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Preserving Your Legacy with a Solid Estate Plan

Watching a house under construction offers a fascinating learning experience. Each part under construction builds on the previous one, working up from the foundation to the floors, walls, and finally, the roof—until the building is safe from the elements and provides security for a family. Constructing an estate plan is a similar process. If you "construct" your estate on a solid foundation, according to a well-designed plan, it can securely "shelter" your loved ones for the future.

Just as all house styles do not suit all families, neither do all estate plans. A "one size fits all" approach to estate planning should be avoided. Your estate plan should be customized to fit *your* specific needs and those of your spouse, your family, and if applicable, your business.

A solid estate plan should, among other things, provide for the distribution of your property after your death, provide for the care and financial security of your dependents, and include sufficient funds to help pay for final expenses and estate taxes. A major component of any estate plan is a strategy to minimize or reduce the estate tax burden.

Minimizing Estate Taxes

Many couples are familiar with the **unlimited marital deduction**, which allows the spouse who dies first to leave his or her estate to the surviving spouse free of estate taxes. However, a married couple with assets exceeding the unlimited marital deduction may face a sizeable estate tax liability.

This is because each individual's assets above the $5.34 million **applicable exclusion amount** are subject to estate taxes. Without a proper estate plan in place, the first spouse to die may be unable to take advantage of his or her respective applicable exclusion amount.

A number of estate planning techniques, including credit shelter provisions in a will and trusts, could be used, depending on the circumstances, to take advantage of both spouses' applicable exclusion amounts. To illustrate this, let's consider the hypothetical case of Joe and Amy, whose combined assets total $10.68 million. Joe's estate is worth $6.68 million, whereas Amy's is worth $4 million. Because of the unlimited marital deduction, if Joe dies first (in 2014), his assets will automatically pass to Amy free of estate taxes.

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The Blank Canvas: Staging Your Home for Sale

In life and in home sales, first impressions are everything. Prospective buyers may look at many homes before deciding which one to buy. Often, the first viewing factors into whether a home receives a second look. In preparation for the prospective buyers who will look at your home, it's important to put your property's best face forward with presale home improvements or, in other words, to "stage" your home for sale.

Exterior Impressions

The very first image that prospective buyers see is your home's exterior, so pay attention to the landscaping. It may be worthwhile to mulch and plant a few new bushes or flowers in your yard to spruce it up. Keep in mind that as a seller, you want to show prospective buyers the possibilities your home offers. You don't have to plant a lavish new garden, but some simple, attractive landscaping can allow potential buyers to imagine what they could put in the outdoor spaces, too. Also consider hanging a seasonal wreath on your door and filling planters for your porches. A little goes a long way in beautifying the exterior of your home, so be sure not to go overboard.

You should also determine whether the exterior of your house needs to be repainted in order to sell it. A house that has peeling paint and bare wood spots may present as a home that has been neglected, which in turn could lead buyers to wonder what else hasn't been kept up. Then, calculate the cost of painting the house. Are you able to paint it yourself? Or, do you need to hire a crew to do it? Perhaps you don't need to repaint the whole building, but a fresh coat on the front door could accent your home's attractiveness just enough to create a favorable first impression.

Interior Impressions

For the interior, cleanliness is essential when it comes to showing your home to prospective buyers. While buyers may realize that some properties are "fixer-uppers" that will require some elbow grease, a cluttered, unkempt house tends to discourage buyers from even considering the property. After seeing any

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Keeping Sight of Personal Priorities

In the rush of daily business activities, business owners can lose sight of what they had originally hoped to accomplish through their continuous efforts. Over time, as the business grows, personal objectives may also change.

When was the last time you stopped to reevaluate your personal priorities and goals? Here are some key areas to consider:

Building wealth. Many business owners become so engrossed in company operations that they inadvertently neglect their personal finances, particularly when most of their liquid assets are tied up in the business. To achieve financial independence and build personal wealth, it is important to make personal savings a priority. By conducting regular financial reviews and taking follow-up action as needed, you can develop strategies that will help strengthen your *personal* finances.

Preparing for retirement. Many tax-deferred, ***qualified* retirement savings vehicles**, such as **simplified employee pension plans (SEPs)** or **401(k) plans**, are available to business owners and their employees. The size of a company, along with the ages and salaries of its employees, often determine which type of retirement plan is most appropriate. In addition, ***nonqualified* plans** allow business owners to provide *selective* retirement benefits for themselves and their key employees.

Developing an exit strategy. Will your small business be marketable if and when you decide to sell? Develop an exit strategy that will help maintain the value of your business should you choose—or be forced by circumstance—to sell.

Keeping it in the family. Your company may be a **closely held business**, operated by more than one family member. If you wish to keep your company in the family, it is important to learn about **transfer tax** issues and to develop a **business succession** plan that will help secure your long-term goals.

Stay Focused

As your company grows and develops, remember to set your *personal* priorities, especially as they change over time. Annual reviews can help ensure that your business operations are consistent with your overall objectives.

