Grow Your Business With A Basic Estate Planning Review

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You've worked hard to build your business. Moving forward, it is important to not only keep it growing, but to protect it as well. Incorporating a basic estate planning review into your process can help attract and retain affluent clients, help expand your client base to include potential beneficiaries, and help prevent the loss of assets when clients pass away.

An estate planning review is a simple way to help clients address three issues we all face as we get older: Who will receive our assets when we pass? How do we maintain some control over the distribution of those assets/ How can we minimize taxes? Let's consider these questions.

Who gets the assets?

There are three main factors to consider: Whether the client has a will of living trust, how their assets are titles, and beneficiary designations on financial accounts.

Clients should always have, at a minimum, a will. A will provides direction as to who will receive property that does not pass by titling or beneficiary designations. One potential drawback of a will, however, is that it does not help the client void probate. Probate refers to a court supervised distribution of assets. Probate can be a slow, costly, public, and allows access by the deceased's creditors. You can help clients minimize their exposure to the probate process by using joint ownership of assets where appropriate, taking full advantage of beneficiary designations on financial accounts, an revocable living trusts as an alternative will.

When clients own their property jointly, it is important to understand the type of joint ownership being used. For example, assets that are held as joint tenants with rights of survivorship ("JTROS") pass directly to a surviving owner, avoiding probate. Assets held as tenants in common, however, do not pass to the surviving owner. The deceased owner's share will pass to his or her legal heirs, and this may require probate. If your practice is located in a community property state, be sure to familiarize yourself with those rules as well. Community property states generally give spouses an automatic joint ownership interest I property accumulates during the marriage.

Beneficiary designations on financial assets are critically important. For some clients, a significant portion of their net worth will pass by way of these designations. Individual Retirement Accounts (IRAs), Roth IRAs, qualified retirement plans, annuities, and life insurance all pass by beneficiary designations, which will take precedence over wills and living trusts.

Reviewing beneficiary designations with clients will not only help avoid mistakes, but can you identify assets that you can bring under your management. This is also a good opportunity to identify issues that could arise during the distribution process. For example, when an IRA designates a trust as a beneficiary, it is important to determine whether the trust is drafted so as to allow life expectancy distributions. If it does not, there cold be serious tax implications. IRAs Publication 590 contains useful information on the post-death distribution rules for IRAs.

Does the client need to maintain control?

There are many reasons why a client may need to control how a potential beneficiary receives assets. Financial inexperience, special needs, behavioral or spendthrift issues, and creditor protection are some of the more common ones. The nature of the beneficiary's issues will dictate the extent of control needed.

For the financially inexperienced a beneficiary who simply needs some protection against overspending, a restricted beneficiary designation, if offered by the account administrator, may be sufficient. For more complex issues, however, a trust may be required. Assets can be placed in trust before the client passes away, or left to a trust at death.

Once assets are in a trust, the trustee is responsible for management of the assets and administration of the trust. This included making payments to beneficiaries as directed by the trust. Keep in mind that if the trust is irrevocable, tax efficiency becomes very important, as some irrevocable trusts can be subject to relatively high effective tax rates. When positioned properly, a variable annuity can provide tax deferral within the trust, while also helping the trustee meet the investment objectives of the trust.

How do we minimize taxes?

There are two types of taxes to consider in estate planning: estate taxes and income taxes. Many clients may not have any exposure to the federal estate tax. The federal estate tax exemption currently stands at $5,340,000. With minimal planning, a married couple can protect up to $10,680,000 from federal estate taxes (although state estate taxes may apply). Almost everyone, however, needs to consider income taxes on their estate plan.

Many financial assets, such as IRAs and annuities, pass along an embedded income tax liability to beneficiaries. One effective planning strategy for those assets is to make sure that the beneficiaries, especially non-spouse beneficiaries, understand their distribution options before they inherit assets. With this in mind, consider asking the client for permission to introduce yourself to their beneficiaries.

If the client permits, a simple explanation of how life expectancy (sometimes called "stretch") distributions work can help a beneficiary preserve an important tax deferral option. It can also help you build a relationship with the beneficiary, demonstrate your expertise, and reduce the likelihood that they will transfer inherited assets elsewhere. Even if the client doesn't want you to get into details about a potential inheritance, a simple introduction can let the beneficiary know that you are already considering them in the planning process and are available to help at the appropriate time.

Of course, clients whose net worth may exceed $5,340,000 each at death should consider more comprehensive estate planning, which takes federal estate taxes into account.

Conclusion

The whole concept of estate planning can be overwhelming for clients. By helping them navigate the issues and identify key planning points, you are enhancing your value proposition.

Transamerica Advances Market and Premier Trust are here to help. We provide consultation and tools to guide you through this process. Learn more at www.premiertrust.com or call us at (702) 577-1777