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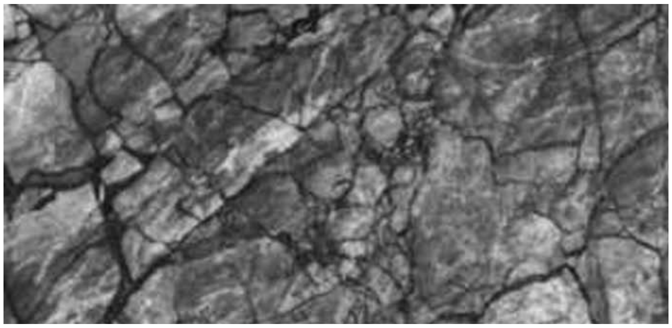

# Estate Planning: Getting Started

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## What Is Estate Planning?

Estate planning is arranging for the use and disposal of your resources and property after your death. It allows you to look at the total picture. You should give some time and thought to planning your estate. Briefly, here are the steps involved:

1. Know what you have and where it is:
   - What do you own?
   - What is your net worth?
   - Where are your important papers?
2. Know how you want your estate to be handled:
   - What are your goals for your estate after your death?
   - Who, as your estate planning team, can help you meet those goals?
3. Know how to provide for distribution of your property after your death:
   - Probate/will.
   - Trusts.
   - Gifts.
4. Put your plans on paper:
   - Prepare the proper documents.
   - Know the tools to use while you are living: durable power of attorney, advanced medical directive, and a preplanned funeral.

## Know What You Have and Where It Is

During your lifetime, you accumulate resources, or *assets*. The assets you own transfer to other people when you die, or they may be disposed of in another way. Many people fail to make plans to transfer their property and possessions at the time of their death. Some people think such plans are only for the rich. Other people think that they can plan for the transfer later and then never take time to do it. Some people think they do not need estate planning and that everything will be all right for their families when they die.

Everyone already has an estate plan. If you do nothing, the state will decide through state law how to dispose of your possessions after your death. The state law may not transfer your resources in the way you want. Your spouse or other family members must follow that law and cannot follow your wishes unless you prepare the proper documents. Therefore, everyone needs to develop their own estate plan. Also, settling an estate without formal plans and documents is difficult. People who have handled unplanned and undocumented estates agree that taking the right steps makes it much easier and saves both time and money. Dying without a will is known as dying intestate.

If you are still skeptical, see if you can answer the questions below. Accepting the fact that you are going to die someday, ask yourself: "If I should die tonight . . ."

- What would happen to my property?
- Who would care for my minor children or aging parents?
- Would my spouse and children be provided for?
- Would the family business continue?
- Would the estate settlement be conducted by someone with my family's interests and needs in mind?
- Would estate and inheritance taxes, probate fees, and other administrative or legal costs be held to a minimum?

If the answers to these questions are important to you, you should consider developing an estate plan.

Now is the time to get started in estate planning.
Don't put it off.

The beginning of estate planning is knowing what you currently own, or your *current assets*. You will need to know your present financial situation. Eventually, you will need estate planning professionals to help you with the final estate planning documents, however, taking time to assess your finances now will save you time and money when you use their services.

The first step is to critically review your present financial situation. This step is crucial: it is the foundation of your entire estate plan, and the result will be satisfactory only if the information is complete.

You will need an inventory of all of your assets (everything you own) and all of your liabilities (everything you owe). Completing this step will provide a list of your personal resources. It will also help you determine your net worth and prepare you to make other estate planning decisions.

To calculate your net worth, simply subtract your Total Liabilities from your Total Assets:

Total Assets - Total Liabilities = Net Worth.

As you begin to gather information for your estate plan, an easy way to organize this information is in folders or three-ring binders designated for these records only.

Along with an inventory of your assets, it is helpful to have a record of where your important papers are located. To settle your estate, your birth certificate, marriage certificate if you are married, car titles, bank account records, property deeds, stock certificates, and other important papers will be needed. Often families can spend a considerable amount of time looking for these important papers because the deceased had not previously made it clear where the papers were located.

If your family members do not know where to find these papers, it will take them time and money to locate them or replace them with duplicates. This process could end up costing your estate money and reducing the amount passed on to your heirs.

