

# Estate Planning Essentials: 7 Key Steps

Creating an estate plan can help protect your wealth and prevent hardship for your heirs.

## Key Takeaways

- An estate plan can help ensure your assets are distributed according to your wishes after you die.
- Recording how you want your estate to be distributed may help prevent legal issues for your heirs.
- Donating assets can benefit charities while potentially reducing the size of your estate and future estate tax liability.

Discussing the end of life and what happens to your assets is never an easy conversation to have, especially with family. But this type of planning is essential if you hope to ease what can be a difficult process for the people you love and to ensure that your wishes are respected.

*Here are seven steps to help simplify the process.*

### 1. Draft a list of your assets

A good place to begin is compiling an overview of all of your assets. This will help you take stock of exactly what you have to pass on to heirs and document key information so your family has a record of accounts and property. Specify which assets are held in your name and which are jointly owned, such as a home, car or financial accounts. As you go through this process, touch base with your partner, if you have one, and make note of how you want to bequeath assets.

### 2. Create a will

A last will and testament is a written document that names an executor who will carry out your wishes. A will includes instructions around the management and distribution of your assets, including real estate, jewelry, cars, art and bank accounts.

If you die without a will, you'll be considered as dying intestate. In this case, your estate will be distributed based on your state's intestacy laws—which may not align with your wishes. For example, most states' intestacy law give your property to closely related relatives. If there are no spouse or children, property may be distributed to more distant relatives.

### 3. Choose beneficiaries

Selecting beneficiaries and recording how you want your estate to be distributed among them can help prevent a legal battle between your beneficiaries. You can choose multiple beneficiaries and dictate how you want your estate divided up. Many people consider beneficiaries to be loved ones who depend on them financially, like family. If you don't have direct family, you can name a relative, friend or charitable organization as the beneficiaries of your estate.

### 4. Name a guardian for young children

If you have children under the age of 18, you should name a guardian in your will. You should name a trusted individual who can care for your minor children. The same guardian or a designated guardian of the property can manage any assets intended for your children until they reach a certain age. Important considerations when choosing a guardian include age, health and location. You'll also want to be mindful of who is best suited to raise your children and manage property for them. If you don't choose a guardian before your death, a court will decide.

### 5. Plan for medical and financial decisions

Select an agent or agents to help make medical and financial decisions for you in the event you become incapacitated. This can be accomplished through a healthcare power of attorney and a financial power of attorney. In these roles, the healthcare agent can make medical decisions and the attorney-in-fact can make financial decisions on your behalf if you're unable to communicate your wishes.

You might also consider creating a living will, which allows you to give specific guidance to your healthcare agent, doctors and other caregivers, including your intentions for treatment based on your preferred quality of life or religious beliefs.

### 6. Set up a trust

A trust is similar to a will but offers a more flexible and effective way to manage and distribute your assets. For example, in a trust you can dictate when and in what amount assets are to be distributed to beneficiaries.

A trust can be revocable or irrevocable:

- During your life, you can transfer assets into a revocable living trust and amend it; however, it does not offer tax or asset protection advantages during your lifetime. Upon death, a revocable trust becomes irrevocable, which means it cannot be easily amended or revoked.
- An irrevocable trust created during your lifetime may allow for the reduction in certain tax liabilities, the protection of assets from future creditors and leave assets in further trusts for a surviving beneficiary.

## 7. Plan for estate taxes

Depending on the size of your estate, your assets may be subject to taxes upon your death. To help lessen the estate tax burden, you may want to consider the following strategies:

**Gifting:** Gifting assets while you're alive may reduce the size of your eventual estate and alleviate future estate taxes.

**Philanthropy:** Donating assets to charities or foundations allows you to contribute to organizations that you care about while also reducing the size of your estate thereby reducing any future estate tax. Such donations may also lessen your income tax burden. Consider contributing to a donor advised fund (DAF).

After working hard to build your wealth, it's important to protect your legacy and plan for what happens to your assets when you die.

*Edited Reprint of article from Morgan Stanley: Estate Planning Essentials: 7 Key Steps*

*Apr 12, 2023*