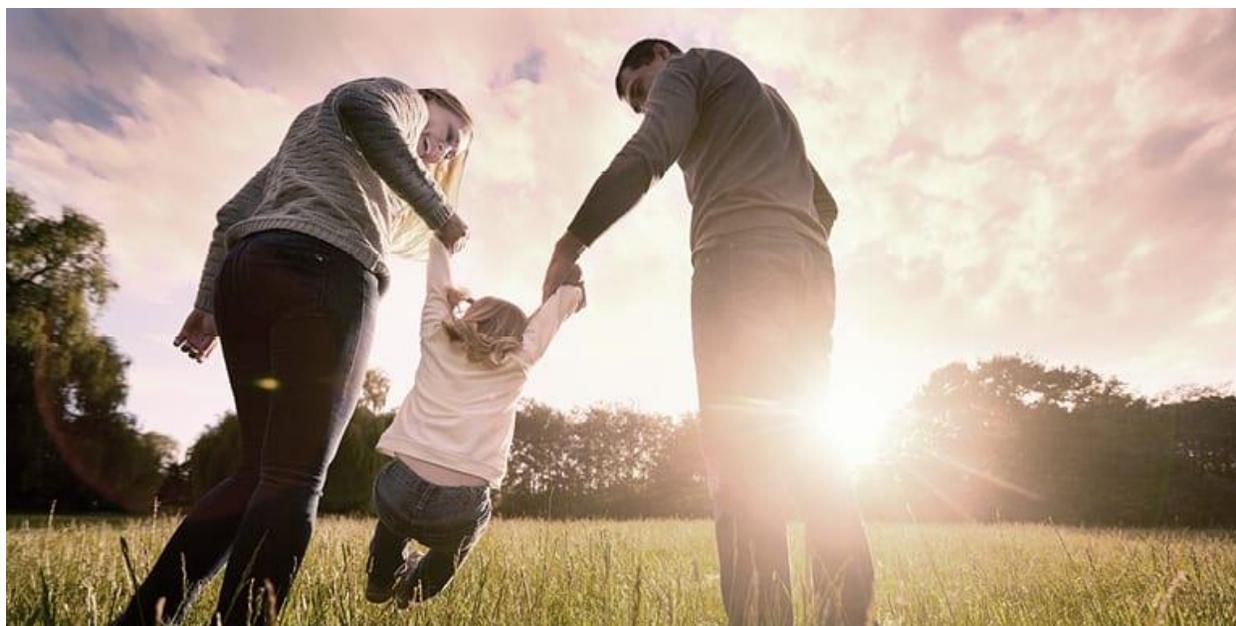


Estate Planning Basics



Regardless of how much money you have, and no matter your age, you have an estate. Because of this, estate planning is not just for the wealthy or the retired. Everyone will pass on eventually, and to make it easier on those you leave behind, it is important that you have a plan in place for your money and your belongings after your death. It is okay not to know where to start; Navy Mutual is here to help.

What is your estate?

Your estate is made up of everything that you own. It includes your car, house and any other real estate you may own, bank accounts, retirement funds and investments, life insurance, furniture, and your possessions. Your estate also includes any debts that you accrued over your lifetime, like the remainder of your mortgage, credit card debts, or unpaid student or vehicle loans. Any debts held in your name alone will need to be settled upon your death (with the exception of federal student loans). You cannot bring your estate with you when you pass, so you need to have a plan for what to do with it when the time comes. Basically, to whom do you want your assets (and debts) to pass on to?

When should you start estate planning?

Many people avoid thinking about their mortality because it is frightening and uncomfortable. Unfortunately, not planning ahead can lead to a lot of problems for those you leave behind. Without a plan in place, you could unintentionally cause more strain amongst your family members who now have to decide who gets your belongings, who is liable for your debts, and who gets to keep your pet. Having an estate plan can actually reduce end-of-life expenses, ensure that any liabilities don't become

someone else's problem, and ensure that your assets go to those you actually intended. The best time to start planning for the future is now.

How do you create an estate plan?

In theory, estate planning is simple – there are only four steps to creating an estate plan. In reality, though, there are many details. You are likely going to want to solicit the services of an attorney familiar with estate planning to ensure that your documents are drawn up properly.

1. Inventory your assets. Create a list of everything you own, even if you still owe payments on larger items like student loans or a mortgage. You want to include your house and car; land or other properties you own; valuables and collectibles; and any bank accounts, investment accounts, life insurance policies, retirement accounts, and/or HSAs. From there, add everything up and estimate the total value of your estate. Account statements and appraisals will be helpful. For your belongings, a rough estimate of their value will suffice.

