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GUIDE TO LEGACY PLANNING

Your legacy is about more than just transferring wealth.
It's about helping your heirs carry on what's important to you.

Significant wealth can afford your family opportunity for generations. According to a 2022 survey of high-net-worth individuals conducted by Ipsos for Northwestern Mutual,[1] while most high-net-worth individuals have done at least some estate planning, an equally high number admit to not having thoughtful conversations with their heirs about the wealth they're about to receive. While avoiding conversations involving the intimate details of your wealth is understandable, passing on a legacy that stands the test of time requires planning with your heirs, not just for them.

In this guide, we'll help you understand the key elements of leaving a legacy and discuss strategies to help you better prepare the rising generation to receive the wealth you've created and carry on your legacy.

PLANNING YOUR LEGACY *WITH* THE RISING GENERATION

WHAT IS LEGACY PLANNING?

A key component of planning your legacy is ensuring that the right assets go to the right people or charities at the right time while incurring the least amount of tax. But it's more than just good estate planning. It's also about ensuring your wishes and family values are documented and understood by your heirs so they can be passed on alongside your wealth. More specifically, planning your legacy helps you:

- ☐ Define how and when your assets will be distributed so that the wealth transfer process is not left to chance or does not go against your wishes.
- ☐ Create strategies and structures that maximize the way assets are distributed while staying true to your family's values, such as through charitable contributions and by using trusts.
- ☐ Update beneficiary designations.
- ☐ Minimize taxes.
- ☐ Arrange for guardianship and care of minor children or other family members, young or old, with special needs.
- ☐ Provide financial protection for your loved ones in the event of your passing or an illness or injury.
- ☐ Carry out your wishes in the event you are unable to do so.
- ☐ Develop a plan to pay for long-term care.
- ☐ Keep your financial affairs private.
- ☐ Prepare the rising generation to take on the wealth you've created and carry out your legacy.

Because your financial and family situation is unique to you, consider collaborating with a team of advisors who can help you determine the best approach to building your legacy. Chances are that planning for your legacy will require input from professionals with substantial legal, tax, investment and insurance experience.

Thinking about your legacy and then crafting a plan empowers you to shape the destiny of your hard-earned wealth so that it delivers all the advantages you want your heirs to enjoy and affords you peace of mind from knowing you took care of your loved ones.

[1] From Jan. 3, 2022, to Jan. 20, 2022, Ipsos surveyed 500 future givers aged 45-80, with $2M+ in investable assets and a household income of $150k or more, who are planning on leaving an inheritance to their heirs and have a financial advisor. Additionally, during the same timeframe, Ipsos surveyed 350 future receivers aged 25-55 with a household income of $100k or more, who expect to receive an inheritance of $100k or more and are currently working with or plan to work with an advisor.

PLANNING WITH YOUR HEIRS

In our survey of high-net-worth individuals, two-thirds of wealth creators discussed wealth transfer with their beneficiaries. Of them, 47 percent said the conversation was spontaneous, while only 21 percent said they came prepared with the information and documentation the beneficiary would need later. If you find the idea of having such a conversation difficult, you are not alone. In fact, one in five wealth creators in our survey found it difficult to tell the rising generation about their assets.

Wise Counsel Research Associates, a firm that specializes in family wealth and legacy planning, says it's natural to find this process difficult. Parents want to do what's best for their children, and many fear that talking about money with children will disincentivize them, so they procrastinate or avoid talking about the subject altogether. But silence is not the answer. At worst it breeds resentment, suspicion and mistrust; at best it prevents you from passing valuable lessons to your children. So it's critical to take a breath and push past the discomfort.

47%

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21%

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STARTING THE CONVERSATION WITH YOUR HEIRS

To help you push past the discomfort, here are 11 tips from Wise Counsel on how to begin the conversation about wealth transfers with your children:

1. **Couples may need to calibrate their wishes.** Many legacy planning decisions are made by couples, and uncertainty over each other's wishes can lead to inaction. To help better understand each other's wishes and move your plan forward, partners should take time to reflect privately on their wishes and then share their wishes while the other partner listens (and only listens). After each partner is done sharing, identify the common ground. This is the basis for conversations with your children. Strongly held differences of opinion should be addressed and worked through together.

2. **Reflect on the messages you've already given your children.** Take time to reflect on the ideas you already have shared with your children through both your words and actions over the years.

3. **Focus on the future.** At times, parents may feel regret over what they believe they should or should not have done for their children. Likewise, children have been known to disappoint their parents. But when planning and taking part in wealth transfer conversations, the key is not to dwell on the past but to look forward and concentrate on what to do now.

