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ESTATE PLANNING

EFFECTIVELY MANAGING YOUR ESTATE

Estate planning is not just about tax planning. It comprises a variety of sensitive issues that need to be considered and included in a plan that tells your survivors what steps to take when you are incapacitated or no longer here. This planning sheet will give you an overview of information and actions you need to consider when working with your advisors to put your goals and action plans into writing.

By the numbers

- **Two for one:** With thoughtful estate planning, you may be able to reduce your beneficiaries' tax bill and gain peace of mind.
- In 2015, the federal estate tax exemption is **$5.45** million and the maximum tax rate is **40%**.[1]

[1] Source: irs.gov.

Consider taking these steps to ensure your plan protects your family.

Keep your intentions clear

Draft a letter of instruction. A letter of instruction will let your family members know what initial steps they should take after you are gone. In the letter, be sure to

- indicate where you keep important documents, such as bank and investment statements, your will and life insurance policies
- provide the names and addresses of people to contact, including your attorney, financial advisor, accountant and the executor of your estate

Keep your will current. Most attorneys recommend that you review your will every two years. Be sure to review it soon after any major life event, such as a divorce, a marriage, a birth, an adoption or after a major business event, such as a job change, the sale of a business or the sale of property.

If necessary, take the time to retitle your assets. If you establish a living trust, be sure to take the time to transfer your assets into the trust. Assets that are not transferred to the trust may have to go through probate.

Avoid potential mistakes

Consider potential tax consequences of a "sweetheart will." Leaving everything to your spouse may seem like the simplest, most romantic thing to do. But a sweetheart will can unnecessarily increase the taxes that your estate will incur when it eventually passes to your children or other heirs.

Key points

- In 2016 taxpayers are able to gift $14,000 per individual annually tax free.
- No gift tax return filing is required on the annual gifting allowance.
- No gift tax has to be paid until your lifetime total taxable gifts exceed the applicable exemption amount.
- Gifts to a spouse or a charity generally are not taxable.
- Married couples who want to leave heirs property that is valued above the deduction limits can consider estate equalization.

Consider the issues that may arise from holding assets jointly with children. Designating anyone other than your spouse as joint owner of an account can create unexpected problems. If the other person's ownership interest in the account exceeds $14,000, the 2016 tax-free gift limit, you could incur a gift tax. If the person gets into financial trouble, creditors or the courts could go after the money in your account. Other steps — such as establishing a living trust or using transfer-on-death registrations for investments — may facilitate a transfer of assets at your death without some of the potential problems joint ownership could create.

If you are unmarried

Remember that property shared by unmarried couples generally is governed by contract, not family, law. Whoever is listed on the title of an asset is considered the owner unless there is an agreement to the contrary. In most states, if you die, your partner — unlike a spouse — would not inherit property by law. You may want to consider retitling certain assets.

Have a will and consider using trusts to protect your partner. If you die "intestate" — that is, without a will — your partner generally will not have any legal rights to assets held in your name unless he or she is designated as a beneficiary of the asset (such as a bank account or insurance policy) because most states' intestacy rules do not recognize an unmarried partner as a legal relative for inheritance purposes. For that reason, you may need a will to make sure all your assets pass according to your wishes.

Prepare for incapacity

As part of your estate plan, you will also want to take steps to protect your family if you become seriously ill or disabled. Consider taking advantage of the following tools.

Long-term care insurance. If you are not wealthy enough to cover the costs of a prolonged nursing home stay, and if you will not qualify for the nursing home coverage provided by the state Medicaid programs, you will need to consider buying long-term care insurance. Your insurance agent or financial advisor can help you find a policy that provides optimal coverage within your price range.

A durable power of attorney. With this document, you can name someone to manage your financial and personal affairs if you no longer can. Among the powers you can grant are the authority to make gifts, conduct real estate transactions, assign ownership of a life insurance policy and change a policy's beneficiary.

If you have a basic living trust, you may not need to use a durable power of attorney because your successor trustee can make decisions about the assets you own in your trust. However, using a durable power of attorney may be less costly than establishing a trust.

A living trust or durable power of attorney can also help you maintain your privacy. If you do not have either tool in place and become disabled, it could be necessary to petition the court to appoint a guardian to oversee your affairs. Such petitions are part of the public record.

A health care proxy. This document enables you to designate another person to make health care decisions on your behalf if you become incapacitated. This may be especially important if you wish to have someone other than your closest relatives making decisions for you.

A living will. In this document, you can specify the type of medical treatment you wish to receive and under what circumstances the treatment should or should not be administered in case you are suffering from an incapacitating condition. Your attorney can help you prepare these documents in compliance with any applicable federal or state law requirements.

Work closely with your advisor

While we know the top estate and gift tax rate is 40% and the exemption amount is $5.45 million for 2016, no one can say for certain what the tax rates will be in future years. Therefore, it is critical that you work closely with your tax advisor to ensure you are aware of the latest tax law changes and make tax-smart decisions for your situation.

Resources

Internal Revenue Service
irs.gov

Tax Policy Center
taxpolicycenter.org

Contact your financial advisor for more information or visit mfs.com.

MFS Fund Distributors, Inc., Boston, MA

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