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Five Documents At The Core Of An Estate Plan

Every estate plan is unique because of a particular family's circumstances. Still, most people share many primary objectives that may be reflected in five documents often found at the core of a plan.

If your current estate plan doesn't include these five items, you might need to fill the gaps. And if you don't yet have a comprehensive estate plan in place, it's probably time to make that a priority. Mortality can sneak up on anyone.

1. Financial power of attorney: A power of attorney is a legal document that authorizes another person to act on your behalf. A financial power of attorney enables the "attorney-in-fact"—the person specified to act for you—to conduct your financial affairs. Many states have a standard form for financial power of attorney.

Usually, the power of attorney is "durable," meaning that it remains in effect in the event you are incapacitated. But you might use a non-durable power of attorney for specific purposes, such as to have someone manage your portfolio temporarily. Keep in mind that a power of attorney is enforceable only when it has been established before its creator becomes incompetent.

2. Health care power of attorney: Like a financial power of attorney, this authorizes a designated person to act on your behalf in the event you're unable to make your own decisions—in this case, about your medical care. This goes further than a living will, which generally applies only if you're terminally ill or on life support, based on the prevailing state law.

Your attorney-in-fact for a health care power of attorney needs to be someone you can trust to act in your best interests. Typically, that would be a spouse, a child, or another close family member. But you'll also need to name contingent and successor agents.

3. Health care directives: Although there are several other kinds of health care directives that you might include in your estate plan, the most common version is a living will. Without it, family members may be left in a quandary about end-of-life decisions involving your care. This can lead to turmoil and questions could even end up being decided in court.

Often a health care power of attorney is coordinated with a living will, or the two may be combined in a single document. Some states have forms combining these elements and reflecting other personal choices such as whether to donate your organs.

4. Will: No matter how sophisticated your estate plan is, you'll likely circle back to the need for a will to tie everything together. A will can be

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LTC Insurance Premiums Increasing: What Are My Options?

Rising health care costs have been at the forefront of political and economic debate for over a decade. One often overlooked contributor to these rising costs is the increase in demand for assisted living or long-term care. As they age, more Baby Boomers are making the transition to assisted living, triggering a growing number of long-term care insurance claims. This increased activity has put a strain on insurance companies that must pay for the care covered under these policies. Unfortunately, many companies are realizing the premiums they are collecting may not be sufficient to fulfill the claims owed to their policyholders.

How does this affect me? To cover this insufficiency, companies are raising premiums for existing policyholders.

What are my options? Many people have been forced to decide whether to keep their coverage in place and pay a higher premium or cancel their policy altogether. What insurance companies often don't tell you is that there may be other options.

In many cases, insurance companies will let you reduce your coverage or drop expensive riders and cost-of-living adjustments to reduce premiums. Some companies even allow the option to trade in your existing policy for a "paid-up" policy and cease premiums altogether, but still retain some coverage.

We are happy to work with you and your insurance agent to determine the best option for you.

Brooke Wano, CFP®, CLU®
Financial Advisor

Financial Aid FAQs

Will your teenaged child be applying to colleges soon? Although you may be concerned about the ever-rising cost of higher education, your student may qualify for financial aid through various sources. In fact, billions of dollars are handed out each year, and more than half of full-time students get aid through grants and scholarships and roughly one-third via loans.

Here are the answers to some common questions about financial aid:

Q. Do we make too much money to qualify?

A. This is a concern for many parents, but don't assume you won't qualify for aid, which can come in many different forms. Your child's eligibility will depend on your family income, whether you have other family members, medical expenses, and other circumstances. Your chances may be better than you think.

Q. How do we apply for aid?

A. If you want to get financial help, your child needs to submit a Free Application for Federal Student Aid (FAFSA). The FAFSA determines eligibility for federal and state grants to students, work-study programs, and federal loans. You should complete the form as soon as possible after October 1 of the year before your child will enter college.

Q. Are there other forms to complete?

A. Possibly. Some schools also require students to submit the CSS Financial Aid PROFILE. And certain colleges and state agencies may request that other forms be filled out.

Q. How can I estimate the financial aid we will receive?

According to the College Board, the best way to estimate how much financial aid a college will offer you is to use the college's "net price" calculator, usually posted on its website. A net price calculator provides an estimate of your net price at the college (i.e., the cost of attendance minus the financial aid).

Q. Does my child have to be an A student to receive aid?

A. Not necessarily. While some colleges offer merit scholarships based on performance in high school, most governmental aid is need-based. But your kid can't be flunking out, either. In addition, to retain financial aid through college, your child needs to remain in good academic standing.

