5 Key Documents In An Estate Plan

To do a job right, you need the proper tools. And while each and every estate plan is unique, these five documents are often integral elements:

1. Financial power of attorney. This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers, able to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney. This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living will. While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be able to be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

4. Trusts. There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will because assets in the trust don't have to go through probate court proceedings.

Though there are myriad variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. Yet while that's not the case with an irrevocable trust, this type of trust can protect assets from creditors and remove them from your taxable estate.

5. Will. Last but not least is your will, which establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without. ●

How To Guard Against "Skimmers"

In this age of technology, you probably don't think twice about using the ATM at your bank, the self-checkout machine at the supermarket, or various credit card terminals around town. It's never been a problem before. But a new type of crime called "skimming" may give you pause.

Essentially, skimming is the practice of stealing your credit card information, usually through the use of high-tech equipment. Then the thief makes purchases under your name or sells the data to someone else. Either way, you could end up with an exorbitant credit card bill or an empty bank account.

Typically, a skimmer installs an electronic device over the actual card reader on the ATM or credit card machine. As your card slides through, the device reads its magnetic strip, capturing your vital financial information. The level of sophistication can vary from cheap skimmers that should be relatively easy to spot to more expensive versions that are virtually undetectable by the naked eye.

Usually, the skimming device captures and stores your PIN (personal identification number) as well as the card's security code. Some skimmers feature a false keypad that goes on top of the actual keypad reading the PIN, while newer devices utilize pinhole cameras mounted above the keypad. The information may be stored locally and picked up by the thief or transmitted via a phone line or even wirelessly.

How can you protect yourself against skimming? Here are a few practical suggestions.

• Look carefully at the ATM or credit card terminal before using it. Although sophisticated skimming devices may be hard to detect, cheaper versions are often clumsily attached to the reader. If something is sticking out

When Does Life Insurance Make Sense?

As a basic tool to protect your family, life insurance has an obvious appeal. But its value goes beyond the obvious benefit of providing cash for your loved ones at a crucial juncture. Especially if your death is sudden and unexpected, life insurance can serve a myriad of purposes you might not have considered, and it can be valuable to virtually any family with assets to preserve. Tapping the cash value of a life policy might also provide needed cash during your lifetime.

Let's start with the fundamentals. There are two basic types of life insurance: term and cash value. With term insurance, you pay premiums for a specified length of time (often for 10 or 20 years). In return, the insurance company agrees to provide a death benefit for your survivors if you die while the policy is in force. The amount of your premiums depends upon several factors, including your age, your health, and your lifestyle. In general, the older you are—or the more likely you are to die from smoking, obesity, or other risk factors—the higher the premiums.

In contrast, cash value life insurance—which may come in several forms, including whole life, universal life, and variable life—provides both a death benefit and a cash value. While part of your premium is used to fund a death benefit, just as with a term policy, the remainder is earmarked for a cash-value account. The account for a whole life or universal life policy earns interest and grows on a tax-deferred basis, while the value of variable life account will vary.

With cash value insurance, you can also borrow against the policy's value at favorable interest rates, although policy benefits will be reduced if you don't repay the loan in a timely fashion. And, if the contract includes a special rider, you may be able to draw on benefits in an emergency.

How much life insurance protection do you need? It depends on several factors. At the very least, there has to be enough to make up for the shortfall from income you would have made. But there are also other sources of income for the family—including pension benefits, Social Security, and earnings from investments—that may be lost if you die prematurely. And depending on your family's situation, you may want to secure extra protection.

How can life insurance be used? To begin with, your beneficiaries will receive death benefits they can use to make mortgage payments or pay off a mortgage, take care of funeral expenses, and provide a financial cushion to help them cope with their loss. Life insurance can be particularly beneficial for someone who is still working full time as one of the family's main breadwinners. Insurance proceeds can sustain family members until they are able to get back on their feet and make definitive plans for the future.

But there are several other ways in which life insurance can come to the rescue. A major role may be to help with the taxes that may be due shortly after your death, even with the generous $5 million estate and gift tax exemption (indexed to $5.49 million in 2017). Business interests may be particularly likely to generate tax liability, especially if you owned a substantial share in a company that your family decides to sell.

Another strategy could be for a couple to arrange to have the surviving spouse use insurance proceeds to pay the income taxes due on converting a traditional IRA to a Roth IRA. That could provide tax-free income during retirement and avoid the need to tap the IRA for the funds to pay tax on the conversion.

In a pinch, you could borrow against the cash value of a permanent life insurance policy to help put your children through college. You might do the same to pay off high-interest debt from credit card accounts. In both cases, that's not the optimal approach, but repaying the loan from your policy might end up costing you less than other alternatives.

Some insurance companies permit you to use the money that would have been paid to your survivors as a death benefit to pay qualified long-term care expenses. Using these "accelerated death benefits" could help you avoid depleting family assets that your spouse may need.

These are just a few of the ways life insurance may be part of an overall wealth planning strategy. It could also be used as part of a charitable giving strategy, by providing cash to your heirs to make up for your spending on philanthropy. Life insurance is no one-trick pony, and we can help you consider all of the possibilities. ●

or doesn't fit with the rest of the machine, walk away.

• Before you insert your credit card, pull on the reader or jostle the card around the slot to see if anything is loose. Again, don't use the terminal if your suspicions are aroused.

• Be aware of people hanging around the ATM for a long time. The skimming criminal could be lurking nearby to collect the information.

• Avoid ATMs in isolated locations that don't seem to be part of a store or bank. There have been instances where fake terminals have been set up without an establishment's knowledge.

• When you enter your PIN, use your free hand to block the view. That can shield your information from a camera mounted above the PIN keypad.

Finally, pay close attention to your credit card and bank statements. Fraudulent charges or unauthorized cash withdrawals often indicate that your data has been compromised. If that's the case, contact your bank or credit card issuer right away. ●