

# **Understanding the basics of estate planning**

It's important to have an estate plan. You want to make sure the assets you've worked so hard to accumulate during your lifetime go to the people or organizations you care about. Estate planning can be a complex process, but you can make it easier with the support of capable, experienced professionals.

This guide presents an introduction to estate planning so that you can better understand what's involved. You'll learn more about:

- Sizing up your estate.
- Tax laws that affect your estate.
- The documents you'll need.
- Some common estate plan designs.
- How your assets will transfer when you die.
- Designating beneficiaries.
- How to get started on your plan.

This guide is provided for educational purposes only and is not intended to be legal or tax advice. The information provided was accurate at the time of publication and is subject to change without notice. We recommend that you consult an estate planning attorney or a tax advisor to discuss how current laws apply to your situation.

## Why estate planning is important

Having a comprehensive estate plan in place can help you feel more secure about the future and confident your loved ones will be taken care of. It can help you achieve a variety of goals and objectives, including:

- Providing support and financial stability for your spouse.
- Preserving assets for future generations.
- Supporting a favorite charity or other worthy cause.
- Ensuring all of your assets, including those that pass by beneficiary designation (e.g., retirement accounts and life insurance policies), will be distributed according to your wishes.
- Minimizing taxes and expenses.
- Ensuring that individuals you choose can make decisions on your behalf in the event of your incapacity.



## Evaluate your assets

Your estate includes everything you own or anything you could have an interest in, including investments, such as individual stocks, bonds, and mutual funds; retirement accounts; your home and other real estate; business interests; and personal property. It also encompasses assets you may not typically think of, such as life insurance policies, certain annuities, certain trusts, and joint accounts you own with your spouse or with someone else.

While you may have already given us an accounting of most of your assets, we encourage you to complete the worksheet on page 4 and have it nearby during your consultation. You can also keep copies of this worksheet on hand to help your heirs identify what you may own.

As you evaluate your assets, here are a couple more questions to ask yourself:

- Do you expect a significant change in your assets, such as an inheritance?
- Do you have an interest in any trusts?

## Valuing your estate\*

Asset category	In your name	In your spouse's name	Owned jointly**
Taxable accounts	\$ _____	\$ _____	\$ _____
Retirement accounts	_____	_____	_____
Life insurance	_____	_____	_____
Annuities	_____	_____	_____
Personal residence	_____	_____	_____
Other real estate	_____	_____	_____
Personal property (cars, furniture, jewelry, artwork)	_____	_____	_____
Business interests	_____	_____	_____
Other	_____	_____	_____
Subtotal	\$ _____	\$ _____	\$ _____
Minus debts	_____	_____	_____
Total	\$ _____	\$ _____	\$ _____
Date	_____		

\*This worksheet is intended to provide only an estimate of your estate value; you should not rely on it as an exact accounting.

\*\*Indicate if the joint owner is someone other than your spouse and if any of the assets are community property. The following states are community property states and as such have different rules for ownership and transfer upon death: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin have mandatory systems; Alaska, Florida, and Tennessee have optional systems.

# Gain insight into taxes

In this section, you'll find information to help you:

1. Learn more about federal and state taxes that can affect your estate.
2. Take steps to minimize the tax liability for your estate.

Now that you know your goals and you've evaluated your assets, it's important to understand taxes—which could have a significant impact on how much you pass to your heirs when you die.

## Federal transfer taxes that may affect your estate

There are three distinct but related federal transfer taxes: estate tax, gift tax, and generation-skipping transfer (GST) tax.

All of these taxes could have an impact on the amount passing to your beneficiaries, depending on the value of your estate. Let's take a look at each one.

### Federal estate tax

The federal estate tax may be imposed on the value of your taxable estate at the time of your death. Each U.S. decedent can transfer a set dollar amount of assets free of federal estate tax. This amount, known as the "exemption amount," is \$12.92 million per U.S. decedent in 2023.\*

Under current law, the exemption amount will be adjusted for inflation in 2024 and 2025. Starting January 1, 2026, the exemption amount will be \$5 million per U.S. decedent, adjusted for inflation.

You should note that, in addition to the exemption amount, there's also what's known as the unlimited marital deduction, where a spouse can transfer any amount of assets to a surviving spouse free of federal estate tax (special rules apply to spouses who are not U.S. citizens).

It's important to remember that for decedents who died in 2011 or after, any portion of the exemption amount that goes unused is considered transferable or portable. As detailed on the next page, the unused amount can transfer to your surviving spouse only, as long as your executor makes an election on your federal estate tax return after you die. This transferred amount is known as the "deceased spousal unused exclusion amount" (DSUEA).

