

# Planning your estate

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Taking control of your legacy



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The time is now to develop a strategy that puts you in control of your legacy. A properly designed strategy for your legacy includes three major parts:

## Plan for the expected

### Whose strategy do you want – Yours or the state’s?

Slightly more than 40% of Americans do not have a will or trust in place.<sup>1</sup> If you’ve never taken the time to develop an estate strategy, you have a “strategy” in place by default – the laws of your state – which may not align with your desires. Every state has statutes dictating where assets will be passed after a person’s death, how to handle the decisions of an incapacitated person and how the court will select a person to be in charge of these decisions.

Without a proactive estate strategy, decisions about the care of your children, your assets and your health care will be controlled by state law and the courts.

### It’s about control

Ultimately, developing an estate strategy is not merely about wealth. It’s about putting you in control of your legacy, ensuring the most important people and things in your life are cared for as you intend. Additionally, having a strategy can help ensure your wishes are followed in an orderly and structured manner, reducing potential delays and conflicts that could arise among your beneficiaries.

### Understanding trade-offs

Estate planning often will require you to prioritize your goals and make some trade-offs. For example, there is often a trade-off between simplicity of the strategy and the level of control. Transfer on Death agreements (TODs) and beneficiary designations are often simpler to implement but offer little control over taxes and/or the beneficiary’s use of funds. If you want more control over these items, trusts may provide more options. However, these options may bring additional cost and complexity, and your decisions could even become irrevocable, depending on the strategy. It’s important to discuss all of these considerations with an estate-planning attorney.

### Getting started: Where are you today?

To get started, it’s important to review your current situation, including:

- ✓ Assets, liabilities and net worth, including ownership, titling and beneficiary information
- ✓ Income needs and sources of income
- ✓ Previously drafted estate-planning documents (e.g., wills, trusts, powers of attorney, etc.)

### By outlining the above items, you’ll identify:

- ✓ Assets needed for retirement and/or other goals versus those designated for estate purposes, including their tax treatment
- ✓ If there is flexibility in your budget to pursue your estate goals while still providing for your current needs
- ✓ Current status of your estate strategy

### Engaging a fee-based trust company

Strict federal and state laws govern trust implementation, requiring trustees to perform certain duties for investments, administration, communication, accounting and confidentiality. Some clients may want to delegate these legal responsibilities to an outside entity, such as a fee-based trust company, rather than maintain them or pass them along to a family member. Some services provided by these firms may include asset management, withdrawal analysis and preparation of tax returns. Edward Jones Trust Company provides professional trust services, including serving as trustee or co-trustee, successor trustee or managing agent.



# Prepare for the unexpected

While your goal is to address important financial issues in your “Plan for the expected,” there is always the possibility that unexpected items could derail your estate strategy.

You can’t predict tax law or family situation changes, but regular reviews with your professional team can help ensure your strategy is always current.

This table highlights some of the unexpected events that could affect your strategy and considerations to address them.

	Potential events	Potential impacts to financial goals	Potential considerations
Tax/Regulatory changes	Changes in income or estate taxes or estate laws	Size of after-tax estate affected Current strategies potentially ineffective	Review spending, gifting and estate goals with professional team at least every three to five years or upon tax or regulation changes.
	Birth, death, marriage, divorce affecting you or your beneficiaries	Inconsistencies in documents (e.g., incorrect or out-of-date beneficiary designations) Assets may be received by or benefit unintended individuals (e.g., in-laws, ex-spouses) Current strategies potentially ineffective	Review and update estate strategy upon any change in family status (e.g., after a newborn child). Periodically review and update beneficiary designations, life insurance and account/asset titling to ensure alignment - especially after a life event.
Life changes	Prolonged illness	Assets targeted for retirement and/or estate used for health care instead	Long-term care insurance/life insurance with long-term care accelerated death benefit rider
	Incapacity	Inability to care for self or manage financial affairs	Review legal documents (e.g., living trust, power of attorney) at least every three to five years to ensure appropriateness.
	Wealth changes	Strategy rendered ineffective by large increases or decreases in wealth	Review spending, investment and estate strategies upon change in wealth.
	Changing jurisdictions (e.g., moving to a new state)	Strategies designed for one state’s laws not appropriate when moving to another state	Review and update estate strategy when moving to a different state.
	Designated decision-makers are no longer able or willing to serve	Possible delays in managing assets, paying bills or filing a tax return	Consider naming multiple successors or an institutional control entity (such as Edward Jones Trust Company).