4. **Assess your children's needs.** Think about what each of your children truly needs now and what they may need in the future.

5. **Prepare for the conversation.** While your conversation need not be overly formal, it's important to prepare for the first conversation beforehand.

6 **Start the conversation by sharing your values.** Begin your conversation with the rising generation by sharing the values that you believe helped create your net worth.

7 **Ask your children about your legacy.** One of the most direct ways to advance a conversation is to ask, "What kind of legacy have I already created?" Their answers will reveal what your children already have heard — and what they haven't. This initial conversation doesn't even need to touch on money or estate planning. It aims to get at the meaning that drives those plans.

8 **Be open about your intentions.** If you have some idea of what your legacy plan might look like, even if not fully formed, discuss what you have in mind and ask your children what they think. They may be hesitant to ask right away, so give them time and encouragement.

9 **Communicate your wishes and values.** Communicating the spirit of the wealth you are transferring — why you are doing it and its meaning to you — can help ensure it is well received.

10 **For many, it's more than one conversation.** The truth is, a "one-and-done" conversation about your legacy plan is likely not the optimal way to approach the process. Keep the door open to have an ongoing conversation with heirs about your plans and intentions. These conversations will only get more comfortable with time.

11 **Collaborate with your financial advisor.** Your financial advisor has numerous tools and resources at hand as well as relationships with other trusted third parties like estate planning attorneys, accountants and more.

As you embark on this conversation, it's important to remember there is no simple roadmap or template. But parents and children proceeding together slowly, so they can listen to and learn from one another, is a great way to plan. According to our survey, after the conversation both wealth creators and receivers generally feel better about the wealth transfer process.

FEELINGS AFTER THE CONVERSATION

8 in 10

reported an overall positive emotion

TOP 5 EMOTIONS	
Relief	40%
Accomplished	38%
Appreciated	37%
Happy	33%
Closeness	26%

What's more, 50 percent of the rising generation said the discussion made them realize they need to get more serious and start planning for their own financial future, but many also indicated they are not sure how to proceed and are looking for some direction on where to start.

In the following sections, we provide insight on developing a legacy. As you embark on this process, be sure to loop in your financial advisor, whose experience helping others develop similar plans can be an invaluable resource in this process, enabling guidance on important information and expertise unique to your circumstances.

DEFINE YOUR GOALS AND EXPECTATIONS

While planning your legacy involves highly technical estate planning strategies and legal instruments (we'll talk more about those later), one of the most important first steps you can take is thinking about what assets and values are important for you to transfer to the rising generation.

To start with, this includes who gets what assets and when. But it's rarely as straightforward as it sounds. In our survey, participants indicated concerns about how the money might be spent and who might have access to it. For example, do you worry your son would blow his inheritance within a short period of time? Or maybe you're concerned about a daughter-in-law having access to your hard-earned wealth. By bringing up concerns like these with your advisory team during the planning process, you can develop strategies to mitigate them.

Then there are the intangibles: your wishes and values. Perhaps it's important to you that the future stewards of your wealth are charitably minded. Or maybe a certain business or political interest is important to you. Simply put, your wealth isn't limited to your financial assets, so think about the intangibles you want to pass down as well.

Get specific with your goals

Once you've identified goals at a high level, you may want to consider the following questions to help you frame your thoughts:

- ☐ Have you provided protection for your loved ones in the event of your passing, illness or injury?
- ☐ Who will carry out your wishes if you cannot?
- ☐ Where and to whom do you want your assets to go?
- ☐ When were your beneficiary designations last updated?
- ☐ Are your assets properly titled?
- ☐ Does your estate have sufficient liquidity to meet tax and other obligations?
- ☐ Have you considered creating a retirement income distribution plan with legacy in mind?
- ☐ What is most important to you when passing down money to your heirs?
- ☐ Who will care for any minor children or grandchildren?
- ☐ What might happen to any family members with special needs?
- ☐ Who would care for your elderly parents or other relatives who depend on you?
- ☐ How will you protect your spouse?
- ☐ Who will care for you in your old age or if you are incapacitated?
- ☐ How will you pay for long-term care?
- ☐ What are your charitable goals?
- ☐ Who will care for your pets?
- ☐ Have you discussed your goals with those close to you?
- ☐ Have you discussed your values, intentions and wishes with your children?
- ☐ Is your documentation catalogued and readily accessible?

CREATE YOUR PERSONAL FINANCIAL STATEMENT

Once you've thought through what's important as you transfer your wealth to the rising generation, it's important to create an inventory of your income sources, what you own and what you owe. Depending on your situation, this may be a long list that includes investments, hard assets, business interests, permanent life insurance and more.

