

ESTATE PLANNING



By the numbers

- According to a survey, approximately **61%** of adult Americans do not have a will.¹
- An estimated **32%** of Americans have filled out living wills.²
- In 2015, the federal estate tax exemption is **\$5.43** million and the maximum tax rate is **40%**.³

¹ Harris Interactive for Rocket Lawyer, April 2013.

² prnewswire.com, February 2013.

³ irs.gov.

This material should be used as helpful hints only. Each person's situation is different. Your team of professionals should be consulted for more information before you make any decisions.

NINE IMPORTANT ESTATE PLANNING STEPS

Your estate plan has an impact that can reach beyond financial issues and your lifestyle to include your family. Estate planning involves many complex concepts that are regulated by varying state laws as well as federal law. As you begin to consider what kind of legacy you would like to leave your loved ones, be sure to seek insight from your team of professionals, including an estate planning specialist and tax attorney. To help you begin thinking about estate planning basics, MFS® has created a list of nine important steps that investors should consider taking to get started on their overall estate plans.

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 nominate 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 seeing that all of the related tax issues are handled. You may choose a professional who can handle these matters on his or her own or you may choose a relative or a friend who can hire

any professional help he or she may need. However, you should be sure the friend or relative is willing to serve in this capacity.

2. Update beneficiary designations

Beneficiary designations should be reviewed periodically and kept up to date (especially after major life events such as births, deaths, marriages and divorces). If beneficiary designations for such things as retirement accounts or insurance policies are outdated or inaccurate, your assets may pass to people you did not intend to benefit.

Key points

Estate planning steps include

- creating a will so that your wishes will be honored
- keeping beneficiary designations on your insurance and retirement accounts up to date

Talk to your professional advisors about

- consolidating your retirement assets
- using trusts and gifting to help lessen your estate taxes

Consider the benefits of protecting your interests by

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

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3. Establish health care directives

An estimated 32% of Americans have filled out living wills.² That potentially leaves nearly 70% with no written evidence as to whether they wish to receive life-sustaining medical treatment in the event they should become incapacitated or terminally ill. In addition to documenting which types of treatment you would and would not want, you can also designate a “health care proxy” who will be authorized to make medical decisions for you if you are incapacitated.

The rules governing health care directives vary from state to state and can be affected by federal law.

For example, the Health Insurance Portability and Accountability Act (HIPAA) restricts your physician’s ability to disclose your medical information. To prevent this from occurring, make sure to include HIPAA release language in your disability planning documents.

4. Consider a power of attorney

It is important to be certain that your financial affairs will be managed if you become disabled. Talk to your estate planning professional about creating a durable power of attorney that authorizes someone you trust to handle financial matters. Be sure to have your documents reviewed periodically to make sure they are up to date and comply with current laws.

5. Establish a trust

One of the primary purposes of a trust is to avoid probate, which may mean that your estate can be settled more quickly and at a lower cost. Perhaps more important to some individuals is that a trust be private, whereas probate proceedings are a matter of public record. 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

It is important to plan carefully when completing the necessary beneficiary forms. If you participated in an employer-sponsored retirement plan from which you are eligible to receive benefits, be sure to keep plan administrators advised of your current address and keep

your beneficiary designations up to date. Also, make sure your beneficiaries know about any plans from which you may have benefits coming. You may want to ask your financial advisor or estate planning professional whether it makes sense for you to consolidate your retirement assets by rolling them over to an Individual Retirement Account. An IRA may provide long-term distribution opportunities that may not be available from an employer’s plan. There are advantages and disadvantages to an IRA rollover depending on investment options, services, fees and expenses, withdrawal options, required minimum distributions, tax treatment and the investor’s unique financial needs and retirement plans. Please be aware that rolling over retirement assets into one IRA account could potentially increase fees as the underlying funds may be subject to sales loads, higher management fees, 12b-1 fees, and IRA account fees such as custodial fees. Your advisor can assist in determining if a rollover is appropriate for you.

7. Use gifting strategies to reduce estate tax liability

Gifting can be an excellent way to reduce the taxable amount of your estate. One common gift-giving vehicle is the 529 college savings plan. In this plan, assets potentially grow tax deferred and can be withdrawn federally tax free if used for qualified higher education expenses. In 2015 an investor can gift \$14,000 per beneficiary on an annual basis. Couples can gift \$28,000 per year per beneficiary. Donors may make an “accelerated gift” to a 529 plan equal to five years’ worth of gifts (\$70,000 for an individual or \$140,000 for a couple). This accelerated gift can be made only once every five years.^{4,5}

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.

⁴ Report the gift on a federal tax form. Amounts in an account that were considered completed gifts by the account owner will not be included in the account owner’s gross estate for federal estate tax purposes. However, if the account owner elected to treat the gifts as having been made over a five-year period and dies before the end of the five-year period, the portion of the contribution allocable to the remaining years in the five-year period would be includable in computing the account owner’s gross estate for federal estate tax purposes. Gift limits current as of 1/1/15; tax rules are subject to change.

⁵ finaid.org.

² prnewswire.com, February 2013.

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8. Decrease or eliminate estate taxes

Property passing to a surviving spouse is generally exempt from estate taxes. As of 2015, there is a \$5.43 million limit on the amount that can be passed on to a decedent's nonspousal heirs estate-tax free. Discuss with your estate planning specialist the ways you might structure your bequests to take advantage of the exclusion and minimize estate taxes. 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. Determine how to draw down your assets

During retirement it is important to consider what sources of cash are being used to maintain your lifestyle. These sources often have drastically different tax consequences. Discuss with your financial advisor the best way to draw from your tax-deferred, taxable or tax-free assets for cash flow needs to minimize your own taxes and the taxes to be paid by your heirs.

With careful planning, you may be able to avoid common mistakes and help ensure that your heirs are not burdened by unnecessary emotional and financial stress when settling your estate.

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

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