When it comes to estate planning, procrastination is a common theme. For some people, hesitation in dealing with estate planning stems from a reluctance to confront their own mortality or their potential for future disability or incapacity. For others, delay is caused by the perception that planning is associated with complicated—and expensive—legal and tax issues. As a result of this aversion to the task of estate planning, people often act only after a crisis event.

Taking a proactive, rather than reactive, approach to estate planning has many benefits. Proactive planning allows you to address all of the important decisions to be made in constructing an estate plan for your family that aligns with your wishes, values and overall wealth management strategy. Proper planning also gives you time to discuss your decisions with family members. This open communication can help to reduce, if not eliminate, the risk of family discord, resentment or conflict.
Selecting Fiduciaries

The selection of fiduciaries is a crucial component of estate planning as it ensures that your desires, wishes and directions are carried out in an efficient and thoughtful manner.

You will need to choose various types of fiduciaries, and the issues involved with the selection of each fiduciary vary (See Table 1.)

Keep in mind that conflicts of interest may exist and may be inherent in the fiduciary role, particularly if the chosen fiduciary is also an heir, beneficiary or other interested party.

In every case, discussing your decisions about who will serve in these capacities can be instrumental in preventing misunderstandings and promoting harmony within your family. Your Morgan Stanley Financial Advisor is available to advise you and your family on fiduciary selection to help minimize conflict.

What to Focus On

As you construct your estate plan, important areas to consider include:

- An understanding of your family values and wishes
- Selection of fiduciaries
- Special planning issues, such as the blended family, children with special needs, and pets
- Planning for aging parents
- Long-term care for yourself
- Burial instructions and last wishes
- Organization of your financial information
### Table 1: Fiduciaries in the Estate Planning Context

<table>
<thead>
<tr>
<th>ROLE/DOCUMENT</th>
<th>DESCRIPTION OF RESPONSIBILITIES/POWERS</th>
<th>THINGS TO CONSIDER</th>
</tr>
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<tbody>
<tr>
<td>Executor or Personal Representative</td>
<td>Setting the affairs of your estate following death, including:</td>
<td>• The majority of executors will retain the services of an attorney to carry out many of these tasks.</td>
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<td></td>
<td>• Preparing an inventory of, and collecting, the assets of the estate;</td>
<td>• In many cases, your spouse is the most logical choice. However, if your spouse is a second spouse and not the biological parent of your children, you may consider selecting a neutral party to avoid conflict.</td>
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<td>• Paying valid debts and claims;</td>
<td>• Naming multiple children to serve as executors can be impractical as they may not be able to reach collective decisions in a timely fashion.</td>
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<td>• Preparing final income tax returns, as well as federal/state estate or inheritance tax returns, if necessary;</td>
<td>• Employing a professional executor will add to the cost of settling your estate.</td>
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<td>• Managing the property of the estate;</td>
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<td></td>
<td>• Liquidating assets, if necessary; and</td>
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<td></td>
<td>• Distributing assets of the estate to proper beneficiaries.</td>
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<tr>
<td>Trustee (needed if the assets of your estate are to be distributed to a trust)</td>
<td>• Managing and investing trust assets in compliance with tax requirements</td>
<td>• This role requires careful consideration as it could potentially span multiple generations.</td>
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<td>• Making decisions on the distribution of trust income/assets</td>
<td>• If you choose a family member to serve as trustee, he or she may need to hire an expert to assist.</td>
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<td>• If the trust lasts a long time, you will need a mechanism for choosing successor trustee(s).</td>
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<td></td>
<td>• Institutional trustees offer perpetual existence and neutrality, but are associated with a cost. In addition, beneficiaries may object to the &quot;impersonal&quot; nature of an institutional trustee.</td>
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<td></td>
<td>• Co-trustees—a family member and an institution—may be good middle ground.</td>
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<td></td>
<td>• If an institution is to serve as a trustee, it is important to give beneficiaries the power to remove and replace the trustee, usually with a similar institutional trustee.</td>
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<tr>
<td>Guardian</td>
<td>• Caring for minor children</td>
<td>• Who will best be able to care for your children in the same manner and with similar values as you would?</td>
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<td>• Does the guardian have sufficient space and resources to provide for your children?</td>
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<td>• What financial resources are needed to sustain your children while under the guardian’s care?</td>
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<td>• Choosing an individual rather than a couple may be better, in case of a separation or divorce.</td>
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<td>• It may be more protective to have different people serve in the guardianship and trustee roles.</td>
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<td>• Ensure that potential guardians are willing to accept the role.</td>
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<td>Durable Power of Attorney (DPA)</td>
<td>If you are unable to act for yourself, the Durable Power of Attorney is the document that gives authority for an attorney-in-fact or agent to act on your behalf. Typically, a DPA is expansive, allowing the agent to “do anything” you could otherwise do.</td>
<td>• The attorney-in-fact or agent will have substantial power over your finances, including the ability to make/change investments, file tax returns and even make gifts.</td>
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<td>• Your spouse is often the most logical choice, but, if your marriage may be unstable or if it is your second marriage, you might consider placing the DPA in escrow with an attorney or naming co-agents to provide additional limitations on use.</td>
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<tr>
<td>Living Will or Health Care Directive</td>
<td>A written declaration of your wishes and directions with respect to the medical care to be given to you if you are unable consent on your own.</td>
<td>This document speaks for itself and doesn’t delegate that process to someone else.</td>
</tr>
<tr>
<td>Health Care Proxy or Durable Power of Attorney for Health Care</td>
<td>A document that appoints another person as your agent for making medical decisions on your behalf.</td>
<td>• This is more flexible than a living will, as it allows your agent to weigh factors or circumstances that might not have been anticipated in the living will.</td>
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<td>• Only one agent may serve at a time, so it is important to name a successor.</td>
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</table>
If you have a blended family, you may need assistance in striking the balance between providing for your surviving spouse and ensuring that children from your prior marriage are protected in their inheritance.

