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Estate Planning for Every Stage of Life

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When most people think of estate planning, they imagine multimillionaires on yachts or elderly people entering the last chapter of their lives. The truth is, estate planning is for everyone—from the wealthy to the not-so-wealthy—age 18 and older.

Moreover, estate planning is not just about planning for death; it is about planning to protect you, everyone you love, and everything you have whether you are healthy, incapacitated, or deceased.

Essentially there are eight estate planning life stages: Young and Single, Single but Committed, Engaged, Just Married, New Parents, Divorced, The Middle Years, and The Golden Years. Following is a summary of the estate planning considerations at each of these life stages.

Young and Single

Children under 18 typically have their parents make medical and financial decisions for them. Under the law in most states, once a child turns 18, parents no longer have the right to make these decisions. However, if a medical emergency arose for a child away at college, and the child was incapacitated, the parents would want to be able to make medical decisions for that child and talk to the medical providers. Similarly, if the child's bank account (which is typically funded by the parents), was compromised or subject to identity theft, the parents would want to be able to discuss the matter with the financial institution on the child's behalf.

There are four essential estate planning documents that address these risks at this stage in life:

1. A general durable power of attorney would enable you to designate who will control your finances should you become incapacitated;
2. A health care power of attorney allows you to designate who will make medical decisions on your behalf;
3. A living will/medical directive allows you to express your wishes regarding life-sustaining medical treatment; and
4. Under the Health Insurance and Portability Act (HIPPA) you sign a release allowing your designated agent to discuss your medical condition without violating any privacy laws.

Without these necessary documents, a parent may be forced to go to court to seek guardianship over their loved ones to exert control.

Single but Committed

Committed couples often choose not to get married for various reasons but do intend on providing for each other upon passing. In this situation, it is important—at a minimum—to have a Will or Living Trust prepared that specifically designates what each life partner wishes to bequeath. Failure to have these wishes defined in a legal document (meaning do not write your own Will), assures that some, and perhaps all of, your estate will end up with individuals other than whom you intended.

Engaged

A prenuptial agreement is not strictly for people with a vast estate. One of the greatest sources of family discord is the "in-law" exercising control over the inherited wealth of their spouse. In fact, one of the leading causes of divorce is a lack of communication regarding finances and poorly set expectations for how finances will be handled in the marriage. A prenuptial agreement, although uncomfortable, is a sure way to get people engaged in this conversation, and perhaps discover some things about their potential life mate.

Just Married

This is the time to revise durable power of attorney, health care proxy, and HIPPA

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release documents, especially if there is no question about the spouse serving as designee. To illustrate the importance of having these documents in order, consider the high-profile case of Terri Schiavo. She did not have a health care power of attorney. Upon incapacitation, her husband and parents fought for over seven years in the courts to determine who had the right to make medical decisions on her behalf. This is the time to have a Will and/or a Trust prepared.

In many states, when someone dies without children and without a Will or trust, the surviving spouse may have to split the estate with the deceased's parents. This is the best time to plan to avoid any unintended results. This is also a good the time to consider life insurance and consider changing beneficiary designations on retirement accounts. Open communication between spouses is vital to setting mutually agreed upon expectations at this stage in life.

New Parents

It goes without saying that becoming a parent changes everything, including estate planning considerations. In that regard, the most important task at hand at this stage is to designate a guardian or co-guardians who will step in to care for the child/children in the event that both spouses pass away. In addition, setting up a revocable trust at this stage is ideal because it is the only vehicle that allows "control from the grave."

Without such a trust, a child could inherit the entire estate of his or her parents upon reaching 18 years of age. A trust, however, allows for staggering distributions until the child reaches ages of maturity or even for the rest of his or her life. The trust can also protect the inheritance from being controlled by the child's spouse, or to ensure some remains for potential future grandchildren. Finally, a trust can also protect the inheritance in cases where the child has issues with gambling or substance abuse, or a general inability to responsibly manage finances.

Divorce

The unfortunate truth is that half of all marriages end in divorce. During separating or divorcing, existing plans should be revoked and beneficiary designations changed immediately. Existing trust documents should be revised (or in the case of re-marriage, completely re-written) to provide for a new spouse and any children from the previous marriage. In addition, retirement assets may be the subject of divorce proceedings, for which the advice of counsel should be sought.

The Middle Years

At this stage, an estate plan review is in order to ensure it reflects the readiness of any adult, or nearly-adult, children to inherit an estate outright. If any such children are not deemed ready for such a windfall, or if control of distributions after death is desired, a revocable trust should be established. Again, this is the only way to control from the grave. This is also an appropriate time to set up trusts for grandchildren, if so desired, and to consider purchasing long term care insurance.

The Golden Years: Retirement and Beyond

Retirees should make it an annual practice to conduct an estate plan review and update documents as needed. Consider if the people named as power of attorney and/or successor trustee are still appropriate and, more importantly, ready, willing, and able to serve. Consider amending a trust to name a corporate trustee to handle the onerous task of estate settlement and administration upon death. A corporate trustee can also work with the surviving spouse and/or children as co-trustee in handling the numerous duties post death. This is also the time to clearly communicate end-of-life wishes and funeral arrangements.

