

## Mistakes to avoid during estate planning

Experts all agree: Biggest pitfall is in doing nothing at all

By PETE PICHASKE

Special to The Daily Record



Howard 'Buddy' Goldman, director of estate and business planning for Northwestern Mutual in Baltimore, tells clients to plan ahead for their estates.

Professional estate planners can easily tick off long lists of what can go wrong in planning for what happens to your money and property when you die, but they pretty much agree on the worst mistake you can make: Doing nothing.

"The biggest mistake anyone can make is to not do any estate planning at all," said Tom Byers, a tax partner at Ellin & Tucker and leader of the Baltimore accounting firm's Estate Tax Planning and Compliance Group.

"For many, it's a difficult topic to approach," he added. "No one likes to think of their own passing, and many people start thinking about it too late. But it's something everyone needs to do."

Howard "Buddy" Goldman, director of estate and business planning for Northwestern Mutual, in Baltimore, said, "I often tell people that without proper planning, Uncle Sam may become the primary beneficiary of their estate."

Planners also agree that anyone with assets needs a thoughtful estate plan, and that certain milestones in your life — getting married, having your first child — can dictate when it's time to get one.

A good estate plan includes several basic legal documents, planners say: a will; a financial power of attorney giving someone the authority to act for you; a health care directive giving someone the authority to make health care decisions for you if you can't; and, possibly a trust.

The documents should be written and reviewed by an attorney, planners say, and as unambiguous as possible.

"A will needs very clear instructions," said Frank Cannon, first vice president of wealth management at UBS Financial Services, in Baltimore. It should include not only financial assets, he said, but also plans for possessions like artwork, cars or a favorite piece of furniture.

"It has to be stated very clearly so there are no misunderstandings," Cannon said.

Another way to avoid misunderstandings, planners said, is to talk to heirs about your estate plans.

"By and large, I find that communication, openness ... makes for a smoother transition of assets," said Robert Horne, an estate attorney with the Baltimore law firm of Adelberg, Rudow, Dorf & Hendl.

It's advice that many ignore. A recent survey by UBS Financial Services, Cannon said, found that nearly half of benefactors had not discussed their inheritance plans with their children.

Planners also advise against using form wills, such as those found online.

"If you have enough assets to worry about estate taxes, you should get an attorney," Cannon said.

"I've seen do-it-yourself wills bought by very intelligent people, people smarter than I am, and they don't work," Horne said.

Estate laws vary from state to state, he said, and



Howard 'Buddy' Goldman, director of estate and business planning for Northwestern Mutual, in Baltimore, and other experts in the industry say the biggest mistake clients can make when estate planning is to do nothing.

many such forms are generic.

"When clients bring these forms, I may get an idea what they want to do, but I generally discard them," he said.

Estate planning is not a one-shot deal. Plans should be reviewed and updated every few years — some recommend every three-to-five years, others every five-to-seven — to take into account changes in laws, assets, beneficiaries, births, deaths, wishes or anything else that could affect the estate.

Dramatic life changes, such as divorce, a move to another state, the death of a beneficiary or the birth of another beneficiary (a child, for example), require immediate changes in your estate planning.

"I tell people estate planning is the same as upkeep and maintenance for your car or house, it's just on life," said Greg Smith, a certified financial planner with the Reston, Va.-based Wise Investor Group. "It's one of the costs of living."

Other common mistakes and problems, and how to avoid them:

- Incorrect titling on your documents. Make sure the right name is on the asset, whether it's a house,

IRA, life insurance policy or anything else. "You can have the best documents in the world," Byers said, "but if they're not titled correctly, there really is no plan at all."

- Failing to update beneficiary designations. Sounds basic, but this is one of the biggest problems faced with estate planning, according to Horne.

- Sloppy drafting that can slow down the process, such as misspelled names and percentages that don't add up to 100.

Fortunately, none of these problems are insoluble. "All it takes is a little bit of pre-planning and forethought, and so many mistakes could be avoided," said the Wise Investor Group's Smith.

Think of it as a favor to your family, he said. "Most people think estate planning is to protect and preserve your assets," Smith said. "It's not really. It's to protect and preserve your family. ... Once you know your family is protected, then everyone gets to sleep a lot better at night."

## Experts suggest wills include provisions for family pets

Financial advisers, estate attorneys recommend designating a guardian, trust

By PETE PICHASKE

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When she died seven years ago, New York hotel heiress Leona Helmsley famously left her dog \$12 million. But you don't have to be an eccentric multi-millionaire to include your pets in your estate planning.

Financial planners say that if you have a beloved pet, it makes good sense to make sure it's cared for after you're gone.

"It's a question I get asked fairly frequently, and it's a good question because for a lot of people their pets are their family," said Robert Horne, an estate attorney with the Baltimore law firm of Adelberg,

Rudow, Dorf & Hendl. "They walk them every day, feed them, they spend more time with them than they do their family members."

"It's a sensitive subject, absolutely, but you have to think about it," said Howard "Buddy" Goldman, a wealth management adviser and director of estate and business planning for Northwestern Mutual in Baltimore. "I mean, what are you going to do with the pet?"

Goldman said he's seen instances where someone wanted their dog put to sleep because the pet would not want to live without them.