The Reality of Early Retirement

Is early retirement on your wish list? Do you envision a relaxing lifestyle in a warmer climate or the leisurely pursuit of a personal hobby? Unfortunately, retiring later than anticipated, rather than sooner, is becoming more and more commonplace. But some people are still managing to retire early. You may be asking yourself, "How do they do it?"

The key is to be *proactive* in your retirement planning. Of course, the sooner you begin planning and saving, the better your chances are for early retirement. Keep in mind that a general rule of thumb is that you may need as much as 60% to 80% of your preretirement income to meet your expenses and maintain your desired lifestyle in retirement.

Redefining Retirement

Multiple factors are redefining how Americans approach retirement. Due to financial necessity, or perhaps too much leisure time, some retirees are reentering the workforce. Many retired executives start their own part-time consulting businesses; others trade in their 70-hour work week for semiretirement, during which they work less and spend more time with their families. Part-time work during retirement can be an important income supplement, especially if you plan to retire early from your full-time job.

Longer life expectancies are also changing the retirement landscape. Although your chances of a longer retirement are certainly greater if you retire early, relying solely on Social Security, for example, may be more difficult over time. This program was originally designed as a safety net, and not intended to provide perpetual income. Further, traditional pension plans have been generally discontinued by most companies and replaced by employer-sponsored retirement savings vehicles, such as company 401(k) plans.

The shifting of the responsibility for retirement planning from *employers* to *employees* has put more of an emphasis on the importance of maximizing contributions to your workplace retirement savings plan and taking full advantage of the company match, if available. As a result of these factors, your retirement assets, as well as your personal savings, may have to work harder to meet your objectives, no matter when you retire.

An often overlooked aspect of retirement planning is managing your personal finances while you are retired. To help ensure enough assets for decades of retirement income, your money may have to continue working for you throughout your retirement years. Inflation—along with the amount of income withdrawn from your retirement plan—will have a direct effect on how long you will be able to meet your expenses. Therefore, personal savings will continue to be an overall part of your financial plan.

Budgetary constraints can also determine your lifestyle choices in retirement. In order to determine whether you will be able to maintain your current or desired lifestyle if you retire early, it can be helpful to estimate your retirement income and expenses. Unfortunately, these estimates are difficult to project, as you will need to consider everything from fitness center fees to out-of-pocket health care costs. In addition, you must factor in inflation and how your financial needs may change over time.

Remember, for those who wish to retire early, it is important to realize that certain tax penalties may apply for early withdrawals from retirement plans. Be sure that you review all of your options with a qualified financial professional.

Even in a challenging economic climate, early retirement remains a possibility. By planning ahead and maximizing your retirement plan contributions and personal savings, you may increase your chances of reaching your early retirement goals.

preserving your legacy with a solid estate plan

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Amy's estate will then be worth $10.68 million (Joe's $6.68 million plus her $4 million). However, at Amy's death (also in 2014), the maximum amount she may transfer to her surviving children free of estate taxes would be $5.34 million (her applicable exclusion amount). The remaining amount of assets over the applicable exclusion amount will be subject to estate taxes, which can be as high as 40%. This tax can take a sizable chunk out of an estate, unwittingly making Uncle Sam a significant beneficiary.

However, if Joe had a properly structured trust (which must be established while he is still alive), he could place his entire $6.68 million estate into the trust. (This would require retitling his assets to be owned by the trust.) At his death, Joe's trust would be able to fully use his $5.34 million applicable exclusion amount, which would still be available to Amy for income and support and would ultimately pass to her children free of estate taxes.

Joe's remaining $1.34 million (his original $6.68 million estate minus the $5.34 million used to offset the applicable exclusion amount) would pass directly to Amy at his death. This would leave her with a total estate worth $5.34 million (her original $4 million plus the $1.34 million Joe left her). At Amy's death, her applicable exclusion amount will allow her to pass her entire estate to her surviving children free of estate taxes. In this case, proper planning can allow Joe and Amy to pass their entire combined estate of $10.68 million to their children free of Federal estate taxes.

This estate planning technique may enable a couple to use both of their applicable exclusion amounts, and is just one example of how a solid estate plan can help you and your family. Just as you would consult a contractor when building your house, it is important to consult your experienced legal, financial, and tax professionals to help ensure your estate plan is appropriate for your circumstances and will achieve your objectives. With a well-constructed estate plan, you can rest easier knowing you have done all you can to preserve your financial legacy.

the blank canvas: staging your home for sale

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number of prospective homes, buyers are more likely to eliminate messy or unclean homes up for sale.

In addition to general housekeeping, a new coat of paint in each room can also help freshen up your home. While you may prefer walls in espresso brown or deep indigo, your tastes may not be shared by the prospective buyers. In staging your home, you want to offer a blank canvas to help buyers imagine possibilities. This means painting the interior in neutral colors. It also means de-accessorizing your home, especially if your personal taste runs toward the eclectic. Keep your accessories simple, spare, and tasteful so buyers can envision a living space that matches their own pictures, lamps, and furniture.

The most common mistake prospective sellers make is to showcase their personal decorating tastes and styles to impress potential buyers. Instead, when staging your home for sale, think Thoreau and "simplify, simplify" by offering the prospective buyer a blank canvas to draw on.

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