

Losing Your Inheritance to Uncle Sam – or Others

Successful estate planning takes not one generation, but two. The first generation needs to make a clear, sensible plan and the second needs to be involved in that plan.

The best estate strategies tend to be made with the advice of a financial adviser or an estate planning attorney. Without proper planning, estates can be eaten away by bad planning in ways ranging from the simple to the complex. They include:

Failure to leave a will: Most Americans know what a will is. So why won't they take the time to make one? The estimated numbers of Americans without any kind of will is staggering – between 60-70 percent. Yet without a will in place, some or all of a person's estate may be transferred to Probate Court with a complete stranger assigned to decide the future of the deceased's assets. If you are a parent, make a will. These days, consumer software programs offer will kits that conform to legal language in each state and are legally binding and inexpensive to complete. They also prompt you to do health care and other directives (see below) necessary for a complete estate plan.

No plan for incapacity: An 80-year-old grandmother sinks into dementia. A 30-year-old father of twins is left in a coma after a car accident. Anyone can be left incapacitated at any age with no clear game plan for spouses or heirs. This wastes money, time and creates great emotional hardship. Advance health care directives designate health-care decision makers and delineate their powers, and leave very precise instructions about life support and other treatment options. Some individuals underscore written directives by videotaping themselves giving these instructions. Powers of attorney can also be created to assign financial decision makers to the situation.

Failure to coordinate or update beneficiaries: Any child who has struggled to settle a parent's estate is very likely to have had problems with beneficiary designations on retirement accounts, investments, insurance policies, savings accounts and bonds. Many people think that beneficiary designation occurs at the creation of the will -- not true. Beneficiary designations should be reviewed every few years for accuracy or when a major life event requires a change.

Failure to inventory: A parent may think they've got a great system for organizing their investments and estate instructions. But if they die or are incapacitated, heirs may find it difficult to navigate their bookkeeping system or find key documents and investments left inside the house or in safe deposit boxes elsewhere. Financial advisers can provide a centralized system of organization for clients by keeping a separate index of those materials to help guide family members and heirs through a serious illness or estate settlement. Failure to find key documents may lead to severe tax consequences later.

No attention to special situations: If both parents die, how will substantial assets or life insurance proceeds be managed for minor children? If there is an adult child with a disability, is a Special Needs Trust or other directive in place? If a parent, friend or sibling dies without instructions for his pet, who will get Fido? A person's last wishes are as unique as they are and should be considered part of the estate planning process. Heirs should insist on those provisions so they can distribute assets with maximum speed and minimum disagreement.

No Power of Attorney or inadequate joint name provisions: An incapacitated relative not only needs someone properly designated in his or her directives, but they need that person to have proper access to funds. To provide for this, a durable power of attorney can be filed with the account custodian, or joint names can be listed on the accounts so bills can be paid. Naming a joint owner to an account may cause negative consequences, so consult your financial or tax professional before doing this.

Failure to update: Anytime there's a divorce, a change in permanent residence or a major life transition, it's a good reason to review an estate plan. Enlist your legal and financial planning professionals in this effort. Both perspectives are necessary.

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