THE BASICS OF ESTATE PLANNING

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When you hear the word “estate”, does it conjure up images of Downton Abbey, Wayne Manor or one of J. Paul Getty’s many residences? At first glance, it may seem like estate planning is something quite grand and only for the super-rich. However, it’s really just common terminology encompassing smart financial planning strategies that everyone should consider.

Most people don’t spend too much time thinking about end-of-life planning on a daily basis. But you may have loved ones who will soon face these issues. While it’s not pleasant to think about, you may be the one who ends up having to sort out their affairs. And, the reality is, there will come a time when you need to think about yourself and your own family. Knowing the basics can help you feel more prepared when that time comes.



Estate planning is the process of designating who will receive your assets and handle your responsibilities after your death or incapacitation. One of the goals is to make sure your beneficiaries receive these things in the most cost-effective way possible. Estate planning can help establish a platform you can fine-tune as your personal and financial situations change. The key question to ask yourself is: how do you want your assets distributed if you die or are incapacitated?

SIX THINGS TO KNOW ABOUT ESTATE PLANNING

When it comes to estate planning, the whole process can seem quite overwhelming and complex. To help keep it simple, here are six essential things you need to know (or consider doing) to help jumpstart your estate planning.

1. BE AWARE OF PROBATE

The first step in implementing an estate planning strategy is to understand the role courts play in the process, and how probate impacts even the smallest of estates. Probate is a term used to describe the process the court uses in settling the deceased's estate. The time it takes to complete the estate distribution and the associated fees will vary by state, but probate expenses may add up, depending on your unique situation and which state you live in. The costs, along with the time and headache associated with settling an estate, means any step that will help navigate the probate process — or better still avoid it altogether — is worth exploring.



2. CREATE A WILL

A valid will does not avoid the probate process, but it will make things much easier. A will serves as a guide to your final wishes for the courts and the executor (the person chosen to act on your behalf). When it comes to the courts, anything that speeds up the process of physical asset distribution will minimize fees and make things easier for everyone involved. It can also eliminate any potential family disputes over who gets which assets. But a will is only a roadmap. It's best to make sure that all of your financial assets and valuable possessions (like a home or a car) have beneficiaries named in other documents besides the will.

3. DECIDE ON THE BENEFICIARIES OF YOUR FINANCIAL ASSETS

Financial assets can have beneficiaries named so that the institution holding them knows who to turn the funds over to in the case of an account holder's death. If an asset has a named beneficiary, it avoids probate (if probate is applicable in your situation). A retirement plan or life insurance policy are the most common instances, since these all ask the owners to name a beneficiary.

To make things even simpler, you should know that in addition to an insurance policy and retirement plan, a lot of everyday assets allow for beneficiaries. Checking, savings and brokerage accounts are a few of the more common examples that are often neglected.

THE GOLDEN RULE OF ESTATE PLANNING

One way to make sure you are taking care of your estate planning needs is very simple and easy – making sure your beneficiary designations are up-to-date. Doing so can help your money and other assets get where you want them to go. Anytime there is a major change in your life – such as birth, death, marriage, divorce – consider it a signal to update the beneficiaries on your retirement accounts, life insurance, bank accounts and other investment accounts. Don't forget about your other assets, such as cars, boats, valuables and sentimental items – and be sure to record your decisions in your will. By making sure you properly name beneficiaries, you can remove a needless (and unpleasant) surprise that sometimes faces the heirs of someone who has passed.

4. CONSIDER CREATING A REVOCABLE TRUST

For assets that don't typically allow for a named beneficiary – often larger physical assets like a home or car – a revocable trust may be a solution to consider. Most anything placed in a revocable trust (also called a living trust) will avoid the probate process. The set of people involved in a trust — that is, the person or people who set up the trust, and the beneficiaries named in the trust — are called trustees. Revocable trusts allow the trustee(s) to retain control and will help transfer ownership of the asset in question to the living trustees upon the trust owner's death. The trust itself (think of it as a separate entity) technically owns the assets, so transition of ownership can go more smoothly.

5. CONSIDER HAVING A POWER OF ATTORNEY DRAWN UP

There are two Powers of Attorney (POA) worth exploring to accomplish some basic estate planning objectives.

