

Baird Investor Education

Estate Planning Basics

Everyone, regardless of age or wealth, should have an estate plan. In addition to providing a means of transition and continuity when passing on your assets after your death, estate planning can address current issues such as health care directives and durable powers of attorney.

As part of Baird's comprehensive wealth management process, your Baird Financial Advisor and Baird's specialists in estate planning strategies will be happy to work with you and your attorney to help ensure your unique estate planning needs are met. Following are brief overviews of several basic documents that are essential to proper estate planning.

Will

A will directs how assets held in your name are distributed after your death. If not specifically directed through your will, those assets will be distributed according to the laws of the state in which you live. A will can also be used to appoint an executor or personal representative to manage your estate. For people with young children, a will is used to nominate a guardian.

Revocable Trust

A revocable living trust allows assets to pass directly to beneficiaries, bypassing probate. This is important if you own real estate in more than one state. Property held in the trust is included in your gross estate. Your biggest concern will be naming a successor trustee to provide for a smooth transition and continuity in management of assets to ensure your investment philosophy is adhered to after your death. Naming a family member, who knows your Financial Advisor, or using one of Baird's Trust Alliance partners will help provide such continuity.

Credit Shelter/Bypass Trust

The 2001 Tax Act set the threshold amount for exemption from federal estate tax at \$3.5 million for 2009. Often, this amount will be transferred through a credit shelter or bypass trust. Typically, the income earned from these assets is available to the surviving spouse. In addition, the principal is available to be used for the spouse's health, education, maintenance and support. At the surviving spouse's death, the assets pass to beneficiaries (usually the children) and are not included in the second spouse's estate.

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Continued from page 1

A **marital trust** is established to take advantage of the marital deduction for the benefit of the surviving spouse. Assets in the trust are passed to the surviving spouse and not subject to estate tax until that spouse's death. The surviving spouse will have access to both the income and the principal of the trust, generally with no restrictions.

An **irrevocable trust** permanently transfers property and can be created for a variety of reasons. Irrevocable trusts can be used in conjunction with life insurance to create more sophisticated wealth transfer strategies.

A **generation-skipping trust** is typically created to benefit children, grandchildren or more remote descendants. During the life of the trust, the income it generates may go to the grantor's spouse, children and/or grandchildren. The trust may terminate when the beneficiaries reach a specified age, or it may continue as a dynasty trust for an unlimited time.

Durable Power of Attorney/Health Care Directives

A durable power of attorney appoints a person to manage your financial affairs in the event you become incapacitated. Advanced health care directives – including a health care power of attorney and a living will, which specifies your wishes concerning medical treatment in the event you are unable to voice your preferences – is also needed. Your living will should be as complete and explicit as possible to ensure your wishes are respected.

For more information, or to see if you might benefit from an estate planning analysis, contact your Baird Financial Advisor today.

Points to Remember

- 1 Estate planning can provide a means of transition and continuity when passing on your assets after your death.
- 2 There are several basic estate documents you should consider:
 - a Will – directs how assets in your name are distributed after your death
 - b Revocable Trust – allows assets held in trust to pass directly to beneficiaries without going through probate
 - c Marital Trust – assets are passed to the surviving spouse and not subject to estate tax until that spouse's death
 - d Irrevocable Trust – permanently transfers property and can be created for a variety of reasons (e.g., designed to own insurance policies on your life, and those created for children or grandchildren)
 - e Generation-Skipping Trust – created with children and grandchildren as beneficiaries