2. Account for your family's needs. You should have a plan in place for all scenarios. If you and/or your spouse were to pass while your children were young, you need to decide who could stand in as a guardian and confirm with them their ability to perform as such. If you were to pass shortly after getting married and buying a home, you need to have a plan in place that will help your spouse continue mortgage payments or pay off the mortgage outright. If you were to pass well into retirement, you may want to ensure your beneficiaries are established to make best use of estate assets and any life insurance benefits.

Note: A payout from a life insurance policy is generally untaxed and can be used to pay off any debts that you have at the time of your death that may otherwise transfer to your survivors.

3. Keep a list of all of your accounts that have designated beneficiaries (life insurance, retirement plans, annuities, etc.) and revisit your selection(s) any time you experience a major life change, like a marriage or divorce, a birth or death, a new job, or the acquisition of property.

4. Ask an estate lawyer to help you put all your wishes in writing. There are a variety of documents that you should have on hand to cover varying scenarios:

- **Health Care Proxy and Living Will:** These documents deal with medical care and what you would like and would not like done in different circumstances if you become incapacitated or too sick to express your wishes. A healthcare proxy is a designation of a person who you will allow to make health care-related decisions on your behalf, while a living will gets into the details of scenarios and treatments.
- **Durable or Springing Power of Attorney:** This is a designation of a person who can take care of your finances at any point or act on your behalf if you become incapacitated. A durable power of attorney must act in your financial best interest and does not retain any power after your death. A springing power of attorney only becomes effective upon the occurrence of a specific event.
- **Last Will and Testament:** This document outlines who will receive your assets upon your passing and lists a guardian for any minor children you may have. If you don't have a will, the state will decide how to divvy up your assets and who will be granted guardianship of your children – and



they are unlikely to do so in the way you would prefer. In a will, you can also name an executor, or the person who will carry out your end-of-life tasks and the instructions listed in your will.

Note that a will does not dictate what will happen to any assets that are jointly owned. For example, if you and your spouse are both listed on the deed to a home, your spouse will retain ownership upon your death. Additionally, if you say in your will that you want your daughter to receive your life insurance payout, but your life insurance company has your son listed as the beneficiary, your son will get the payout. It is important to update both your account beneficiaries and your will regularly.

What else should you keep in mind?

Probate: Probate is the process of determining the validity of a will, executing your instructions, and determining what should happen with any assets that do not have a specifically named beneficiary. Once the probate court validates the will, they will appoint the executor and give them the power to start notifying individuals who are listed in the will, family members, and creditors. If nobody contests the will, debts can be paid and assets distributed.

Taxes: Nothing is certain except death and taxes, and when it comes to estate planning, they go hand in hand. Depending on the state, estates may be subject to a state estate tax (paid out of your assets before anything is distributed to your beneficiaries), and potentially a federal estate tax on asset value which exceeds certain thresholds. Income generated by property that is transferred to beneficiaries (e.g., investment accounts) can also generate tax liability for a beneficiary. The asset level excluded from the federal estate tax liability increased substantially under the Tax Cuts and Jobs Act of 2017 but should still factor into estate planning for unmarried individuals with a net worth greater than \$11 million, or married couples with over \$22 million.

Living (Revocable) or Irrevocable Trusts: Instead of leaving a will, you can create a trust, which holds assets outside of your personal estate. Living trusts are ones which you – the grantor – can make changes to during your lifetime, but contributions to an irrevocable trust shift ownership of assets outside of the grantor’s estate immediately, and are potentially subject to gift taxes. Both types of trusts are managed by a trustee, who then distributes assets to beneficiaries after the death of a grantor at a time designated by the trust agreement. For instance, you could leave money to a minor child, but not allow them access to it until their 25th birthday. With a living trust, your trustee can immediately take care of your end-of-life affairs and distribute assets without having to go through probate. Note that only your assets can be managed by a trust; you cannot appoint a guardian for your children in this way.

Testamentary Trust: This type of trust is created upon your death by your Last Will and Testament and allows you to manage your assets during your lifetime. However, it does not avoid probate or the associated expenses – probate always accompanies the determination of the validity of a will and carrying out its instructions.

Estate planning is easy in theory, but complicated in practice. Fortunately, Navy Mutual is here to help. If you need to change the beneficiary on your life insurance policy or an annuity, you can do so through your Navy Mutual Customer Portal at any time. If you simply want a document that helps you keep all your [estate planning](#) notes in one place, we have your back.



To discuss life insurance options or to make sure that your current insurance policy fits your needs, [click here](#), or email us at counselor@navymutual.org.