

# Getting Started on an Estate Plan

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Every person who owns property has an estate that must be distributed at death. An estate plan created by a property owner – or the lack of one – will determine who will inherit the property. An estate plan should be based on objectives – what the estate maker wants to accomplish with the plan.

## Estate Planning

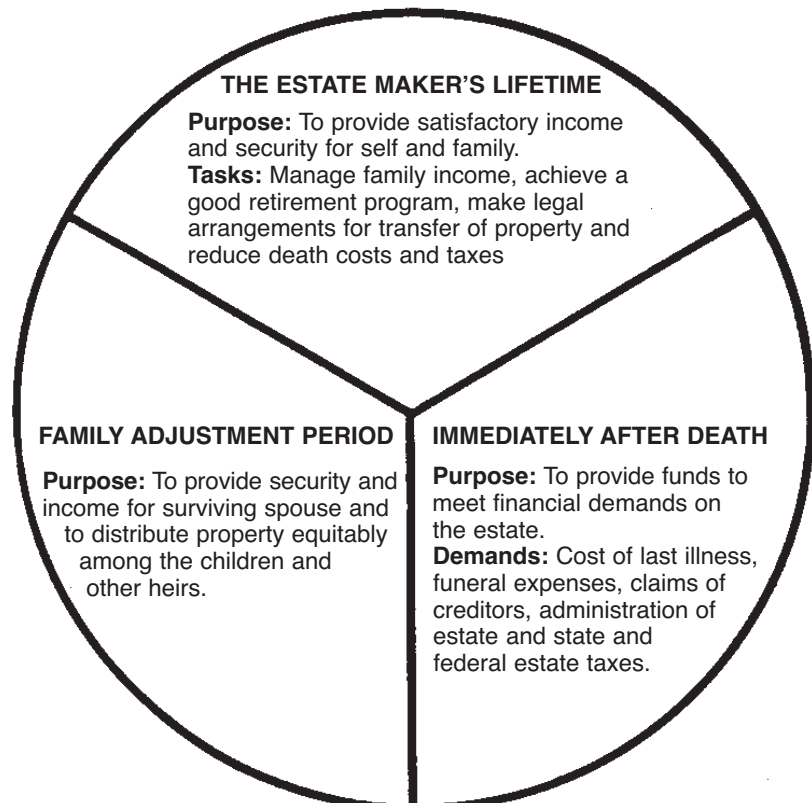
Estate planning is creating an estate plan. It involves the accumulation, use and preservation of property

as well as its disposal. Planning your estate means reviewing how you own property, determining estate plan objectives, coordinating your properties and developing a plan to transfer properties to your heirs or other beneficiaries.

## Need

Any individual who owns property and wants to transfer it to his/her heirs or other beneficiaries needs an estate plan. The plan may

## A Good Estate Plan



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be simple or detailed. It all depends upon the size of the estate, types of assets and the number of beneficiaries.

## Who Should Plan the Estate?

The estate plan in the majority of families is usually done by the husband and/or wife. However, in some family situations, children may be included.

Most people do not have enough time to learn all they need to know about estate planning or to keep up with the changes in laws. However, there are qualified professionals who can help design and implement an estate plan. The list include individuals such as an attorney, an accountant, a financial advisor, a trust officer and/or a life insurance underwriter.

## Plan Characteristics

A good estate plan is one that meets your family's economic and legal objectives. The plan should cover several levels of concern:

- ◆ What will happen to the property if one spouse dies? Or if the sole owner dies?
- ◆ What will happen to the property if both spouses die? Or if all joint owners die?
- ◆ What will happen to the property if the entire immediate family dies?

Most estate plans contain both short-term and long-term objectives. The objectives should be coordinated. Also consider three different time periods in estate planning: your lifetime, the period immediately after your death and the family's adjustment period.

## Basic Steps

There are at least six basic steps in the estate planning process:

### 1. Initiate the discussion.

Most family members hesitate to discuss estate plans with one another. Look for ways to stimulate estate planning discussions with your family. Encourage children to participate if they are old enough to understand.

### 2. Identify current assets and debts.

An accurate inventory of your assets and liabilities will give you an idea what you should do, your needs and how to distribute your property.

- A. List the real and personal property you own; indicate type of ownership and the realistic market value.
- B. List debts.
- C. Determine net worth.

### 3. Identify estate plan objectives.

Identifying your objectives – how the property is to be used and for whose benefit – will improve your chances of accomplishing the objectives. There will be conflicts. It will be necessary to make compromises.

### 4. Choose professional advisor(s).

### 5. Design the estate plan.

- A. Identify your potential heirs or other - beneficiaries.
- B. Select estate planning tools that will help you achieve your estate plan objectives.
- C. Determine the best way to own each piece of property.
  - (1) Sole ownership
  - (2) Co-ownership
    - a. Tenancy-in-common
    - b. - Joint tenancy
    - c. - Tenancy-by-the-entirety
  - (3) Life estate
- D. Arrange for the best use of your assets.
- E. Plan for the disposal of your property.
- F. - Make sure property titles are in the correct name.

**Note:** Property can be transferred during your lifetime or after death. **There are four ways to transfer property at death:** by a will, by joint ownership with right of survivorship, by contract (such as life insurance) and by state law in the absence of a will.

