How to plan your estate

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What is estate planning?

Estate planning is the process of determining how your wealth and liabilities should be transferred to the heirs of your choice before or after your death and then deciding which legal tools and structures you need to meet your estate planning goals. One goal is to ensure that your beneficiaries receive your assets in a way that minimises estate tax, gift tax, income tax and other taxes.

An estate plan also ensures that you are taken care of for the rest of your life, should you become ill or permanently incapacitated. A good estate plan makes sure these goals are accomplished with as much efficiency and as little cost as possible.

Most importantly, estate planning helps to protect your family and your assets against financial hardship.

Estate planning is important because you

– distribute your wealth according to your wishes
– continue your current lifestyle in retirement
– provide for the case of illness or incapacitation
– preserve your wealth
– protect your family's financial interests
– prevent or decrease the likelihood of family conflicts
– reduce taxes and probate costs

To begin the estate planning process, you need to consider following steps:

1. Prepare your family for the transfer of your wealth
2. Define the objectives of your estate plan
3. Make a list of all your assets, liabilities and personal information
4. Identify potential threats to your wealth and make plans to protect it
5. Prepare a written will
6. Think about your retirement plan
7. Gifts and donations during your lifetime
8. Implement your estate plan and adapt it as your life circumstances change

Prepare your family and define the objectives

1. Prepare your family for the transfer of your wealth

Having everything planned upfront gives many people a feeling of peace and security. While it is never easy to discuss passing on your inheritance with your family, your wealth is part of your legacy.

It might be hard and even emotional to talk about what happens after you die; however, issues surrounding your inheritance could create conflicts and rifts within your family when they are already going through a difficult time. When it comes to transferring your wealth, making timely arrangements provides security and clarity for both young and old. Trusting conversations between family members on financial aspects can strengthen the bond between generations.

Passing on your wealth is complicated at best and in many cases a very emotional process. The issues that need to be confronted are far easier to avoid than to address. Mapping out your estate plan now puts you in a position to monitor your wealth during your lifetime and make adjustments as needed.

There is no reason to do it alone. Think about getting outside help from specialists to support you in structuring your wealth transfer and to help you create an efficient and long-term plan that will ultimately benefit you and your family. There will be a few things to consider whilst preparing your family and heirs for receiving the wealth you'll be passing on.

With a well-structured estate and asset transfer plan, you can determine actively and with foresight what will ultimately happen to your assets whilst ensuring you have made suitable provisions for your own future.

2. Define the objectives of your estate plan

Do you want to provide for your family, protect your assets, leave a legacy or provide for your retirement and potential incapacity? Possibly all of the above – however, in each case you must have a clear picture of the outcome you are seeking.

Some of the most common objectives include the following:

- wealth transfer before or after your death according to your wishes
- planning a cost-effective transfer of your wealth
- business succession, sale or exit
- avoiding probate proceedings
- protecting your wealth and family members
- preparing for your retirement
- preparing for situations such as becoming seriously injured, ill or incapacitated and providing detailed instructions for your medical care in advance should you ever lack mental capacity
- designating a person to make decisions in your name should you not be able to do so
- donations/legacies to charity
- in the event of your or your spouse's premature death:
  - ensuring your minor children are financially covered and cared for until they come of age
  - ensuring your pets are cared for
  - ensuring surviving family members (parents, siblings, etc.) are financially covered
  - ensuring your businesses stay operational

Make a list and identify potential threats

3. Make a list of all your assets, liabilities and personal information

In order to prepare an effective estate plan, you will need to start by gathering this information. Any expert you may hire to support you in the process will not be able to do much without a complete list of your possessions and debts. While collecting your information, do not forget frequently overlooked assets such as insurance policies, pension plans, trusts where you are a beneficiary and inheritances you may receive. You will also need to make a list of all your debts, as your successors will receive only your net assets.

– **Assets could include, but are not limited to:** houses, vehicles (cars, boats, yachts, etc.), investment accounts, retirement accounts, online bank accounts, cash, paintings, jewellery, art, antiques, life insurance policies, health savings accounts, ownership interests in businesses, intellectual property, gifts for life, etc.

– **Liabilities:** mortgages, loans, credit cards, funeral and other end-of-life costs, etc.

– **Personal information:** birth certificate, passport, marriage licence, marriage and divorce documents, last will if already existent, social media accounts, etc.

Once you have written down your assets and liabilities, you need to collect all documents proving your ownership or debts. The best way is to keep all available documents (ownership certificates, valuations of your real estate, bank statements, mortgage contracts, etc.) in a folder. This way you will also be able to estimate the total value of your possessions, which in turn can ensure their equal distribution among your loved ones should you decide to split your possessions into equal parts.

4. Identify potential threats to your wealth and make plans to protect it

Many people view estate planning as a tool to reduce tax payments and plan the steps after their passing, but in reality a good estate plan is so much more. Among other things, it helps you protect your assets; and ensuring your wealth is protected is part of securing your legacy.

The risks your wealth is exposed to range from unforeseen capital market developments, housing market trends (drop in the value of your properties) and natural disasters to higher costs for your retirement care and potential losses caused by not having a business succession plan. You need to pinpoint your risks and make plans to mitigate them.

Risk identification is the first half of the risk assessment process, after which you can evaluate the potential impacts and the likelihood of an event happening. To get a complete overview you can use a simple tool like an Excel spreadsheet with the following columns: asset, risk, event, impact, likelihood and finally measures to mitigate the potential outcome.

An example of this could be a painting:
– Asset: painting
– Risk: flood/fire
– Event: the painting is not stored in a flood/fire-proof place
– Impact: in the case of fire, the artwork is destroyed and with it its value
– Likelihood: 20%
– Mitigation: storing the painting in a vault

You can go on and list all your most valuable assets along with the possible threats and mitigation plans. For certain assets you may need to consider multiple risks. The bottom line is to be aware of potential problems and prevent them from happening.

