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Q:

What steps must be taken in conducting last-minute estate planning?

BY TIMOTHY E. FLATLEY

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STERLING INVESTMENT ADVISORS, LTD.

An exceptional wealth advisor coordinates several aspects of a client's life, including the intricacies of their estate plan. Estate planning is a continuous process, which should be undertaken on a regular basis. Otherwise, life gets in the way, years go by and the plan becomes less viable.

Several times a year, we are referred to families in which the patriarch or matriarch has been diagnosed with a terminal illness, creating a critical urgency to put the estate in order. What follows are the steps that we take to organize such an estate plan in a timely manner.

BALANCE SHEET

We formulate a balance sheet to identify the amounts and exact owners of all the family's assets. Who owns an asset determines how it is disseminated upon their death. Jointly owned assets are automatically transferred to the surviving tenant. In the absence of a "transfer on death" designation, individually held assets are transferred according to a person's will. Assets owned by a trust are passed according to the provisions of the governing document. Beneficiary designations typically control the distribution of life insurance proceeds, annuities and retirement accounts.

WILLS AND TRUSTS

In such circumstances several elements of wills and trusts must be addressed. The ailing person must determine if their executors and trustees are still appropriate and if the division of the estate reflects their current wishes. One commonly outdated trust provision pertains to the incremental release of funds to beneficiaries as they reach various ages. Often the children have eclipsed the ages outlined in the original trust document, which can require amendments to be made.

LIFE INSURANCE

Life insurance policies are analyzed and beneficiaries are updated if necessary. Recently we met with an owner of a term insurance policy whose medical event resulted in no longer being insurable. We quickly identified that the term policy could be converted into a permanent life insurance policy. This allowed him or her to maintain insurance beyond the original term; otherwise he or she would have been out of options.

CONSOLIDATING ACCOUNTS

Throughout the course of our lives, we create a maze of investments and corresponding accounts. Our preference is to consolidate them into as few as possible, for ease of administration. Ideally, there would be an account to hold qualified retirement assets and one or two more for non-IRA assets. An important issue to consider is the step-up in cost basis that your estate incurs on many nonretirement assets when you pass. If you had purchased a stock at $10, which is valued at $100 at your death, the stepped-up basis could become $100 depending on how the asset was owned. Your heirs could potentially sell the stock and only incur a capital gain on the value in excess of the $100. It may make sense to change the account ownership structure to take full advantage of the tax provisions.

SHARING YOUR VISION

Estate planning discussions within a family are frequently taboo. For many people, the first time they learn the full extent of the family assets and their role in managing them is after a relative passes. This happens at a time when heirs are coping with grief and not necessarily prepared to digest all the estate details. We encourage our clients to prepare their families in advance. Your will and trusts may manage the assets after your death, but you should articulate your desires during your lifetime, to the extent possible.

CHARITABLE GIVING

If you bequeath assets to a charity from your estate, which charities you choose could make a big difference. We often recommend using qualified retirement accounts. Charities have a tremendous advantage over individuals, as they do not have to pay taxes when an IRA is liquidated and distributed. A family member who inherits an IRA will pay ordinary income taxes on any funds withdrawn.

It is always optimal to formulate your estate plan in calmer moments. However, if your circumstances suddenly change, taking the aforementioned steps can ease the administrative burden while reducing taxes and expenses. ●

ABOUT STERLING INVESTMENT ADVISORS, LTD.

Sterling Investment Advisors recognizes that every situation—educating children, building retirement wealth, insuring against loss, reducing taxes, planning estates, setting up trusts and the like—brings its own complexities. The objective of the firm's team concept is to help clients develop a support group of professionals to whom the management of these issues can be delegated. Sterling Investment Advisors, an independent wealth management firm, was named three times to the Philadelphia 100, honoring "the fastest-growing privately held entrepreneurial companies in the Philadelphia region." The firm has 30 years of investment experience with an independent orientation and utilizes proprietary trading strategies, with assets held at Charles Schwab.

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