Estate planning

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The art of their last word: Proper asset titling and beneficiary designation

Estate planning often begins with discussing the vision of how an estate — think assets such as property, money, cars, stocks, life insurance, etc. — will be passed on. Planners consider this a key part of a comprehensive plan as they create a plan to properly transfer the estate's assets based on their clients' final wishes. Importantly, the correct transfer of assets is dictated by the proper titling of assets and beneficiary designations.

Asset titling

What is asset titling?

A simple definition of assets refers to anything you own that has value and a title means identifying the person or legal entity who owns the asset. The first step in estate planning is knowing how your assets are owned, so property passes in the manner you desire. You may have unexpected results such as disinheriting a love one, accelerating taxes, creating conflict between beneficiaries, etc.

Why is asset titling important?

Titling needs to coordinate with the will and trust to make certain the plan reflects the client's intentions. So, if you have an improperly titled asset and a will/trust that contradicts that title, the title will oust the will in terms of importance. So don't shrug off the titling of your assets; they could significantly affect your estate plan.

There are a variety of ways to title your assets. By analyzing your situation and working with an attorney experienced in estate planning, you can decide which title designations to implement. These are just a few of your choices:

- Payable on death (bank account)
- Transfer on death (brokerage account)
- Joint tenancy
- Tenancy in common
- Survivorship marital property
- Titling the asset in the name of your trust

The Olson family story

Jim and Cathy Olson worked with an estate planner to set up a revocable trust to pass on their assets to their three kids. However, when they purchased their lake cabin, they didn't think to title it to the trust. After they both passed, the children had to go to probate court to change the cabin's title.

Probate can take 12 to 18 months, with substantial costs. This could have been avoided with the proper titling on the deed when they purchased the cabin.

Make sure account titles are consistent with your plan

Make sure your asset titling reflects your overall plan—and that your overall plan reflects your wishes.

Questions about account titling often raise other questions about your broader plan. For example, if you have a revocable trust, should a new account be opened in the name of the trust or in your individual name? If you are considering a joint account with a child or a parent, would a trust or a transfer-on-death or pay-on-death account be a better option?

Life events warrant a review

The birth or adoption of a child (or grandchild) or death of a family member are events that should require a review of your titled assets.

Beneficiary designations

What is a life insurance beneficiary?

Simply put, a beneficiary is a person — or persons — you designate to receive your life insurance benefit proceeds.*

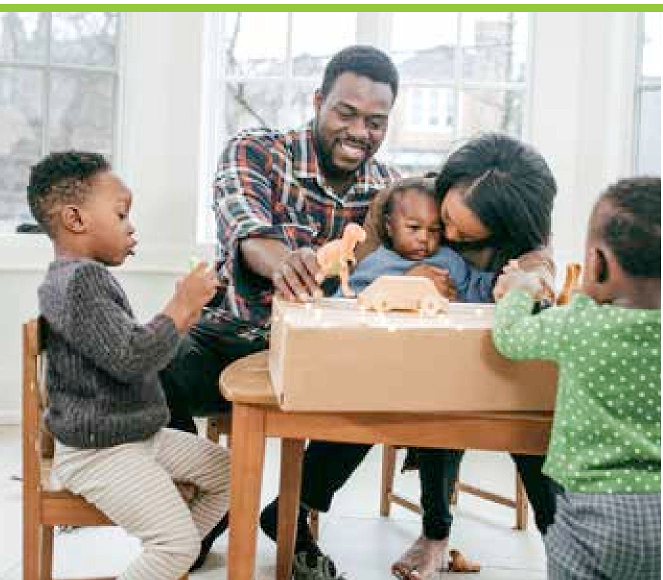
Why is it essential to name a beneficiary?

Beneficiary designations are used to distribute the policy's value to your loved ones without the need for probate or through a trust. Beneficiary designations take priority over what's in other estate planning documents, such as a will or trust. The only way to ensure your policy's benefits are distributed how you intend is to make sure you've named a beneficiary.

Good reasons to name a beneficiary include:

- Help ensure the financial security of your loved ones — This is important, especially if beneficiaries will use the death benefit for a specific purpose, such as covering funeral expenses.
- Prevent confusion — By designating a beneficiary on all your accounts, you will ensure that your intended beneficiary will receive your benefit.
- Save time and headaches — A delay of fund transfers is likely without a named beneficiary. The person in charge of your estate will often need to complete significant paperwork to transfer funds.

*If owner/insured are different, the death benefit will be paid upon death of the insured.



A worst-case scenario

On his first day at work, Reese had named his wife as the beneficiary of his life insurance. Reese and his wife went on to have three kids. As these things happen, they were a happy family until they weren't.

Now, a dozen years later, Reese unexpectedly passed away. Looking to the life insurance benefit to cover funeral expenses and the children's college costs, the eldest daughter was in for a shock. She discovered Reese had neglected to update his life insurance beneficiary. The money was still going to his ex-wife.

Like many disputes, this one ended up in court simply because Reese hadn't updated his beneficiaries.

Types of beneficiaries

- Primary beneficiaries are first in line to receive your policy's death benefit.
- Contingent beneficiaries are your backup if the primary beneficiary dies before you.
- Default beneficiaries - If you do not name a beneficiary, policy benefits will be paid to the default beneficiary listed in the certificate of insurance.

Life events to update beneficiaries:

- Marriage
- Divorce
- Birth or adoption of a child
- Roll over a 401(k) or Individual Retirement Account

With major life events like these, you may wish to update your beneficiaries.

Who can be named as a beneficiary?

Your beneficiary can be a person, a charity, a trust or your estate. You can split the benefit among multiple beneficiaries, as long as the total percentage of the proceeds equals 100 percent.

What happens if a beneficiary isn't designated?

Most life insurance policies have a default order of payment if you do not name a beneficiary. The order typically begins with your spouse, followed by your children, parents, and finally, your estate for group insurance policies.

If there isn't a default order specified in your policy, the payout may be paid to your estate or may also be held in probate. In either case, the probate process can be lengthy and complicated. It may take years before your loved ones can access your assets — delays that can be avoided if you designate them as beneficiaries.

No matter where you are in life's journey, let's make it epic.

The EPIC (estate planning, individually centered) approach to estate planning will help you plan for what's next — and you can begin the important work of leaving your legacy.

Definition of common terms

Asset titling: The way in which you own an asset — such as in your name, jointly with someone else, in a trust or entity, etc.

Beneficiary: A beneficiary is a person or entity legally designated to receive the benefits from your insurance and financial products.

Primary beneficiary: The person (or persons) first in line to receive the death benefit from your life insurance policy.

Contingent beneficiary: The person who will receive the benefits if the primary beneficiary has died at the time the benefit is to be paid.

Estate planning: Estate planning is a process that determines how your money and other property should be managed during your life and after your death. Wills and life insurance are components of the process.

Probate: When a property owner dies, assets are commonly reviewed by a probate court, providing the final ruling on the division and distribution of assets to beneficiaries. Exorbitant probate costs and complexities can be avoided by having an easily authenticated will and using investment vehicles not requiring probate, such as life insurance.

Revocable trust: Also known as a living trust, it's a trust whereby provisions can be altered or canceled dependent on the grantor or the originator of the trust. During the life of the trust, income earned is distributed to the grantor, and only after death does property transfer to the beneficiaries of the trust. Bypasses probate administration.

Will: A legal document that directs how your assets will be distributed when you are gone. It's basically a roadmap for the courts to follow.

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