



Securing Your Family's Future

Your estate planning decisions can have a significant impact on your family for years to come.

Regardless of the size of your nest egg—large or small—it's important to put an estate plan into place. A well-crafted plan will lay out your wishes regarding your health care and finances, your children's future, and all your assets and possessions.

"If something should happen to you, you'll want to exercise some control over what occurs in these significant areas," says Stuart Ritter, CFP®, a senior financial planner with T. Rowe Price. "To that end, you must develop an estate plan that addresses many possible scenarios. And most importantly, you have to put it in writing."

KEY POINTS

- An estate plan details your wishes regarding health care and finances if you become incapacitated or pass away.
- For parents, estate plans can indicate who you would like to raise your children should anything happen to you.
- Without an estate plan, assets are distributed according to a state's laws, which vary considerably from state to state.

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—STUART RITTER, CFP®,
T. ROWE PRICE SENIOR
FINANCIAL PLANNER

Consider three main issues

1 What happens if you cannot direct your own care or manage your money?

Two items to think about are what type of care you'll want to receive and who will handle your personal and financial affairs if you're incapacitated. There are documents available to communicate your wishes. And while the document names may differ depending on a state's laws, following are the main concepts:

- A living will, also referred to as an advance medical directive, specifies the type of care you want to receive if you have a medical condition that renders you unable to make informed decisions.
- A health care proxy, also called a health care power of attorney (POA), designates a person to make medical decisions for you.
- A power of attorney gives another individual the authority to make financial decisions on your behalf, such as selling assets or paying your bills. A “springing” POA takes effect in the event you become incapacitated; a “durable” POA takes effect as soon as you sign the document and continues in force even if you become incapacitated.

2 Who will care for your children?

For parents, designating a guardian is one of the most important parts of an estate plan. While it's unlikely that a guardian will ever have to step in, if the worst happens and you haven't named a guardian, the state will choose one for your children.

With this in mind, as soon as you know you're expecting a child, you should begin talking about who you'd want to raise your minor children in the event that you pass away or become incapacitated. You also should designate a backup guardian. Before naming guardians in your will, make sure to ask potential guardians if they're comfortable with the role.

Next, establish the financial support necessary to help make sure your children will be taken care of. This may include purchasing life insurance and setting up a trust to hold the money.

3 How will your assets be distributed?

Most people want to ensure that they, and not the state or anyone else, determine how their assets will be dispersed. Generally, your assets will be distributed based on the following hierarchy:

By ownership or title. With assets you own jointly with right of survivorship, such as a car or house, the other party will own the asset entirely after your death, regardless of the language in your will.

One exception to this rule is if you own something as tenants in common, such as a vacation home you purchased with your siblings. In that case, your will needs to name the person you want to receive your ownership share.

By beneficiary designation. Some of your accounts—such as life insurance and retirement accounts—let you specify who will receive those assets by designating a beneficiary. The companies holding these accounts also have rules in place as to who receives the proceeds if you have not named a beneficiary. For example, if you don't designate a beneficiary and you're married, some companies will distribute the money to your spouse; others will give it to your estate instead.

Many companies also will let you set up a transfer-on-death (TOD) designation for regular, taxable accounts such as bank, brokerage, and mutual fund accounts that you own in your own name. The person you list will take over ownership of the account when you die, regardless of what your will may say.

Your Guide to Estate Planning

This guide outlines the basics of estate planning to help you envision what your plan should be. It is divided into three sections:

Getting Started

Learn the fundamentals of estate planning, including basic terms, tools, and considerations that may arise as you plan your estate.

Understanding the Mechanics

Explore basic estate planning tactics and tools to help ensure that your assets are divided as you intend after your death.

Customizing Your Plan

Apply your new estate planning knowledge to develop an approach that works best for you and addresses important personal goals.

To access the guide, visit troweprice.com/estateplanningguide.

According to your will. Assets that don't fit in the above categories pass to the heir or heirs you list for each asset in your will. Depending on your state's laws, your will could be an informal document, but it's usually worth the effort of hiring a professional to make sure your will is properly executed.

In the absence of a will, your assets will be distributed according to your state's laws, which could have unintended consequences for your heirs. For instance, in some states, your spouse might receive all of your assets. In other states, your assets will be split between your spouse and children, which involves the court appointing someone to manage the money for any minor children. That court-appointed person, even if he or she is your surviving spouse, will have to provide a reckoning of expenses to the court.

It's important to understand that a will generally must be "probated" before assets subject to the will can be distributed to your heirs. This means that the will is filed with a court and a judge oversees the process of making sure the directions in the will are carried out. Also, probate is a public process, so your personal documents will be available for inspection by anyone.

Additionally, you name an executor in your will. The executor will be responsible for administering the money and property in your estate and will shepherd it through the probate process. This individual will bear significant responsibility, so choose your executor, as well as a backup executor, carefully.

According to any trusts that exist. Instead of owning assets in your name, you may have created a trust that owns the assets. Generally, if you become incapacitated or pass away, the language in the trust governs what happens to your assets.

There are several common attributes of trusts, including:

- Exclusion of assets from probate, which can save time and, in most states, ensure greater privacy than if the assets are handled under your will.
- Control by a trustee instead of a judge.
- Speed of assets being distributed.

The rules for trusts can be complex, so you'll want to obtain expert advice before determining whether a trust should be a part of your estate plan.

Protect your family

Establishing an estate plan will help protect your loved ones and ensure that your wishes will be carried out. For most people, it's worth the time and expense of working with a professional. "Estate planning typically isn't a do-it-yourself proposition," says Ritter. "Don't hesitate to seek professional guidance from an estate planning attorney."

Once your estate plan is complete, discuss it with close family and friends and answer any questions they might have. "Taking some time now to put a strategy in place is a worthwhile investment," says Ritter. "Ultimately, you can feel confident that you are providing for yourself and your loved ones." ■

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