7 deadly estate planning sins

According to literature, the "seven deadly sins" are lust, gluttony, greed, laziness, wrath, envy and pride. Although individuals may be guilty of these from time to time, other types of "sins" can be fatal to an estate plan if you're not careful. Here are seven transgressions to avoid.

Sin #1: You don't create an estate plan. The first estate planning sin is the most basic. If you don't develop a plan featuring a will, your assets might end up being distributed according to state law, regardless of your intentions. 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.

No one likes to contemplate his or her own mortality, but ignoring the need for a plan or procrastinating is asking for trouble. If you haven't started the process yet, don't delay any longer.

Sin #2: You don't understand your estate plan. Surprisingly, this is at the root of many estate planning debacles, despite the guidance of an experienced estate planning advisor.

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. This doesn't mean you have to be a legal expert, but it's important to grasp the basic concepts. While you can still rely on your advisor, knowledge is power.

Sin #3: You don't update beneficiary forms. Of course, your will spells out who gets what, where, when and how. But a will is often superseded by other documents like beneficiary forms for retirement plans, annuities and life insurance policies. Therefore, like your will, you must also keep these forms up to date.

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

Sin #4: You don't properly fund 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, the deed must be changed to reflect this. If you're transferring securities or bank accounts, you should follow the directions provided by the financial institutions. Otherwise, the assets have to be probated.

Sin #5: You don't properly title assets. Both inside and outside of trusts, the manner in which you own assets can make a big difference. For instance, if 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.

Sin #6: You don't coordinate different plan aspects. Typically, there are a number of moving parts to an estate plan, including a will, a power of attorney, trusts, retirement plan accounts and life insurance policies. Don't look at each one in a vacuum. Even though they have different objectives, consider them to be components that should be coordinated within the overall plan.

For instance, 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.

Sin #7: You don't review the plan. It's critical to consider an estate plan as a "living" entity that must be nourished and sustained. Don't allow it to just gather dust in a safe deposit box or file cabinet.

Consider the impact of major life events like births, deaths, marriages, divorces, job switches and relocations, just to name a few. Make sure your plan continues to meet your objectives.

Weinstock Manion
A Law Corporation

1875 Century Park East, Suite 2000
Los Angeles, CA 90067
(P) 310 553-8844 | (F) 310 553-5165
www.weinstocklaw.com