### 6. Implement estate plan and review periodically.

## Objectives

The estate plan objectives will vary from family to family due to differences in assets, marital status, values, age and number of dependents, lifestyles and stage of the family life cycle. Beginning families place more emphasis on building an estate, while older families will stress objectives related to retirement and the distribution of property that has been accumulated.

The most common objectives include:

- ◆ Provide for the financial needs of survivors such as the spouse, children and/or other dependents.
- ◆ Minimize income taxes and estate and gift taxes.
- ◆ Reduce estate settlement costs.
- ◆ Provide an adequate retirement income.

## Personal Objectives

As you read each of the following objectives, rate how important it is for your estate plan...whether it is very important, important, somewhat important or not important. (Please check the appropriate column.)

Degree of Importance				Objective
Very Important	Important	Somewhat Important	Not Important	
_____	_____	_____	_____	1. Provide security for surviving spouse.
_____	_____	_____	_____	2. Relieve surviving spouse of management - responsibilities.
_____	_____	_____	_____	3. Provide security for both spouses after retirement.
_____	_____	_____	_____	4. Retire at age _____.
_____	_____	_____	_____	5. Provide security for an incapacitated heir.
_____	_____	_____	_____	6. Provide educational opportunity for heirs.
_____	_____	_____	_____	7. Minimize estate and inheritance taxes on estate.
_____	_____	_____	_____	8. Keep business or farm in the family.
_____	_____	_____	_____	9. Name guardian, conservator or trustee for minor children.
_____	_____	_____	_____	10. Name executor of the estate(s).
_____	_____	_____	_____	11. Provide means of paying expenses of estate settlement, taxes and other debts.
_____	_____	_____	_____	12. Provide equitable (not necessarily equal) treatment of heirs.
_____	_____	_____	_____	13. Transfer specific property to specific heirs (includes preventing property from going to a non-deserving heir).
_____	_____	_____	_____	14. Make gifts to heirs and others during lifetime.
_____	_____	_____	_____	15. Reduce income taxes through disposing of income property during life.
_____	_____	_____	_____	16. Provide a scholarship at a favorite university.
_____	_____	_____	_____	17. Provide for charitable bequests to a favorite charity or organization(s).
_____	_____	_____	_____	18. Minimize probate estate.
_____	_____	_____	_____	19. Other: _____
_____	_____	_____	_____	20. Other: _____

- ◆ Protect minor children in case both parents die in a common accident.
- ◆ Transfer property to heirs or other beneficiaries as smoothly as possible.
- ◆ Provide competent property management.
- ◆ Select a qualified person to be executor of the estate.

**Note:** For additional ideas, see the worksheet on the previous page.

Estate planning goals will change over time. As changes occur in the number of dependents, the amount and kind of property, marital status, income, and laws governing the taxation and distribution of property, it will be necessary to revise an estate plan.

## Estate Planning Tools

The four most commonly used estate planning tools that can be selected to achieve estate plan objectives are **wills, trusts, life insurance** and **lifetime gifts**.

### Wills

A will is a legal instrument or written document that tells others how you want your property transferred after death. It affects only the property that you own at the moment of your death (i.e., property solely owned, life insurance proceeds if your estate is the beneficiary of the policy and property held in tenancy-in-common).

It is one of the most commonly used and best estate planning tools. If an individual does not have a will, then his/her property is distributed according to the descent and distribution laws of the state of Arkansas.

### Trusts

A trust is the most flexible estate planning tool. A trust is a legal arrangement whereby an interest in property, real or personal, is held by a person or an institution (the trustee) for the benefit of another person (the trust beneficiary). The trustee manages the property for the beneficiaries according to the trust agreement.

The two principal types of trust are living trusts (*inter vivos*) and testamentary trusts. A living trust is one that you set up during your lifetime, while the testamentary trust is one created by your will and does not take effect until death.

### Life Insurance

Life insurance is a useful tool in estate planning. It can provide ready cash to pay debts, cover taxes and meet living expenses for dependents while an estate is being settled.

The two basic types of life insurance are term, which offers protection only, and whole life, which combines protection with a savings plan. Generally, other life insurance policies are combinations of term and permanent life insurance.

### Gifts

Lifetime gift giving can be used to reduce both estate tax and income tax liability. You can transfer large amounts of property tax-free to your relatives and/or friends by using the annual gift tax exemption, marital deduction and gift splitting by spouses.

### Other Tools

Other estate planning tools that can be used to build an estate plan are annuities, stocks and bonds, social security and other retirement benefits and ownership of property. Regardless of the number of different estate planning tools in your estate plan, they need to be coordinated with one another.

## Conclusion

An estate plan is a part of your larger and everchanging financial picture. It is a pattern or a guide for working toward financial security and your family's future. Steps include deciding what you want to achieve, finding out your net worth, selecting competent advisors, arranging the best use and plan for disposal of your assets and reviewing the plan periodically to keep it up to date.

Dr. Betty Jeanne Sundling, Dr. Judith R. Urich and Wanda W. Shelby, former Extension specialists, prepared original manuscript of this publication (FSHEC36).

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