Leaving the legacy you want

Preserving your wealth and your wishes

True wealth management means understanding what's important to you and the causes and goals you find meaningful.

You've worked hard to build your wealth and provide for your family. To be confident that the legacy you envision will become a reality, it's critical to establish and maintain an estate plan. But even comprehensive planning isn't enough. One of the most important things you can do is to talk to your family about your estate plan. A compelling *UBS Investor Watch* survey revealed that families are much happier and more satisfied when parents include children in their planning process.[1] Given this backdrop, let's look at a few of the core elements of any estate plan:

- **A will.** Your last will and testament directs the distribution of the property you own directly upon your death. (Some assets pass outside of a will, based on operation of law or titling, such as a joint account with rights of survivorship or an IRA through a beneficiary designation; therefore, correct titling of assets is essential.) A will also names an executor for your estate and guardians for any minor children.

- **Advance medical directives.** Advance directives speak for you, should you become incapacitated. A healthcare proxy appoints an individual to make medical decisions for you if you are unable to communicate. A living will states your wishes with respect to end-of-life medical treatment.

- **Power of attorney (POA).** This authorizes someone to make business or legal decisions on your behalf. You can make your power of attorney effective immediately upon signing or, in some states, only in the event of your incapacity.

Help reduce your taxable estate through gift giving

A common objective of most estate plans is to help minimize taxes and preserve as much of your estate as possible. Gifting assets to your beneficiaries during your lifetime is a popular estate planning strategy, designed to transfer property from your estate to help reduce potential future estate taxes. But "giving while living" also serves another important goal: sharing cherished experiences with your children and grandchildren.

The federal government imposes transfer taxes on estates over a certain threshold.[2] The exemption amount for 2019 is $11.4 million. The rate for all transfers by gift or at death, in excess of the exemption amount, is 40%. Some popular gifting strategies are:

- **Annual exclusion gifts.** Each year, you can make certain annual gifts that don't use any of your lifetime gift tax exemption amount. For 2019, the gift tax annual exclusion amount is $15,000, so you can gift up to $15,000 to as many individuals as you'd like.

- **Funding college costs for children and grandchildren.** You can make a contribution to a 529 college savings plan, which will be treated as a gift to the beneficiary. You are permitted to advance up to five years of annual exclusion gifts to a 529 plan, putting in as much as $75,000 at once ($150,000 with your spouse). This can remove assets from your estate while preserving your lifetime gift and estate tax exemption.

- **Making payments directly to educational or healthcare institutions.** You can pay an unlimited amount annually on behalf of another person, as long as the payments are made directly to the institution where the expenses are incurred.

- **Donating to charitable organizations.** By making direct gifts to charities or giving through charitable vehicles, like donor-advised funds and private foundations, your charitable impact can last beyond your lifetime and provide you with tax benefits.

Help protect assets and preserve wishes with trusts
A trust can help you preserve your wealth during your lifetime and facilitate the transfer of assets to your descendants or to a charity. There are many different types of trusts, with varying goals that include: minimizing estate and inheritance taxes; protecting assets from the consequences of disability, family conflict, spendthrift beneficiaries, bad business decisions or other legal issues; providing for special-needs children throughout their lifetimes as well as minor children or grandchildren; and enhancing privacy, since trust assets avoid probate's public proceedings. Briefly, three trusts often included in estate plans are:

- **Bypass or credit shelter trust.** This type of trust is provided for in a will or revocable trust and is designed to make optimal use of the available tax exemptions of a married couple. If the first spouse dies, his or her remaining estate tax exemption amount will fund the bypass trust. The assets will not be included in the estate of the surviving spouse and will ultimately pass to lower generations free from estate taxes.

- **Qualified terminable interest property trust (QTIP).** A QTIP marital trust is also generally created in a will or revocable trust for the benefit of a surviving spouse. The surviving spouse receives income for life, and the balance is typically left to the decedent's children on the surviving spouse's death. It takes advantage of the estate tax marital deduction, provides an income for the surviving spouse, but controls who the ultimate beneficiaries will be.

- **Irrevocable life insurance trust (ILIT).** An ILIT can remove life insurance proceeds from your taxable estate. The proceeds may be used to pay estate costs and provide beneficiaries with tax-free insurance proceeds. Since the trust is the policy owner, you forfeit the right to borrow against the policy or change beneficiaries. ILIT proceeds can be very useful and, for example, provide financial support to beneficiaries until they can sell an illiquid asset.

Put your entire financial life into perspective. True wealth management means understanding what's important to you and the causes and goals you find meaningful. It also means communicating your wishes and reviewing your estate planning documents with your family.

[1] *UBS Investor Watch,* 3Q 2014.
[2] State estate taxes may also apply.

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