Her Retirement®

Welcome to

Her Retirement Roadmap® Masterclass

Class 7

Estate Planning Basics

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IMPORTANT DISCLOSURES

Her Retirement does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

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What Is an Estate Plan?

- An estate plan is a map
- This map reflects the way you want your personal and financial affairs to be handled in case of incapacity or death

Who Needs an Estate Plan?

Chances are, you do

- Not just for the wealthy
- Without an estate plan, you can't control what happens to your property if you die or become incapacitated
- An estate plan makes your wishes clear and helps avoid family disputes
- Proper estate planning can preserve assets and provide for loved ones

Especially needed if:

- Your spouse isn't comfortable with financial matters
- You have minor children
- Your net worth exceeds the federal transfer tax exclusion amount ($5,490,000 in 2017) or, if less, your state's exemption amount
- You own property in more than one state
- Financial privacy is a concern
- You own a business

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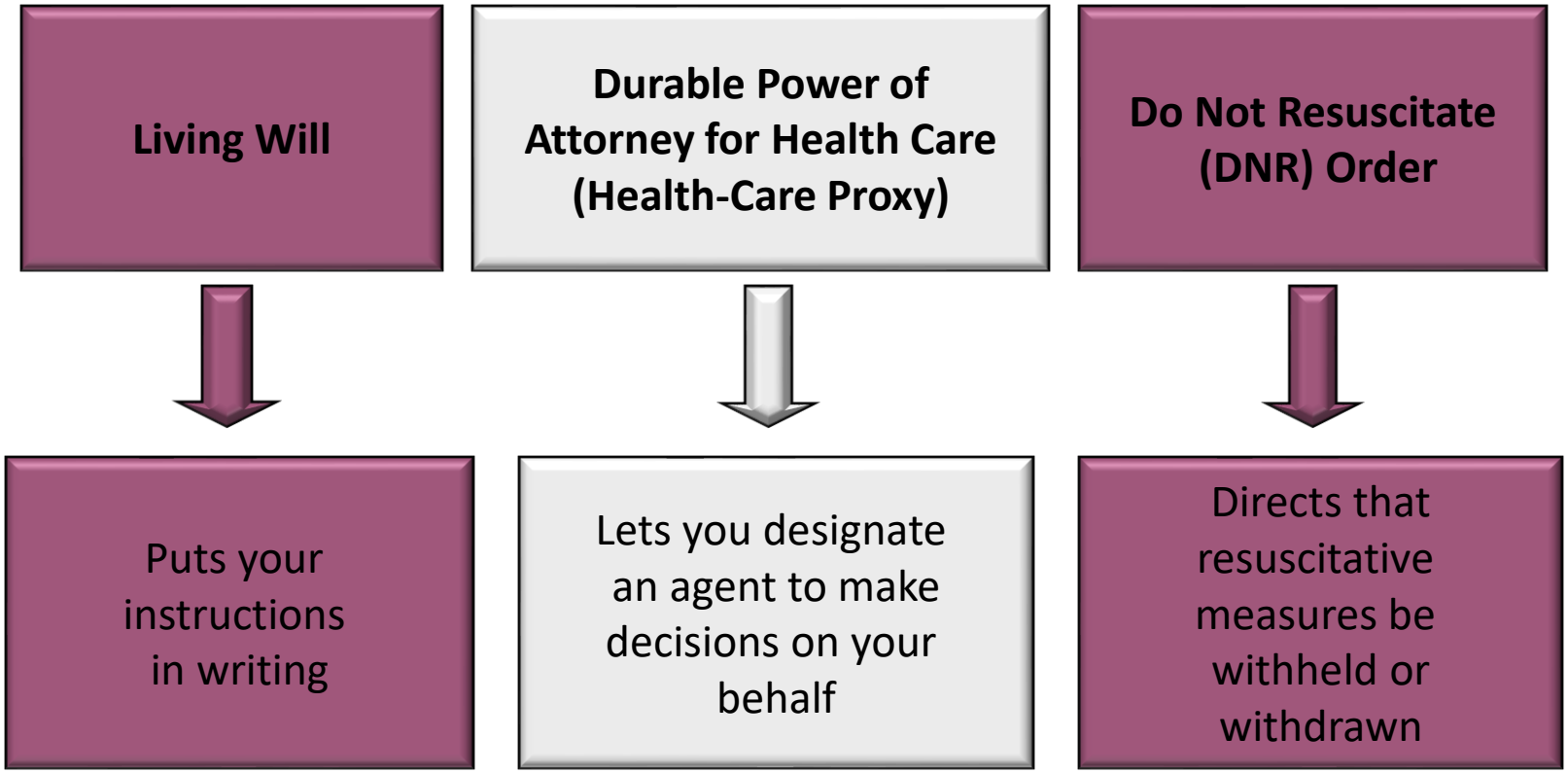
Basic Estate Planning Concepts