Your exemption amount, in addition to any DSUEA, may be used to exempt transfers during your life or on your death from federal estate tax and gift tax (both taxes are unified). But any transfers beyond these amounts may be subject to the tax rate in effect for that year.

### Key terms

- **Exemption amount:** The amount exempt from federal estate and gift taxes (\$12.92 million per decedent in 2023)\* and sometimes referred to as the "unified credit," "basic exclusion amount," or "exemption equivalent."
- **Deceased spousal unused exclusion amount (DSUEA):** The portion of the unused exemption amount that is portable and can be transferred to a surviving spouse by election on the federal estate tax return (IRS Form 706).

\*Numbers adjusted for inflation annually.

### **More on portability**

Let's take a closer look at portability, or the ability to use any "leftover" amount of a decedent's federal estate tax exemption amount, using the following example:

- A husband dies in January 2023. He's survived by his wife, and had used only \$2 million of his \$12.92 million exemption amount.
- The executor must elect portability on the husband's estate tax return (IRS Form 706). As a result, the husband's estate will have to file an estate tax return, regardless of the estate's value.
- The wife now has a total exemption amount of \$23.84 million (this includes her \$12.92 million exemption in addition to her deceased husband's \$10.92 million DSUEA).

You should also note that portability doesn't carry over to future marriages, a rule intended to avoid the accumulation of unused exemption amounts. Sticking with our previous example, review the following scenario:

- A husband dies in January 2023. He's survived by his wife, and had used only \$2 million of his \$12.92 million exemption amount.
- The executor must elect portability on the husband's estate tax return (IRS Form 706).
- The wife now has a total exemption amount of \$23.84 million (this includes her \$12.92 million exemption in addition to her deceased husband's \$10.92 million DSUEA).
- The wife remarries.
- Her second husband dies.
- Because the wife remarried and survived the second husband, her exemption amount remains \$12.92 million (it doesn't include the original husband's unused \$10.92 million DSUEA).



### **Federal gift tax**

This tax is imposed when you make gifts in your lifetime that total more than the exemption amount.

Keep in mind that there are gifts you can make that do not count against your exemption amount. Using the annual exclusion gift, you can transfer up to \$17,000 in 2023 (\$34,000 for a married couple)\* to an unlimited number of people each year without incurring the gift tax. In addition, you can give unlimited gifts to your spouse (special rules apply to spouses who aren't U.S. citizens), contribute to charitable organizations, and pay medical or tuition expenses for any person, as long as your payments are made directly to the medical provider or educational institution. Please note that a gift tax may be payable at the state level.

The gift and estate taxes are unified—so any portion of your exemption amount not used during your lifetime for gift tax exemptions can be used by your estate at the time of your death.

### **Generation-skipping transfer (GST) tax**

This tax may be due—in addition to the estate or gift tax—at the highest federal estate tax rate (40% in 2023) when you transfer assets to someone who is two or more generations from you. Remember that, if the beneficiary is not related to you, the tax may be due if that person is more than 37½ years younger than you.

Here are two examples of when the GST tax may apply:

- A grandparent skips his or her child and makes a gift to a grandchild.
- A grandparent sets up a trust for a grandchild when his or her parent is still alive.

The GST tax has exemptions similar to the gift tax. You should consult with your tax advisor before making gifts to younger generations.

\*Numbers adjusted for inflation annually.

### Federal exemption amounts and tax rates for 2023

Estate tax	\$12.92 million* 40%
Gift tax	\$12.92 million* 40%
GST tax	\$12.92 million* 40%

\*Scheduled to be adjusted for inflation annually.

Under current law, the federal exemption will continue to increase (based upon inflation) in 2024 and 2025, but will be reduced to \$5 million per U.S. decedent starting January 1, 2026 with adjustments for inflation.

**A note on portability:** Portability applies only to the estate and gift tax exemption amount—it doesn't apply to any unused GST tax exemptions. Therefore, reliance on portability may not be appropriate for some families, specifically those families who are leaving assets to grandchildren or further descendants, or those who would like to do generational planning.

### State transfer taxes that may affect your estate

In addition to federal transfer taxes, your estate or beneficiaries may have to pay a similar form of state transfer tax, depending on where you live.

States may impose a tax in the form of a gift tax, estate tax, inheritance tax, or a combination of these. Generally, state estate and inheritance taxes are deductible on your federal estate tax return.

#### Estate taxes on the state level

Rates range from 0% to 20% and taxes are levied on your taxable estate before assets are distributed to the beneficiaries.

