

INVESTOR'S EDGE

Get a proper estate plan to protect wealth

Investors have several options to reduce their tax burden and ensure heirs are protected.

"By failing to prepare, you are preparing to fail." — Benjamin Franklin



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I'm sure you have heard this said, time and time again, that to succeed in investing,

you have to think long term.

But, as the economist John Maynard Keynes observed: "In the long term, we are all dead."

And when our time on this earth is over, we will leave behind everything we own. Our "estate" includes our homes, personal possessions, cars, bank accounts, and perhaps most importantly, our investment portfolios.

You have probably heard about the importance of having a well-structured estate plan. But what does that really mean to your everyday investor? Complicated legal mumbo jumbo aside, what are some practical things investors can do to protect their legacy and pass on their hard-earned wealth to your loved ones?

To be clear, I am a money manager, not an estate planning attorney. However, I do advise my clients, especially as it relates to their investment portfolio, of some important measures they should take as it relates to their estate plan. I'll share some of those with you today.

At its core, estate planning is designed to accomplish three primary tasks: provide clear asset designation and protection for your heirs, minimize or avoid probate, and minimize taxes.

You might think all this can be accomplished only through your will. Although wills are important, any assets left to heirs in your last testament will go through probate, the legal process of retitling and distributing your assets.

Probate is a long, costly, public, and sometimes contested process. It's best to avoid it with as much of your assets as possible.

You can ensure your investments avoid probate through several measures. First, make sure your retirement accounts (IRA's, 401k's, etc.) have properly titled beneficiaries. When you die, your account will then pass directly to the named beneficiary(s) and bypass the probate process altogether. A beneficiary can be your spouse, children, charities, or a trust you have established.

Similarly, your non-retirement investment accounts can avoid probate in almost all cases by having a transfer on death (TOD) designation in place.

Please make sure your beneficiary information is accurate! Even a misspelled name or incorrect Social Security number can disrupt things.

So, the first action you can take is to call your custodian or investment adviser to make sure that you have designated beneficiaries and that your information is 100% accurate.

Another estate planning tool to avoid probate and possibly minimize estate

taxes with your investments are trusts. A trust can contain investment accounts, real estate, bank accounts, life insurance, and more.

Trusts are valuable — not only can they minimize estate taxes and avoid probate, they also can shield assets from creditors, allow for more control over the distribution of assets, and be charitable — all according to your wishes.

TWO TYPES OF TRUSTS

There are two primary kinds of trusts — Revocable Trusts and Irrevocable Trusts. Revocable trusts act as will substitutes and direct how your assets will be distributed both during your lifetime and after death. The creator of the trust retains ownership and control of the assets and can revoke the trust at any time.

Irrevocable Trusts on the other hand can't be changed, and the creator will lose control of the assets as the trustee would have sole responsibility.

Once established, the assets are removed from your estate, which can be valuable in avoiding estate taxes for high-net-worth families and protecting them from nursing home expenses and creditors.

My recommendation would be to talk with your estate planning attorney and discuss if either type of a trust is a good fit for your situation.

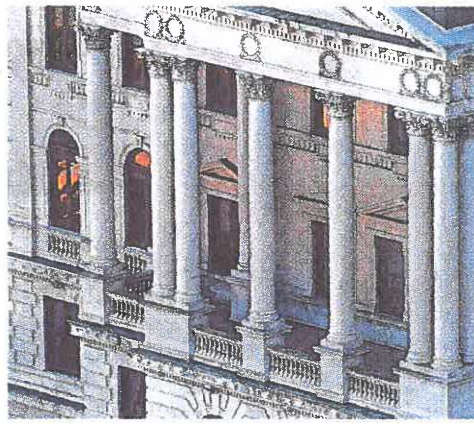
GIFT EXCLUSION

As we head into the end of year, readers should not forget about the annual gift exclusion.

This allows individuals to gift up to \$15,000 (\$30,000 for married couples) per beneficiary tax free each year. This gift can be in the form of stock. So, if you have investment assets you won't need to live on, you can gift a portion of them to your heirs now tax free.

This allows you to avoid long-term capital gains on appreciated stock, remove assets from your estate, and gift the asset to a younger heir who is likely in a lower tax bracket than you, making the transfer tax efficient.

If you have children or grandchildren who are new to investing, gifting stock can be a valuable introduction to investing and



A good estate plan can minimize or avoid probate, a long, costly, public and sometimes contested process. *Dennis Nett, dnett@syracuse.com, file*

the importance of stock ownership.

In retrospect, I wish now I got a gift of stock rather than the toys I received as a child for Christmas.

No complaints though.

If you have been reading my columns over the years, including with sticking with stocks over the long-term, you have certainly made some great money in the stock market — hopefully some you can eventually leave behind.

Ensure you protect that wealth through a proper estate plan. While far from a complete list, my above recommendations are some of the basic ways you can efficiently transfer assets to your heirs and minimize headaches along the way.

After all, it's not what you make but what you keep that counts.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com

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