's also important to be intentional about a strategy for your spouse's financial security.

Importance of a Proactive Strategy

Although death or illness may be uncomfortable topics for couples to discuss, putting a strategy in place to provide for the surviving spouse can make these discussions worthwhile. A strategy for a surviving spouse should encompass:

- Understanding the Household's Finances
- Making Your Income Strategy Flexible
- Balancing Legacy Goals

Understanding the Household's Finances

In some relationships, one partner handles the household finances. If this person passes away first, it could leave the survivor to determine how to manage the finances and also to track down all financial information. Whatever your situation, it's important that both of you are fully aware of your financial picture. To make this easier, we recommend the following:

- Keep a record of all financial assets, including investment accounts, bank accounts, life insurance policies and legal documents. These records should include where the original documents are as well as up-to-date titling and beneficiary designations.
- Ensure you and your significant other meet with your financial advisor regularly so you both understand your finances and how they are being managed. This can ensure both of you are on the same page.

Making Your Income Strategy Flexible

A key part of any retirement income strategy should be stress-testing it to prepare for the unexpected, which includes the death of a spouse. The main goal is typically to ensure your spouse has the resources necessary to maintain his or her lifestyle if you pass away. The following table lists specific things to consider.

Impact to:	Start by:	Potential Solutions
Income	Outlining your sources of income, identifying which ones are tied to each spouse and may be affected by a death (for example, pensions and Social Security benefits). Don't forget to consider potential changes in taxes (due to a change in filing status).	Consider options to maximize income upon the death of a spouse, such as: <ul style="list-style-type: none">• Delaying taking Social Security for the higher-earning spouse to maximize the survivor benefit.• Life insurance to help provide for a particular income need upon the death of a spouse.• A single or joint life annuity that may provide a lifetime stream of cash.
Spending	Detailing your household expenses, noting where spending might increase or decrease due to the death of a spouse (food, entertainment) and which expenses are fixed (housing, property taxes, utilities).	Determine in advance how much flexibility there is to adjust spending upon the death of a spouse, and run scenarios with your financial advisor to ensure your assets and potentially reduced income from outside sources can support this new level of spending.
Assets	Understanding how your assets are titled and where they will pass upon the death of each spouse. <ul style="list-style-type: none">• For example, your spouse's access to certain funds/assets within a trust may be restricted. Review with your qualified estate-planning attorney how and where assets will pass upon each person's death.• Discuss how assets or inheritances will be passed to beneficiaries other than the surviving spouse.• Determine if there is an illiquid asset, such as a business or real estate, that the survivor may want or need to sell to provide for income needs.	Review titling and beneficiary designations to ensure a surviving spouse will have not only the financial resources but also the liquidity, access and/or withdrawal privileges to meet his or her spending goals. <ul style="list-style-type: none">• If you own illiquid assets such as a business, you may want to consider certain legal and insurance structures (for example, a buy/sell agreement) to help provide liquidity.• If you have the possibility of a taxable estate, you (along with your legal and tax professionals) will also want to consider the trade-offs between a Credit Shelter Trust and portability provisions.

Long-term Care and Your Spouse

Your combined retirement portfolio needs to provide for both of your needs throughout retirement. If assets earmarked for day-to-day living expenses instead must cover the cost of unexpected care, it could potentially affect a surviving spouse's ability to live comfortably in retirement.

You can prepare for this scenario by planning for long-term care, including how and where you want care to be administered and how you will cover potential costs, which may include long-term care insurance. Preparing ahead of time can better help you provide for your own care and also help ensure your assets ultimately provide for a surviving spouse or other family members.

Balancing Legacy Goals

You may have specific financial legacy goals – assets you would like to leave to heirs or a charity – in addition to providing for a surviving spouse. The key is to make sure you and your spouse understand each of your legacy goals and how they may affect the financial resources available for retirement.

Trusts and Taxes

It's important to review your estate documents to help ensure a surviving spouse has access to necessary assets while being sensitive to taxes and desired legacy goals. Depending on your goals, there are many tax and trust considerations, including:

- **Portability vs. Credit Shelter Trust:** Portability may allow the surviving spouse to retain the deceased spouse's unused federal estate tax exclusion amount in addition to his/her own exclusion amount. A Credit Shelter Trust is often used to help avoid estate taxes when passing assets to heirs, but with the advent of portability, it's important to weigh the benefits and trade-offs of a Credit Shelter Trust.
- **Charitable Remainder Trust (CRT):** For individuals with charitable intentions, a CRT can provide a surviving spouse with an income stream during his or her lifetime. The balance of the gift is then left to charity at the survivor's passing. A CRT can be an alternative to leaving assets outright to a charity at the first spouse's death.
- **Qualified Terminable Interest Property (QTIP) Trust:** This type of trust includes provisions to distribute income from the trust assets to a surviving spouse during his or her lifetime. But the trust maintains the principal for ultimate distribution to beneficiaries (e.g., heirs of the first spouse) at the surviving spouse's passing. QTIP provisions may be particularly beneficial in blended families. That said, if the trust is funded by a retirement account and was established before 2020, it is important to review your QTIP strategy with your legal professional in light of the SECURE Act changes.
- **Gifting:** Using the annual exclusions and/or lifetime gift tax exemptions for both spouses can allow you to enjoy the act of gift-giving during your lifetime while reducing possible tax burdens for your heirs in the future. Charitable bequests made in a will could also reduce your taxable estate but must follow IRS rules to qualify.

Retirement Accounts

Most spouses tend to roll over their deceased spouse's retirement assets to their name. This is generally a tax-free transaction and can allow the survivor more flexibility and control in managing retirement income. If, however, you intend to pass on these retirement dollars to someone else, you may need to distribute the funds fully over a 10-year period due to changes resulting from the SECURE Act. The changes limited the ability of most non-spouse beneficiaries who inherit an IRA after Dec. 31, 2019, to stretch distributions from an inherited IRA over their life expectancy. When leaving retirement assets to someone other than your spouse, consider consulting a legal professional to determine how these changes may impact you and your heirs.

Ultimately, since Edward Jones does not provide tax or legal advice, it's important to review your options with your tax professional and attorney, in addition to your financial advisor, to ensure your legacy goals and strategies align with your retirement goals.

Be Proactive

A key part of every strategy is ensuring it is flexible enough to provide not only for your financial goals as a couple, but also for a surviving spouse should something happen to one of you. You both have worked hard to get to where you are today – take the time to ensure each of you can continue to enjoy life well into the future.



Committed Couples: Importance of Proactive Planning

For those in long-term relationships not recognized by state and/or federal law, proactive planning may be even more important. Work with your team of financial, tax and legal professionals to put strategies in place to help ensure the financial security of your significant other and meet your legacy goals.

This report was written for informational and educational purposes only, and it is not intended to be all-encompassing. Individual situations will vary widely and should be discussed with a qualified tax professional and a qualified estate-planning attorney. Edward Jones, its financial advisors and employees do not provide tax or legal advice.

Edward Jones is a licensed insurance producer in all states and Washington, D.C., through Edward D. Jones & Co., L.P., and in California, New Mexico and Massachusetts through Edward Jones Insurance Agency of California, L.L.C.; Edward Jones Insurance Agency of New Mexico, L.L.C.; and Edward Jones Insurance Agency of Massachusetts, L.L.C.

edwardjones.com

Member SIPC

Edward Jones
MAKING SENSE OF INVESTING