Why Estate Planning Is Important

Estate planning isn't just for wealthy people or older adults. It's a comprehensive process that ensures you'll leave the legacy you want, and make things easier for the loved ones you'll leave behind.

When you pass away or if you ever become too physically impaired to communicate your wishes, your family may have to make difficult decisions on your behalf. They might have to figure out what to do with your assets, who will care for any young children you may have and how to manage your medical care.

By estate planning when you're still in good health, you can help ensure that these key decisions are made according to your wishes. The process can also help your loved ones avoid unnecessary disagreements about what you would have wanted.

What Is Estate Planning?

An estate plan is the process of anticipating and managing the financial, medical and guardianship issues that will arise after your death or incapacitation. It typically involves drafting a Will, Trust and other documents that outline how you'd like your assets to be managed and distributed after your passing. The plan may also address who will care for any children who are still minors and stipulate which medical interventions you wish to receive if you become terminally ill or severely injured. Estate planning will also require you to appoint a trusted individual who will represent you in various capacities, in the event you are unable to speak for yourself, medically or financially.

Often, there's a perception that estate planning is only for affluent individuals or those who are older. However, preparing legal documents that express your financial and healthcare wishes is important for anyone, regardless of your net worth or age. Formally expressing your intentions can help eliminate unnecessary tension between family members, as well as the need for court involvement in decision-making.

The Estate Planning Process

A comprehensive estate plan addresses several potentially complex legal and financial issues, so you should consult with an estate planning attorney who specializes in this area. You may also want to include your financial and tax professionals in the process.

Once you've established your estate plan, it's important to regularly review and amend it where necessary — especially if you've gone through a major life event. Perhaps you experience a divorce that alters your financial considerations. Or maybe you change your mind about which medical interventions you want in the case of an emergency.

What Documents Make Up An Estate Plan?

Many people think an estate plan deals exclusively with financial assets. But that's only a part of it. The most basic estate planning documents should include:

Financial Power Of Attorney

Also known as financial power of attorney (POA), this person will handle your property and financial matters if you're unable to do so yourself. For example, if you have a health emergency or accident, this person could pay your bills or manage other financial considerations on your behalf.

Healthcare Power Of Attorney

Your healthcare POA is someone you designate to make medical decisions on your behalf if you're unable to do so. If you're moving away from family for the first time, you may want to designate someone who lives near you and can more easily communicate with the medical team. Depending on the state where you live, this role may have other names, such as a healthcare agent, healthcare attorney-in-fact or patient advocate.

Will

Wills stipulate how you want your assets distributed after you die. A will can also include other information, like who you'd want to care for your children if they're still minors. Having a will typically makes the process of administering your estate, known as probate, much simpler. If you die without a will, or "intestate," the local court has to take a much more active role in settling your estate, and may make decisions that don't align with your intentions.

Advance Directive, or Living Will

An advance directive provides instructions for your end-of-life care when you're unable to communicate your wishes. The document specifies whether you want medical staff to perform life-sustaining measures such as cardiopulmonary resuscitation (CPR). You can also clarify other desires, like whether you want to be an organ donor.

Trusts

When it comes to your financial assets, a Trust can offer potential benefits that aren't available with a will. Trusts give you greater control over how your assets will be distributed and can even help you reduce estate taxes if your net worth exceeds the federal or state limit. You must designate a trustee to oversee the distribution of assets, which can be an individual, a financial institution, or both.

Other Essential Documents In Estate Planning

In addition to the steps mentioned above, consider preparing the following documents to help make the administration of your estate go smoothly.

- **Beneficiary designations.** Make sure all of your financial accounts and life insurance policies list both primary and contingent beneficiaries. Review your choices every year to make sure they reflect your current wishes.
- **Memorandum.** A personal property memorandum is a document that lists who you would like to receive smaller items, such as jewelry or artwork. This memo helps express your wishes to the executor, but may or may not be legally binding, depending on the laws of your state.
- **Letter of Instruction.** A letter of instruction provides your executor and family members with easy-to-understand instructions on how to administer your estate. It may include guidance for funeral preparations, financial information and personal messages to loved ones.

What Are The Benefits Of Estate Planning?

An estate plan helps your loved ones navigate a range of complex issues down the road. Drawing up the appropriate documents now can provide important benefits, such as:

- **Protecting Your Minor Children.** By designating a guardian, your family can avoid disagreements over who will step in if you're no longer able to care for them.
- **Expressing Wishes For Your Funeral.** You can express your desires, like whether you'd like to be cremated or buried and where your remains will be laid to rest. You can also indicate any details of your funeral that you want your family to carry out.

- **Specifying How Your Assets Are Distributed.** It's important to designate beneficiaries for your assets, ranging from investment and bank accounts to life insurance policies. But your will outlines how the executor should distribute any other assets, including any real estate you own.
- **Leaving A Legacy.** You can make an impact even after you pass away by naming favorite charities, places of worship or other organizations in your will. You can also set up a trust to make ongoing contributions.
- **Helping Your Family Manage Tax Issues.** If you're leaving behind a large estate, your plan should include a source of liquid assets to help pay federal or state taxes.
- **Protect Your Assets from State Medi-Cal/Medicare Recovery**. Medicaid estate recovery, is a process where state Medicaid agencies seek repayment for Medicaid benefits paid on behalf of a deceased recipient, typically from the recipient's estate. Medicaid estate recovery typically applies to individuals who are age 55 or older when they receive Medicaid benefits, especially those who received long-term care services.

An estate plan is an important part of the legacy you want to leave behind and will help ease things for your loved ones during a difficult time. Establishing an estate plan now, and updating it regularly, will help bring peace of mind.

Frequently Asked Questions About Estate Planning

How much does estate planning cost?

The cost of preparing an estate plan depends on the number and complexity of the documents the estate planning professional has to prepare. The cost of living in your area and the attorney's experience level are also important factors that may affect how much you pay. Estate planning attorneys may charge a flat fee per document or an hourly rate.

According to the National Council on Aging, working with an estate planning attorney to create a will generally costs up to $1,000, while setting up a living trust can typically cost up to $3,000. Plus, you may pay more to have an attorney update these documents over time.

Alternatively, you can create your own estate planning documents for much less through online legal services, although you won't receive the personalized advice you would get from an attorney.

Why is estate planning important?

A comprehensive estate plan ensures that your wishes are carried out when it comes to the distribution of your assets, the guardianship of young children or your final arrangements. It can also help avoid protracted court proceedings, as well as family disagreements, after your death.

What is the purpose of making an estate plan?

An estate plan helps your family avoid disputes about what your intentions were. An estate plan also helps your loved ones carry out your wishes if you should become medically incapacitated.

What is included in estate planning?

Estate planning involves the creation of legal documents that clarify your wishes when you die or become unable to make your own decisions. Often, it includes a will, an advanced directive, a property power of attorney and a healthcare power of attorney. It may also include a trust if you have complex financial needs or want to manage any tax issues that may arise after your death.

What is the difference between a will and estate planning?

An estate plan is a multifaceted process that helps ensure your wishes are carried out after your death or incapacitation. A will, which is a legal document that specifies how you want your assets distributed after your passing, is a key part of an estate plan. However, estate planning usually involves other documents, including property and healthcare power of attorney documents, trusts, and an advanced directive for end-of-life care issues.