Thank you for downloading *Six Estate Planning Mistakes High Net Worth Families Make and How to Avoid Them*.

We created this guide to assist individuals and families in passing their assets intact to the next generation.

If you are reading this document, chances are you realize your family (or charitable organizations) may not be taken care of exactly how you intended.

Perhaps Uncle Sam is taking a bigger share of your wealth than you’d like. Or perhaps you have a big legal binder that you haven’t visited in awhile - or that you don’t understand.

And maybe you’re not exactly sure where to begin or where to seek guidance.

We hope this guide on how to avoid six estate planning mistakes is a helpful resource. If you would like more information, or have questions, please contact us at *info@foundrywealth.com*.

Sincerely,

Marianne & Don
Six Estate Planning Mistakes
HIGH NET WORTH FAMILIES MAKE AND HOW TO AVOID THEM

It takes time, sometimes generations, to build a family legacy and it can be a daunting responsibility to make sure that legacy is protected and properly passed to future generations.

There are so many factors to consider, and it’s easy to understand why so many fortunes are lost within three generations to poor planning and lack of understanding of the impact of taxes and changing tax codes.

Here are some of the major mistakes we see high net worth individuals and families make that are easily corrected:

#1: UNFUNDED TRUSTS

This is one of the biggest planning gaffs we see and it’s amazingly common.

You take the time to meet with an attorney, devise a plan for the distribution of your assets, set up a few trusts (the most common being a Revocable, or Living, Trust), you execute the documents, go home with a big binder, file it and sleep well knowing that you’ve taken care of your family.

Not exactly.

If you don’t take the next step, all you’ve done is taken care of your attorney.

If you have a trust, you actually have to fund it, or else you’re back where you started - without a plan.

To do that, you need to re-title your assets in the name of the trust.

This includes individual bank accounts, investment accounts and real property. It does NOT include qualified retirement accounts or jointly held assets.

Also, don’t assume that just because you have significant wealth, you need a Revocable Trust. Often, proper account titling and beneficiary designations will suffice.

#2: INEFFECTIVE OWNERSHIP OF LIFE INSURANCE POLICIES

For most people, life insurance is designed to replace the income of the deceased for a spouse or dependent - or to extinguish any outstanding debt obligations at the time of death.

For high net worth families, though, it’s also an excellent asset transfer vehicle, reducing the value of your taxable estate and, therefore, your estate taxes.

Life insurance can also be a cost-effective way to replace assets for the family that is gifted into other gifting strategies, such as Charitable Trusts, Grantor Trusts, planned gifts, etc.

The mistake occurs when that life insurance policy is applied for and owned by an individual.

To remove the value of the death benefit from an individual’s estate, the policy needs to be owned by an Irrevocable Trust, such as an Irrevocable Life Insurance Trust (ILIT). The premiums are typically gifted or loaned into the ILIT and the ILIT owns the policy.

Individually owned policies can be gifted into an irrevocable trust, but the transfer is subject to a three-year look back period, which means that if the insured dies within three years, the IRS assumes the transfer was never made.
#3: BENEFICIARY DESIGNATIONS

It is important to review accounts that have beneficiary designations periodically, but especially when you have a change in status, such as a marriage or divorce, or a change in investment advisor. This is especially important if you’re using account titling strategies in lieu of establishing a Revocable Trust.

Retirement plans, such as 401k’s and IRA’s, require that you name a beneficiary. In Maryland, the beneficiary of these plans must be your spouse unless your spouse gives you written consent to name someone else (there are a few tax strategies that make it appealing to name a beneficiary other than your spouse, even if you have a great relationship!).

But even if you do name a beneficiary, there are situations that might cause them to “fall off” the system. This can occur, for example, if your employer changes your 401k or 403b from one custodian to another, or if you roll your 401K to a self-directed IRA or move from one advisor to another. We have seen this happen far too often.

Keep in mind that life insurance beneficiary designations are often overlooked and may need to be changed periodically throughout your life as your financial and life situations change.

