

13 ESTATE PLANNING TERMS YOU SHOULD KNOW

Families delay doing critical estate planning for a variety of reasons: much of it deals with death or incapacitation, they don't think they need planning, or it raises touchy family issues. Another reason is that they don't understand the complicated jargon. Here are brief explanations of a few basic estate planning concepts and terms that may help you feel a bit less reluctant to do this important aspect of financial planning.

1. **Will.** A will directs where and how you want your estate property distributed when you die, and who will take care of your children. Without one, the state will decide according to statute. A will does not control some property with beneficiary designations such as life insurance benefits, retirement accounts, and trust assets.
2. **Probate estate.** The court process that ensures that the portion of an estate passed by a will is properly settled. Advanced estate planning can reduce the amount of an estate that must pass through probate (subject to potential challenges by heirs), thus saving time and fees.
3. **Executor(s) or personal representative.** The person or persons who administer your final estate. Choose wisely, because the person oversees not only financial matters, such as filing a final tax return and distributing assets, but may have to deal with raw family emotions and conflicts.
4. **Advanced directives.** The two key advanced directives are a living will and a medical power of attorney. The living will is your expression of what life-sustaining medical treatment you want or don't want should you become permanently incapacitated. Though not always honored, a medical power of attorney gives a third party, such as a spouse or adult child, the power to make medical decisions on your behalf.
5. **Power of attorney.** This gives another person, such as your spouse or a child, the legal power to act financially on your behalf should you become incapacitated. This can be as restrictive (bill paying only, for example) or as comprehensive (able to sell property, file tax return) as you wish to make it.
6. **Titling.** Improperly titled assets could mean property being transferred contrary to your wishes or could result in higher estate taxes or probate costs.

7. **Trust.** A legal entity for holding property for the benefit of the creator of the trust or other beneficiaries. Trusts are used for everything from avoiding probate and helping heirs manage assets, to saving estate taxes and making sure certain assets go to certain heirs.
8. **Trustee.** The person who owns, controls and manages a trust's assets. This may be the creator, a relative or friend, or a financial institution.
9. **Revocable and irrevocable trusts.** A revocable trust means the creator of the trust can change fundamental aspects of the trust or even dissolve it. An irrevocable trust is where the creator is severely limited in what, if any, changes he or she can make in the trust document. Irrevocable trusts typically are used to reduce estate taxes.
10. **Testamentary and inter vivos trusts.** A testamentary trust is established upon the creator's death and an inter vivos trust is established during the creator's lifetime.
11. **Estate tax and gift exemption amounts.** The amount of an estate's value passed to heirs subject to estate tax depends on the size of the estate. In 2003, the amount of estate exempt from taxation is \$1 million, rising to \$3.5 million by 2009. It's repealed completely in 2010 but returns to \$1 million in 2011. These exempt estate tax amounts are reduced by any gift-tax exemption amounts taken during lifetime. The maximum in gifts you can exempt from gift taxes during a lifetime is \$1 million. The exempt amounts are important when designing trusts aimed at reducing estate taxes, such as a marital trust.
12. **Annual gift exclusion.** Each person can donate tax free up to \$11,000 (indexed for inflation) a year to as many people as they choose. For example, you could give away a total of \$33,000 a year to your three children or three friends (\$66,000 a year if your spouse joins you). The annual exclusion does not count against the lifetime gift-tax exemption amount.
13. **Generation-skipping transfer tax.** This tax discourages wealthy grandparents from passing estate assets directly to their grandchildren or other second-generation heirs in order to skip a generation of estate taxes.