#### Inheritance taxes

Rates range from 1% to 18%. These rates may be progressive and are determined by the amount of property received by the beneficiaries and their relationship to you. Direct descendants, for example, may pay one rate, whereas other beneficiaries may pay a higher rate.

## Why the gift tax is important

A basic goal of estate tax planning is to transfer as much of your property with as little taxation as possible. One way to do this is to give money away during your lifetime. Gifting can give your planning a purpose, and also ensure that assets are no longer in your estate and vulnerable to federal or state transfer taxes. By making lifetime gifts, you remove not only the gifted assets from your estate but also the future appreciation of those assets.

Here are some ways to transfer assets to relatives, friends, or worthy causes without incurring taxes:

- **Take advantage of annual exclusion gifts** by giving any number of people up to \$17,000 a year in 2023 (\$34,000 for a married couple).<sup>\*</sup> For example, you could give away \$17,000 a year to each of your three grandchildren, reducing your estate by approximately \$51,000 each year.
- **Pay for tuition or medical expenses** as long as you make payments directly to the medical provider or educational institution. You can transfer an unlimited amount in this manner.

- **Give an unlimited amount to your spouse** if he or she is a U.S. citizen, or up to \$175,000 in 2023<sup>\*</sup> to a spouse who isn't a U.S. citizen.
- **Donate an unlimited amount of your assets to qualified charities** during your lifetime or upon your death.
- **Contribute to a Section 529 college savings or prepaid tuition plan** by making a contribution of up to five years of annual exclusion gifts (in 2023, \$85,000 if you're single or \$170,000 if you're married)<sup>\*</sup> per person. This requires you to make an election on a timely filed federal gift tax return. If you use this option, you can't make any additional annual exclusion gifts to the same person for that five-year period.

Remember that even if you make a taxable gift, you don't owe taxes until you exhaust your exemption amount. However, you may be required to file a federal gift tax return (IRS Form 709) even if no tax is due. Check with your tax advisor.

<sup>\*</sup>Numbers adjusted for inflation annually.

## What documents do you need?

In this section, you'll find information to help you understand:

1. What documents you can use to carry out your estate plan.
2. How a trust might fit into your estate plan.

Now that you know your goals and understand estate taxes, let's learn about the types of documents you can use to carry out those goals—typically a will or a trust.

It's important to keep in mind that your estate planning documents don't always control how your assets get transferred. You'll learn in the sections ahead that current laws, titling of assets, and beneficiary designations will also determine where your assets go.

### The role of a will

The most common estate planning document is a will (also referred to as a Last Will and Testament). A will lets you direct how your assets should be administered, to whom—and under what circumstances—your assets should be distributed, and who should manage your assets after your death.

**What's probate?** When you die, whether or not you have a will, your estate could go through a process called probate that manages, settles, and distributes your property according to the terms of your will or intestate law. This process is governed by state law. The simplicity, costs associated with, and timeliness of probate will vary from state to state. An attorney in your state of residence will be able help you learn what challenges your state's probate process may present.

**What if I die without a will?** If you die without a will, you die intestate. Your estate is then distributed according to the intestate laws of the state in which you resided. These laws typically are designed to reflect what most people want to happen, such as caring for immediate family. However, there's no guarantee that the distribution of your assets will reflect your personal wishes.

## The role of a trust

When you establish a trust, you create a legal arrangement through which assets are held for a beneficiary. A trustee is designated to manage the assets according to the terms in the trust documents. You can provide direction about how the trustee should manage the assets, and under what terms the trustee should distribute them.

The terms of the trust can be tailored to satisfy your goals and any concerns you have, as well as meet the needs of your beneficiaries. Here are the parties usually involved in a trust:

- **Grantor:** The person creating the trust (also called settlor, creator, or trustor).
- **Beneficiary:** One entitled to receive part or all of the property under the terms of the trust, either now or in the future. A beneficiary can be an individual or an entity.
- **Trustee:** The person or company that holds the legal title to the assets in the trust and is generally responsible for managing and distributing the assets in accordance with the terms of the trust.

There are two main types of trusts, revocable and irrevocable.

- **Revocable (living) trusts** are created during the grantor's lifetime and can generally be changed or revoked at any time while the grantor is still living. When the grantor dies, however, the trust becomes irrevocable. The grantor often serves as trustee during his or her lifetime.

- **Irrevocable trusts** are created during the grantor's lifetime or upon his or her death under the terms of a will or another trust. Typically, these types of trusts can't be changed or revoked. For the most part, irrevocable trusts are created for the benefit of individuals or charitable organizations.

