

A photograph of an elderly couple embracing in a field. The man is on the left, seen from the back, wearing a dark sweater. The woman is on the right, wearing glasses and a patterned cardigan, with her arms around the man. In the background, a family of four is walking away from the camera. The entire image has a teal and green color overlay.

# Estate Planning *for Everyone*

## CHAPTER 3

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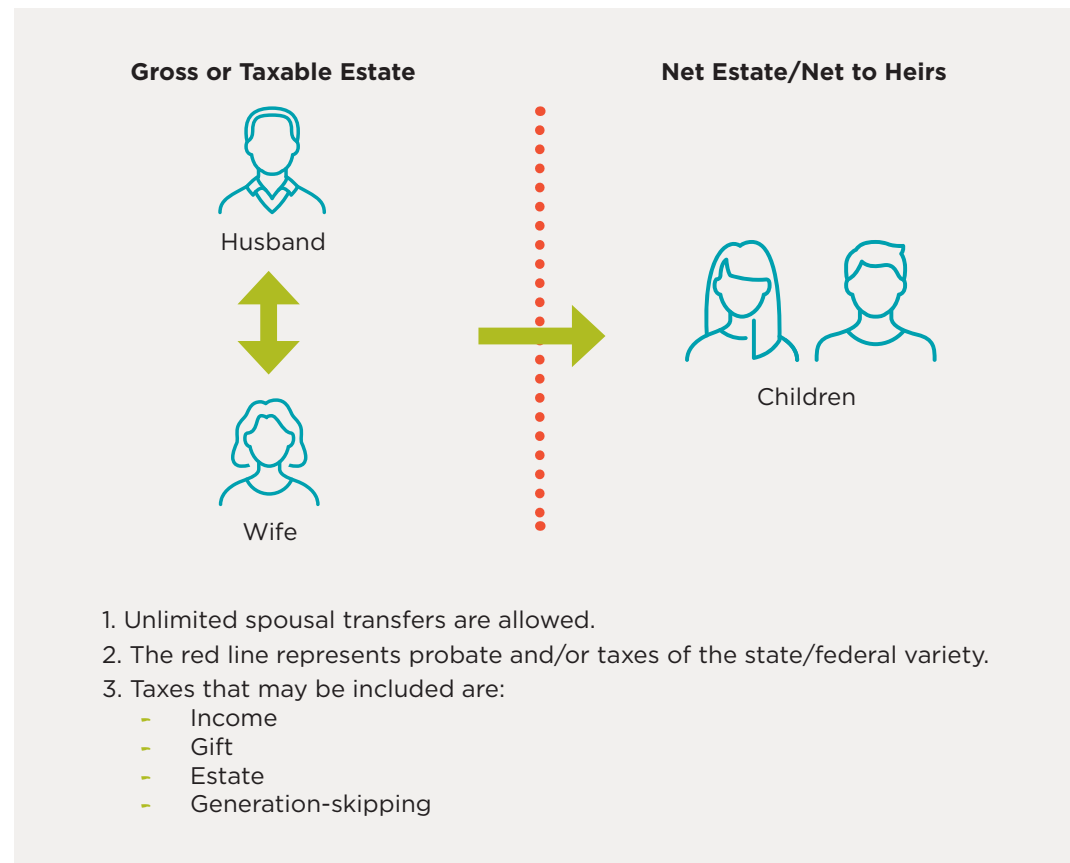
In the last chapter, we defined the different kinds of estate planning elements and the importance of trusts. In this one, it's time to act. **Define your goals** and create an estate plan that works best for you. By focusing on how you can keep your eye on your plan's objectives.



# Starting your plan

Before you develop your plan, you must first determine your overall objective. The good news after careful consideration, it can be pretty straightforward. The bad news, it's not always so easily achieved. Basically, everyone's main objective is simply this – get your assets across the dotted line (see image) with the minimal amount possible claimed by the IRS.