Options to consider for estate planning that would help you to achieve your goals include:

- **A Qualified Terminable Interest Property, or QTIP trust**—With a QTIP trust, some or all of your assets are, at your death, placed into a trust which benefits your surviving spouse during his or her lifetime with mandatory income distributions and, possibly, distributions of principal as well if you so choose. Upon the death of your surviving spouse, the assets of the trust would be either distributed to or continued to be held in trust for your children from a prior marriage and/or other beneficiaries you may also designate. Note that assets in a QTIP trust would not be subject to federal estate tax at your death, but would be included in the value of your spouse’s estate for estate tax purposes when he or she dies.

- **An Irrevocable Life Insurance Trust (ILIT)**—In this scenario, the ILIT typically purchases a life insurance policy on your life with cash which you gift to the trust. The ILIT has as its beneficiaries either the children from your prior marriage or your current spouse, depending upon your planning objectives and possible tax considerations. Use of an ILIT in this type of planning allows for your assets to benefit either your spouse or your children immediately upon your death, with the proceeds from the life insurance policy available to benefit those who did not benefit from your assets if that is your intention. For example, if the spouse is the initial beneficiary, any assets remaining in the trust at his or her death would then be available to be used for the benefit of your children and/or other beneficiaries. Assets held in an ILIT would be typically excluded from the value of your estate for estate tax purposes at your death.

Often, QTIP trusts and ILITs would both be used so you can direct your assets to the beneficiaries you choose and leverage those transfers with the value of the life insurance.

Your Financial Advisor, in conjunction with your attorney, can discuss with you the advantages and disadvantages of these and other financial instruments used in estate planning.

**THE FAMILY VACATION HOME**

You may have purchased a family home as a place for your extended family to gather and a way to maintain family closeness after your children started families of their own. While you may want to keep the home in the family, your children may not all feel the same way. Depending on their financial resources and geographic location, some children may view the home and its associated costs as more of a burden than a benefit. To account for the potentially differing interests of your children, you may choose...
to leave the property in a variety of ways, including:

- Co-ownership among individuals, which may be vulnerable to claims of creditors and enables owners to transfer their interests freely.
- A trust, which provides better credit protection, but you must consider having both liquid funds available to pay for maintenance and a reliable trustee to balance the interests of the beneficiaries.
- A Limited Liability Company (LLC) or Family Limited Partnership (FLP), which restricts the transfer of interests, allows for coordinated management of the house and provides protection from creditors.
- Regardless of the form of ownership used, it is important to develop a comprehensive governing document that details the rules and restrictions applicable to the use of the home.

CHILDREN WITH SPECIAL NEEDS
A crucial part of planning for children with special needs or severe disabilities is to make sure that any gift or inheritance allocated to that child will not interfere with the child’s ability to receive government benefits. The most common method of protecting children with special needs from the loss of government benefits is the use of a Special or Supplemental Needs trust, which is constructed so that any assets held in the trust are intended to supplement, but not supplant, any government benefits the child is entitled to receive.