While trusts are often used as part of a plan to minimize or eliminate transfer taxes, there are also other reasons, unrelated to taxes, to establish a trust while you're alive or to create one upon your death. Because the circumstances for you and your beneficiaries are unique, it's important to talk with an estate planning attorney about whether a trust is appropriate for your estate plan.

## When to use a revocable trust

In most estate planning instances, it's important to have a will. You may come to a point when you need to decide whether a will is enough or if you need to create a revocable living trust as well. Many factors will help you determine whether you need a revocable living trust. The probate process in your state of residency, your age, and the location of your assets are just a few examples.

A revocable living trust works in coordination with your will. In fact, it can often act as a substitute, because it directs how your assets will be administered and distributed during your lifetime and after your death. And a revocable living trust, much like a will, can help you accomplish some of your estate tax planning.

Specifically, a revocable living trust can help:

- Ensure more seamless management of your assets in the event you become incapacitated or are unable to manage your financial assets.
- Ensure that your estate plan is kept private and not made a matter of public record.
- Avoid your state's probate process.
- Avoid probate if you own real estate in more than one state (when you only have a will, you're required to have it probated in each state in which you own real estate).

## When to use an irrevocable trust

You can use an irrevocable trust for a variety of reasons, including generational tax planning and incentives for beneficiaries. Here are some additional situations where you may choose to create an irrevocable trust:

- You have a child with special needs who isn't able to manage their finances.
- You have concerns that your beneficiary may not be able to effectively manage their inherited assets.
- You'd like to try to protect the assets from a divorced spouse or any future creditors a beneficiary may have.
- You want to provide a structure for how your beneficiary receives the assets (e.g., when, how, and for what purpose).
- You'd like to do generational tax planning to minimize the amount of estate taxes that may have to be paid when the beneficiary dies.
- You want to ensure that the trust assets go to specific beneficiaries (i.e., individuals or charities).

You can design trusts to be as flexible or as restrictive as you want; you can have them last for the life of your beneficiaries or for a shorter period of time. Work with a qualified estate planning attorney to develop a plan that meets your goals.

## How your assets transfer

We've sized up your estate, learned about taxes, and reviewed the documents you'll need. Next you should understand how your assets will transfer after your death.

What happens will depend on several factors, including the type of asset, how the asset is titled, and federal and state law. Not all of your property is automatically controlled by your will, which is why it's so important to discuss with your advisor how your assets are titled and who your beneficiaries are.

Generally, assets can be passed to beneficiaries in the following ways:

- **Ownership or title:** If you have assets that are held as joint tenants with rights of survivorship or tenants by the entirety, the assets will automatically go to the surviving tenant. Note that assets titled as tenants in common will transfer according to your will.
- **Beneficiary designation:** Transferable assets such as retirement accounts, life insurance, and annuities pass on to a person, persons, or entity named on a beneficiary designation form. If there's no named beneficiary, your IRA will pass to the default beneficiary named on the IRA custodial agreement (at Vanguard, it's your spouse). For more information on beneficiaries, see page 20.

- **Trust:** Assets transfer according to the terms of a trust that was established prior to death.

- **Will:** Assets not passed on by terms of ownership, a named beneficiary, or a trust will pass under the terms of your will. Typical assets may include personal property and assets titled in your sole individual name or as a tenancy in common.

**Titling of your assets:** If you have a revocable living trust, you should speak with your estate planning attorney to determine whether it's prudent for you to title your assets in your trust's name. By titling all of your assets in the name of your revocable living trust, you may be able to avoid probate and carry out your planning if you become incapacitated or disabled.

## Common estate planning strategies

Many factors can influence the design of a comprehensive estate plan, and your own plan should be customized to achieve your personal goals and objectives. In this section, you'll review some common estate plan designs and learn about their advantages and disadvantages. Keep in mind that all of these plans can be tailored to your personal situation.

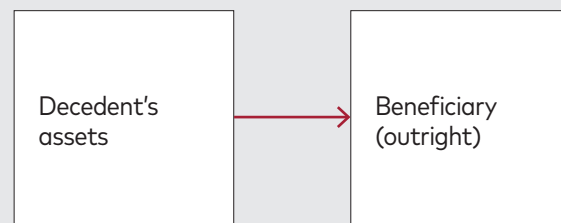
### An outright bequest

With an outright bequest, your will states that a named beneficiary or beneficiaries will receive some or all of your property, free of a trust.

The advantage of an outright bequest is its simplicity. Generally, once the assets transfer, no further administration is required. If the bequest is to your spouse, your unused exemption amount can transfer to your surviving spouse, thus limiting estate tax exposure when your spouse dies.