Prepare a written will

5. Prepare a written will

A written will is a cornerstone of your estate plan. While the estate plan ensures you are taken care of for the rest of your life, a will makes sure your assets are distributed according to your wishes and your family is taken care of after your death. Without a written will, your wealth will be distributed according to inheritance law, possibly in a way that you may not agree with.

You need to decide who you would like to inherit your assets and who you want to protect. Traditionally, major assets are bequeathed to the family: to your spouse and children, if you have any, usually in equal parts. Smaller amounts or specific items (jewellery, artworks, specific property) may be given to grandchildren, close friends or relatives. You can even decide to donate a portion of your estate to charity. It is important to remember that inheritance law usually prohibits completely disinheriting your spouse and children.

Wills can vary in their structure and can be used to achieve a wide range of family and financial objectives.

The reasons for including a will in your estate plan include, but are not limited to:

- disposing of your wealth (property, money, real estate, tangible possessions etc.) according to your wishes
- naming guardians for your minor children: if you have children under the age of 18, you can name a guardian to care for them should you and your spouse both pass away prior to their coming of age
- designating a person to make decisions in your name should you become incapacitated
- restricting your children's access to their inheritance: in this way you can protect the inheritance until your minor children or children with poor financial judgement meet certain criteria (age, education)
- distributing the proceeds from your life insurance: in the case of your death without a will, insurance proceeds are distributed according to your country's inheritance law; in your will, you can state how and to whom insurance proceeds should be distributed

Please note that in your will you cannot dictate what happens to assets that are subject to beneficiary designation, third-party preemptive rights or mandatory provisions of law. Such assets include, but are not limited to: life insurance plans, retirement accounts and joint accounts with a right of survivorship.

Trusts (including revocable trusts – unless the trust specifically says that the individual can change its terms through their will), already transferred or donated assets and other assets with rights of survivorship that pass to the surviving owner upon your death can also not be disposed of by will.

A will needs to be signed in the presence of witnesses and satisfy certain formalities prescribed by your country's inheritance law to be valid. It is important to update your will in case the circumstances in your country of residence change.

Retirement plan and gifts and donations

6. Think about your retirement plan

How do you intend to finance your retirement lifestyle? What happens if you suffer an accident, become ill or permanently incapacitated? You will need to consider questions such as who will make decisions for you and what kind of medical care you want to receive or reject. You will also need to think about who will provide you with care and how you will pay for it. Understanding your time horizon is crucial in retirement planning. To have a secure and comfortable retirement, you need to build up financial reserves and plan for unexpected events.

You should consider:

- determining your time horizons and when you want to retire
- identifying your retirement needs and setting up savings and investment plans to reach your objectives
- estimating your tax, health care and other expenses and adapting your initial calculations
- checking your retirement and insurance accounts, as they are usually subject to beneficiary designations that you need to keep track of and update if needed.
- addressing your health care preferences: for example, do you want to be kept alive in the event that you are put on life support? Do you want to undergo extraordinary measures to prolong your life?
- establishing an enduring power of attorney so the person you designate can make investment or other decisions on your behalf should you be unable to do so
  · More specifically, an advance directive names a person you trust to make health-related decisions for you if you are unable to speak for yourself due to incapacity and have not specified this person in your will.
- deciding on your preference for either long-term care in your own home or in a nursing home of your choice should you be unable to live independently

7. Gifts and donations during your lifetime

You should determine how much of your wealth you want to transfer during your lifetime and how much after. It is easier to reduce taxes and avoid some probate costs if you are willing and able to transfer parts of your assets during your lifetime.

Gifts made during your lifetime can be very valuable as your family will not have to wait to draw on the benefits and you can also see the outcome of your decision. On the other hand, this may have an impact on the further distribution of your wealth should you, for example, conclude that the person who received the gift is not capable of managing the assets properly. In this case you still have the option of establishing a trust or linking the inheritance to specific criteria (age, financial education, etc.).

You can transfer any kind of asset as a gift. The possibilities range from transferring real estate to paying tuition fees, helping to start a business and even paying for some specific occasions (weddings, health emergencies, etc.).

When transferring your assets during your lifetime, you need to make sure that your remaining wealth or income is enough to maintain your standard of living, including retirement provisions.

Implement and adapt your estate plan

8. Implement your estate plan and adapt it as your life circumstances change

Once you have established your plan, it is prudent to have external specialists help you structure and implement it. You may well need asset and wealth managers, and you will most certainly need good accountants and lawyers.

A trusted advisory team can help you develop and assess different strategies, weigh up scenarios for selling and managing assets and advise you on the tools you will need to use. You may need to establish a trust, set up an enduring power of attorney or an advance directive, and write a last will to accomplish all the objectives you have defined in your estate plan.

Designate someone you trust, a friend or family member, to be the executor of your will. Keep in mind that this is a responsible and often very difficult task.

Final thoughts

Estate planning raises very complicated and emotional issues connected to the future of your family and sometimes also your family business. There is no way around it. Planning upfront can avoid many problems and misunderstandings as well as ensure a comfortable and secure golden age of retirement for you. Although it is not easy, the most important thing is to involve your family in this process. You may need to have some uncomfortable discussions – but in the end, they are in the interests of everyone involved. The earlier these conversations take place, the better. Estate planning is a complex process and although you need to set up the basics, it pays to seek external advice. Usually, you will need lawyers to help you structure your will, tax advisors to comb through your assets and look for ways to optimise their distribution – but also bank advisors who will accompany and guide you with their know-how and expertise. In the end, it is comforting to know that your life's work and your legacy will be preserved and passed on to the next generation exactly as you intended.

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