Telling the Story of Your Estate

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This article is part of DHG's 2019 Succession Planning Series, where we offer tips and considerations for succession planning from a variety of professionals at DHG.

Why Estate Planning?

In the same way smart succession planning can guide the future of your business, smart estate and generational wealth planning can secure the future of your family and personal assets. As you work hard to generate wealth, it is essential to plan for the future so assets remain safe and in good hands. Your estate may include your house, 401(k), stocks, bonds, other property/real estate and all tangible possessions. Succession planning for many business owners typically leads to estate planning as the conversation moves from transitioning the business to transitioning personal wealth.

Clients can face significant tax liabilities and difficult decisions on how to structure the transfer of family wealth and assets to the next generation. Important questions include:

- What will happen to my wealth when I pass away? Will it be taxed too much?
- How do I ensure wealth distribution in a way that's fair to all my beneficiaries?
- How do I lessen the financial and emotional burden for my family?

Estate planning is preparing and protecting your wealth for the next generation with minimal tax burdens and reduced risk of family squabbles and disagreements. In essence, an estate plan is a story about the future of your assets, and it must be written by you while you are living.

Chapters of the Story

How do you begin to tell the story of your estate? Engaging a trusted team of advisors is one of the first steps to developing a succession plan that includes thorough estate planning. Your team may include key personnel from your business, family members, your attorney and your financial advisors. Together, they can provide integrated counsel to design and execute the components of your estate plan. Your team of advisors should be able to help you navigate and establish specific goals and objectives, including:

- A review of your current plan to assess accuracy.
- Development of collective business goals within your succession plan.
- Consideration of each individual family member's inheritance.
- Establishment of retirement and financial goals.
- Identification of goals for the next generation that receives your estate.
- Recognition and creation of active and non-active roles for family members in regards to your business (if you plan to transfer the business at the time of death or incapacitation).
- Establishment of a governance process that allows for involving the family in decision-making, when applicable.
- Solidifying a method for resolving disputes.

When establishing goals and objectives for your estate plan, you should give attention to some important themes and components that can be discussed with your team of advisors. We can symbolically refer to these as some of the important chapters within the story of the estate.

Wills and Trusts

Wills and trusts are the great facilitators of an estate plan, with different types and variations. Collaboratively they determine who receives assets, to what extent and when. Timing of receipt can be of particular importance in this case, especially if there are concerns about a recipient's ability to manage wealth, ages of children at the time of receipt and their capacity to handle their own affairs. Revocable trusts can be utilized as a tool to maintain privacy, ease of transfer, provide for a trustee to care for a grantor while still living and avoid probate. Changes can be made at any time until the time of passing. A revocable trust will become irrevocable at death.

Dynasty Trusts

Dynasty trusts are a viable option for those who wish to maintain wealth transfer for multiple generations, while allowing distribution to children over their lifetime, and keeping assets for distribution to grandchildren and other future generations. Generally, as long as assets remain in the trust, dynasty trusts can allow wealth transfers without multiple layers of estate tax or generation-skipping transfer (GST) tax. Dynasty trusts may also help provide a certain level of asset protection and cash flow control.

Estate and Gift Tax Exemption

Managing tax impact is a crucial aspect of estate planning, with the goal usually encompassing how to minimize estate tax. A great question to ask your team of advisors is specifically when to make certain gifts, since making gifts now or in the future may have different income tax ramifications. In addition, the Tax Cuts and Jobs Act (TCJA) included a doubling of the estate and gift tax exemption through 2025, with a tax exemption of $11.4 million for an individual and $22.8 million for a married couple. This may create a significant window of opportunity to make additional gifts in the coming years. In addition to the lifetime exemption, there is an annual exclusion amount of gifting allowed of $15,000 per person. This is available every year, and if you don't use it, you lose it.

Retirement Savings

Some estate plans may include naming their trusts as beneficiaries in their retirement savings plan. However, certain language may be required to designate the appropriate type of trust as a beneficiary (also known as a see-through trust) in order to manage the tax impact. You should discuss with your team of advisors whether this consideration is right for you or if the income tax ramifications make this choice inadvisable.

Life Insurance

Life insurance is an important tool to plan for the unexpected within your estate plan. This may include funding for additional estate taxes or providing needed income to your family. Life insurance at any point needs to be structured to meet your specific goals, with the option to move your policy to an irrevocable life insurance trust (ILIT), which takes ownership of your policy. Proceeds of a life insurance policy held in an ILIT are not included within the taxable estate.

Real Estate

Real property, or real estate, can be held in a revocable trust in order to avoid probate costs and separate probate filings, saving your beneficiaries a substantial amount of time and expense. The appropriate titling of a deed may also be utilized with real estate to allow transfer of property while avoiding probate.

Questions for Consideration

Whether you are new to estate planning or updating your current strategy, consider the following questions with your team of advisors to effectively write the story of your estate.

1. Do I need to review my will and/or my revocable trust?
2. Do I need to assess estate tax exposure?
3. Do I need to restructure certain assets so that they will transfer more efficiently?
4. Have I assessed whether my spouse/children/grandchildren will receive assets in a protected format?
5. Should those assets be in a particular type of trust?
6. Should I restructure my life insurance? Do I need to move the policy into an irrevocable life insurance trust to minimize estate tax?
7. Does my current annual gifting strategy align with my specific goals?

If you have any questions regarding estate or generational wealth planning, talk to your trusted advisor(s) or contact the authors listed below.

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