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MAXIMIZING YOUR FINANCIAL LEGACY

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Those planning for retirement have long had the same goal: Making sure their money doesn't give out before they do. Once convinced they have that issue covered, their concerns turn to leaving legacies for people and entities important to them.

Today it's no different, despite fewer Americans having squirreled away as much as did their parents and grandparents. "What I find is it's not so much that people are not leaving a legacy, but that the legacy is not what it used to be," says Nick Maggard, finance and estate planning attorney with Maggard Elder Law in Florence, Kentucky.

"They still want to leave something to the beneficiaries. They're saying we don't have a lot of money to leave, but it's important to us we leave what we can."

Experts have good news for these folks. With correct planning and preparation, any bequeathal to a beneficiary can become a substantially larger gift over time.

A significant sum of money from, say, a house sale, if stretched out in a legacy trust or dynasty trust, can become an ongoing financial legacy, Maggard says.

Say you gain $500,000 from the sale of a house. Placed in a legacy trust earning five percent interest, that sum surges to $1.3 million over 20 years. Over 40 years, it explodes to $3.5 million. "It can get big if you stretch it the right way," Maggard says.

Many individuals have not been taught about being as efficient in giving as they should be, says Rich Thompson, Jr., president of Advanced Legacy Concepts in Atlanta, Georgia. "But once they sit down with a financial professional, they can learn ways to use life insurance and other tools to amplify the value of their financial resources," he adds. "That way, they can pass along assets more efficiently."

Legacy trusts

Passing along assets efficiently often means passing them along over time, rather than in one lump sum. According to Thompson, those planning to leave legacies frequently commit the mistake of bequeathing money in their IRAs to their estates, without assigning a beneficiary or beneficiaries. In so doing, "They lose the opportunity to stretch the IRAs into lifetime income streams for their beneficiaries," he reports.

Many people leaving legacy trusts have much of their money in IRAs, Maggard says. At death, the deceased's IRA money can go to individual beneficiaries through subtrusts established for each. For instance, a 25-year-old granddaughter could gain an inherited IRA through a sub-trust. She could profit from significant appreciation over her lifetime, as the inherited IRA continues to grow in a tax-advantaged way.

The only headwinds to the IRA's growth in value over time would be the IRS-mandated required minimum distributions (RMDs) the granddaughter would have to take. But because RMDs are tied to actuarial tables reflecting life expectancies, and the 25-year-old would have a life expectancy of more than a half century, the early years' RMDs would be exceptionally small percentages of the total sum in the IRA.

The granddaughter could withdraw more than the RMDs from the inherited IRA, but a well-tailored legacy trust could eliminate that option at the benefactor's discretion.

"When appropriate, we can create a stand-alone IRA trust," Maggard says. "This is a trust designed to force the child to only take RMDs, not more than that."

Another approach to a legacy trust is to design the sub-trust so distribution of funds to each beneficiary is delayed. "This is typically done with non-IRA money, such as proceeds from the house sale, vehicles and cash accounts," Maggard says. "You might stipulate half the money is distributed at death, and the balance at a later date, for example 10 years after date of death, or every two years after that date."

Tampa, Florida, licensed tax attorney and certified financial advisor Rebecca Walser reports many older people fear leaving sums so great they erode younger heirs' drive to achieve success on their own. She counsels them to consider wealth transfers based not on beneficiaries' ages, but on the attainment of positive life milestones.

"Some examples include graduating from college or successfully contributing to the family business, completing pre-marital counseling or a pre-nuptial agreement prior to marriage or consistently giving of themselves to a worthwhile cause," she says.

Individuals wanting to enjoy seeing the impact of their legacy during their lifetime may also fund education plans, set up college tuition scholarships and/or use their annual exclusion dollars — currently $14,000 per year per person — to benefit people they see making a difference in their communities, adds Shannon Baustian, senior wealth planner with the Private Client Reserve of U.S. Bank in Minneapolis, Minnesota.

Most of Maggard's clients choose to leave legacies to family members and friends; a small percentage of his wealthiest clients leave money to charities or educational institutions. "But I also find we name churches or universities often as a backup if their descendants are not living at their time of death," he says.

"It's a disaster provision in the case they don't have any direct lineal descendants. They're saying to me, 'I don't want my second cousin to get anything.'"

Leveraging life insurance

Life insurance can also have a place in a well-conceived plan to leave a financial legacy, and that's particularly true for high net worth individuals, Thompson says. "It can be used in many ways, among them to offset the cost of estate taxes," he notes.

"For example, you can buy a life insurance policy that costs you far less over the period you hold it than the estate taxes will cost your heirs.

"And if there are additional moneys left over in terms of the insurance proceeds, they are tax free for beneficiaries. That is a huge strategy for legacy planning."

Unfortunately, many people die without really sitting down with financial experts to maximize the monetary assets beneficiaries will inherit. "No one is really teaching us these things," Thompson says.

"That's why people need coaching. When it comes to money, you can make big mistakes and transfer a huge portion of your financial resources unknowingly and unnecessarily" in the form of taxes.