10 important estate planning steps

To help you begin thinking about estate planning basics, MFS® has created a list of 10 important steps that investors can take to get started on their overall estate plan. As you begin to consider what kind of legacy you'd like to leave your loved ones, be sure to seek insight from your investment professional, estate planning specialist, and tax attorney.

By the numbers

- Approximately **60% of adult** Americans do not have an estate plan.[1]
- Only **18%** of Americans have established a living will or power of attorney for health care.[2]
- As of 2005, up to **$1.5 million** can be passed on to heirs without incurring federal estate tax.[3]

1 *Money* magazine, May 2005
2 AARP Bulletin, January 2005
3 American Bar Association – abanet.org

1. Create a will.

Creating a will is the first important step in planning your estate. A will provides an individual with the opportunity to appoint guardians for minor children or dependents as well as an executor for the estate. The executor will serve the vital function of gathering and disbursing the assets of an estate and handling all of the related tax issues. It's important to choose an executor on the basis of his or her ability to perform all of these tasks.

2. Update beneficiary designations.

Beneficiary designations should be updated regularly (especially after major life events such as births, marriages, and divorces). It's also important to make sure that beneficiary forms have been completed and are in good order. If beneficiary designations are outdated or inaccurate, your assets may pass to people you did not intend to benefit and your estate might spend a lot of extra time in probate, costing heirs significant time and money.

3. Establish a medical directive or health care proxy.

According to the *Journal of the American Medical Association*, as reported in the May 2005 issue of *Money* magazine, 74% of Americans say they would want their health-care guardian to remove a feeding tube if they were in a vegetative state. However, only 18% of Americans have created living wills for health care.

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Key points

Make sure to
- create a will so that your wishes will be honored
- keep beneficiary designations on your insurance and retirement accounts up to date
- set up a medical directive in case you become severely ill

Talk to your investment professional about
- consolidating your retirement assets
- using trusts and gifting to lessen your estate taxes

Protect your interests by
- taking steps to avoid probate
- keeping a certain amount of your assets in cash

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And without a medical directive that has been outlined in a written legal document, such as a durable power of attorney, health care proxy, or living will, families in many states cannot legally act on a loved one's wishes.

4. Set up a power of attorney and HIPAA release.

It's important to be certain that your financial affairs will be well tended to if you become disabled. You can protect yourself by creating a durable power of attorney for financial matters. Once you've completed this task, make sure to have your documents reviewed regularly, as new laws are often adopted that can have an impact on your situation. One such law adopted by Congress, the Health Insurance Privacy and Accountability Act (HIPAA), may restrict your health care proxy or power of attorney holder from gaining access to your physician or medical records if you become disabled. To prevent this from occurring, make sure to include HIPAA release language in your disability planning documents.

5. Establish a trust outside of your estate.

In a trust, assets are kept out of probate and thus are not affected by the cost or time of a probate proceeding. By establishing a trust outside of your estate, your assets can pass directly to the beneficiaries you have named. Because there are several types of trusts, you should contact an estate planning professional to determine which type of trust is right for you.

6. Plan for the distribution of your retirement assets.

When a person passes away, retirement assets left with a previous employer often are overlooked by the family and aren't included in the overall estate. Making sure to roll these assets into a new investment vehicle is therefore an important aspect of every working American's estate plan. Because a large portion of family wealth tends to pass through retirement plans, it's important to plan carefully when completing the necessary beneficiary forms. Current laws governing retirement plans contain long-term distribution opportunities that, if properly planned for, will be available to your family.

7. Use gifting strategies to reduce estate tax liability.

Gifting can be an excellent way to reduce the taxable amount in your estate. One common gift-giving vehicle is the 529 college savings plan. In this plan, assets grow tax deferred and can be withdrawn federally tax free if used for qualified higher education expenses. As of January 1, 2006 investors will be allowed to gift $12,000 per beneficiary on an annual basis. Additionally, couples will be able to gift $24,000 per year per beneficiary or choose an "accelerated gifting" option to donate $60,000 (or $120,000 for a couple). This accelerated gift can only be made once every five years.

Charitable donations are another form of gift giving. Any assets donated can reduce the overall value of the taxable estate and are often income tax deductible.

8. Decrease or eliminate estate taxes.

As of 2005, up to $1.5 million can be passed on to a decedent's heirs estate-tax free. There are a variety of ways to decrease the taxable amount in your estate. Many Americans can minimize estate taxes through careful estate tax planning.

9. Maintain the liquidity of your assets.

A common issue among families relates to cash flow planning and issues of liquidity. During your lifetime it's important to consider what sources of cash are being used to maintain your lifestyle. These sources often have drastically different tax consequences. Determining whether to use retirement plan assets, long-term capital growth assets, debt, and other sources for cash flow needs are options that need to be weighed in light of their tax cost.

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10. Take steps to avoid probate.

Probate is the court-supervised settlement of an estate. If an estate goes into probate, it can be a costly and time-consuming process that delays the transfer of assets to the estate's beneficiaries. Probate can also erode the value of the estate. Your investment professional or an estate planning adviser can help you take steps to avoid probate.

With careful planning, you can avoid common mistakes and ensure that your heirs are not burdened by the emotional and financial stress of settling an estate.

Contact your investment professional for more information or visit **mfs.com**.

This material is not intended to replace the advice of a qualified professional. Before making any financial commitment regarding the issues discussed here, consult a professional adviser.

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