Planning for Incapacity

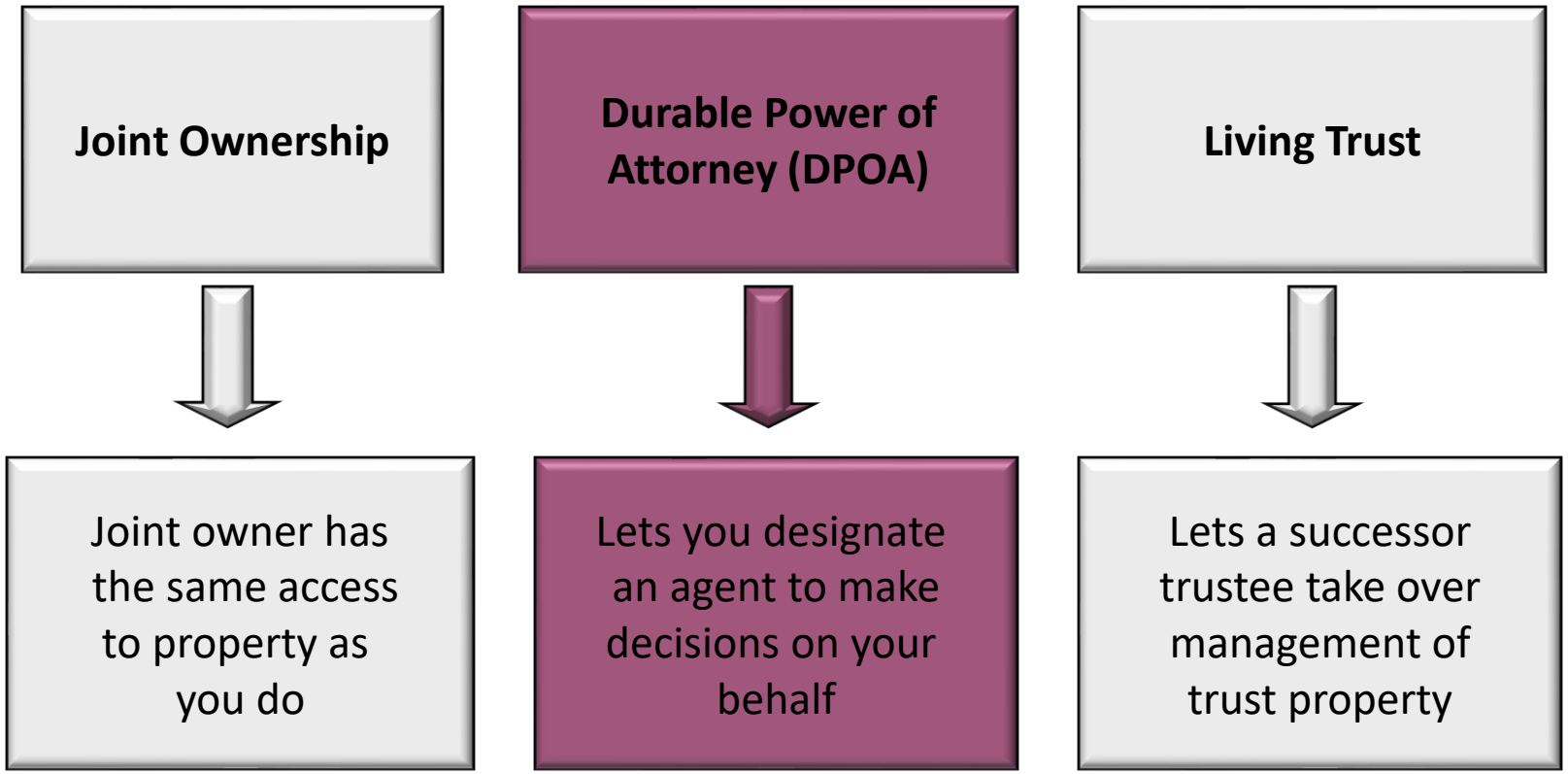
- Incapacity can strike anyone at any time
- Failing to plan means a court would have to appoint a guardian
- Lack of planning increases the burden on your guardian
- Your guardian's decisions might not be what you would want

Planning for Incapacity — *Health-Care Directives*

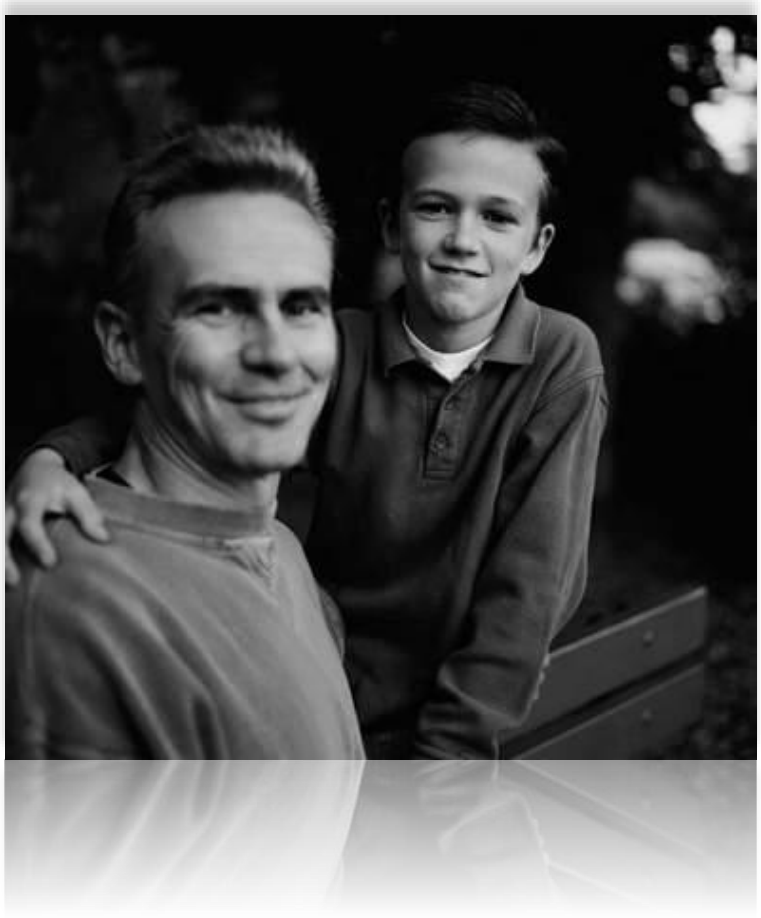


Not all types of health-care directives are effective in all states, so be sure to execute the one(s) that will be effective for you.