While an advisory team with deep experience helping others plan their legacies combined with intimate knowledge of your situation will be best positioned to help you develop comprehensive documentation, the following checklists can serve as a springboard into this process.

Identify your income sources and assets

If you are already working with a financial advisor, your income sources and assets may already be well documented. If not, these generally include:

Cash. This is money in your checking and savings accounts, CDs and other holdings at banks. Be sure to include all account numbers and names of institutions in your list, as well as any transfer on death (TOD) or payable on death (POD) beneficiaries.

Non-qualified investments. Ninety-eight percent of our affluent survey respondents hold investments. This includes stocks, bonds, mutual funds and other securities in brokerage accounts, with your financial advisor and at mutual fund firms. Make a note of all holdings and balances, account numbers, titling information, beneficiaries and names of institutions.

Qualified investments. Ninety-seven percent of our survey respondents hold retirement funds, so be sure to include all holdings in IRAs, 401(k)s and similar defined-contribution plans, and balances in Health Savings Accounts (HSAs) as well. In addition to noting all holdings and balances, account numbers, titling information, beneficiaries and names of institutions, it is also wise to gather plan summaries and documentation for defined-benefit pensions and any other retirement benefits.

Social Security. Locate your Social Security statement, filing (if you have already) and payment documentation.

Life insurance policies. This includes group life insurance, term life insurance and permanent life insurance. Include policy numbers, face values, cash balances and beneficiaries as well as the location of policy documents.

Businesses. Twelve percent of our high-net-worth survey respondents are business owners, so be sure to note any you own as well as the appraised value and succession plan.

Real estate. Most of our survey respondents also have real estate holdings. The vast majority (92 percent) own residential real estate, and 15 percent own commercial real estate. As you detail your holdings, include your primary residence, vacation home and any investment real estate, whether residential or commercial, as well as any land you may own. Make note of where any titles, mortgage papers or other important documents are located.

Miscellaneous personal possessions. This may include items with significant economic value like cars, boats, RVs, planes, artwork, collectibles and jewelry. It is also a good idea to document items with only sentimental value, like a recipe book that has been passed down through the generations. Often these types of items are overlooked and can lead to conflict within the family if your intentions are not clearly indicated.

Identify your liabilities

Next, compile a list of your liabilities. These may include:

Loans against property. This includes mortgages as well as home equity loans and lines of credit on your primary and other residences. Be sure to note institutions, account numbers, terms of repayment and interest rates.

Consumer debt. Think about any car loans, boat loans, credit card debt, personal lines of credit, margin loans, etc. that you may have. Here again, you'll want to note institution names, account numbers, terms of repayment and interest rates.

Student loans. Note any federal and private loans for yourself as well as loans you've taken out on behalf of your children. In addition to your lenders, account numbers, terms of repayment and interest rates, you'll also want to note whether the loan is on an income-driven repayment plan and if it is eligible for loan forgiveness.

Business loans. This includes lines of credit, business credit cards, SBA loans, vehicle and equipment loans and more. Make a note of your lenders, account numbers, terms of repayment and interest rates as you have with other loan types.

Life insurance loans. These are loans against the cash value of your permanent life insurance policies. You'll want to note the insurers, account numbers, terms of repayment and interest rates.

Gather existing documents

It's not uncommon for affluent individuals to already have key estate planning documents in place. Now is a good time to gather and review these existing documents:

- ☐ Will and trust documents
- ☐ Financial powers of attorney
- ☐ Health care powers of attorney and/or health care proxies
- ☐ Living will
- ☐ Beneficiary designations
- ☐ Payable on death and transfer on death designations

Document access information

In today's age, we access most of our accounts online. You may also keep key information and documents in a home vault or in a safe deposit box at your financial institution. Now is a good time to take inventory of:

- ☐ Login information, including username, password and answers to challenge questions for your online accounts.
- ☐ Access codes or passwords for home vaults.
- ☐ The location of keys to your safe deposit box.

Due to the access these tools provide, it is critical to keep this information and physical items like keys in a secure location.

UNDERSTANDING ESTATE TAXES

With a solid understanding of your assets and liabilities in place, it's important to have a general understanding of how estate taxes work. While everyone should pay required taxes, good estate planning techniques enable you to legally pass more wealth to your heirs by minimizing taxes on the wealth you are transferring.