Durable Power Of Attorney

It's important to draft a durable power of attorney (POA) so an agent or a person you assign will act on your behalf when you are unable to do so yourself. Absent a power of attorney, a court may be left to decide what happens to your assets if you are found to be mentally incompetent, and the court's decision may not be what you wanted. This document can give your agent the power to transact real estate, enter into financial transactions, and make other legal decisions as if he or she were you. This type of POA is revocable by the principal at a time of their choosing, typically a time when the principal is deemed to be physically able, or mentally competent, or upon death.

In many families, it makes sense for spouses to set up reciprocal powers of attorney. However, in some cases, it might make more sense to have another family member, friend, or a trusted advisor act as the agent.

Healthcare Power of Attorney

A healthcare power of attorney (HCPA) designates another individual (typically a spouse or family member) to make important healthcare decisions on your behalf in the event of incapacity. If you are considering executing such a document, you should pick someone you trust, who shares your views, and who would likely recommend a course of action you would agree with. After all, this person could literally have your life in his or her hands. Finally, a backup agent should also be identified, in case your initial pick is unavailable or unable to act at the time needed.

6. HAVE "THE TALK"

Obviously, death is a really tough topic. And if you are younger, it may seem like something that can be dealt with much later. However, no one ever knows just when you will need to deal with it and the potential obstacles that may result.

Perhaps the most important part of the estate planning process requires no paperwork or expense: discussing your relatives' wishes (such as aging parents). Nothing will make that conversation easy, but a clear understanding of your family's wishes can help avoid tough conversations at a time when loved ones need to rely on each other to get through a difficult time.

A QUICK WORD ABOUT TAXES

If you're like most people, your primary residence and your qualified retirement plan are likely your two largest assets. When it comes to estate planning, they are handled very differently from a tax perspective. Real estate, for example, can receive a step-up in value to your date of death. This is important so your heirs won't face capital gains taxes based on a gain they did not receive. As far as your qualified retirement plan goes -- such as an IRA or 401(k) – the tax consequences can vary quite a bit and depend on your situation and who inherits your account (your spouse or partner, versus your children). An estate planning expert or financial planner can help you sort it all out, preserving your estate to the fullest extent possible.

CREATING A LIVING TRUST: A DEEPER DIVE

A trust is a legal entity that can "own" assets. The document looks much like a will, and includes instructions for who is to handle final affairs and who is to receive the deceased's assets.

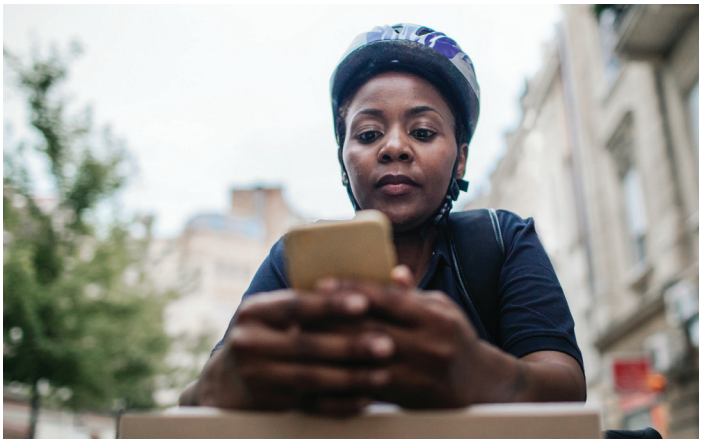
Today, many people use a revocable living trust instead of a will in their estate plan because it avoids court interference at death (probate) and at incapacity. It is also flexible. As long as you are alive and competent, you can change the trust document, add or remove assets, even cancel it.

For a living trust to work properly, you must transfer your assets into it. Titles must be changed from your "individual" name to the name of your trust. Because your name is no longer on the titles, there is no reason for the court to get involved if you become incapacitated or when you die. This makes it very easy for someone (a trustee or successor trustee) to step in and manage your financial affairs.

Let's look at a hypothetical situation where your parents have created a living trust and named you as trustee. Over the years, one of your parents passes away and the surviving parent continues to live on. Here are some of the general duties involved with you being an executor or trustee of a living trust, depending on what happens to your surviving parent.