The disadvantages of an outright bequest are the inability to control access to the assets if a special event occurs (e.g., your spouse remarries or you name a minor as a beneficiary) and having little possibility of protecting the assets from a beneficiary's future creditors.

### How assets transfer with an outright bequest





## A disclaimer plan

With a disclaimer plan, your will or revocable living trust directs that all of your assets are distributed outright to your spouse. Then, if your spouse chooses to disclaim any portion of those assets, the disclaimed amount goes to a trust for the primary benefit of your spouse. A disclaimer plan gives your spouse flexibility in determining how much—if anything—should be held in a trust at the time of your death. If properly structured, the assets held in the trust won't be included in your spouse's estate upon his or her death, thus avoiding federal estate taxation.

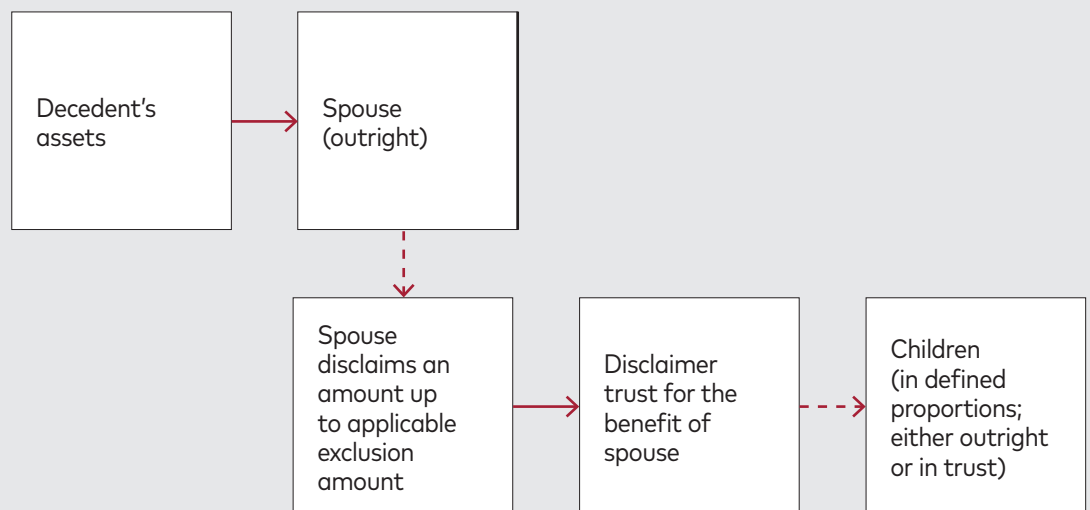
One advantage of a disclaimer plan is that your spouse is able to make planning decisions at the time of your passing, which offers flexibility if tax laws have changed. In addition, your spouse can select the assets he or she wants to keep or wants to disclaim.

A disadvantage is that your spouse must be willing to disclaim with the possibility of giving up control over the assets, while also meeting specific legal requirements in order to avoid possible gift taxes.

### What's a disclaimer?

A disclaimer legally allows a beneficiary to say "no thank you" to some or all of the assets he or she is eligible to receive. When someone disclaims assets, ownership is determined by assuming that the person disclaiming the assets predeceased the transferor of the assets. To be effective, a disclaimer must meet specific legal and timing requirements. Check with your attorney to learn about the best way to disclaim assets.

### How a disclaimer plan works



## Credit shelter trust and marital share plan

With a traditional credit shelter trust (CST) and marital share plan, your will or revocable living trust directs that your assets up to your exemption amount be distributed to a credit shelter trust, and the balance of assets thereafter—called the marital share—be distributed to your surviving spouse (outright or through a trust). Married couples who have estates that exceed the exemption amount often include a CST as part of their estate plan.

By using this estate plan design, you can defer any potential federal estate tax liability until the death of your surviving spouse, and also limit estate tax exposure upon their death. During your spouse's lifetime, they can benefit from the assets in the credit shelter trust by receiving the income generated by those assets and, depending on the terms of the trust, also receive principal distributions.

When your spouse dies, the assets in the credit shelter trust pass to the beneficiaries named in the trust document and generally wouldn't be included in your spouse's estate, thus avoiding federal estate taxation. However, careful consideration should be given to the effect of state transfer taxes, depending on where you live.