A key strategy to help minimize estate taxes under current federal law is the annual gift tax exclusion, which enables any individual (while still living) to give an amount up to the IRS stated annual exclusion amount each year to any other individual without tax considerations. So, if you are transferring wealth to your kids, it means that if you are part of a married couple, you could jointly gift up to twice the annual exclusion amount to each child in a year. If you have grandchildren, this is another opportunity for you to give with no gift tax consequences. And remember, you are not limited to whom you gift, so while most people will give to children or grandchildren, you can gift up to the annual exclusion amount to anyone.

Gifts above the annual exclusion amount in a year eat into the amount taxpayers can transfer tax free over their lifetime and at death (the gift and estate tax exemption). For wealth transfers above that amount, wealth creators or their estates will owe federal tax that can be as much as 40 percent. Leveraging the annual gift tax exclusion during your lifetime enables you to reduce your taxable estate at death, helping minimize taxes paid on transfers that exceed the lifetime exemption.

In addition to federal estate taxes, some states also impose estate taxes. A handful of states even have an inheritance tax, which is paid by the receiving beneficiary.

Given the amount of tax that can be imposed at one's death, people with significant wealth often use sophisticated strategies designed to avoid wealth depletion by transfer taxes. In addition to the annual gift tax exclusion, permanent life insurance in trusts can reduce taxable estates and provide liquidity to pay estate taxes, helping preserve wealth for the rising generation.

THE ABCs OF TRUSTS

As you dive deeper into planning your legacy and you begin working with a financial advisor and attorney, chances are you'll hear a lot about trusts. A trust is a legal vehicle created to ensure that your assets are managed and distributed according to your wishes. Trusts are one of the four ways property can be transferred upon death. The others are:

By contract. Assets subject to a contract, such as life insurance, pass to the beneficiary designated by the owner. Assets with a payable-on-death or a transfer-on-death designation also pass to the named beneficiary.

By operation of law. Property owned as joint tenants with rights of survivorship or as tenants-by-the-entirety transfers automatically to the surviving owner(s).

Through probate. Assets not passing by contract, operation of law or a trust go through the court process of probate. The court appoints a personal representative who distributes assets to beneficiaries named in a will. If there is no will, the intestacy laws of each state specify who the beneficiaries are.

There are several reasons to consider a trust for an estate plan. Primarily, trusts help mitigate or eliminate estate tax issues and avoid the often lengthy and costly probate process. In addition to keeping your affairs private, trusts also provide you with greater control over the way assets are managed when you die or become incapacitated.

Understanding the vocabulary of trusts

The world of trusts can be bewildering. Many types of trusts exist, and legal jargon abounds. The following are terms you are likely to encounter if you work with an attorney on a trust as part of your estate plan.

Key players in a trust

Grantor/Trustor/Settlor. These are names for the person who creates the trust and transfers assets into it.

Trustee. This is the person who administers the trust for the benefit of the trust's beneficiaries. A trustee often is a corporate trustee, friend of the family or relative.

Trust Beneficiary. These are the individual(s) or charities entitled to the benefit of the trust arrangement.

Common trust categories

Revocable. These trusts can be amended, modified or revoked by the grantor. The grantor can control the assets as trustee for their own benefit.

Irrevocable. These trusts cannot be changed and typically are used for transferring assets to another generation.

Testamentary. These trusts that are established in a will and receive assets only after the grantor's death.

Inter-vivos. Created during a grantor's lifetime, these trusts may continue after the grantor's death.

Grantor. These trusts require the grantor to report the trust's income on his or her income tax return.

Non-grantor. Here, the trust reports its own income, and either the trust or the beneficiaries pay any taxes owed.

Common trust types

By-pass trust/credit shelter trust. These are designed to receive assets valued up to the amount of decedent's federal estate tax exemption.

Spousal lifetime access trust (SLAT). Here, the grantor's spouse is beneficiary, and he or she may receive distributions from the trust during the lifetime of the grantor.

Irrevocable life insurance trust (ILIT). This type of trust owns one or more life insurance policies to avoid including the policies' death benefits in the insured's estate. The trust may also provide liquidity to pay any estate taxes and to equalize inheritances.

Crummey trust. Named after the first person to use the structure, Crummey trusts typically are used by parents to provide their children with lifetime gifts while sheltering the money from gift taxes as long as the gift's value is equal to or less than the permitted annual exclusion amount. Crummey trusts are not limited to gifts of the annual exclusion amount, but gifts in excess of the annual exclusion amount would be subject to gift tax. Beneficiaries can tap funds in the trust under certain conditions.

Generation-skipping transfer (GST) exempt trust. These are designed to pass wealth from generation to generation without incurring estate, gift or generation-skipping transfer taxes.