Other options are available, however, and used more often.

Financial advisers and estate attorneys differed slightly on what makes the most sense, but all agreed that provisions should be made for family pets.

At the least, they said, a guardian should be designated. Typically, the guardian is a family member or friend who likes pets and has agreed to take in the pet. Picking a guardian for a pet, the advisers said,

is not unlike picking a guardian for your child and should be done in a legal document.

As for how to include pets in your estate, there are a number of possibilities:

- Write the pet into your will.
- Write a letter of instructions, detailing who will care for the pet and what sort of care you want.
- Set up a trust that includes your wishes and instructions, as well as the money to pay for the level of care you expect — perhaps including such things as occasional grooming and unexpected medical expenses.

Horne said he did not recommend a separate trust for household pets because of their short life expectancy. Pet trusts, he explained, are expensive to administer and subject to higher taxes than other trusts. In addition, they are complex.

"You have to pay an accountant to handle it," he said. "It's not something a layperson could figure out."

Better, he said, to find someone (typically a fam-

ily member) willing to care for your pet and then leave that person a bequest of cash to cover expenses.

For animals with longer life expectancies, such as horses or some birds, a pet trust might be worth the expense, he said.

Frank Cannon, first vice president of wealth management at UBS Financial Services, in Baltimore, said that the best way of giving your pets the life you want for them after you die is to leave detailed instructions, and possibly money, in a legally binding trust.

Helmsley, he explained, did it all wrong by leaving her dog money in a will, because a will distributes property and can fund a trust, but the trust includes the necessary instructions.

"Once you get to know a client, you know how important their pets are," Cannon said. "And the only way you're assured that when you leave this world that the pet will be cared for in the way you want it to be is to put those thoughts on paper via a trust. ... It's a much cleaner way of doing things that avoids arguments and problems later on."

## Experts reveal tips to avoid estate taxes

Exclusion allows gifts up to \$14K per year tax-free

By PETE PICHASKE

Special to The Daily Record

Some call it tax avoidance; others prefer the term tax compliance. By whatever name, finding ways to ensure that more of your assets go to your heirs and less to the government is a popular industry.

Ways of reaching that goal range from the simple to the complex, according to local wealth management advisers and estate attorneys. The simpler are fairly common, the more complex tend to be the province of the one percenters.

The most basic tactic is the annual gift exclusion, which allows everyone to give each of his children or grandchildren — or anyone else he cares to — up to \$14,000 a year tax-free. That's \$28,000 per child per couple, and the money can be placed in a trust for use later.

"If you start the process early in your life, a whole lot of your estate can be passed that way, without taxes," said Tom Byers, a tax partner at Ellin & Tucker, a Baltimore-based accounting firm.

Another relatively simple and popular maneuver is to pay for a child's education or medical expenses. If the money is paid directly to the school or to the hospital, there are no limits on how much can be spent. While the bills paid are typically a child or grandchild's, they could be anyone's.

Similarly, you can fund someone's college costs by putting money in a 529 plan — post-secondary savings plans that are not subject to federal and most state taxes. Donations are limited to \$14,000 per year, but you can put in five year's worth — \$70,000 — in one year, according to Howard "Buddy" Goldman, a wealth management adviser with Northwestern Mutual, in Baltimore.

Then there are the more sophisticated and complex maneuvers — what estate attorney Robert Horne, with the Baltimore law firm of Adelberg, Rudow, Dorf & Hendl, called "an alphabet soup of trusts."

Among them: ILITs (irrevocable life insurance trusts), special trusts that protect life insurance proceeds from estate taxes; GRATs (grantor retained annuity trusts), which allow you to make large financial gifts to family members without paying a gift tax; FLPs (family limited partnerships), in which, typically, parents give children a minority portion of a business or property and, because that share



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lacks control or marketability, the gift tax paid on it is lower than its dollar value; and, QPRTs (qualified personal residence trusts), used to move a residence out of your estate at a low gift tax value.

"These are tried and true tactics that really work," Horne said.

What does not work, estate planners say, is keeping too much money in qualified retirement plans such as an IRA or 401(k), which are subject to both income and estate taxes.

"Qualified plans are a wonderful place to have money in while you're alive, ... but it's a terrible place

to have money when you die," Goldman said. It's not unusual to see an IRA or 401(k) that's subject to a 70 or 75 percent tax, he said.

One way around that, Goldman said, is to move excess IRA or 401(k) money into an ILIT, which will go to your heirs free of such taxes.

Some estate avoidance maneuvers are especially popular in Maryland, experts say, because it is one of only about 15 states with an estate tax. It also is one of only two states in the country with both estate and inheritance taxes, according to Goldman.

For those reasons, he said, some especially wealthy people take the extreme tax avoidance measure of moving to another state.

"One of the reasons people may move to Florida is the weather, but another reason is it's more of a tax-favorable state to die in," Goldman said. "You could save hundreds of thousands of dollars — if you're really wealthy, maybe millions of dollars in taxes."

One final tip for those who want to reduce the taxes on the assets they leave behind: Take a nice, long, expensive vacation.

"I tell people to spend their money," Goldman said.

"They worked hard for the money, so enjoy it. The more they spend, the less is in their estate."

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