## Aligning your strategies and documents

If your documents do not accurately reflect your desired estate strategy, your wishes may not be followed as you intended. This can occur, for example, where legal documents and/or beneficiary designations are not updated to reflect a life event (e.g., marriage, birth, etc.). This could also occur when people create trusts with the intention of titling certain assets into the trust but then fail to do so. Ultimately, you should review your strategies and documents periodically with the appropriate members of your professional team to ensure your strategies and documents are aligned with your goals.



## Position your portfolio for both

The third part of your estate strategy is determining how to position your assets to help plan for the expected and prepare for the unexpected – which includes reviewing your portfolio regularly and adjusting over time, if needed.

### Financial legacy is the primary goal

If you wish to provide a specific amount or certain assets to your beneficiaries, it's prudent to treat assets designated for your financial legacy as distinct from your other assets. For example, assets designated for retirement may be more balanced between stocks and bonds, while assets designed for legacy may be more growth-oriented. Finding the right balance for you will include considerations such as your desire to gift any of the assets during your lifetime, your heirs' expected use of the assets, and the likelihood you may end up needing these assets during your life.

### Financial legacy is a secondary goal

Some individuals may have retirement as a primary goal, with no specific amount in mind to leave as a legacy. In this case, asset allocation decisions should be driven by the retirement goal – i.e., spending goals and expected length of time in retirement. We generally recommend a balanced portfolio between stocks and bonds for clients early in retirement – but there are trade-offs, for both your retirement and the potential legacy, should you decide to allocate more funds to stocks or bonds. These considerations should be discussed with your financial advisor.

### Investment considerations

Certain solutions may be recommended depending on your situation, including:

- Earmarking specific assets by separating them from those designated for other goals
- Life insurance with a death benefit matching your desired amount of legacy
- Long-term care insurance to help preserve “legacy assets” by providing cash flow if you develop a qualified medical need
- Annuities that could provide payments to a beneficiary for a period of time or for life

Nonfinancial assets, such as real estate, collectibles and other property, can also affect the allocations and strategies of your financial assets.

### Limited stretch for IRAs

The SECURE Act limited the ability of most non-spouse beneficiaries to “stretch” required minimum distributions from an inherited IRA over their lifetimes, which allowed for greater tax deferral. Now they must completely distribute the inherited IRA within 10 years. We recommend reviewing your estate plan for IRAs, particularly if you had a trust created to take advantage of the stretch provisions.

### Account type and tax considerations

Your investment accounts can have different tax treatments, which can influence how you decide to structure your estate-planning strategies.

- The assets in taxable accounts generally receive a “step-up” in cost basis when they are passed to beneficiaries. Gifting them to charities could also remove a taxable gain from the estate.
- Qualified account balances and nonqualified tax-deferred annuities passing to designated beneficiaries are taxable when they take distributions. If the beneficiaries are charities, these assets may be excluded from estate taxes.
- Roth accounts, while included in the estate for tax purposes, could be very attractive vehicles for transferring wealth, since distributions are generally considered tax free to beneficiaries.<sup>2</sup>

If you wish to leave a larger legacy and pay taxes during your lifetime, you may use more of your qualified assets during your life and leave other assets, such as Roth or taxable assets, for beneficiaries. Special rules also apply to spousal beneficiaries and vary by state. It's important to talk about options with your qualified tax professional.

## Outlining your goals

Consider the following question: What would you like to happen – to you, your spouse, your children and your assets – once you are no longer able to make decisions for yourself?