Dynasty trust. Also designed to benefit successive generations, these often include a GST trust component.

Qualified terminable interest property (QTIP) trust. This is an arrangement in which a married person transfers assets to a trust for the benefit of his or her spouse. The transfer allows for the unlimited marital deduction, and the married person retains some control over who receives the remaining trust principal.

Intentionally defective grantor trust (IDGT). This type of trust allows the grantor to gift and sell assets (often at discounted values) to a grantor trust. The income from the trust is still taxed to the grantor during their lifetime, but the trust assets grow outside their taxable estate. IDGTs typically benefit multiple generations of beneficiaries.

Grantor-retained annuity trust (GRAT). This trust allows the grantor to transfer assets at a reduced gift tax value, freeze the value of appreciating assets, and receive an annual annuity for a specific number of years. At the end of the trust's term, the assets typically pass to the next generation.

Trusts are widely used tools in estate planning, and your attorney and financial advisor can explain whether creating a trust makes sense as part of your planning your legacy.

DEVELOPING A PLAN AND COORDINATING WITH YOUR BENEFICIARIES

When carefully conceived and executed, a legacy plan can have positive, life-enhancing effects for wealth creators and heirs alike. More than half of wealth creators surveyed by Northwestern Mutual — 51 percent — say that the wealth transfer they are planning will give their beneficiaries financial security or freedom. Most wealth receivers surveyed expect their inheritance will give them financial security or a boost. About one in ten wealth receivers say it will be life changing, and 25 percent said they felt closer to their benefactor after discussing the wealth transfer.

While those who have taken steps toward creating a plan for their legacy feel good about what they have accomplished, half of those surveyed said they must get more serious about planning for their financial future. The rising generation feels the same way, but many are not sure how to proceed and are looking for direction from wealth creators on where to start. Two-thirds of wealth receivers, as well as a similar percentage of wealth creators, say they want to talk to a financial advisor about wealth transfer, while half of wealth creators and 41 percent of wealth receivers also want to talk to an attorney.

This coordination is key. It's part of the conversation. Even if you aren't entirely sure of the amount you will leave the rising generation, it can be immensely helpful to allow your beneficiaries to include the expected wealth transfer as a part of their plans.

51%

say the planned wealth transfer will give their heirs financial security

66%

of wealth creators and their heirs want to talk to a financial advisor about wealth transfer

50%

of creators and

41%

of receivers also want to talk to an attorney

How to get started

If you, like survey respondents, are motivated to establish a plan for your legacy and become more knowledgeable about wealth transfers, here's how to get started.

Assemble a team of trusted professionals, including a financial advisor, estate attorney and accountant. If you already have a financial advisor but need assistance assembling a whole team, he or she can help you determine what expertise is missing from your team.

Gather the documentation you will need, including information about assets of all types, your accounts and debts/liabilities.

If you haven't already done so, **work with your estate planning attorney** to review and revise your estate planning documents.

Think about what you want to leave to whom — and why and when.

Discuss your plans with the rising generation.

Develop the specifics of your plan — for example, the creation of trusts, the use of life insurance, changes in beneficiaries, etc. — with your team of advisors.

Review the final plan with receivers, including discussions of big-picture issues — such as the funds they are likely to receive — and details, including where key papers are kept and how they can be accessed.

Start the conversation with your advisor today

If you're ready to begin your planning for your legacy, it's important to work closely with your financial advisor and other professionals. Your advisor's guidance can go beyond the tax and financial strategies that help you transfer wealth efficiently and flexibly by bringing forth outside-the-box ideas to help you advance your personal legacy goals and benefit the rising generation.

Start the conversation today with questions like these:

- ☐ Are my assets currently held in the optimal legal structure, and are they properly titled?
- ☐ Are my beneficiary designations correct?
- ☐ Should I consider the creation of a trust or trusts?
- ☐ What types of trusts might be suitable in my circumstances?
- ☐ What are the potential tax consequences of leaving my assets the way they are?
- ☐ How might I lessen the impact of taxes for myself and my heirs?
- ☐ What are the risks I face that I don't know about or am not considering?
- ☐ Under what circumstances should my plan be updated or reconsidered?
- ☐ How do I start the conversations with my heirs?

Additional resources on Life & Money:

These 2 Expenses Don't Count Against Your Gift Tax Exclusion

Estate Planning 101: What's Included in an Estate Plan

Why Life Insurance Matters in Estate Planning

Can I Leave Money to My Kids But Not Their Spouses?

Should You Consider a Spousal Lifetime Access Trust (SLAT)