An Estate Plan Begins With You

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You have an estate, no matter how much property you have accumulated. Your estate is made up of all your assets (things owned) minus all of your liabilities (things owed). In fact, your estate is probably larger than you realize.

Every property owner does some kind of estate planning, often in a haphazard way. The listing of beneficiaries on life insurance, joint ownership of property, and joint checking and savings accounts are all bits and pieces of an estate plan. Welding all of these pieces purposefully into a well-organized plan with specific goals results in an effective estate plan.

In its simplest terms, estate planning is the acquisition, enjoyment, and eventual distribution of one's property to best provide for and protect himself or herself and the family.

Although death is part of every estate plan, the goal of estate planning is life — first, the lives of the planner and spouse, and later, the future of their children and heirs.

Unfortunately, many families let the spectre of death frighten them away from this essential area of family management. Either that or they are so wary of outsiders they won't seek the help needed to develop a plan.

Every property owner is personally responsible for what happens to property after death. If he or she chooses not to make specific plans, the state has laws that will distribute it. These state statutes are designed to fit the "average" situation and your family circumstances may not fit this category.

Important for Everyone

All property owners, regardless of age or size of estate, can benefit from having an estate plan. Without care, large estates can quickly be eroded away. Take for example a widow who dies leaving her six children a large estate, consisting mainly of farmland. None of the children had any desire to own the land and ended up selling the property.

By careful planning, she could have made lifetime transfers of the land which would have greatly reduced the death taxes and other estate settlement costs.

Different problems, but perhaps more important ones occur in small estates. There the best use must be made of the property available to provide for an adequate retirement for the parents and still educate the children, and maybe start children in business.

Age shouldn't be a limiting factor to estate planning, either. True, older people become worried about estate transfer as they approach retirement and, later, death. Unfortunately, at that time the effectiveness of planning is somewhat more limited than it would have been if they had started earlier in life. They simply have less time in which to manage their estate.

Young families especially should consider an estate plan. Even if they do not have a large estate, they have something more valuable than property. In case of an accident or fatal illness, the future of the surviving spouse and the young children should be considered. If death does not occur until later, there are still family goals to be formulated and plans made on how those goals can be reached.

Stress is Magnified

Because women generally live longer than men, a widow often is faced with making a good life for herself and her children after the husband has passed away. Almost every widow caught up in the settlement of her husband's estate asks herself and others the same questions: "Why is the property transferred this way? Why didn't we foresee that these problems would arise? Why didn't someone tell us what would happen to the property? Couldn't we have avoided some of these terrible costs?"

Death is not easy to understand, even when expected. The stress can be magnified by the uncertainty of property transfer procedures, estate settlement costs, and other problems. Death is inevitable; the unknown are the time of death and family circumstances. For the benefit of those who remain, estate planning should ease the uncertainty and readjustment. However, to plan for both life and death, individuals must be aware of and understand the problems and opportunities available for estate transfer.

How to Start

Make a concrete beginning by itemizing all of the property in your estate — both real and personal — and assigning a fair market value to the property. (Use Table 1 financial statement for a record.) Don't forget the value of life insurance policies, savings accounts and stocks, bonds and other investment properties.

Table 1. Financial Statement for Estate Planning

	Your Property	Property Owned Jointly with Spouse	Spouse's Property
Assets			
Savings accounts	$______	$______	$______
Bonds	______	______	______
Stocks	______	______	______
Value of life insurance	______	______	______
Value of retirement annuities	______	______	______
Individual's personal property	______	______	______
Business personal property	______	______	______
Residence	______	______	______
Real estate	______	______	______
Total	$______	$______	$______
Liabilities			
Personal loans	$______	$______	$______
Real estate loans	______	______	______
Total	$______	$______	$______
Estate Net Worth	$______	$______	$______

Retirement programs with a death benefit value are also part of your estate. Social Security has a small death benefit value. What about some of the other retirement programs such as an IRA (individual retirement account) or Keogh plan. Maybe you have a retirement program from your place of employment.

Then add up all your debts and subtract them from your total assets to arrive at a net value for your estate. When doing so, be sure to consider the credit life insurance on debts. Don't include debts covered by this type of insurance in your debt list.

You may find the net value of your estate surprisingly large, especially if you have much real estate. Land values have been skyrocketing in recent years.