Planning for Incapacity — *Property Management Tools*



What Happens If You Die Without an Estate Plan?

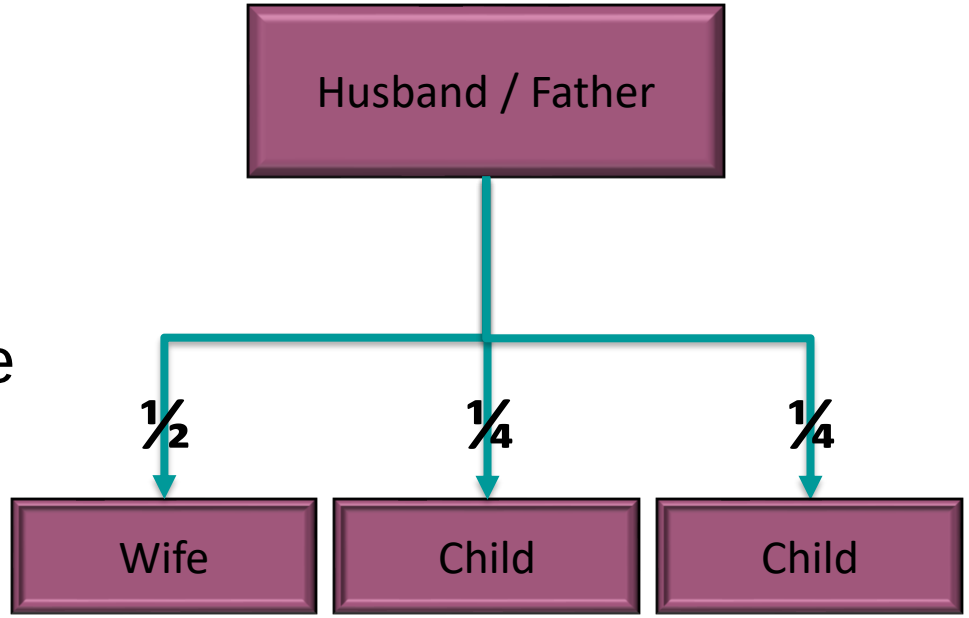


- Some property passes automatically to a joint owner or to a designated beneficiary (e.g., IRAs, retirement plans, life insurance, trusts)
- All other property generally passes according to state intestacy laws

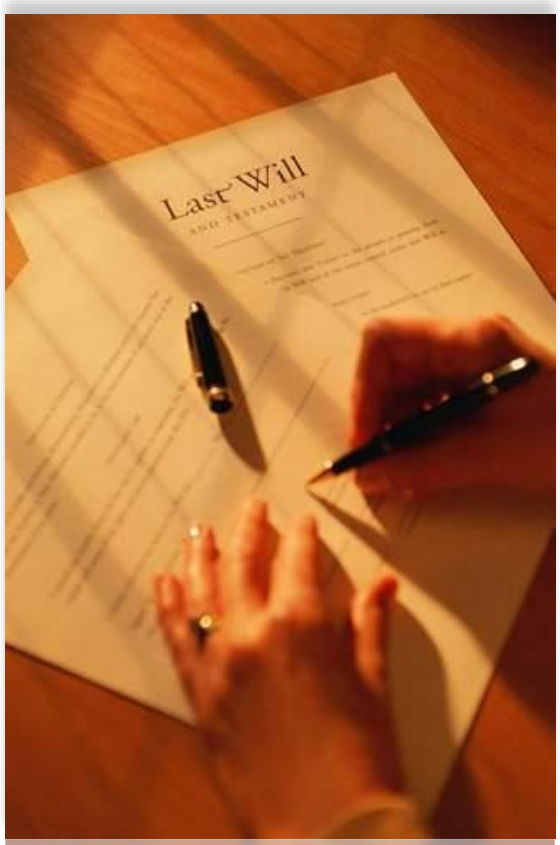
What Happens If You Die Without an Estate Plan? — *Intestacy*

- Intestacy laws vary from state to state
- Typical pattern of distribution divides property between surviving spouse and children
- Your actual wishes are irrelevant
- Many potential problems

A typical intestate distribution pattern looks like this:



Wills & Probate



- A will is the cornerstone of an estate plan
- Directs how your property will be distributed
- Names executor and guardian for minor children
- Can accomplish other estate planning goals (e.g., minimizing taxes)
- Written, signed by you, and witnessed

Wills & Probate — *The Probate Process*

- Most wills must be probated
- Will is filed with probate court
- Executor collects assets, pays debts, files tax returns, and distributes property to heirs
- Typically, process lasts several months to a year