Q. Does applying for financial aid affect the chances of being admitted?

A. Usually not, although some schools may favor applicants who can pay the full cost of education. Normally schools base admission decisions on other factors, including academic performance and activities. But keep in mind that a school's available aid can be exhausted quickly, so have your child apply promptly.

Q. Can financial aid be revised?

A. Yes. This year's determination may not apply to future years, and colleges may review your financial aid package if your personal situation changes. If you have a pressing need for additional aid, you should let the financial aid office know. ●

Five Retirement Questions To Answer

How much money do you need to save to live comfortably in retirement? Some experts base estimates on a multiple of your current salary or income, while others focus on a flat amount such as a million dollars. Either way, the task can be daunting.

But there is no magic formula and every situation is different. What's more, your definition of "comfortable" could be different than someone else's. Maybe a better approach is to answer these five basic questions:

Q. What will your expenses be?

It's almost impossible to figure out what you need to save if you don't know what you'll be spending. Draw up a monthly budget based on what you think might happen. If you downsize your home or won't have to spend as much on clothes as you do now, you may spend somewhat less in retirement. But you also might travel more and make greater outlays for leisure pursuits. Just don't expect your expenses to be dramatically lower in retirement than they are now.

Q. How long will your nest egg have to last?

This requires you to analyze several factors, including your age, medical condition, and family history. No one can predict the future, so it's usually best to plan for the worst and hope for the best. And with life expectancies on the rise, it becomes easier and easier to outlive your savings.

Q. How are you investing your savings?

It's not just how much you save that counts, it's also what you do with that money. If you invest wisely, reflecting your personal comfort level with investment risk, you may be able to stretch your savings longer. Of course, no one knows for sure how the markets will perform, but the independent research firm Morningstar projects that savings of about $1.18 million invested at 6% annually (with a

Retirement Planning At Different Life Stages

No matter how old you are, retirement planning can be crucial to your overall financial health. However, your current stage of life can make a big difference in how you plan for retirement. Here are some general guidelines:

The early years: If you're just starting your career, chances are you'll have other financial priorities besides retirement savings, such as paying off college loans, your monthly rent, and car payments. But that doesn't mean you should move retirement planning completely off your agenda. For instance, if your company offers a 401(k) plan, try to defer as much salary as possible, especially if your employer will match some of your contributions.

While it may be hard to see from this vantage point, the long-term benefits of tax-deferred compounding within a retirement account such as a 401(k) or an IRA can be substantial. Suppose you contribute $10,000 a year to your 401(k), including matching contributions, beginning with the first year you enter the workforce. Then assume you earn a 7% annual return on your investments in the account. After 40 years you will have accumulated $2,136,096 without paying a penny of tax! (You will be taxed when you withdraw that money during retirement.)

Marriage and family: For many people, the next stage of life involves getting married and starting a family. On top of those financial pressures, you may buy a house and then replace it later with a bigger place. Suffice to say, your regular salary could be stretched thin, plus you have to think about paying for the college education of your children.

The trick at this stage is to stay the course as well as you can. Even if you and your spouse both have been working, one now may take some time off or cut back to part-time to help raise the kids. But you still can find a way to save money for retirement. For example, if you've both been contributing a total of $10,000 a year to a 401(k) and one of you stops working full-time, the other might try to boost 401(k) contributions to make up part of the difference.

Peak earning years: If you're a working couple, the next stage of life might offer a little more flexibility. Although you'll probably be paying for college, the mortgage may be paid off, or close to it, and your salary typically still will be rising. It only makes sense that you should be able to save more for retirement when you're earning the most.

Because even the best-laid plans can go astray, however, you now may need to make up for some lean years when other financial concerns took precedence. For example, if you failed to reach your target for annual 401(k) contributions while one of you was out of the workforce, hiking contributions could help make up lost ground. Even though deferrals to a 401(k) are limited by law ($18,000 for 2017), once you turn 50 you're allowed to make extra annual catch–up contributions ($6,000 for 2017). These also could be years when you move part of your portfolio into slightly riskier investments in the hope of earning higher returns.

Approaching retirement: Once you're in the home stretch, don't hold back. Making maximum contributions to your 401(k) now only makes sense. This is also the time to review your overall financial situation with an eye toward retirement.

For instance, you can tweak plans for sustaining a comfortable retirement, based on the health status of your family, whether you'll be downsizing to a smaller home, the income tax ramifications of your investments, your retirement accounts, and your estate plan. Furthermore, you might consider adjusting your portfolio to emphasize asset protection as well as growth.