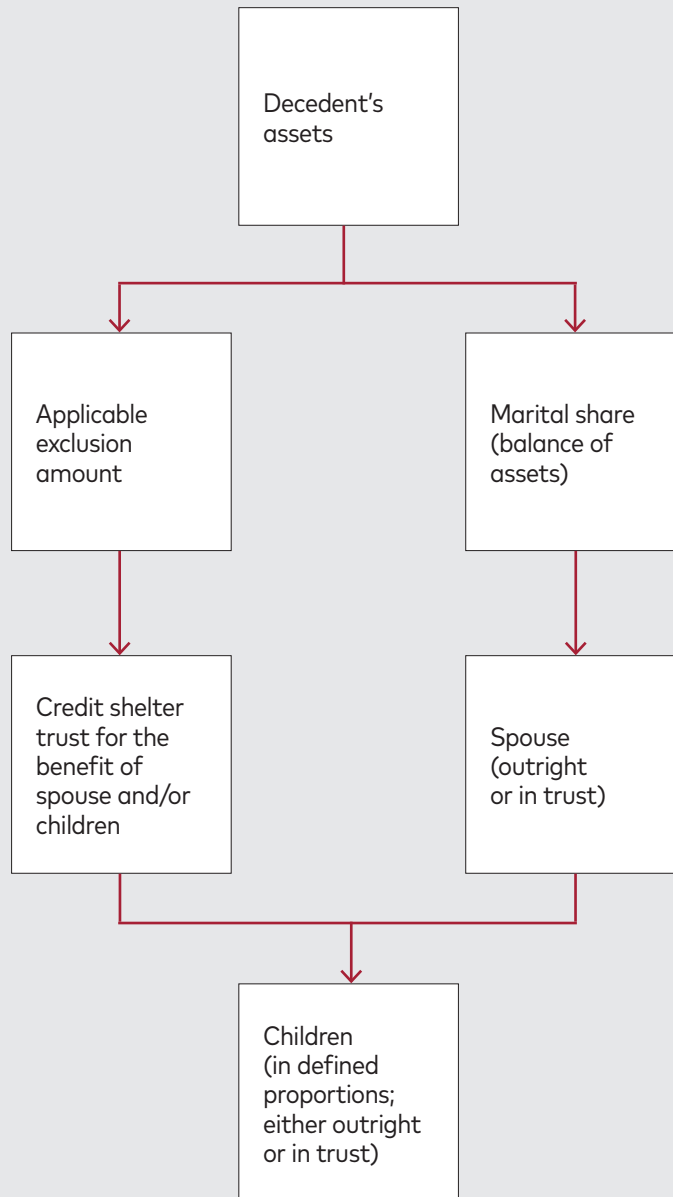
Finally, the marital share—or the balance of the assets after funding the credit shelter trust—can be distributed outright to your spouse or held in a trust for their benefit. If the assets are held in a trust, your spouse can receive the income generated by these assets and can also receive principal distributions.

- A trust for the marital share may be appropriate if you want to:
- Ensure professional management of your assets.
- Protect the assets from being collected by creditors or used by a future spouse.
- Control distribution of assets during your spouse's lifetime.
- Ensure that the individuals you specify—your children or other heirs—are the ultimate beneficiaries of your trust.

A common type of marital trust is the qualified terminable interest property trust, known as a QTIP trust. If you elect a QTIP trust, it can provide income and may allow for principal distributions for the lifetime of your spouse. It will also allow you to retain ultimate control over who receives the property remaining in the trust after your spouse's death. Taxes are deferred until your spouse dies and the trust property is distributed to the final beneficiaries you've named, such as your children.

With both the CST and marital share trust, you could give your spouse the flexibility to determine who should receive the trust assets when they pass away.

### How a CST and marital share plan can work



## Additional estate planning tools

No estate plan is complete without having the following documents prepared:

**Durable power of attorney (POA)** is a simple way to arrange for someone else (an agent) to handle your financial affairs if you're no longer willing or able to do so. You should check with your financial institutions for their specific requirements for use of an attorney-drafted POA. Many have their own authorizations for the accounts at the financial institution. For example, Vanguard will accept an attorney-drafted POA, but for our clients' convenience we offer our Vanguard Agent Authorization.

**Power of attorney for health care (health care surrogate designation/health care proxy)** enables a trusted family member or friend to make decisions about your medical care if you're unable to do so. It's advisable to discuss the type of care you'd want with this individual ahead of time.

**Privacy waivers (privacy releases)** ensure that your health care agents will have access to the information and documents necessary to represent you in health care matters. Many health care powers of attorney include this privacy waiver. Check with your medical provider because many have their own version of a privacy waiver.

**Living will (advanced medical directive)** provides instructions to your physician on the types of life-sustaining treatment you do or don't want if you're unable to communicate those decisions yourself.

### Special note about young adults

Remember that in most states, once a child reaches age 18, they are considered an adult. As a result, you may not have access to information, such as health care details, that you otherwise would have had when your child was a minor. Therefore, you may want your adult child to meet with an estate planning attorney to determine whether they should have any of these additional documents, specifically the health care power of attorney and living will.