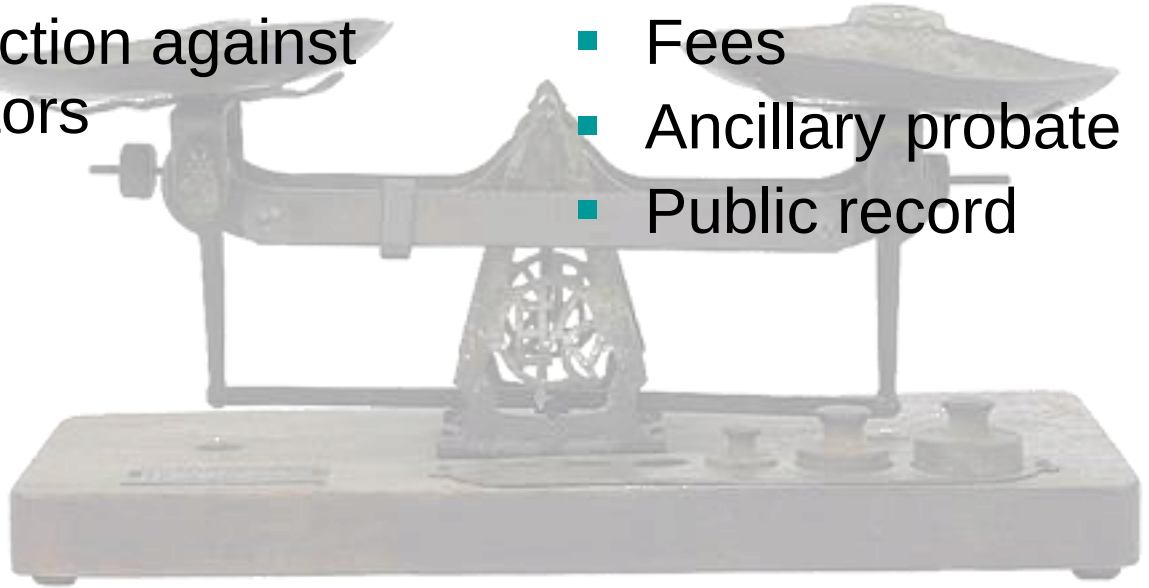
Wills & Probate — *Probate Pros & Cons*

Pros

- Time and costs are typically modest
- Court supervision
- Protection against creditors

Cons

- Can be time consuming for complex estates
- Title transfer delays
- Fees
- Ancillary probate
- Public record



Wills & Probate — *Avoiding Probate*

Can you avoid probate?

Yes, an estate plan can be designed to control which assets pass through probate, or to avoid probate.

- Own property jointly with rights of survivorship
- Complete beneficiary designation forms for property such as IRAs, retirement plans, and life insurance
- Use trusts
- Make lifetime gifts

Tax Basics

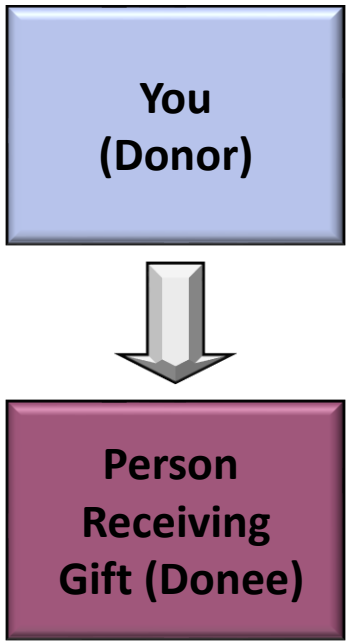
Transfer taxes include:

- Federal gift tax — imposed on transfers you make during your life
- Federal estate tax — imposed on transfers made upon your death
- Federal generation-skipping transfer (GST) tax — imposed on transfers to individuals who are more than one generation below you (e.g., grandchildren) both during your life and upon your death

Transfer taxes imposed on the state level tend to affect smaller estates.

Tax Basics — *Federal Gift Tax*

Lifetime Transfer

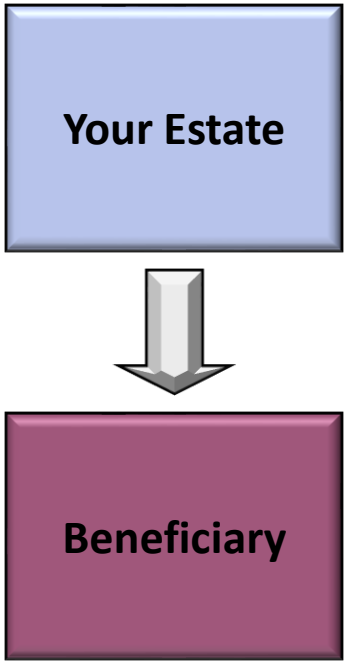


Gift tax may apply

- Gift tax applies to transfers made during your life
- Certain gifts are excluded (e.g., $14,000 annual gift tax exclusion)
- $5,490,000 excluded from all transfers (gifts and estates) combined in 2017
- The $5,490,000 exclusion is the largest in the history of the federal gift and estate tax

