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Financial Literacy in Estate Planning

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Did you know?

April is National Financial Literacy month. What better way to welcome the first full month of spring than by reviewing your estate plan to ensure your family will be provided for according to your wishes.

Financial literacy means more than just understanding how to handle your basic finances; it means understanding and utilizing a variety of financial tools to achieve financial stability and to make informed and effective decisions with your resources.

Estate Planning as a Financial Tool

Estate planning combines financial, retirement, and disability planning to control the distribution of your assets after your passing and to maximize the total federal and state tax benefits available during your life and after death. An up-to-date estate plan, which can include a Will, a durable Power of Attorney, a Healthcare Power of Attorney, and a Living Will, is recommended for everyone. With proper forethought and planning, issues that arise due to sickness, accidents, or untimely death can be handled with care. It is important to review your estate plan after changes in your family situation (births, deaths, marriage or divorce), upon your retirement, and pursuant to other major life events to ensure that your estate is properly managed during your life and at death, and that your intentions are clearly laid out.

Mrs. Smith's Estate Plan

For example, let's review Sally Smith's estate plan. Sally Smith is an un-remarried widow with no children. She has three siblings – two brothers and a sister – to whom she would like to leave her estate. Mrs. Smith's attorney drafts a Will that distributes her estate equally to her three siblings upon her death, and, if one of them predeceases her, then that sibling's share of the estate will go to his or her descendants. Mrs. Smith's sister passes away before Mrs. Smith does. According to Mrs. Smith's Will, her sister's children will now each receive an equal portion of their mother's interest in Mrs. Smith's estate.

However, say that the majority of Mrs. Smith's assets are held in her individual retirement account (IRA). The beneficiary designation for this account directs the proceeds of the IRA to be distributed upon her death to her then-living siblings, equally. There is no additional language present in the designation that discusses how Mrs. Smith would like the asset distributed if one of her siblings predeceases her. Because of this, upon Mrs.

Smith’s passing, by default, the assets in her IRA are distributed equally between her two brothers and none will pass to her sister’s children.

Let’s consider that Mrs. Smith’s now-deceased sister was also Mrs. Smith’s designated Agent under a valid Durable Power of Attorney. With no successor agent named in the Durable Power of Attorney, Mrs. Smith is left without a trusted advisor to act on her behalf, and her family must petition a court to appoint a guardian to act on Mrs. Smith’s behalf. Actions that could have been completed easily by using a Power of Attorney, such as managing Mrs. Smith’s finances, are now subject to court approval through a guardianship proceeding. The guardianship process takes extra time and money and may cause unnecessary stress.

Conclusion

A periodically updated and reviewed estate plan can be an invaluable financial tool and can assist individuals and families in achieving financial stability and peace of mind. This April, meet with your estate planning attorney and financial advisor to review your estate plan to ensure that your objectives are being met now and will be met upon your death.

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