

FINANCIAL PLANNING STRATEGIES

Income, Home and Estates

Estate Planning: The Importance of Drafting a Will

Are you one of the many people who have postponed the task of writing a **will**? Or, has it been much too long since your will has been reviewed? A will is a formal, legal document instructing your survivors in the settlement of your estate. It is crucial to the success of your estate plan that your will be properly written by a qualified, experienced legal professional and witnessed simultaneously by two parties.

The laws governing the drawing up of wills vary considerably from state to state. For example, **holographic wills** (those written in a person's own hand) are considered legal in some states, but illegal in others. Some states, such as California, have recognized the average person's need for **simplified universal wills**, which are prepared forms written by the legislature that can be used in lieu of a formal will. In most cases, however, these "do-it-yourself" wills have been considered a legally unacceptable substitute for a formal will. In addition, dying without a will (being **intestate**) brings into effect your state's intestacy rules, which specifically describe *how* your estate will be divided and *to whom* various assets will go.

Even in cases where tax planning may not really benefit the estate because of the small amount involved, a will should be drawn up for non-tax purposes. The reason is simple: If you die without a will, you automatically forfeit the chance to direct the dealings of your estate. The price you pay may be needless legal disputes, damage to personal relationships and, in some cases, financial loss. A will is an opportunity for you to designate your own **executor, guardians** for minor children, and other **fiduciaries**, rather than relying on the **probate court** to appoint them for you. By appointing the **trustees** in your will, you can also limit or broaden their powers beyond the limits imposed by the law.

A properly executed will is the most easily understood vehicle for expressing your wishes, which may include leaving assets or money to those heirs and beneficiaries who would not automatically receive them. Conversely, unless a will explicitly states that a child or orphaned grandchild is not to receive any portion of the estate, the neglected party, by law, has the right to receive that part of the estate to which he or she would have been entitled had there been no will; mere omission does not imply disinheritance.

For those who have neither spouse nor children, and who would have their estate go to personal friends or charity, a will or a **trust** is the primary means of fulfilling these wishes. The courts will not award

portions of an estate to charities or to those who are not relatives when blood relations (no matter how distant) can be found. This point is especially important for those who were adopted into a family unrelated to their biological family; in such cases, dying without a will can result in needlessly complex legal work and expenses to clarify disputes between adopted and blood relations. Wills are also important to those who have made personal and emotional commitments to each other without a marriage contract.

Even those who have shifted the majority of their assets into trusts designed to *bypass* the probate process, or who use **joint ownership**, should draw up a will. Most property owners inevitably leave behind an estate simply because estate planning tools are not designed to shift all assets away from the probate process. Many properties and assets may remain under the sole control of their owner for convenience and management reasons. In addition, there is no guarantee that the designated heir(s) will actually survive, so a will is needed to designate *secondary beneficiaries*.

It is important to meet with your legal and financial professionals to draft a will as soon as possible. Estate planning, in addition to being tax planning, is the best way to identify how your assets will be divided, who will receive benefits, who is to be named executor, and who will be the guardian of your children.

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Keep Your Homeowners Coverage Up-To-Date

If you are like most people, a home or condominium may be your largest asset. By signing up for a **homeowners insurance** policy or **condominium owners** policy, you are taking the first step in protecting that asset.

The homeowners policy is a package that covers a variety of things—your dwelling, other structures on the premises, unscheduled personal property on and away

from the premises, loss of use, personal liability, and the medical coverage of others injured on your property.

The correct amount of coverage is determined at the time the policy is written, but for many people, that amount may change in two years, five years, or further down the line. It's up to *you* to make sure you always have the proper coverage in place.



Nearly all insurance companies require a policy be issued for at least 80% of the replacement cost of the home, and failure to maintain proper coverage may result in sharing a partial loss as a penalty. Many insurers will increase your coverage to keep pace with inflation, but factors such as improvements made to the home or increased inflation in your geographic region may increase the value of your home.

Your homeowners policy also provides protection for the *contents* of your home. It's a good idea to keep an inventory of personal property in a safe deposit box so that, in the event of a loss, you won't have any difficulty listing the items to be replaced. The contents portion of your policy has specific limitations on items such as money, jewelry, furs, silverware, artwork, and securities. Refer to your policy for a full description of limitations; in some cases, you can buy *additional* coverage.

When selecting coverage, evaluate the different policy forms. You can choose between a **basic policy (HO-1)**, a **broad form policy (HO-2)**, or an **all-risk policy (HO-3)**.

In terms of property losses, the *basic* policy covers loss from ten common perils (e.g., fire, theft, explosion); the *broad* form includes the same ten perils covered in the basic policy and includes seven additional perils (e.g., falling objects, weight of snow, frozen plumbing); an *all-risk* policy protects you against all losses except those specifically *excluded* in the policy. The exceptions may include damage by: birds or insects; wear and tear; landslides and earthquakes; cracking from settling; flood and surface water; and damage by domestic animals or rodents.

The basic policy (HO-1) is used infrequently because it provides only minimal coverage. You may wish to consider a higher policy deductible and elect to purchase the slightly more expensive all-risk contract with the premium saved.