Also remember that beneficiaries most often CANNOT be changed inside of an irrevocable trust, so choose wisely.

Bank and investment accounts can also have named beneficiaries- they are usually designated as POD (payable on death) or TOD (transfer on death) registrations.

Beware of naming minor children as beneficiaries! Most jurisdictions (such as the State of Maryland) prevent minors from owning real property, and will instead require a guardian be named to administer the property until the age of majority. If one is not named, time and money will be required to have one appointed by the court.

#4: OVER-PLANNING

While not doing enough estate planning can harm your beneficiaries, over-planning can harm you, and is therefore worse.

It might look something like this:

A business owner with a successful business gifts valuable assets, including her personal residence, into a trust to remove the value from her estate and reduce the estate tax burden. She retires, leaving the children to run the business and pay her out over time. The economy goes into a tailspin, the business is lost, and the owner now needs to sell the home to generate cash. The problem is she no longer owns it - even though she may be living in it. If the children are the trust beneficiaries, they can sell the house and give the money back, but there are potential negative tax consequences to that action.

Make sure you have stress-tested your estate planning strategies to ensure you don’t gift too much or over-plan.

#5: NOT UNDERSTANDING THE ESTATE PLAN OF HEIRS

If you’ve earned your wealth by working hard and/or growing a business, chances are your children will follow suit. After all, the apple doesn’t fall far from the tree in most cases.

For most wealthy families, then, estate planning cannot be truly effective without considering the next generation in line. Parents, loving their children all equally, may think they are being fair to split the wealth equally and, in some cases, that might work just fine.

However, if any of those children have accumulated their own wealth over the years, it is important that the elder generation’s estate plan does not conflict with the planning of the next generation. Perhaps skipping a generation for some children is the better way to go.

The reverse is also true: A younger generation with a complex estate plan should check in with the older generation to make sure there are no unwelcome surprises.
Having a trusted family advisor can go a long way to help coordinate discussion and construction of a sound intergenerational strategy.

**#6: HAVING AN INVESTMENT STRATEGY THAT DOES NOT MATCH STATED GOALS**

Portfolio design is often overlooked in the context of an estate plan and is the biggest mistake of all.

Many investors are profiled by their investment manager(s) as conservative, moderate or aggressive based on their level of concern about volatility or loss of principal without enough consideration given to the level of risk that needs to be taken to accomplish one’s life goals.

Managing money in a vacuum often results in inappropriate asset allocation, lack of goal achievement and/or needless volatility and erosion of principal.

Proper portfolio design and risk management are critical to the overall estate plan and need to be done in concert with the individual’s or family’s overall cash flow needs and legacy plans.

---

**FINAL THOUGHTS**

We hope you found this resource valuable as you consider your own estate plan and any gaps that might exist.

Estate planning can be tricky - laws change and plans often need subtle revisions, and sometimes major overhauls, to be truly efficient and effective.

We have found that having a trusted advisor to assist in strategy development, execution and monitoring, in addition to your estate planning attorney and accountant, greatly improves the quality and success of any plan. Your attorney and accountant most likely would agree!

We are that trusted advisor for our clients and we are here to assist you.

Please call us for a consultation at 443-692-8833 or info@foundrywealth.com. We will also follow up with you within the next week to see if you have any questions or need assistance.

We look forward to answering your questions,

Marianne & Don

**Marianne D. Mattran, CFP®**
President
marianne.mattran@foundrywealth.com

**Donald A. Mattran, Jr., MBA**
Managing Director
don.mattran@foundrywealth.com

"Estate planning can be tricky – laws change and plans often need subtle revisions, and sometimes major overhauls, to be truly efficient and effective."

---

**Foundry Wealth Advisors**
WEALTH MANAGEMENT REDEFINED

921 East Fort Avenue • Suite 310 • Baltimore, MD 21230 • 443-692-8833
info@foundrywealth.com
www.foundrywealth.com