Tax Basics — *Federal Estate Tax*

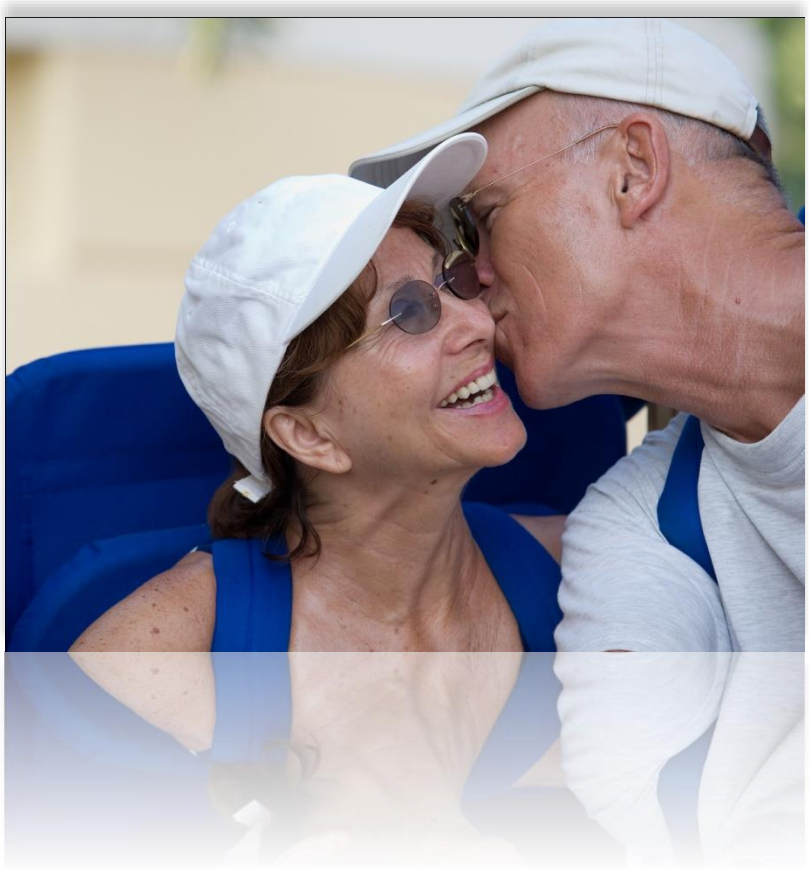
Transfer at Death



Estate tax may apply

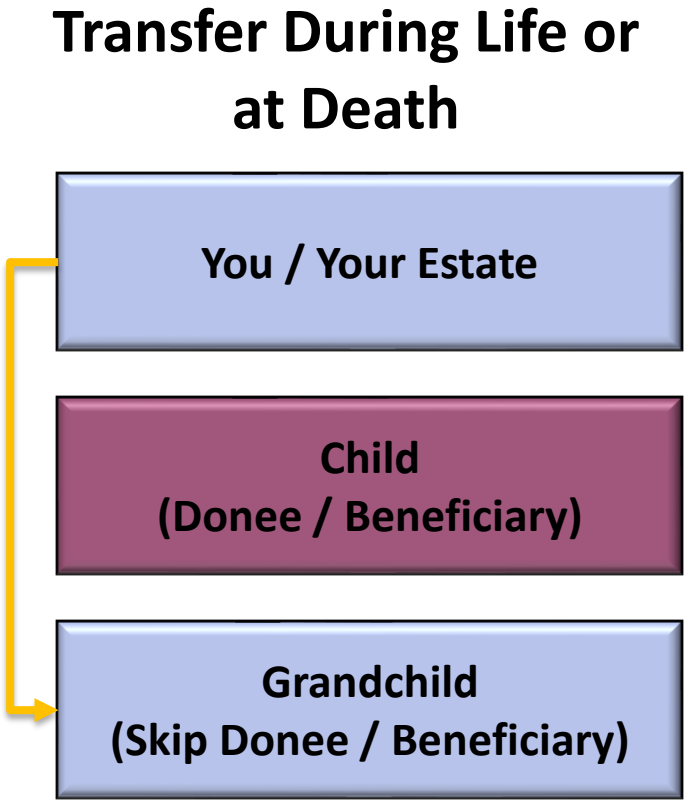
- Estate tax applies to transfers made at death
- Generally does not apply to transfers made to spouse or charity
- $5,490,000 excluded from all transfers (gifts and estates) combined in 2017
- Any portion of exclusion used for gifts will be unavailable to the estate

Tax Basics — *Federal Estate Tax*



- New feature important for married couples
- Exclusion is “portable” - unused portion left by deceased spouse can be transferred to surviving spouse
- $12,920,000 can be left to beneficiaries tax free (in 2023)

Tax Basics — *Federal GST Tax*



- The generation-skipping transfer (GST) tax may apply to transfers made to someone more than one generation below you
- $12,920,000 GST tax exemption in 2023
- Unlike the gift and estate tax exclusion, the GST tax exemption is NOT portable

Transfer Tax Basics

IRS Increases Gift & Estate Tax Thresholds for 2023

Goes into effect for gift and estate tax purposes on January 1, 2023

	2022 Tax Year	2023 Tax Year
Lifetime gift and estate tax exemption	$12.06mm per person	$12.92mm per person
Annual gift tax exclusion	$16,000 per person $32,000 for spouses	$17,000 per person $34,000 for spouses
Annual exclusion for interspousal gifts for non-U.S. citizen spouses	$164,000	$175,000

New Federal Estate Tax Exemption Amount

2023

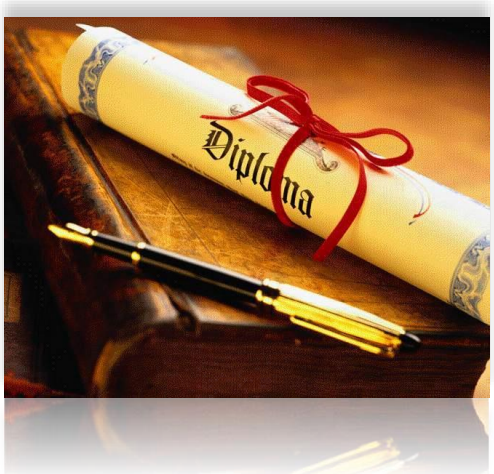
$12,920,000 | $25,840,000

Invididual | Married

Lifetime Gifting

- Lets you see the recipient enjoying your gift
- Lets you minimize transfer taxes by taking advantage of the $16,000 annual gift tax exclusion and other tax deductions
- Removes future appreciation of property from your taxable estate
- No “step-up” in basis — your basis in the property carries over instead