It's also important to remember that most assets owned by the husband and wife are exposed to the leaks outlined in Chapter 2 including, creditors or predators, divorce/lifestyle choices, and spendthrift beneficiaries.



## What it all means



Most wills are referred to as “I-love-you” wills because the husband leaves everything to the wife, the wife leaves everything to the husband, and when the last spouse passes away, the remainder is left to the children.

This can be inefficient for multiple reasons, including financial concerns in cases where a child (for example) comes into a large sum of money – spending it all relatively quickly. We often describe this as the too-much-too-soon risk. Chapter 1 cited data about how quickly many inheritances are spent. This also doesn't plan for any state-level, estate taxes.

**It's common for someone who doesn't feel wealthy to nevertheless have a taxable estate.**

Oftentimes, estate planning focuses so much on federal estate taxes that it overlooks the planning to minimize state estate taxes. State taxes are as high as 20 percent in some areas. In some states, estate taxes start at a \$1 million threshold, and since that includes everything (e.g., your primary residence), it's common for someone who doesn't feel wealthy to nevertheless have a taxable estate.

# Here are eight most-common types of estate assets

- 1 Owned by you - payable to a designated beneficiary immediately after your death (life insurance, IRAs, 401(k)s, and annuities)
- 2 Payable on death (POD) or transfer on death (TOD) designations (bank accounts)
- 3 Own jointly as joint tenants or joint tenants with rights of survivorship (JTWROS) [discussed in Chapter 1]
- 4 Own with your spouse as tenants by the entirety (TBE)
- 5 Owned by your revocable living trust
- 6 You retain a life estate
- 7 Owned individually
- 8 Beneficiary designation assets where the designation fails (or was not made)

## Important:

The **green** assets above are assets where your will does not control what happens to them. However, the **blue** assets are assets where the disposition will be controlled by your will. In addition, some **green** assets could turn **blue** because of the unknowns of life, such as where a beneficiary pre-deceases the account holder.



## For those claiming, “I don’t need a will”

You jointly own an asset with someone, a small business for instance.

1. That person dies before you. You are the beneficiary of the account that was payable upon death to you. Now, that asset is owned completely by you.
2. What if you and the person you jointly own an account with dies in a common accident? This instance could make dividing up your assets between your loved ones very messy.

For people claiming, “I don’t really need a will,” they may assume things go well and that their accounts pass by beneficiary designation, as intended, but ignore the possibility of complications.



### Assets not covered by your will

It’s also important to note there are other assets your will has no control over. **That’s right – your will has no control over some of the largest assets you own.**

It’s important to coordinate those accounts with your overall financial plan because the failure of a beneficiary designation can be avoided. Sometimes the issue is administrative when the account is opened. Other times, no one remembered to name a contingent beneficiary and the primary beneficiary had already passed away. Sometimes, divorce may terminate the beneficiary designation, by operation of state law, leaving an account with no beneficiary at all. The importance of **beneficiary reviews** cannot be overstated.

It’s important to coordinate beneficiary designations in advance – particularly if those assets are left to different people, perhaps as a means of equalizing the estate.

Be sure to also coordinate those assets that will pass by beneficiary designation (and not through your will), such as:

- Retirement accounts
- Life Insurance
- Annuities
- Property owned jointly with another individual

These property types are not impacted by changes to your will or trust, and the beneficiary designations should be reviewed periodically, especially whenever there is a significant change in the family – such as a death, marriage, divorce, birth, etc.

**Review *all* of your beneficiary designations periodically.**

# Why Estate Planning *Really* is for Everyone

Unless you like giving money to the IRS, careful planning for your estate can make all of the difference.



