Estate Planning Pitfalls to Avoid

Despite having good intentions, many people fail to make an estate plan. But if you don't develop a plan featuring a will, your assets could end up being distributed according to state law. And the lack of an estate plan could lead to family conflicts and lengthy legal battles. Plus, you'll miss out on opportunities for maximizing your wealth and minimizing tax liability.

Navigating the Minefield

To help ensure your estate plan meets your objectives, work with us to avoid the following pitfalls:

Blissful ignorance. Simply signing documents, and not knowing what you're signing, or what it means, could cause problems. This is especially true if you don't follow up with actions you're supposed to take. You don't need to be a legal expert, but it's important to grasp basic estate planning concepts. While you can still rely on your advisor, knowledge is power and can enhance the advisor/client relationship.

Out-of-date beneficiary forms. Your will spells out who gets what, where, when and how. But wills often are superseded by other documents such as beneficiary forms for retirement plans, annuities and life insurance policies. Therefore, you must also keep these forms up to date.

For example, retirement plan assets could go to a sibling or parent — or even an ex-spouse — instead of your children or grandchildren. Review beneficiary forms periodically and make necessary adjustments.

Improperly funded trusts. Frequently, an estate plan will include one or more trusts, including a revocable living trust. The main benefit of a living trust is that assets don't have to be probated and exposed to public inspection. It's generally recommended that such a trust be used only as a complement to a will, not as a replacement. However, the trust must be funded with assets — meaning that legal ownership of the assets must be transferred to the trust.

For example, if real estate is being transferred, you must change the deed to reflect this. If you're transferring securities or bank accounts, follow the directions provided by the financial institutions. Otherwise, the assets must be probated.

Improperly titled assets. Both inside and outside of trusts, the manner in which you own assets can make a big difference. If, for instance, you own property as joint tenants with rights of survivorship, the assets will go directly to the other named person — such as your spouse — on your death.

Not only is titling assets critical. You should review these designations periodically, just as you should your beneficiary designations. In particular, major changes in your personal circumstances or the prevailing laws could dictate a change in the ownership method.

Loose parts. Typically, there are many moving parts to an estate plan, including a will, a power of attorney, trusts, beneficiary designations, retirement plan accounts and life insurance policies. Don't look at each one in a vacuum. Even though they have different objectives, consider them as components that should be coordinated within the overall plan.

One thing you should plan to do is arrange to take distributions from investments — including securities, qualified retirement plans and traditional and Roth IRAs — in a way that preserves more wealth. Also, naming a revocable living trust as a retirement plan beneficiary could accelerate tax liability. Incorporate beneficiary designations for retirement accounts and life insurance policies into an overview.

Living Entity

It's important that you don't set up a plan and then consider it "done." An estate plan is a living entity that must be nourished and sustained. Instead of allowing it to gather dust in a safe deposit box or file cabinet, review it regularly and contact us when you experience major life events. These include births, deaths, marriages, divorces, job switches and relocations. Contact us with your estate planning questions.

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