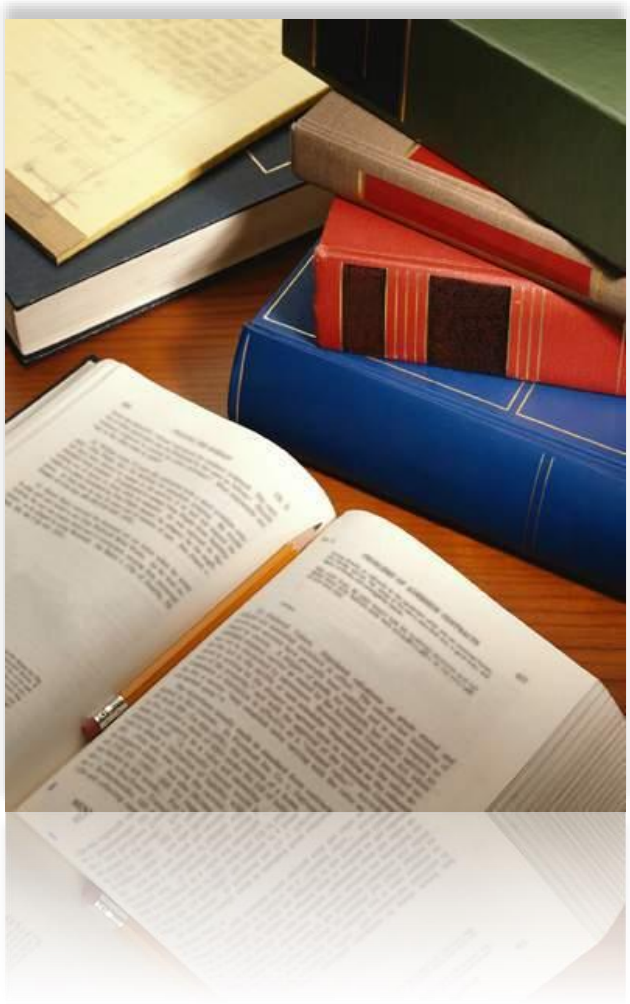
Lifetime Gifting — *Transfers Excluded from Gift Tax*



- Taxpayers can also avoid paying gift taxes on 529 plan contributions with five-year gift tax averaging, also called superfunding.
- This strategy allows taxpayers to make a lump sum contribution to a 529 plan of up to five times the annual gift tax exclusion, if the contribution is treated as if it were spread over a five year period. That means you can contribute up to $85,000 to a 529 plan ($170,000 if married giving jointly) in a single year and not owe any gift taxes.

- You can give $17,000 to as many individuals as you want federal gift tax free ($34,000 if you and your spouse make the gift together)
- No gift tax on amounts paid directly to a school for an individual's tuition
- No gift tax on amounts paid directly to a medical care provider for an individual's medical care

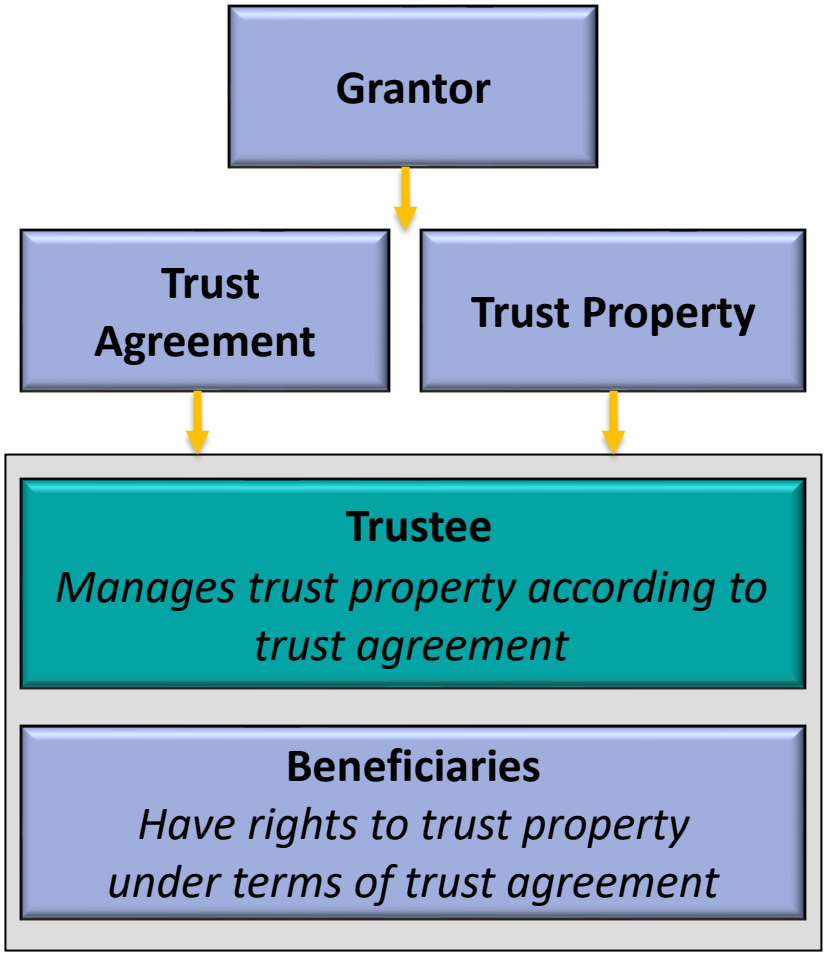
Trusts



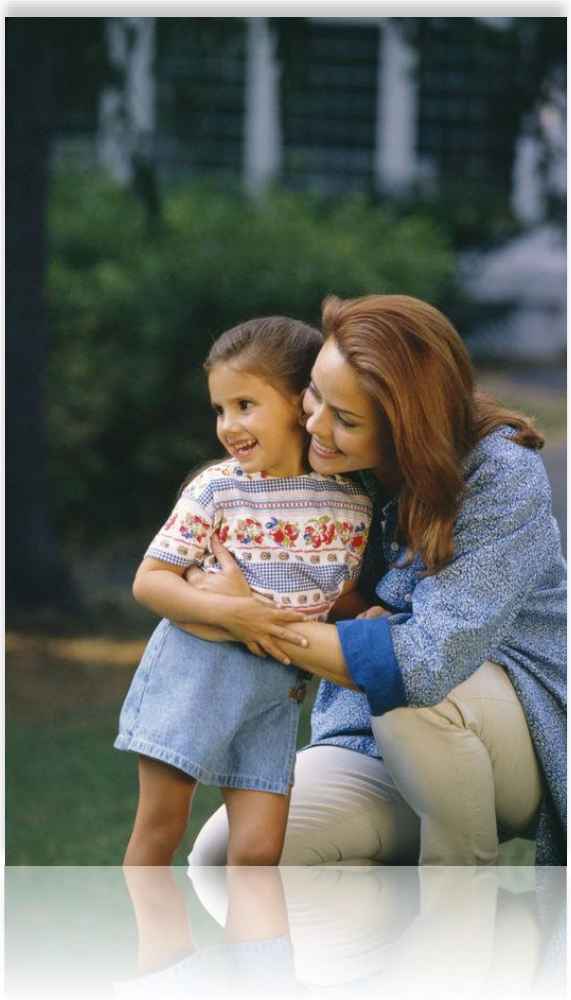
- Versatile estate planning tool
- Can protect against incapacity, avoid probate, minimize taxes
- Allow professional management of assets
- Provide safeguards for minor children, elderly parents, other beneficiaries
- Can protect assets from future creditors
- Control over property

