

FINANCIAL FOCUS...

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THREE KEYS TO ESTATE PLANNING

When people hear the words “estate planning,” they often assume it’s an activity only for retirees or near-retirees. But if you have a family, it’s never too soon to create your estate plan.

Of course, estate planning can seem like a daunting task. But you’ll find it easier to handle if you break it down into three key areas: distributing your assets, protecting your family and reducing estate taxes. Let’s look at these topics:

Distributing your assets — Obviously, it’s essential that you let your family know just how you’d like to see your assets distributed, and to whom. At the very least, you’ll need to draw up a will. If you were to die without one, the state could end up distributing your

resources, and it might do so in a way you wouldn’t have wanted. But even a will may not be sufficient. Many people design a living trust, which provides them with more flexibility in distributing assets — for example, you could direct your living trust to disperse assets to children or grandchildren at specific ages — and allows assets to be distributed without going through the time-consuming, and public, probate process.

Protecting your family — Estate planning isn’t just about dollars and cents — it also involves taking the necessary steps to preserve the welfare of your family if you are not around or become incapacitated. Consequently, you’ll need to name a guardian for your minor children — someone who can step in and raise them should anything happen to you and your spouse. And when your children are adults, you’ll want to help them with decisions that could prove agonizing. For example, by creating a living will, you can state whether you want your life prolonged if you ever face a terminal illness or catastrophic brain injury and are no longer able to make decisions for yourself. And by drawing up a health care power of attorney, you can name someone to make health care choices for you if you are unable to do so.

Reducing estate taxes — Depending on the size of your estate, your heirs may never have to worry about estate taxes. But that’s hard to predict, especially given the fact that federal estate laws have gone through several changes in recent years, and may do so again. Your best bet is to stay informed about the exemption level — the amount you can pass on to your heirs, free of estate taxes — and look for ways to reduce the size of your taxable estate. You could, for instance, make charitable gifts, thus moving these assets from your estate. You may also want to consider arrangements such as an irrevocable life insurance trust — under which you can transfer a life insurance policy out of your estate and have the trust distribute the proceeds to the beneficiaries you’ve chosen — or a credit shelter trust, which allows both you and your spouse to take full advantage of both your estate tax exemptions.

A trust can be a complex instrument, so before establishing one, you’ll need to consult with your tax and legal advisors. In fact, you’ll want to consult with them on all aspects of estate planning. It will take time and effort, but it’s worth it to leave the type of legacy you desire.

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