Determine how your property would be distributed if you died under your present estate plan. Who would receive your property? If you have no will, distribution will be determined by an arbitrary formula set down by law. It is important for your spouse to make the same evaluation.

How much of the estate would be transferred through the probate process? How much would go directly to beneficiaries as a result of contractual arrangements? What share of your property would go directly to joint tenants? What effects would these arrangements have on the taxes you and your estate will have to pay?

Determine the objectives you want in your estate plan. Do this as a couple, not individually. You both either have, or will have, spent many years building up this estate together and you should decide together how it should grow and eventually be distributed.

When considering the eventual distribution of your estate, consider the question of equitable — not equal — treatment of your children. What property, if any, do you want particular children to have? Should the transfer be made before death or after death? If a living transfer is desired, what is the best time to do it? What are the transfer tax implications of your plan?

After comparing your answers to the two previous points decide what changes are needed in your present plan to meet the objectives you have outlined. What needs to be changed if your objectives aren't accomplished? What documents need to be changed? Do you need a new will? Is a trust an important part in your total estate plan? Should you be using more or less life insurance at this stage of your life? Are there some investments you should change? If in a business, should you change the type of organization?

When you have evaluated your present estate plan, or lack thereof, your goals, and the changes that would need to be made to attain them, the next step is to seek skilled, experienced assistance. There are many professionals working in the estate planning field. They are all important if you need their assistance. Most families will not require the services of all five of the main types of professionals, but some may.

LAWYERS — All will need the services of an attorney in drafting legal documents to implement estate plans — such as wills, trusts and business agreements.

LIFE INSURANCE — Changes in life insurance beneficiaries can be made through the representative of the life insurance company with which you now hold your policy. Perhaps you will also need to purchase more insurance for a specific purpose. Your agent can also give you ideas on how life insurance can be used in your total estate plan.

ACCOUNTANT — An accountant can help evaluate your business arrangement, such as a corporation or partnership. He or she can assist in preparing tax records and in determining tax implications to the estate with different courses of action.

TRUST OFFICER — If, in analyzing your situation and formalizing your objectives, you find a trust would be useful as a part of your total estate plan, contact your local bank. A trust officer can assist you in determining how a trust can achieve objectives for your estate transfer.

INVESTMENT COUNSELOR — Changes in investments are an important part of estate planning. Contact your financial advisor, stock broker, life insurance representative, or others in the investment field to assist you in evaluating alternative investments and to provide assistance in making new investments.

Once your estate plan has been carefully worked out and legally formalized review your plan every year or every other year at the most for possible changes in family situations or objectives.

Plans should be written for a three to five-year period and reviewed and changed to meet changing conditions. Don't attempt to develop an estate plan that will last the rest of your life.

Your Choice

Just as you have an estate, you also have an estate plan. Your plan can be well-thought-out, complete, and people-oriented. As such, it will help your estate grow and flourish to the maximum of its potential. It will also bring you peace of mind, security, and contentment.

However, if your estate plan consists of many unrelated pieces with no guiding goals, progress may be difficult. Hard earned money may seep away through unnecessary taxes. Retirement may find you unprepared and ill-financed. Your family may argue over uncertainty of not knowing who should receive the property.

This publication has been an introduction to estate planning. It showed a process you can use in starting to develop an estate plan. You have many unanswered questions about property ownership, estate transfer methods, estate taxes, business organization and tools in estate planning. The following extension publications can help answer some of those questions. These bulletins are available from your County Cooperative Extension office.

Planning Your Will — E-693
Record of Important Family Papers — E-451
Federal Estate and Gift Taxes — E-1231
Michigan Inheritance Tax — E-1348
Your Estate — Plan Its Transfer — E-1347
Trust Uses in Estate Planning — E-1345

The following bulletins are additional publications for farmers in organizing their business and developing estate plans.

Long-Term Installment Land Contracts — NCR 56
Life Insurance Uses in Farm Estate Planning — E-1346
Farm Business Arrangement: Which One For You? — NCR 50
The Farm Corporation — NCR 11
General Partnership for Agricultural Producers — E-731
Retirement Planning for Farm Families — NCR 49
Tax Sheltered Retirement Plans for Farm Investments — NCR 55
Taxmanship in Buying or Selling a Farm — NCR 43

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