## Keep assets in the family

- Away from creditors
- Safe from lawsuits
- Out of divorce court



## Insulate assets from estate and gift taxes

- Not just for the first generation
- But for the second (and beyond) as well



## Protect spendthrift beneficiaries or those too young to reliably manage their own affairs



## So everyone's wishes are respected - protect and equitably distribute assets in:

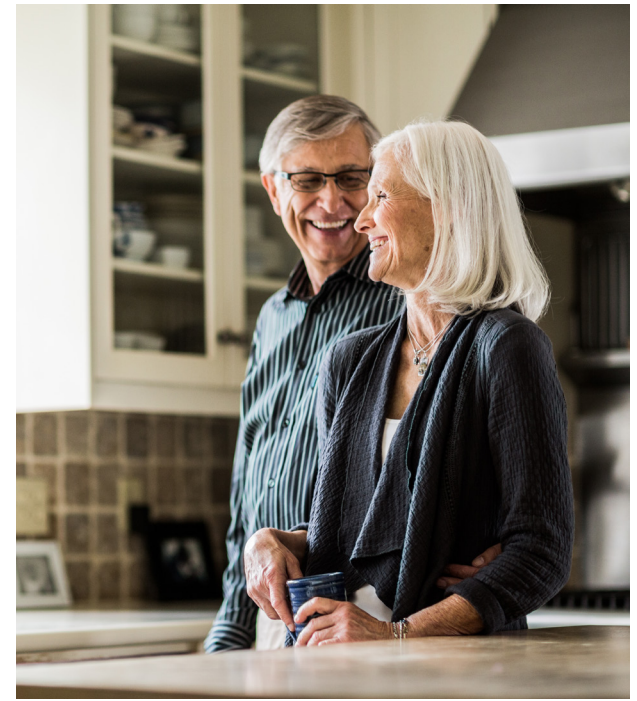
- Second marriages
- Blended families

# Creating a More Effective Plan

## How Life Insurance sets the tone

If you purchase **Life Insurance** via a trust, you can then establish that the eventual death benefit is to replace or replenish assets used for Long-Term Care (LTC). Both you and your spouse could also consider Life Insurance for income replacement, even if it's only to replace Social Security checks lost when you or your spouse die. Life Insurance is also often used to cover final expenses.

In addition, **Survivorship Life Insurance**, which covers two insureds at once, may offer a better value for you as a couple, especially if one of you has health problems that prevents them from qualifying for Life Insurance. These policies are typically owned by a trust to protect assets from estate taxes. This approach also allows the insured (you or your spouse) to maintain control "from beyond" via the trust's instructions for how beneficiaries may use the death benefit.



## Life Insurance features and benefits



Death benefit exceeds premiums paid



Survivorship policies protect couples at second death



Tax-free death benefit, may, in some policies, be used to fund LTC needs



Viable option to replenish lost wealth for clients who cannot qualify for traditional LTC policies or riders

## The importance of longevity planning

Longevity should always be a careful consideration. People generally balance assets among their heirs, but if one of those assets needs to be spent down (or an asset needs to be liquidated) in order to pay for **LTC** after an unexpected event – it's nice to already have a plan in place.

There are even insurance solutions that you may find more flexible than traditional LTC insurance. **Linked Benefits** (sometimes called **LTC-hybrid solutions**) offer great value and benefits as part of your overall financial plan.

These products are life insurance contracts integrated with LTC benefits. In these types of policies, the death benefit is not the primary focus – but the policy enables a way to ensure you don't lose your premiums should you not have a care need. However, if you do need care, Linked Benefit products include care coordination resources from your insurance carrier.





Estate planning complemented with a plan for the unexpected including **LTC solutions** or **Linked Benefits** is a great way to cover all of your bases.

Imagine if you're incapable of managing your affairs. Your family would need to scramble to figure out where your estate plan is located. Then, they would need to bring the estate under the control of a conservator.

If you planned in advance, your trustee would continue to control your property, even if you were disabled. And because you took care of this in advance, you could establish the exact terms and wishes for your assets. There would be some forethought to which assets are going to be liquidated first to pay for your care, where to provide for care, and so much more particular to your exact situation.

