Pitfalls to Estate Planning Success

Scott Talbot - May 2022

Estate plans exist to clearly communicate our wishes and to ensure that they are carried out upon death. However, despite our best efforts, our plans may fail to accomplish their intended purpose. Be on the lookout for these four common pitfalls to avoid:

PITFALL #1: Inappropriate Titling of Assets

Suppose someone has three children and wants to make equal distributions to them. Suppose also that the daughter who lives down the street has been named co-owner on her mother's checking account to help Mom pay bills. (The co-ownership is established as Joint Tenants with Right of Survivorship.) At Mom's death, that daughter automatically inherits the checking account along with her pro rata share of the estate earmarked for each sibling. But because of the titling on the checking account, the children receive disproportionate shares of the inheritance.

Or suppose a Revocable Living Trust (RLT) had been established. The primary objective for creating the RLT is to avoid probate. For the RLT to accomplish its purpose, all appropriate assets must be retitled to the trust. Furthermore, any new financial accounts or newly purchased assets, such as a new vehicle or home, must be titled to the trust. Assets that are not properly titled could trigger the probate process, adding costs and delays to setting the estate.

PITFALL #2: Uncoordinated Beneficiary Designations

A young couple makes a provision in their wills for a testamentary trust for their newborn child. They purchase life insurance and name their child as the contingent beneficiary of the life insurance proceeds rather than naming the trustee of the testamentary trust. Should the parents die while the child is relatively young, the life insurance proceeds will bypass the trust and land in the lap of that child in one lump sum as soon as he reaches age 18.

PITFALL #3: Trusting Others to Enact Your Wishes

I encounter many families who are committed to carry on their charitable giving beyond this lifetime. They are passionate about the ministries they support and have chosen them carefully as wise stewards. Often these families are specific about the organizations they wish to support through their estate plans—even the impact they wish to make.

However, families occasionally earmark funds but decline to identify specific ministries to support. Instead, they engage family members and others in the process of giving by allowing them to select the ministries and designations for those gifts.

When giving others total freedom to direct these gifts, these families forgo future direction regarding where or how their gifts will impact the generations to come.

PITFALL #4: Overlooking Regular Updates to the Plan

The most common reason that an estate plan does not accomplish its purpose is that we allow the plan to become outdated. It is wise to review your estate plan every three to five years to ensure that it accurately reflects your current circumstances and intent. Certain life events may necessitate immediate or additional reviews. These include the birth or death of a loved one, a marriage or divorce, a financial windfall or setback, a move to a different state, changes in your health, or changes in the tax law.

In summary, after you create your estate plan, confirm new assets carry titles and beneficiary designations that are coordinated with your plan. Then funds will flow to the desired beneficiaries in the manner you intend. Regularly review your plan to ensure that it accurately reflects your current wishes.

Attention to your estate plan will prevent common pitfalls and maximize the good your resources can do for future generations.