

Spring Cleaning: Is Your Estate in Order?

March 1, 2017

Spring time is just around the corner and often a symbolic time of new beginnings and a fresh start. Many take this time to honor “spring cleaning” rituals to feel enlightened having everything organized and in its proper place. To that end, this week we continue with part two of our estate planning blog series examining estate planning mistakes of the rich and famous—and how you can avoid them!

Trusts

A trust is an arrangement where you appoint a trustee (who can be yourself) who holds legal title to your property for a beneficiary. Ultimately, a trust is a legal measure used to establish control over your assets.

Living trusts are created when you are alive, while testamentary trusts are formed at your death. One of the biggest benefits of having a living trust is that probate can be completely avoided because the successor trustee transfers the ownership of your property to the beneficiaries named in the trust. Once the property has been transferred and nothing is left, the living trust dissolves. Living trusts are also private, which is a priority if you don't want your finances and family affairs aired in public after your death; wills always become public after being processed in probate court, but living trusts are never made public.

A testamentary trust goes into effect upon the death of its owner, and is primarily created for young children, relatives with disabilities or others who may be entering a considerable sum of money upon passing. In comparison with a living trust, the probate court will play a role until the trust expires and all assets are distributed.

Estate Planning Mistake #2: Failing to Fund a Living Trust

King of pop music Michael Jackson died unexpectedly in 2009. At the time of his death, he left behind three minor children. His estate plan had both a will and a living trust. His estate plan was predominantly based on the living trust, which made it the governing document of the estate.

Typically, living trusts are supposed to be private, where only family members and the people named in the trust can read the contents; this is unlike a will, which becomes public once it is in probate. However, according to AARP, Jackson never actually funded the trust.¹ When a trust has zero funds or is underfunded, it goes into probate, which defeats the purpose of setting up a living trust. Both Jackson's living trust and will were sent to probate, which exposed his estate to risk for litigation and eliminated any privacy as to his finances and family situation. Jackson's estate was worth at least an estimated \$600 million at the time he died, and his children were at risk of losing their inheritances because of over \$200 million in estate taxes and creditors suddenly descending upon the list of assets made public.

Planning Takeaway:

A trust can be a valuable estate planning tool, but only with proper funding and titling of assets. This is a critical area in which your financial and legal professionals need to collaborate regularly to ensure your affairs remain current.

At Cloud Investments, LLC, we believe a consistent and coordinated effort between your financial, tax and legal professionals is key to your comprehensive financial success. To learn more about how we can be of help in developing and coordinating a comprehensive plan, contact us at (256) 715-0094 today!

Want to learn more? Contact us to receive our latest white paper: 5 Estate Planning Mistakes Made by the Rich & Famous and Strategies to Help Avoid Them!

Source:

¹ AARP: Celebrity Estate Planning Mistakes: <http://www.aarp.org/money/taxes/info-2016/celebrity-estate-mistakes-photo.html#slide7>

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