PETS
Most pet owners consider their pet a friend, a companion or even a family member. Still, most estate plans fail to address what is to happen with the pet when the owner passes. If you want to ensure the care of your pet in case of death, or even incapacity, you will need to take formal steps to arrange for your pet’s care. Although you can leave a pet to a caregiver under your will, this method does not address situations where you are incapacitated. Trusts may be a better choice, and options include:

- Traditional trusts, which are recognized in all 50 states and require you to provide specifics about the care of your pet.
- Statutory pet trusts, which are currently authorized in approximately 40 states and use applicable state laws to set out the conditions for your pet’s care.
Planning for Aging Parents

Most likely, planning for gifts and inheritances to your children and grandchildren is already on your to-do list for estate planning. As the population ages, you might be among the increasing number of children who are being called upon to provide care for your aging parents.

In general, it is best not to wait for a crisis to occur before establishing a plan to address the issue of caregiving for elderly parents. Engaging your parents, siblings and other family members in a proactive discussion preempts the possibility that decisions about care will be driven by emotion in a time of emergency.

FAMILY EXERCISE

Proactive planning for the care of aging parents

Have a Conversation With Your Parents and All Family Members
Talk about your parents’ values and preferences, their wishes for health care and the handling of finances.

Form a Team
Consider dividing responsibilities (transportation to doctors’ visits, financial management, housing, etc.) among the family.

Formulate a Plan
Anticipate and address every possible scenario. It may be helpful to have a written document to provide guidelines on the decisions that are made.

Enlist Support
Identify other resources (professionals, community organizations, etc.) that can be called on to provide support.

Consider the Caregivers
Caregiving can conflict with work and other family obligations, so it is important to consider the emotional well being of the caregivers in the process.
Planning for Your Own Care

To ease some of the burden placed on your children and younger generations, it is also wise to take a proactive approach to arranging for your own future care.

Many people think that they can rely on government assistance to provide care, but potential cutbacks in government health care and entitlement programs make this reliance a risky proposition. Instead, you might consider long-term care insurance to help defray the costs of a nursing home or home health care, if you should need it.

There are numerous providers of long-term care insurance, and policy options can be complicated and expensive.

Factors to consider when choosing a policy to fit your needs include:

- Cost
- Coverage
- Term
- Inflation adjustments
- Pre-existing conditions
- Termination or lapse
- Death benefit

If you are considering a long-term care policy, your Financial Advisor can help you understand your options and assist you in assessing if the policy you are considering will meet your needs.
Easing the Family Burden on Death

Although it may be difficult to contemplate your own mortality, advanced planning and proactive discussion with your family can help to reduce stress, conflict and confusion following death.

BURIAL INSTRUCTIONS AND LAST WISHES
Leaving detailed burial instructions and last wishes with your surviving family members makes the task of arranging a funeral much easier. Keep in mind that instructions left in a will may not always be legally enforceable and may not be accessible in a timely manner, so a better course may be to communicate your wishes to your family ahead of time. Memorializing your instructions in writing and leaving copies with a loved one and your executor or attorney will not only ensure that your intentions are documented, but also prevent family conflict.

ORGANIZATION OF YOUR FINANCIAL INFORMATION
The settlement of your estate after death has the potential to become a contentious issue among family members. Organizing your personal and financial records can help to minimize family discord, as well as the cost associated with settling your estate. It may be useful to create a document that includes the following:
- The location and key to any safe deposit or post office box.
- The location of important documents, including wills, trusts, birth certificates, marriage/divorce/prenuptial agreements, life insurance policies, employee benefit program documents, business records, real estate deeds and passports.
- An inventory of assets and liabilities, including debts and loans outstanding, credit card information, automobile titles or insurance policies, investment information, bank or brokerage statements and retirement accounts.
- Other important information, such as names/addresses of family members, Social Security information and contact information for insurance agents, attorney/accountant/financial advisor. Many of your important documents may be stored and kept digitally, so it would be wise to include relevant information (e.g., usernames and passwords) to allow your executor or a family member to access these documents after death, provided that extreme caution is used to protect this information from unauthorized access.

In addition, this financial information document must be considered dynamic, as your financial life is subject to change. Consider scheduling an annual review of this document that coincides with your annual financial investment performance review with your Financial Advisor, and ask for Morgan Stanley’s Family Records Organizer.