Trusts — *What Is a Trust?*

- Legal entity that holds property
- Parties to a trust: grantor, trustee, beneficiary
- Living trusts vs. testamentary trusts
- Revocable trusts vs. irrevocable trusts



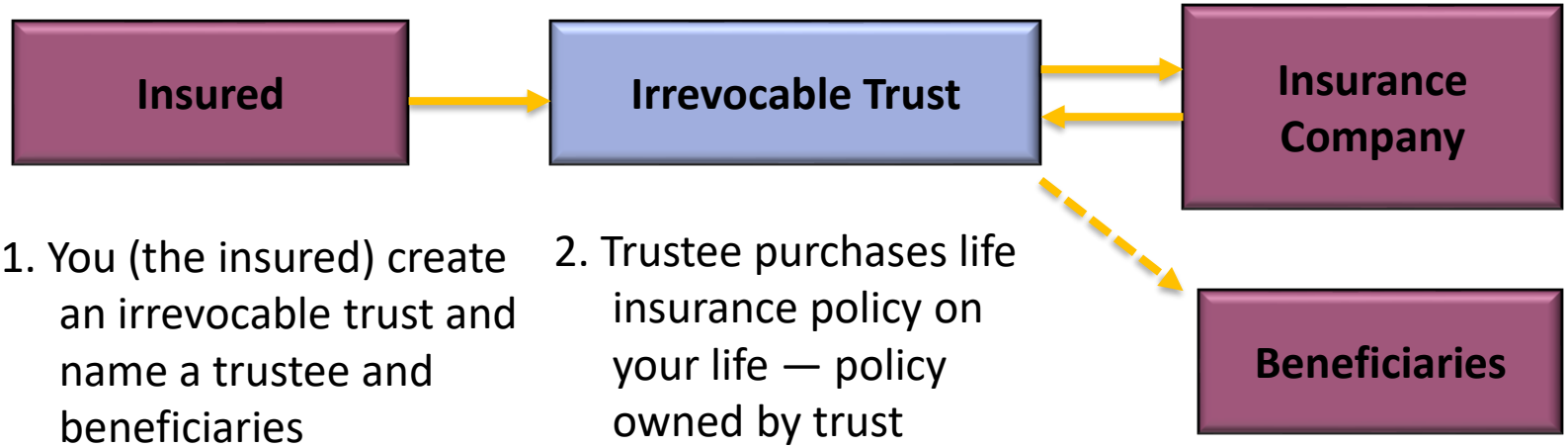
Life Insurance



- Can provide instant estate
- Can provide needed estate liquidity
- Life insurance proceeds are included in your estate for federal estate tax purposes unless your estate plan addresses this issue
- Key issue is ownership of policy

Life Insurance — *Irrevocable Life Insurance Trust (ILIT)*

During Your Life



1. You (the insured) create an irrevocable trust and name a trustee and beneficiaries

2. Trustee purchases life insurance policy on your life — policy owned by trust

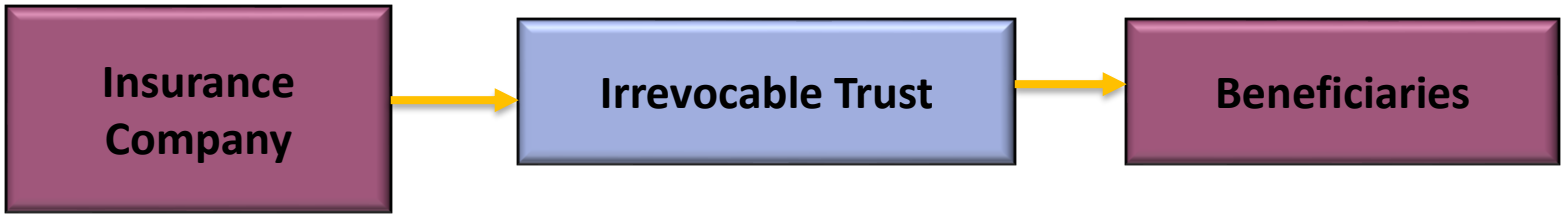
3. You make regular cash gifts to trust

4. Beneficiaries technically can withdraw cash gifts during limited window of time

5. Trustee uses cash gifts to pay premiums

Life Insurance — *Irrevocable Life Insurance Trust (ILIT)*

At Death



1. ILIT receives proceeds of life insurance policy
2. Proceeds not subject to estate tax
3. Proceeds distributed according to terms of trust
4. Beneficiaries receive full proceeds, free from estate tax

Estate Planning Basics Checklist

- Have you implemented a plan for incapacity (health and property)?
- Do you have a valid will?
- Are transfer taxes a planning concern for you?
- Does your overall estate plan reflect your current wishes and circumstances?
- Take an inventory
- List your family members
- Choose which directives you want in place
- Designate your beneficiaries
- Look up your state's laws (State Estate Tax Rates & State Inheritance Tax Rates | Tax Foundation)
- Choose a law firm or online service (www.GetHerWillDone.com)

Take-Aways from Class

1. An Estate Plan is not just for the wealthy
2. Start your “affordable” estate plan (will and/or trust) at: www.GetHerWillDone.com

Her Personal Info & Emergency Planner

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Class Materials in the Portal

A Framework for Your Estate Plan

SmartHER. StrongHER. WealthiHER.