“ High-net worth clients don't have the affordability objection. But there's the likelihood that they could experience an unexpected health event as they age. There's simply no guarantee that their need for care would come at a time that's either convenient to them or to the performance of their portfolio,” Nancy Simm, Director of LTC and Longevity Planning, Highland Capital Brokerage said.

*Consider coupling estate planning with planning for the unknown - by adding LTC Insurance to your financial picture.*

## Using Annuities to your advantage

**Annuities** are often used in estate planning, either inside or outside of a trust, and several approaches may be beneficial for what you want to accomplish. For example, a lifetime income annuity gives you the “permission to spend” other assets, knowing you have the annuity to rely on.

In a trust, a beneficiary will be forced to cash out the annuity within five years of the annuitant’s death, which could compress all the taxable gains into a short period of time, particularly if the annuity has significant growth. The trustee could use those proceeds, after cashing out the annuity to buy lifetime-income annuities or other products to secure an annual income for the trust’s beneficiaries.

Annuities are sometimes used, if owned by a trust, to fund a life insurance policy using lifetime income from the annuity. Appreciated annuities that have lifetime income riders may see those riders “turned on” to generate income that the grantor will use to buy life insurance after gifting the income to a trust.

A traditional fixed annuity, with its guarantee of principal, can provide some significant advantages in an overall investment plan. Acting as a fixed asset in an allocation model, it can provide balance to the equity portion of the portfolio while substantially lowering the potential risk of a traditional bond allocation. In addition, at the death of the owner, the annuity’s proceeds would pass directly to the beneficiaries without the delays and cost of probate.
















Annuities can represent an invaluable part of your estate plan, or if you’re looking for guaranteed income. Some annuities even offer enhanced payouts for LTC needs. Fixed annuities may potentially offer you better rates of return when compared to your current savings, especially if the savings are in traditional bank products, such as savings accounts, CDs, and money market accounts. With a principal guarantee and tax deferral, you essentially receive **triple compounding**: Interest on your principal, interest on your interest, and interest on the funds you would otherwise would’ve paid in taxes.

*Leverage and  
planning are the  
name of the game.*

# Need for Coverage

Consumers' concerns over finances may be growing, given current inflation rates and the lingering effects of the pandemic. Here are some things to consider:

	Life Insurance	Annuities	Linked Benefit/ Hybrid LTC
Tax-deferred growth			
LTC benefits			
Tax-free death benefit			
Available lifetime guaranteed income			
Available supplemental retirement income			
Avoid 'use it or lose it' of LTC insurance			



## The wrap

There's no time like the present to start planning, especially since the current planning environment is favorable with high estate-and-gift tax exemption, wide income tax brackets, and availability of favorable estate-planning techniques. An estate plan doesn't just protect you – it protects your loved ones. We've all read stories of heirs who blow through their whole inheritance – quickly.

Leverage and planning are the name of the game. Modest gifts, leveraged in a trust, can help secure the legacy you want to leave behind. Oftentimes, this leverage and planning affords you the freedom to spend other assets, knowing you still secured a legacy for your family. Always remember – it's never too soon to start to plan.

## About the Author



Michael Raczkowski, J.D., CFP®, Vice President, Head of Advanced Planning, Sales Support, and Underwriting – is an attorney and Certified Financial Planner® with

more than 15 years of experience in the life insurance industry. His primary focus is providing advanced planning assistance for Highland Capital Brokerage advisors and other producers.

Raczkowski joined Highland following a long and successful career at John Hancock where he held multiple roles, including account management, internal and external wholesaler, and advanced markets attorney. Raczkowski also has experience in the field, starting his insurance career as a producer at New York Life.

Raczkowski received his Bachelor of Arts degree from Bridgewater State University in Mass., and completed his J.D. at Suffolk University Law School in Boston. He is licensed to practice law in Mass. Born and raised south of Boston, Raczkowski now lives in Medway, Mass., with his wife, Meredith, and their two children.

# *Contact your financial advisor*

for more information about estate planning today.

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