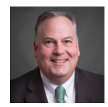
T. ROWE PRICE INSIGHTS
ON PERSONAL FINANCE

The Estate Planning Essentials That Will Help Ensure Your Family's Security

No matter the size of your estate, it's important to have a plan in place to protect your family.



Roger Young, CFP®
Thought Leadership Director

KEY INSIGHTS

- An estate plan details your wishes regarding health care and finances if you become incapacitated or pass away.
- For parents of young children, 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.
- Build flexibility in your estate documents to account for whatever the future may hold.

An estate plan is an important component of any financial plan, regardless of the ages of your family members or your net worth. Whether you're single, married, or partnered, there are essential components of an estate plan that can help ensure your family's financial security.

A well-crafted plan will lay out your wishes regarding your health care, your finances, the care of your children, and all your assets and possessions. If you're a young family, you may wonder whether your current assets warrant creating a plan. While your financial situation is likely to change over time, that's not a good reason to postpone planning. It is important for any estate plan to be forward-looking, and working with an estate planner can help make sure your plan is flexible enough to handle what you are not able to anticipate.

Why Estate Planning Matters

There are three main goals of any estate plan:

- Caring for your children and/or loved ones
- Directing your own finances and/or care if you are incapacitated
- Distributing your assets after your death

To address these goals, you will need to put in place a variety of elements—including guardianship, a will, and a power of attorney (POA), among others—

> You want your estate plan to account for the various types of situations that could happen in life, and your choices now can help your children better navigate that uncertain future.
>
> — **Roger Young, CFP®**
> *Thought Leadership Director*

that together make up your estate plan. Having a plan in place can help to ensure that your intentions are carried out in case something happens to you.

Protecting Your Children

When you're young, seeking a voice in what will happen to your estate after you are gone may not feel particularly urgent to you. However, these are important issues—especially the distribution of your assets to your children. For instance, in the absence of direction from you, your children may inherit your estate in one lump sum when they reach the age of majority, which is 18 in most states. Consider the challenge you may create for your 18-year-old child by suddenly handing them responsibility for managing a sizable sum of money. You want your estate plan to account for the various types of situations that could happen in life, and your choices now can help your children better navigate that uncertain future.

Building a Successful Estate Plan

Your estate plan consists of multiple parts that all need to work together to achieve your goals. The following are the key elements you should consider:

Guardianship

If you are a parent, guardianship of your minor children is the first priority when developing an estate plan. It is important to choose a guardian whom you trust and who will raise your children with your values. In the absence of a guardian, the state will have its own process for determining who should take care of your children. Consider also naming a backup guardian in case the primary guardian isn't able to fulfill those duties.

Last will and testament

A will allows you to clearly outline your wishes in a legal document. It's here that you can officially name the guardian for your minor children and direct how to distribute your property. Your will also names an executor who will ensure your wishes are followed.

Life insurance

A life insurance policy is an important way to protect your family's long-term financial security after your death. It can provide liquidity to cover end-of-life expenses and an income bridge for your surviving spouse while your financial accounts and income sources are retitled or reset.

Beneficiary designations

Maintaining up-to-date beneficiary designations on your retirement accounts and insurance policies is critical because these designations supersede any directives in your will. For many families, much of the estate value will be in those accounts and policies. While naming a spouse or partner as the primary beneficiary is standard practice, it is important to think about naming a secondary beneficiary as well.

Trusts

Trusts are often used as a tool in the distribution of your assets. They can help account for contingencies you can't fully predict. A trust can help to ensure your assets will be available to support your children even if they develop poor financial habits in the future. For example, you can outline the circumstances or specific ages under which assets should be distributed. Despite their many uses, however, trusts aren't for everyone. There is a cost to establishing and operating them, and if your situation is fairly uncomplicated, you may be able to execute your estate plan more simply through beneficiary designations and a will.

Power of attorney

A financial POA allows someone to make financial decisions on your behalf. You probably also want to designate a health care power of attorney (HCPA)—someone who can make medical decisions for you if you are incapacitated. A living will, also called an advance medical directive, outlines your wishes for what type of care you wish to receive.

Having a plan in place can help to ensure that your intentions are carried out in case something happens to you.

— **Roger Young, CFP®**
Thought Leadership Director

How Will Your Assets Be Distributed?

Your estate plan must factor in the legal directives that inform the distribution of your estate's assets.

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

By ownership or title. You may own some assets, such as a car or house, jointly with right of survivorship. In these cases, the other party will own the asset entirely after your death, regardless of the language in your will. The situation is different 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 assets—such as life insurance policies 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 automatically distribute the money to your spouse; others will transfer those assets to your estate instead and they will then be distributed according to your will.

Many companies 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 as your beneficiary will take over ownership of the account when you die, regardless of what your will may say.

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. It's usually worth the effort of hiring an estate planner to make sure your will is properly executed and clear.

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.

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 process involves filing the will with a court at your death, where a judge ensures that the directions in the will are carried out. Probate is a public process, so your personal documents will be available for inspection by anyone who wants to see them.

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. If you're considering a trust, you should obtain expert advice on whether it would be beneficial as part of your estate plan.

Getting Started

While essential for everyone, having an estate plan in place is particularly important for families with minor children. Begin with a will that names a guardian and lays out the distribution of your assets. Ensure that your children will be financially supported after your death with adequate life insurance. Then, customize your plan to address your unique goals and situation.

An estate plan is critical for anyone who wants a say in their health care or finances after they become incapacitated or die. That is particularly true when family is involved. If you're overwhelmed, don't feel like you have to figure it all out yourself. You can get help from a professional. An estate planner will ask the right questions and can help put in perspective the pros and cons of your various options.

Considerations as Your Children Get Older

Revise your estate plan as your situation changes to maintain its impact.

Your original estate plan may have been simple—just life insurance and a will to name a guardian for your children. As you progress in your career, however, your assets may accumulate, which could require more fine-tuned decisions about how they should be handled. What's more, as your children grow older, you will begin to see their lifestyles take shape. These developments may give you a sense of whether it may be necessary to establish a trust to help protect them from creditors, former partners, or even their own overspending.

As your children enter their own careers, you may also want to adjust your estate plan to factor in any differences in their income levels and tax situations. For example, you may choose to leave a higher percentage of Traditional individual retirement accounts (IRAs) to children in lower tax brackets, since those accounts result in ordinary taxable income. More tax-efficient assets, such as Roth and taxable accounts, could be allocated to higher-income children. This approach requires careful planning—preferably with help from a professional—to ensure that the result achieves your vision of fairness in addition to tax efficiency. Estate attorneys often recommend that people review their plans at least every five years or whenever major life changes occur.

These factors can be hard to predict, but they should be taken into consideration. At the very least, as your kids get older, you will likely have more assets in your estate and, therefore, reason to consider more advanced strategies, such as trusts.

INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

To learn more, please visit troweprice.com.

T.RowePrice®

Important Information

This material is provided for general and educational purposes only and is not intended to provide legal, tax, or investment advice. This material does not provide recommendations concerning investments, investment strategies, or account types; it is not individualized to the needs of any specific investor and is not intended to suggest that any particular investment action is appropriate for you, nor is it intended to serve as the primary basis for investment decision-making. Any tax-related discussion contained in this material, including any attachments/links, is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding any tax penalties or (ii) promoting, marketing, or recommending to any other party any transaction or matter addressed herein. Please consult your independent legal counsel and/or professional tax advisor regarding any legal or tax issues raised in this material.

T. Rowe Price Investment Services, Inc., Distributor.

CCON0146121
202404-3449143