You're starting an Estate Plan, congratulations! Although it might feel like a daunting or even premature endeavor, this is an important step in securing your legacy.

Use this document as a framework to help you think about these important conversations.

Getting Started is Easy!

If you wish, print out the next few pages so that you (and if applicable, your partner) can take notes on who you'll want to fill certain roles in your estate plan. Use our handy definitions on page 5 if you need a more detailed description of what each position does.

***Note:** The persons you designate to fill the following petitions can be different people OR the same people. And remember, you can always update your Estate Plan at any time.

What you WON'T need:
- Account numbers
- Social security numbers
- Real estate titles

What you WILL need:
- You / Your spouse's full legal names
- You / Your spouse's birthdays
- Your child(ren)'s full legal name(s)

Ready to Get Her Done?

To complement this valuable retirement to-do list, you're welcome to a **FREE** trial of our ***Planning Platform.*** This easy to use, collaborative technology can help you identify your gaps in retirement knowledge and readiness. It also connects you with the strategies and retirement pro's who can help you create and implement a retirement plan you not only understand, but have 100% confidence in. It's definitely worth taking a look.

Access the free trial at: www.HerRetirement.com

Need help getting you and/or your employees retirement savings accounts set up?

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Remember, at Her Retirement we can connect you to your financial planning & longevity planning team

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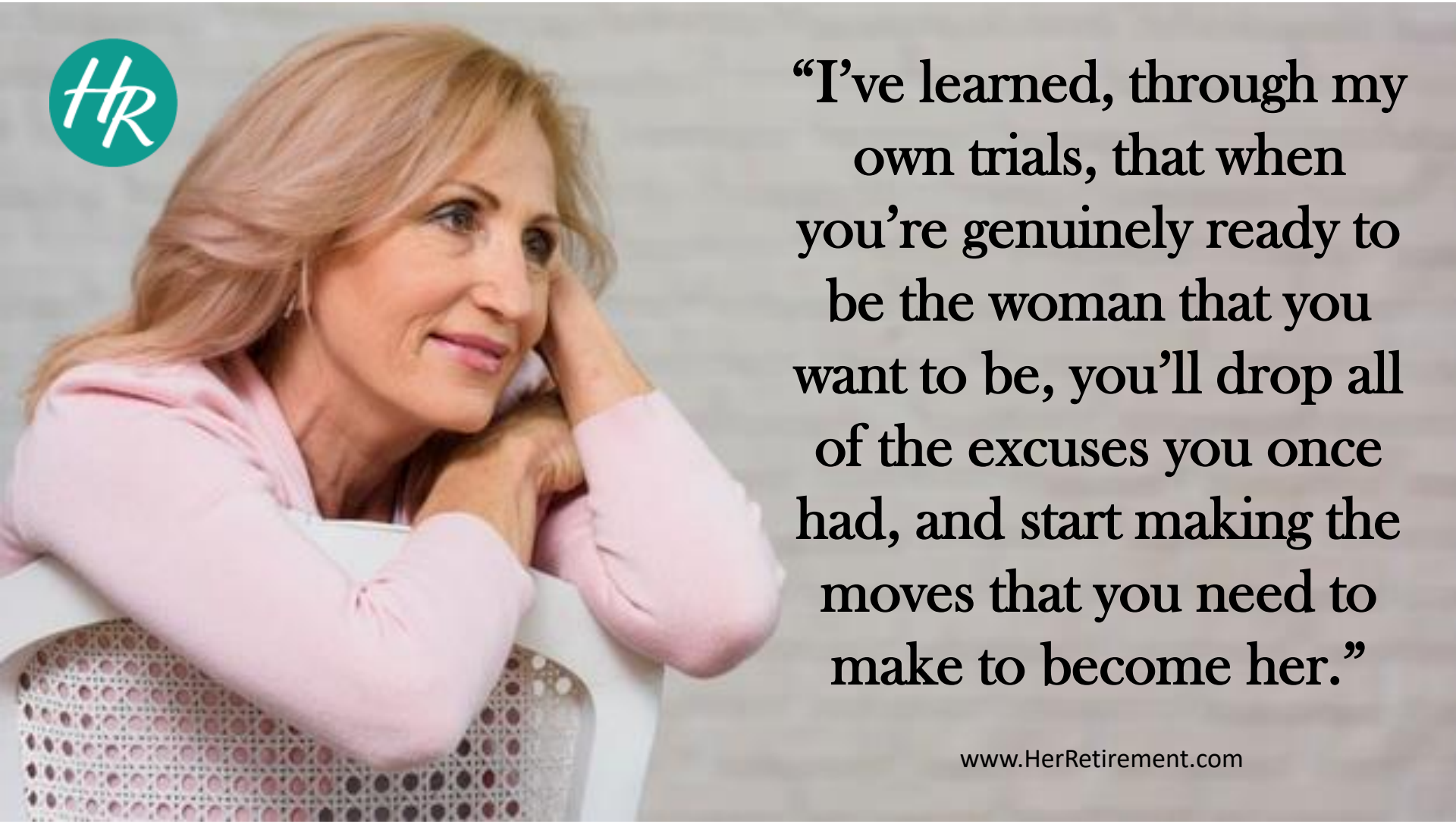

Thank you watching Class 7

If you'd like to chat about any estate planning needs, reach out to me. I can help you Get Her Done.