In addition to protecting your property against serious loss to the physical structure, your policy also provides protection for legal liability in the amounts of \$100,000, \$200,000, and \$300,000. In view of the sizable legal rewards that can potentially be granted in today's often litigious world, you may wish to protect yourself even further with a **personal umbrella** policy. The **personal excess** policy provides coverage of \$1 million to \$5 million over and above that provided by your homeowners and automobile policies.

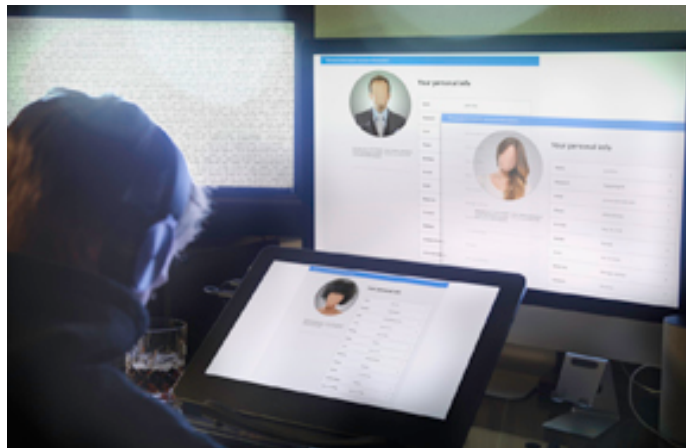
As you assess your coverage requirements, be on the lookout for ways to trim premiums. By installing smoke detectors, fire extinguishers, deadbolt locks, or a central alarm system, you may reduce your costs by a reasonable amount.

A periodic review of your policy to keep up with changing conditions makes good economic sense. It can help assure that your coverage is consistent with inflation and recent home improvements, as well as point out areas where premium dollars may be saved.

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Can You Keep a Secret?

Many people are unaware of how much of their personal and financial information is floating around on various consumer lists, which may leave them vulnerable to fraud and identity theft. So, what can you do to help protect yourself?



- Don't give out personal or financial information—including your date of birth, Social Security number, employment information, and your maiden name or your mother's maiden name—to telemarketers or solicitors.
- Avoid listing income and work-related information on product registration and warranty cards.
- Be secretive about passwords or personal identification numbers (PINs) on bank cards, telephone cards, and cell phones.
- Don't use your Social Security number as your driver's license number. You may be able to request a different number if this is a common practice in your state.
- Only use web sites that offer secure connections when making online purchases.

Following these common-sense steps may help you protect your personal information from falling into the wrong hands. Remember, your personal information is just that—personal—and it's worth protecting.

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Many Americans See Social Security as Main Source of Income

While most Americans are aware of the steps they should be taking to prepare for retirement, many are struggling to build adequate savings, and thus expect to rely heavily on Social Security after they stop working, a survey carried out by digital wealth manager Personal Capital has shown.

The survey of 2,008 U.S. adults aged 18 and older – including 1,630 pre-retirees – was conducted on March 1-7, 2018. When asked to identify their primary source of retirement income, 27% of the pre-retirees surveyed cited an employer-sponsored plan, but one-quarter cited Social Security, including 15% of millennial and 29% of Gen X respondents. The findings also indicated that 51% of all of the pre-retirees surveyed and 62% of the millennial respondents plan to retire at age 65 or younger, or at least a year shy of the age at which Americans born after 1943 are entitled to collect the full Social Security benefit.



Somewhat surprisingly, the survey results indicated that Gen Xers are almost as likely as millennials to lack adequate savings, despite having less time to save before reaching retirement age. Even though more than half of respondents of both generations (56% and 57%, respectively) said they expect they will need to

save more than \$1 million for retirement, 34% of the Gen Xers and 39% of the millennials surveyed admitted they have no retirement savings. In addition, the Gen Xer respondents were less likely than the millennial respondents to report that they max out their employer-sponsored plan contributions (18% vs. 22%).

Moreover, the survey showed that younger workers are less likely than older workers to place importance on getting financial advice on retirement planning: just 24% of Gen Xer and millennial respondents said they believe that consulting a skilled financial advisor is crucial to achieving a comfortable retirement, compared to 30% of the baby boomers surveyed.

The survey also uncovered significant gender differences in retirement planning patterns. For example, more of the female than the male pre-retiree respondents indicated that they understand that sticking to a comprehensive financial plan (62% vs. 47%, respectively) and leveraging a skilled financial advisor (28% and 24%, respectively) are critical to securing a comfortable retirement. The results also showed, however, that 40% of the female respondents, compared to 33% of the male respondents, admitted that they have no retirement savings; and that 71% of female respondents, compared to 56% of male respondents, acknowledged that they do not know their net worth.

The findings suggested that the gender gap in retirement savings may be partially attributable to women being less likely than men to have access to a range of retirement savings options, as 27% of the employed women surveyed, compared to 19% of their male counterparts, reported that they are not offered an employer-sponsored retirement plan. But the survey results also showed that when women have access to these benefits, they often fail to take full advantage of them: the female respondents were found to be less likely than their male counterparts to contribute to a retirement plan offered by their employer (58% vs. 67%) or to max out contributions to their employer-sponsored retirement plan (16% vs. 26%).

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