## Select your fiduciaries

Your estate planning documents create various roles, many of which we've already mentioned in this booklet. These roles are typically defined as fiduciaries and include executor, guardian, agent, and trustee. An important part of the estate planning process involves the careful selection of these individuals or entities that you trust can carry out the plan you've put together.

- **Executor (personal representative):** Your executor will be the individual(s) or entity responsible for gathering your assets following your death, managing and maintaining those assets, completing all the administrative and tax responsibilities of your estate, and distributing your assets according to your wishes. An executor can be responsible for these tasks anywhere from 6 to 24 months.
- **Guardian:** Your guardian will be the individual(s) responsible for the physical, day-to-day care of your minor children following your death.
- **Agent:** Your agent will be the individual(s) responsible for handling your affairs, managing your assets, and making decisions on your behalf in the event that you're not able or willing to.
- **Trustee:** Your trustee(s) will be responsible for investing and managing the trust assets, distributing the assets in accordance with the terms of the trust, keeping accurate records, and filing all necessary tax returns. You can act as trustee of your living trust during your lifetime, but you should appoint

a successor trustee as well. Your successor trustee could be an individual, such as a family member, or an entity, such as Vanguard National Trust Company. Either can assume control of the trust after your death or in the event you become mentally incapacitated.

You could have multiple fiduciaries as part of your estate plan. The people you select should be individuals you trust and who know when to ask for legal, tax, recordkeeping, or investment advice.

### Should you consider a corporate trustee?

In many instances, the use of a corporate trustee can be extremely valuable. Even if family members or friends are able to manage the complexities of a trust, you may not want to burden them with the considerable time and tasks involved. A corporate trustee can offer the expertise, objectivity, integrity, and time necessary for managing trust responsibilities. And there's no risk that a corporate trustee will have to step aside because of illness, death, or personal issues.

If you're interested in this option, consider Vanguard National Trust Company. We can handle the many tasks associated with administering a trust so your family doesn't have to. Contact us for more information.

# Designate your beneficiaries

You'll need to name beneficiaries on any retirement accounts, life insurance policies, and annuities you have. You'll want to coordinate the beneficiary designations for these accounts with the rest of your estate plan in order to ensure that all your assets are distributed in a manner consistent with your wishes.

When you choose beneficiaries, remember that some of your assets (IRAs and other retirement accounts, in particular) transfer to those named beneficiaries (if no beneficiaries are named, the assets go to the default beneficiary in the IRA agreement or retirement plan document). As a result, the beneficiaries you name on your accounts generally supersede any other instructions—even those in your will or trust. So you should review your designations periodically to keep your estate plan up to date.

Review your beneficiary designations whenever a major life event occurs—marriage, divorce, death, or the birth of a child, for instance.

## Categorize your beneficiary designations

- The responsibility of designating beneficiaries includes categorizing them appropriately. You'll want to:
- Specify both primary and secondary beneficiaries.
- Determine whether you should specify your beneficiary by name or by relationship.

## Designating primary and secondary beneficiaries

Your primary beneficiary is the first in line to receive any remaining account assets after your death. Your secondary, or contingent, beneficiary receives the remaining account assets, but only if there are no surviving primary beneficiaries at the time of your death.

If you designate your spouse as the primary beneficiary and your children as secondary beneficiaries, your children will be entitled to inherit the assets only if your spouse dies before you do, or if your spouse disclaims entitlement to the assets.

Note that you may designate a trust, charity, or other entity as your primary or secondary beneficiary. If you choose to designate a trust as a beneficiary for your retirement accounts, be certain to consult with your attorney to ensure the designated trust meets all legal requirements to receive such an account.

You may choose several primary and secondary beneficiaries to receive varying percentages of your assets. Keep in mind that the percentages in each designation category must total 100%. If you don't name a beneficiary, the agreement (such as the retirement plan or custodial agreement) governing the account generally has a default beneficiary listed. For example, the default beneficiary listed in the Vanguard IRA<sup>®</sup> Custodial Agreement is the spouse or, if unmarried, the estate.

### **Designating beneficiaries by name**

When you identify a beneficiary by name, you leave your assets to a particular named person or persons, regardless of their relationship to you before or after your death.

For example, if you stipulate your spouse by name and later divorce, your former spouse may be entitled to the remaining account assets unless you change your beneficiary designation. Likewise, if you designate your children or grandchildren by name, and you make no updates when a subsequent child or grandchild becomes part of your family, the new child won't be entitled to any portion of your assets.