Since we all have different goals, there is no “one-size-fits-all” estate strategy. That said, most can be categorized into five overarching objectives as outlined in the table below. The first four items are important regardless of net worth, and while all of us would prefer to have more control over our taxes, tax control typically becomes more relevant for individuals with larger estates. **While the objectives may be similar, every plan will need to be tailored by your estate-planning attorney and qualified tax advisor.**

	Objective	Category	Common legal documents and strategies
Considerations for all individuals	Control the movement of wealth to beneficiaries either during life or at death	Asset transfer	<ul style="list-style-type: none"> <li>• Will</li> <li>• Transfer on Death (TOD)/Payable on Death</li> <li>• Beneficiary designations</li> <li>• Trusts</li> <li>• Life insurance</li> <li>• Outright gifting (cash or assets)</li> </ul>
	Naming someone to make financial and medical decisions if you are unable to do so	Incapacity protection	<ul style="list-style-type: none"> <li>• Power of attorney (financial)</li> <li>• Health care directive/power of attorney</li> <li>• Living will</li> <li>• Trusts</li> </ul>
	Providing for minor children or dependents if you are unable to do so	Guardian and financial support for minor children or dependents	<ul style="list-style-type: none"> <li>• Will</li> <li>• Life insurance</li> <li>• Trusts</li> </ul>
	Moving wealth to charitable organizations during life and at death	Charitable intent	<ul style="list-style-type: none"> <li>• Outright gifting (cash or assets)</li> <li>• Direct beneficiary designation to charity</li> <li>• Charitable Lead/Remainder Trust</li> <li>• Donor-advised funds</li> <li>• Foundation</li> </ul>
Individuals with a larger estate	Managing income and estate taxes in an efficient manner	Tax control	<ul style="list-style-type: none"> <li>• Outright gifting (cash or assets)</li> <li>• Trusts (e.g., credit shelter, A/B, family trust)</li> <li>• Insurance planning (e.g., ILIT, life insurance)</li> <li>• Advanced trust planning (e.g., GRATS)</li> </ul>

This table is for informational and educational purposes only and should not be interpreted as legal advice. Edward Jones does not provide legal advice. You should consult with your estate-planning attorney regarding your situation.

## Individuals with complex situations

Some individuals will have more complex situations, with the potential solutions rising in complexity as well. It's important to work with your estate-planning attorney and tax professional, in addition to your financial advisor, to determine which options may be most appropriate.

## Individuals with larger potential estates

While the objectives may be similar (providing for your family, incapacity protection and charitable intent), relying strictly on strategies such as TOD and beneficiary designations may be insufficient, and strategies to help control taxes often become important. Living-trust planning, lifetime gifting and/or irrevocable life insurance trusts (ILITs) may enable you to take better advantage of estate tax exemptions and/or minimize the portion of the estate subject to estate taxes.

## Business owners

Unfortunately, many family-owned and privately owned businesses fail to continue following the death of the owner, typically because there is no succession plan. How, and to whom, the business is transferred can affect retirement spending and legacy strategies. Business owners also face additional issues, such as death of a key person, business liability and liquidity issues.

## A team approach

Edward Jones does not provide estate planning or tax advice, so it's important to have a team of professionals, including your:

- Edward Jones financial advisor
- Estate-planning attorney
- CPA/tax professional

Each team member has a different area of expertise. For example, your Edward Jones financial advisor can:

- Help you identify and prioritize your overarching financial legacy goals
- Consider how these goals align with other financial goals, such as living comfortably in retirement, ensuring your surviving spouse can maintain his or her lifestyle should you pass away or providing for your children's/grandchildren's education
- Provide investment, portfolio allocation and insurance advice to develop a comprehensive financial strategy

Your attorney drafts legal documents for specific estate strategies based on these goals, while your tax professional determines the tax implications of these strategies.



## Having a family meeting

Often, having a “family meeting” about your estate strategy can help you achieve your legacy goals, generally preparing your beneficiaries for future inheritances and responsibilities (or lack thereof). A general discussion of strategies and expectations is a personal decision; you are certainly not obligated to share your strategy, as every family situation is unique. However, it is important to consider if and when to involve those affected by your estate strategy in broader discussions with your estate-planning attorney as well as your financial advisor and qualified tax professional.

## Perhaps the most important part – The review

One thing you can count on is change, be it regulatory or personal. Consequently, it's paramount to sit down periodically with the appropriate member of your professional team to review your estate strategy, including:

- Legal documents
- Life changes
- Investment strategy
- Beneficiary designations

**Taking the time to review your plan can better ensure your strategy remains aligned with your goals, keeping you in control of your legacy.**

<sup>1</sup> “What Do Americans Think About Estate Planning?” WealthCounsel, 2016 Estate Planning Awareness Survey.

<sup>2</sup> Earnings distributions from a Roth IRA may be subject to taxes and a 10% penalty if the account is less than five years old and/or the owner is under age 59½.

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