Other financial records also need to be kept.
These records are:

- Your earnings records.
- Your personal tax returns (and business returns if you own a business).
- Records of your home or other property purchases.
- Records of improvements to your property.
- Records of purchase of assets that when sold would be subject to capital gains taxes.
- Insurance policies, even if they have expired.

Be sure that someone in your family, the executor of your estate, or your attorney knows where to locate all your important papers. It is often wise to keep important papers such as these in a fire-proof safe.

## Know What You Want to Do with Your Property

You probably have some ideas about what you want to happen to your property when you die. Before you talk with estate planning professionals, it is a good idea to put these ideas on paper. Think about what you want to accomplish. These ideas become your estate planning goals, or objectives.

Depending on the age of any children you have and the age of other dependents, your plans may change over time.

Not only will time affect your objectives, but so will what is important to you. For example, if you have small children and you value a college education, one of your estate goals might be that should you die tonight, your young children would have the financial resources to go to college.

Here are some possible goals that may start you thinking about what you want your family to have when you die:

- Financial security for a surviving spouse.
- Minimized estate taxes.
- Minimized probate costs.
- Specific property transferred to specific people.
- Money to pay estate settlement expenses.
- Nomination of a guardian for minor children.
- Continuation of a farm or other business.

Because things change over time, it is important to rethink your estate planning objectives from time to time and change them as needed. Most estate planning professionals recommend doing this every three to five years. You would definitely want to review your documents when tax laws change or a major change occurs in your family, such as the birth of a child, death of your spouse, divorce, or remarriage.

## Know How to Provide for Distribution of Your Property after Your Death

Property is transferred in one of three ways. Historically, the most common way has been transfer through probate. In that process, you have a will, and the will specifies what you want done with the assets you own or control. If you die without a will (intestate), probate is used, and it is based on intestate laws.

Another way to transfer resources is by means of a gift. Some gifts are made prior to death with your final estate in mind. Giving can be a way to reduce the size of your taxable estate.

The third common way to transfer resources is with a trust. An increasingly popular choice for estate planning is the living trust. There are other types of trusts used for estate planning. The right one for you depends on your goals for your estate and on your resources.

It is to your advantage to learn about all of these methods when deciding which method or combination of methods will meet your objectives and save your estate the most money in estate taxes.

## Put Your Plans on Paper

After you know about these three methods of transferring your resources and explore which combination is best for you, you need to meet with an estate planning team to prepare the proper documents for your estate. Doing your homework beforehand will save you time and money.

At the same time you put your estate plans on paper, you may want your attorney to prepare some documents that will be valuable to you in the event you have a stroke or an automobile accident or some other event occurs that leaves you alive but unable to make decisions for yourself. Be sure to learn about a durable or springing power of attorney and advanced medical directives.

Preplanned funerals are growing in popularity. It can be helpful to your family if you have preplanned your arrangements. Then, at the time of your death, your family does not have to make financial commitments under the stress of loss. Prepaying for your funeral is not recommended, however, for at least two reasons. First, in our mobile society, you may not die where you have prepaid for the funeral costs and some costs would be incurred where you die. Second, the funeral home that you prepaid may go out of business before you die. Elderly people who know where they want funeral services to be held might be an exception. In such cases, a prepaid funeral may be practical.

Depending on the size of your estate and your goals, your estate planning team may include an attorney, an accountant, or some other professional who handles the specifics of your plans.

## Distribution of Your Assets after Your Death

Because you take time to plan for the distribution and transfer of your assets after your death, your plans will be carried out smoothly and in a timely manner. Your estate planning efforts will save your estate money after your death. More of your resources will go to the people you want to have them.

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**This is the first publication in a nine-part series on estate planning. Other publications in the series cover:**

Objectives (FCS5-421)
Your Personal Records and Information (FCS5-422)
Selecting Your Estate Planning Team (FCS5-423)
Financial Planners (FCS5-424)
Wills and Probate in Kentucky (FCS5-425)
Trusts (FCS5-426)
Federal and State Estate Taxes (FCS5-427)
A Glossary of Terms (FCS5-428)