### **Designating beneficiaries by relationship**

When you designate your beneficiaries by relationship, you leave your assets to a person or group of people defined by their relationship to you.

For example, if you designate your spouse by relationship and then you remarry later, your current spouse will be entitled to your account assets. Similarly, if you use the relationship designation "to my descendants who survive me, per stirpes," you allow future children, grandchildren, and future descendants to be included in an inheritance.

*Per stirpes* is a way to name beneficiaries so that the surviving descendants will receive only what their immediate ancestor would have received if he or she had been alive at the time of your death.

For example, if you have two children and one of your children predeceases you, that child's children—your grandchildren—will receive the deceased child's share of the assets.

Not all accounts offer "per stirpes" as an option for beneficiary designations.

### **Transfer on death plan**

A transfer-on-death plan allows you to designate beneficiaries on an individual nonretirement account. This type of plan supersedes an established will or trust. Check with your attorney to make sure a transfer-on-death plan would not conflict with the rest of your estate plan.

## Required distributions and your beneficiaries

After your death, all your IRAs (including Roth IRAs) that pass to your beneficiaries are subject to distribution rules under the Internal Revenue Code and supporting Treasury Regulations. The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 recently updated these rules, which generally apply to distributions with respect to individuals who die after December 31, 2019.

Under the SECURE Act, the balances of inherited IRAs and inherited defined contribution plan accounts are required to be distributed by the end of the 10th year after the IRA owner or plan participant dies, with exceptions for certain types of beneficiaries (referred to as "eligible designated beneficiaries"), including a surviving spouse or minor child of the original owner, who are generally still permitted to take distributions over the eligible designated beneficiary's life expectancy.

### IRA beneficiary implications

Beneficiary		Asset distribution schedule
"Eligible designated beneficiary"	Surviving spouse, disabled persons, chronically ill persons, individuals not more than 10 years younger than the decedent, and minor children of the decedent (until they reach the age of majority).	Maintains "stretch" provisions.
Non-"eligible designated beneficiary"	Individuals not considered an "eligible designated beneficiary"; certain trusts.	Subject to the 10-year distribution rule.
Non-designated beneficiary	Charities, estates, certain types of trusts.	Subject to the 5-year distribution rule (if decedent had not started taking RMDs), or payout over the remaining life expectancy of the decedent (if the decedent had started taking RMDs).

Please note: This table is for illustration purposes only. Consult with your tax advisor for additional information.



## Get started on your plan

When you're ready to create an estate plan, you'll want to contact professionals who understand your needs and recognize the importance of keeping your plan accurate and up to date. You'll need to do some recordkeeping on your own as well.

### Select an estate planning attorney

The first step is to hire an estate planning attorney. To find one qualified in your area, you may want to:

- Speak to your friends and colleagues about whom they've had positive experiences with.
- Contact your state, county, or local bar association.

Be sure to review each attorney's biography and consider first those who list estate planning, wills, and trusts as their areas of expertise. You should also choose someone you think will understand your goals and be able to implement your plan. Finally, make sure you're comfortable with the attorney's fee schedule.

### What to take to your first meeting

To make the most of the first meeting with your estate planning attorney, bring the following information with you:

- Notes regarding your goals and objectives for the transfer of your wealth.
- Names and birth dates of family members and other beneficiaries.
- Details regarding the concerns you may have for any of your beneficiaries.
- A list of all of your assets (including the values and how they're titled), your debts, and life insurance policies.
- Copies of any estate planning documents you already have in place.

## Now that you have a plan

Once you have your estate plan in place, you may think you're done. But now it's important to begin preparing your beneficiaries by helping them understand what will happen after you pass away, and what they should expect when they inherit your assets.

Here are some strategies to consider:

- **Get organized:** When you die, it'll be important for your loved ones to know what your debts are, where you hold your assets, and who your advisors are. Use a document called Your Personal Financial Inventory, available through your advisor, so you can start organizing this information.
- **Put it in writing:** By creating a simple letter of instruction, you can provide important information that your heirs need to know, such as where to find important documents (like Your Personal Financial Inventory), directions regarding your funeral and burial preferences, details regarding the daily tasks you handled, and much more.

- **Communicate often:** Begin having conversations with your beneficiaries now. Let them know what they'll need to do when you die and who will be responsible for specific tasks.

- **Start educating:** If your beneficiaries have little experience or knowledge with investing and estate planning, it may be helpful to begin educating them so they'll know what to do with the inheritance they receive.

By starting to prepare your beneficiaries now, you can help ensure your family's transition will be more seamless, while also minimizing the emotional impact of your death on them.





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