At incapacity of your surviving parent:

- Oversee their healthcare
- Understand their insurance benefits and limitations
- Look after care of any minors and dependents they may still have responsibility for
- Apply for disability benefits
- Notify bank and other financial intermediaries
- Transact necessary business
- Keep accurate records and accounting



At death of your surviving parent:

- Contact attorney to review trust and process (if applicable)
- Keep beneficiaries informed
- Inventory assets, determine current values
- Make partial distributions if needed
- Collect benefits, keep records, file tax returns
- Pay bills, do final accounting
- Distribute assets to beneficiaries as trust directs

GET HELP IF YOU THINK YOU NEED IT

Depending on the size and complexity of the estate, the job of executor or trustee can seem overwhelming. The biggest thing you are probably asking yourself is: do I have to do this all myself? It's a huge time commitment, not to mention any unusual family dynamics or dysfunctions you may have to deal with. It's a great idea to have professionals help you, especially with the accounting and investing. You will also probably need to consult with an attorney from time to time.

Your LPL financial services professional is here to help you and can tell you about factors to consider and share ideas about where to go for guidance and advice.

GETTING YOUR ESTATE IN ORDER

No matter how young or old you are, getting your business affairs and records organized is an essential part of financial planning. However, there can be many accounts, policies, documents, and other information to organize. Just thinking about what you need to put together can quickly become overwhelming. Use this checklist as a guide to start organizing your personal information and important documents into a master file. You'll feel good about completing the task — and your family will thank you for it!

Insurance Policies

- ☐ Life and health Insurance
- ☐ Home and auto insurance
- ☐ Other Insurance policies (theft, fire, earthquake, etc.)

Bank Accounts

- ☐ Checking, savings and money market accounts
- ☐ Certificates of deposit (CDs)
- ☐ Debit cards

Credit Cards

- ☐ Card number and expiration date
- ☐ Recent account statements
- ☐ Login and password information for online account management

Mortgages, Loans or Rental Agreements

- ☐ Company through which mortgage or loan was given
- ☐ A copy of the mortgage or loan agreement

Tax Returns

- ☐ Most recent W-2 forms or federal self-employment tax return
- ☐ Income tax returns for the current and previous year, including 1040 variations and 1099s, if applicable

Pension Plans And Retirement Benefit Information

- ☐ 401(k) or 403(b) plans
- ☐ IRAs or Roth IRAs
- ☐ Other

Titles Or Deeds To Any Property

- ☐ Real estate
- ☐ Motor vehicles
- ☐ Boats

Investment Portfolios

- ☐ Stocks, Bonds or Mutual Funds
- ☐ Other

Will (if you already have one created)

- ☐ Copy of the Will
- ☐ Copies of previous versions of the Will
- ☐ Name of attorney or law firm that helped create the Will, if applicable

Trusts (if you already have one created)

- ☐ Declarations of Trust or trust agreements
- ☐ Name of attorney or law firm that helped create the Trust, if applicable
- ☐ Bank accounts associated with the Trust

Power Of Attorney

- ☐ Name of the person appointed to Power Of Attorney
- ☐ Power Of Attorney documentation
- ☐ Name of attorney or law firm that helped create the POA, if applicable

Safe Deposit Box

- ☐ Location of safe deposit box, including keys or location of keys

Any Professionals Who Have Helped

- ☐ Lawyer, accountant, insurance agent
- ☐ Other

Advance Directive

- ☐ Living Will
- ☐ Health Care Proxy
- ☐ Do Not Resuscitate (DNR)

Proof Of Identity And Relationships

- ☐ Social Security card
- ☐ Armed Forces discharge papers
- ☐ Birth certificate
- ☐ Death certificate
- ☐ Marriage certificates
- ☐ Divorce certificates
- ☐ Prenuptial agreements
- ☐ Divorce settlements

Household Utilities

- ☐ Electricity
- ☐ Gas
- ☐ Water
- ☐ Phone
- ☐ Cable
- ☐ Internet

Automatically Renewing Medications

- ☐ Names of medications
- ☐ Name of pharmacy where medications are renewed
- ☐ Name of doctor who prescribed medication

Email/Social media

- ☐ List accounts and log-in information (Gmail, Twitter, Facebook, LinkedIn, etc.)



This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

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Heffernan Financial Services
Rebecca Tapia
Financial Advisor
1350 Carlback Avenue, Floor 1
Walnut Creek, CA 94596
415-808-1369 Direct
415-778-0139 Fax
800-437-0045 Toll Free
rebeccat@heffgroup.com
www.heffgroupfs.com

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