Wealth Management # 6 – Wealth Transfer

Many people would like to transfer a portion of their wealth to their children, grandchildren, and even beyond. However, most people's idea of estate planning is to write a will, maybe prepare a living trust, and then hope everything will take care of itself when they die. However, estate planning is not a one-time event.

Estate planning can be thought about in terms of people, property, and process.

The people aspect includes not only you, your spouse (if applicable), and your beneficiaries, but also includes the future successor trustees (family, friends or independent?), and the appropriate professional advisors who will be involved.

Property includes assets of all kinds, and considers emotional attachment value as well as their financial worth.

The process is what pulls everything together, so is typically the more complex of the three.

The process starts by asking what you wish to accomplish for your beneficiaries. Do you wish to do things throughout your life, or merely at the end? Are you trying to help your beneficiaries with specific aspects of their life, or merely trying to reduce the impact of death taxes on their inheritance? Also, are you focused only on the transfer of wealth, or with passing on your financial values as well? What would your children like you to do? Who can you trust to ensure your wishes are carried out? What documents (legal and otherwise) are required to ensure the wealth transfer objectives will be met? How often should they be updated?

Once you have a plan of what you want to do, for whom, and when, the next step is to identify the mechanism to accomplish each task. For example, there are different ways to fund a child's education, or help towards the down payment of their first home. You'll also need to ensure that your IRAs, Roths, life insurance, and company retirement accounts have the correct beneficiaries specified.

You'll need to decide what happens with difficult-to-divide property such as a family business that not all the children are involved with, or real estate such as the family home? Do you sell and split the cash, or one gets property and another gets cash. How can you be fair to all the beneficiaries?

You typically need a will and a living trust. If you already have them, are they up to date? Will a living trust suffice, or will you need any other types of trust? Granter-retained annuity trusts (GRATs) can transfer future profits to beneficiaries during your lifetime. Life insurance trusts can provide additional money upon death that is exempt from death taxes (unlike life insurance owned in your own name). Dynasty trusts can provide for future generations while protecting assets from their creditors and ex-spouses. Special Needs Trusts can be used to provide money to a child or adult with special needs.

Who can you trust as to act as executor and trustee? An adult child may be willing and capable to look after you in old age, but may not be financially responsible. You may need a professional trustee to look after the financial assets, especially if your children fight about money, or there are beneficiaries who are young. Sometimes a corporate trustee is required by default, such as for dynasty trusts.

As estate planning laws and regulations continually change, we recommend the use of a trust attorney, in conjunction with your tax advisor and financial advisor, to ensure your estate plan is integrated with your tax and investment situation.

Even once your plan is in place, it is necessary to keep it updated. Your financial situation may change, your family goals may change, and estate laws and regulations certainly change.

Jeramy Heath, CRPC®
First Vice President
Director, Portfolio Management

The South Bay Group at Morgan Stanley
21250 Hawthorne Blvd # 650
Torrance, CA 90503

310-543-0287
jeramy.heath@ms.com
http://fa.morganstanley.com/southbaygroup/index.htm