

Protecting Your Children's Future



Whether you're a couple or a single parent, it's important to have a plan to protect your children in the event something happens to you.

As a parent, you're always thinking about what's best for your children. But have you thought about what might happen if you're no longer around? It's not a pleasant subject, but it is important. Planning for your children's future is even more important if you're not around to help.

If you're a single parent, this task becomes even more difficult. Single parents have a number of special estate-planning concerns. At death, for example, there is no surviving spouse to take care of financial and personal family affairs. To help protect family and property, a single parent needs to establish an efficient estate plan during his or her lifetime.

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Designating Guardians

If you haven't already, make sure to have a will drafted by an attorney, in which you name one or more individuals to be the legal guardian of any minor child—typically until the child reaches age 18. A guardian will have to make decisions regarding the care and upbringing of the child. The person(s) named should be consulted before the will is drafted to be sure they are willing to accept the responsibility. Since the designated guardian may become unable to serve, it is also a good idea to name one or two successor guardians. You may name a different person to be responsible for overseeing your children's financial affairs.

A single parent may be divorced and have legal custody of a minor child. At death, custody may automatically shift to the surviving parent regardless of what a will says. It is important to know that although divorce terminates a marriage, it may or may not affect a surviving parent's custodial rights. You should consult your attorney regarding your particular circumstances and the options available to you.

Establishing a Trust

While a child may be an adult in years, he or she may not yet be mature enough to handle, invest or manage property. You can establish a trust to protect the property you intend to pass on to children, no matter what their age. Trusts can protect assets for anyone you desire and may continue even until the death of the child and beyond.

One of the most important decisions is who should be the trustee. The trustee (individual or professional) will manage the assets and make distributions based on instructions you provide in the trust document.

A divorced parent who dies and is survived by minor children may not want his or her former spouse to have control over money left to the children. A trust can be created to control the funds left to *(continued on page 35)*

children even if the former spouse becomes the children's guardian.

Paying Estate Taxes

Under current tax law, the amount subject to estate tax and the percentage to be taxed on the remaining estate will decrease until 2010 when the estate tax is repealed. However, unless current law is extended by Congress, the estate tax is due to be reinstated in 2011. Because of the uncertainty as to the future of the estate tax, individuals with assets over \$1 million should consult an attorney, a tax advisor and a financial professional to consider effective estate-planning strategies.

In addition to federal estate taxes, some states impose their own estate or inheritance tax. In addition, some forms of property, such as traditional IRAs, pensions, deferred-compensation survivorship benefits and deferred-annuity death benefits may be subject to income taxes.

Gifts or bequests to a surviving spouse are generally exempt from federal estate taxes under the unlimited marital deduction. In addition, the income tax due on IRA and qualified plan distributions payable to a surviving spouse can be deferred by rolling them over to a surviving spouse's IRA.

Without a surviving spouse, the marital deduction is unavailable and both estate and income tax can be triggered. A single parent should consult an estate-planning professional to discuss ways of reducing the estate tax, such as by making gifts or implementing other strategies.

Alimony Payments

Some single parents are dependent on former spouses for support. If the spouse providing the support dies, payments may end. The spouse receiving the support may consider purchasing life insurance on the life of the supporting spouse with that person's consent. Or the supporting spouse may be required to provide life insurance under the divorce agreement.

Income Protection

Parents should consider a financial protection plan that includes life and disability income insurance, which they can develop with their financial professional. You should determine how much capital or income is necessary to help protect children or other

beneficiaries. For example, money may be needed to help maintain a home for children, pay for college or other expenses in the event of the breadwinner's death or disability. This financial protection plan should be coordinated with a will or trust.

Living Documents

All parents should have an up-to-date power of attorney, healthcare proxy and living will. A power of attorney basically gives another person the right to pay bills on your behalf and otherwise manage your finances according to the terms of the document, which is typically drawn up by a qualified estate-planning attorney. The second and third documents give you the opportunity to express your desires concerning the use of life support and other treatments to keep you alive, and permit medical decisions to be made for you if you are unable to do so. Often, married couples rely on each other to make these types of decisions. A single parent may want to consider having a close friend or family member make these decisions if a tragedy occurs.

Although it is a difficult subject to face, you have options when it comes to protecting your estate and your family. The steps you take now can help prevent the wrong people from making decisions for your loved ones.

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GE-31559 (03/05) (03/07)



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