Clearly, estate planning is not a 'set it and forget it' exercise, but rather an ongoing process throughout all life stages that requires careful consideration. To learn more about how you can benefit from more rigorous estate planning, contact a Wintrust Wealth Management professional. ■

What the New Law Means for Charitable Giving

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The Tax Cuts and Jobs Act of 2017 took effect on January 1, 2018. Under this new law, gifts to charity remain deductible, although it is estimated that the higher standard deduction—now $12,000—will mean that fewer than 5% of taxpayers will itemize. This could mean a drop in smaller gifts to charity. However, most of the structures for making significant gifts remain and the deduction limitations have been raised. While a taxpayer could deduct up to 50% of Adjusted Gross Income (AGI) for cash gifts under the old law, he or she can now deduct up to 60% of AGI for cash gifts and 30% for appreciated property with a five-year carry forward of any unused amount. For most donors, giving to charity is not about the deduction. They give because they support the mission of the organization. Tax savings from the deduction do, however, enable some donors to give more than they might otherwise. And there are still some tax benefits to be received from gifts to charity.

Qualified Charitable Distributions

Donors aged 70 ½ must take a required minimum distribution (RMD) from their IRA each year. This can often mean they are getting income they do not need which will be subject to taxation. Furthermore, the income from the RMD can push an individual into a higher tax bracket. A donor can avoid this tax by donating his or her RMD to charity up to $100,000. While the donor does not get a charitable deduction, they avoid the recognition of taxable income on the RMD.

Charitable Remainder Trusts (CRT) and Charitable Gift Annuities (CGA)

The CRT and the CGA are strategies for doing well while doing good. Each allows a donor to take a significant tax deduction while receiving annual income from the trust or annuity. With a CRT the donor establishes a trust by committing a sum of money to charity. The donor takes back an income interest generally for his or her life and the life of a spouse. The value of the gift less the value of the income interest is available as a deduction in the year the trust is established. At the end of the term any money remaining in the trust reverts to a predetermined charity or charities. The CGA is an annuity contract made with a charity. Like the CRT, the CGA pays the donor a fixed income for life. The remainder goes to the charity. The donor can take a charitable deduction in the year the CGA is set up just like the CRT deduction.

To learn more about charitable giving options, download our whitepaper, *A Guide to Wiser Giving* at http://guidance.wintrustwealth.com

The Donor Advised Fund

Donors who wish to make a significant commitment to charity but either want to spread the gift to a number of charities or are not sure what charities he or she wishes to support, may find the Donor Advised Fund (DAF) to be a convenient solution. A DAF is a fund which the donor establishes by making a significant gift to a special charitable organization like a community foundation. The total amount is available to the donor to make smaller charitable gifts to a number of charities when and how he or she wishes. A charitable deduction up to 60% AGI is available to the donor at the time the fund is set up. The donor does not receive an income interest when establishing a DAF, but he or she can time the contribution to have the greatest tax savings and then make gifts as and when he wishes.

The new tax law made some changes in the rules that apply to charity, but the structures available for larger commitments remain in place. If you have questions about this or want to set up a DAF with Wintrust, contact Ethel Kaplan at 312.431.6599 or ekaplan@wintrustwealth.com. ■

Autumn 2018 Economic Outlook

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Written July 11, 2018

Fiscal stimulus and tax cuts nudged inflation higher and with it, expectations for continued growth in the second quarter. These forces served to advance U.S. equities and bond yields across the globe. Small-cap stocks posted a sizable advantage over large-cap stocks, with investors likely rotating due to both attractive relative valuation and the threat of increased trade barriers harming larger companies.

While U.S. equity markets gained in the quarter, many foreign markets declined, with many emerging markets losing 15% or more.

Year-to-date, the Russell 3000 Index, one of the broadest market indices, has advanced 3%, which is solid performance considering how expensive stocks were as we moved into 2018. In the second quarter the Russell 3000 advanced nearly 4%, with small-caps outperforming both mid- and large-caps. From a style perspective, growth outpaced value in the large- and mid-cap segments, but value stocks paced returns in the small-cap arena. From a sector perspective, late-stage cyclicals led the market performance. Energy stocks powered through to a huge rebound, while Consumer Discretionary and Tech stocks continued their solid performance. On the other hand, Consumer Staples, yet again, recorded the weakest relative performance.

ESTIMATED ECONOMIC VARIABLES AND INTEREST RATES

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Real GDP	2.90%	2.90	2.90	2.90	2.60
Consumer Price Index	2.70%	2.80	2.50	2.30	2.30
3-month Treasury Bill	2.49%	2.63	2.79	2.91	3.05
10-year Treasury Note	3.07%	3.17	3.26	3.30	3.37
Unemployment	3.80%	3.70	3.70	3.70	3.60

Source: Bloomberg

The U.S. Dollar gained more than 5% in the quarter, at the expense of just about every other major currency—the Euro, Japanese Yen, Chinese Yuan, and British Pound all lost more than 4%. Most commodities (with the notable exception of oil) also declined, as the threat of tariffs on agricultural products and industrial metals drove prices lower. In fact, crude oil prices rose by more than 14% in the quarter on the back of strong demand and political uncertainty.

Interest rates rose early in the quarter, with the yield on the 10-year Treasury note breaching the psychologically important 3% and closing the quarter at 2.85%. The Federal Reserve continued on its path of raising the federal funds rate, moving it up one-quarter of a point to 2% in June, and signaling two more such hikes before year end. The yield curve, however, flattened, perhaps suggesting a more challenging long-term economic environment.

U.S. equity markets continue their rolling sideways correction, with stocks up about 2% for the year, while earnings look to be 20-25% higher year-over-year. Building inflation pressure, the Federal Reserve's series of rate hikes, and growing trade tensions appear to be the primary threats at this time. ■

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