
# Have You Protected Your Hard-Earned Wealth with an Estate Plan?

You may be asking, "How does an estate plan protect my hard-earned wealth? Estate planning is only about dying, right?" Well, no. That's a common misconception. Estate planning is also about living. It is a dynamic process to first protect your wealth so that you will have it to distribute later. What else can a well-thought-out plan help with?

- Protect and transfer a legacy to your heirs, including spouse and children.
- Preserve your assets and distribute them in the way you choose.
- Protect your minor children in the event you are not around to do so.
- Protect a spouse, partner and family members from financial hardship if you're no longer able to provide for them.
- Give children and/or grandchildren a financial foundation on which to build their lives.
- Fulfill obligations to a family member with special needs, or to elderly parents to provide continuity of care.
- Provide protection for you and your family in times of sickness or medical incapacity.
- Create a social legacy for your community through charitable giving.

For those who are wealthy enough to be potentially subject to federal and state estate and inheritance taxes, a proper estate plan will also help to minimize those taxes, as well as probate and administration expenses. It can also replace wealth lost from taxes and estate settlement expenses.

There are several foundational tools used in an estate plan, regardless of wealth, including the following:

## Last Will and Testament

More commonly referred to simply as a Will, this legal document provides your directions on distribution of your estate (i.e., the wealth that you accumulated) upon death. It also specifies the trusted individuals whom you want to help carry out your intentions, such as an executor who manages your estate and administers the terms of your Will; a guardian to care for your minor children; and possibly a trustee to administer the terms of a trust you created in your Will.

Failing to have a Will (i.e., dying intestate) means that the state in which you resided at the time of your death decides how your assets are distributed and who will administer your last affairs and take care of your children. Those individuals may not be people you would have chosen, and the distribution of your estate may not be how you desired.

Even with a Will, some of your assets may be distributed outside the Will. These are known as non-probate assets. Owning property jointly with another, such as your spouse, with rights of survivorship, is a common way to create a non-probate asset. Upon the death of one owner, the other joint owner automatically gets title to those assets. Some assets that you own, such as your 401(k) plan, IRA, life insurance, bank or securities accounts with "transfer-on-death" or "payable-on-death" designations will go directly to those you name as beneficiaries. Assets held in trust are passed according to the terms of the trust, not your Will. As a result, it is important that you regularly review the ownership titling of your assets and your beneficiary designations.

## Living Will

A Living Will is also known as an Advance Directive. This legal document specifies your wishes with respect to the type of care you want, or don't want, should you become terminally ill or if you are permanently unconscious, and unable to communicate your desires. The Living Will helps to avoid family conflict at a time when emotions are running high, and to let your doctors and family members know how you want to spend your last days.

## Healthcare Proxy

A Healthcare Proxy, also known as a Healthcare Power of Attorney or Healthcare Directive, is different from a Living Will but, in some states, is incorporated into the same legal document. With a Healthcare Proxy, you appoint someone else to make medical decisions on your behalf when you are unable to do so because of incapacity or inability to communicate.

## Durable Financial Power of Attorney

A Financial Power of Attorney (FPOA) is a legal document where you appoint one or more individuals to act on your behalf on certain financial matters when you are unable to do so or unavailable. The FPOA can be as broad or as limited as you desire based upon your needs. FPOAs need to be updated regularly because financial institutions might not honor "stale" FPOAs, usually older than six months to a year.

FPOAs are typically terminated upon: (a) your death; (b) your revocation or cancellation of the power; (c) reaching an expiration date set out in the FPOA; or (d) your mental incompetence. The last item is especially problematic because mental incapacity to make informed decisions, or inability to communicate those decisions due to sickness, injury or illness, are exactly the times when you need someone to represent you reasonably and competently. Thus, a Durable Financial Power of Attorney is often used, which will remain effective even upon your mental incompetence.

The FPOA is generally effective as soon as the document is executed. Alternatively, an FPOA can be designed to become effective only upon a determination that you (i.e., the principal) are incompetent. That's known as a Springing Durable FPOA. The Springing version is not as common because the process of declaring a person incompetent can be long and trying, interfering with the need to make urgent financial decisions.

## Insurance

Life, disability income and long-term care insurances are also vital estate-planning tools to help protect your assets.

Life insurance proceeds generally help ensure the financial stability and comfort of surviving family members, including covering a mortgage, funding college educations, and creating an income source for the family. Cash values from permanent policies can be used for virtually any purpose you desire, including supplementing your retirement savings, putting a deposit on a second home, and more. Life insurance cash values and even a portion of the death benefit in certain instances can be used while living to help mitigate costs associated with a chronic illness such as medical and household assistance costs.

Life insurance also gives you the "permission" to spend your own hard-earned wealth because the insurance proceeds, rather than your assets, can act as the inheritance or social legacy you desire to leave to family and community.

While death is certain, disability is not. Yet, disability can create greater financial harm to a family than death. Why? Because without the ability to work and earn an income, there simply is no way to build wealth, much less to cover current lifestyle expenses, unless you inherit it or win the lottery. The more lasting the disability and the earlier it occurs, the more financially devastating it is. Disability income insurance can help to protect your earning power, and thus, your ability to build wealth.

Finally, there is long-term care insurance. For some people, "the impact of long-term care use can be catastrophic. It can cause the depletion of lifetime savings, dramatically reduce one's standard of living, or force someone to purchase less care than they need." That quote is from a study done by the U.S. Department of Health & Human Services.[1] Many people believe that Medicare or their health and disability insurance policies will cover long-term care services. The simple truth is that Medicare and private health insurance will not cover most of the long-term care and services a person may need.

As you can see, a fundamental building block of a sound estate plan is to ensure that you own life insurance, disability income insurance, and long-term care insurance. All of these tools can help you to preserve the wealth you have worked hard to accumulate.

## Conclusion

High net worth individuals and families may need additional tools because they may have more complex financial lives and are exposed to estate and inheritance taxes, but everyone, regardless of wealth, needs a sound estate plan to protect that wealth.

Do you have all of the necessary tools to protect your hard-earned wealth? Do you have a comprehensive estate plan? Even if you do, how long ago were they implemented? When was the last time you reviewed them? Do they still meet your needs and objectives today? Your Security Mutual Life Insurance Advisor, in tandem with your tax and legal advisors, can help you to review each of these items and take the steps to help ensure you are well protected and can meet your goals.

**Sources**

[1] Alecxih, Lisa, and David Kennell. "The Economic Impact of Long-Term Care on Individuals." U.S. Department of Health & Human Services. https://aspe.hhs.gov/basic-report/economic-impact-long-term-care-individuals (accessed January 11, 2021).

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INSURANCE COMPANY OF NEW YORK
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P.O. BOX 1625 • BINGHAMTON, NY 13902-1625
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