Now also would be a good time to get familiar with the rules for required minimum distributions (RMDs). Generally, you have to start taking RMDs from your 401(k) and IRAs after you turn age 70½.

Finally, think about other possible financial moves, such as converting some or all of your IRA funds into a Roth IRA, whose future payouts would be tax-free—you'll be taxed now on the amount you convert. Also try to prepare for current or future financial or health problems affecting your lives. Of course, family-related events such as divorces, weddings, births, and deaths also may have an impact on your retirement picture.

What's your stage right now? We can work together to develop a plan tailor-made for you and your family. ●

2.5% inflation rate) will provide annual income of $40,000 for 30 years. Naturally, your needs may differ.

Q. How will taxes affect your investments?

Don't forget to factor future taxes into the equation. Long-term capital gains currently are taxed for most people at a 15% rate, while those in the top ordinary income tax bracket pay 20%. But income from some investments—including municipal bonds and muni bond funds—is exempt from federal income tax. Also, remember that the tax law requires you to start taking minimum distributions from most retirement plans after age 70½.

Q. What can I do now to avoid problems?

If you're having trouble answering any of these questions, give us a call. We are happy to evaluate your current situation and assess where you stand in relation to your goals. If needed, we can provide advice to get you on track for retirement. ●

Trust As IRA Beneficiary: Not Crazy

You may have heard that you can't name a trust as a beneficiary of your IRA—but in fact that is a perfectly legal option for IRA owners. But whether you should do it is a completely different story and requires further analysis.

IRAs can be complicated enough on their own without bringing a trust into the equation. And if you do name a trust as a beneficiary and then make a mistake with your account, the tax consequences could be devastating—so proceed with extreme caution. You'll need to work with an attorney experienced in these matters.

Why would you want to name a trust as your IRA beneficiary? It's not a tax-saving move and indeed could increase your tax bill. Still, there are valid reasons for using this planning technique. The primary benefit is protection against the IRA assets being squandered or attached by creditors. For example, you might want to pass money in an IRA to someone who is under age 21 and may not have much experience handling financial affairs or to a family member who is known to be a spendthrift. Having the account pass into a trust could enable a trustee to control how the money is distributed.

In a similar vein, you might intend to provide IRA funds to your spouse in a second or third marriage, but without shortchanging your children from an earlier marriage. In that case, you might leave the assets to a trust that pays out income to support a surviving spouse for life, with the remainder going to the children.

In any of these cases, naming a trust as your IRA beneficiary could be helpful—though, again, you'll need to work with an attorney with specialized knowledge of trusts and estate planning. Having the proper language in documents for the IRA and the trust is crucial.

One key aspect of such an arrangement is that the trust you name as IRA beneficiary should have people—and not an institution or your estate—as its beneficiaries. That could enable those beneficiaries to use "stretch IRA" planning techniques to lengthen the amount of time that assets can utilize an IRA's tax advantages. Although required minimum distributions (RMDs) still will have to happen, they'll be based on the life expectancies of the ultimate beneficiaries. The younger they are, the longer the money can be shielded from taxes. If more than one nonspouse beneficiary is named in a trust, the age of the oldest living beneficiary must be used. Consider separate trusts for each nonspouse beneficiary.

To decide whether or not naming your trust as a beneficiary of your IRA is right for you, ask yourself, "What am I trying to accomplish by doing this?" We are happy to work with you and your attorney to make sure your accounts are structured in a way that follows your wishes. ●

The Core Of An Estate Plan

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used for a wide range of purposes, including (but not limited to):

- Dividing your assets and allocating them to your beneficiaries;
- Naming guardians for your children;
- Achieving estate tax benefits;
- Arranging gifts to charity;
- Creating trusts for your beneficiaries;
- Excluding certain family members from inheriting your assets;
- Avoiding a lengthy probate process; and
- Thwarting potential legal challenges.

A will may refer to other documents in your estate plan. If you don't have a legally valid will and you die "intestate," your estate will be governed by the laws of the applicable state.

5. Revocable trusts: Finally, your estate plan may include more revocable trusts, which let you change terms based on future events or preferences. Such trusts are commonly called living trusts—or, more technically—inter vivos trusts—because you create them while you are alive.

With a revocable living trust, you can transfer assets to the trust to be managed by a party you designate. The transferred assets aren't subject to probate.

Other kinds of trusts can also be created to complement the rest of your estate plan. These trusts might be designed to minimize potential state or federal estate taxes, as well as to protect assets from creditors or in the event of a divorce.

This list of estate planning basics can be a good starting place for many families. We are happy to work with you and your attorney to create a plan that fits your family's needs. ●

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