Mesirow Wealth Management

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Blaze your trail: Ensure your legacy by mapping out a thoughtful wealth transfer strategy

Five steps to start blazing your trail

After a lifetime of hard work and financial discipline, you may now be looking back on everything you've accomplished, and contemplating what you want it all to mean going forward.

This guide is designed to help you begin that journey and to give you a roadmap to making a legacy plan a reality. The "footstep" symbols throughout this brochure can serve as a list of questions to ask yourself, or to discuss with a professional advisor, should you choose to go that route.

You can't take it with you

The first step in legacy planning is to think of it not in terms of finances but in terms of goals. What is it you want to achieve? Are there existing foundations that you want to support or do you want to establish your own? How do you want to be remembered, not just among your beneficiaries but among those who may not know you but who share the same objectives and dreams?

There are good reasons not to put off legacy planning. While the odds may be in your favor for many more years of vitality and accomplishment, there are no guarantees. It's important to put a plan in place now to help ensure that your legacy wishes can be fulfilled.

If you've made up your mind to start legacy planning, where do you start? The key to success is to make sure your plan is organized and explicit. Establish specific goals, and make sure that everyone is clear regarding what they can expect. To help you begin, here's a five-step approach we can recommend:

Step 1: Determine what you want your legacy to be

Step 2: Set the guideposts: What goes where

Step 3: Establish vehicles to fund your legacy decisions

Step 4: Communicate your plan to your family

Step 5: Consider working with a professional

Step 1 | Determine what you want your legacy to be

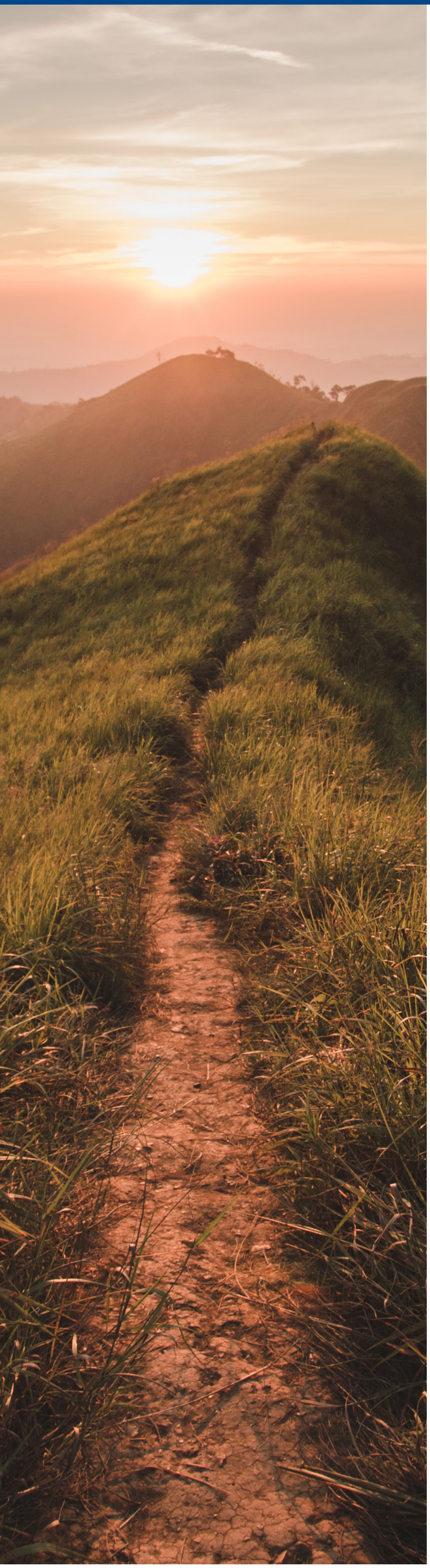
It's easy to make the mistake of viewing legacy planning in terms of money and funding. A more meaningful approach is to put it in terms of supporting the things you are passionate about and the people you love. If done well, legacy planning can serve as a celebration of all you have achieved and serve as a commitment to supporting the things you cherish far into the future.

View legacy planning not in terms of money or funding, but in terms of ensuring lasting support of the things you are passionate about and the people you love.

Your legacy may be to instill a work ethic or life lessons in your children and grandchildren, to establish foundations or charities that reflect causes that are important to you or to support people who share your values. You may choose to fund schools or neighborhood organizations that helped you become the person you are. It's all possible with thoughtful planning.

Keep in mind that you don't have to do this on your own. Talk the possibilities over with your spouse and with family members, as family dynamics will likely play a big part. Chat with trusted friends, with a religious leader or even with your therapist. These can be big questions and there may not be quick, easy answers. The important thing is to be confident in your decisions, so that the rest of the process can be directed toward meeting your goals in the most financially sound and efficient manner.

Does the size of my estate matter when considering legacy planning?



Step 2 | Set the guideposts: What goes where

Once you've figured out the causes, charities and people you want to support into the future, it's time to set the guideposts. By which we mean, to determine which assets will go where.

Create (or update) your will. It is the cornerstone of your estate plan.

And that means creating an estate plan.

If you don't have an estate plan, you're not alone. According to a 2022 survey, unfortunately 67% of Americans have no estate plan.[1] That statistic suggests that most families are overdue for a discussion regarding individual wishes and how they should be executed.

There is a common misconception that only the "elderly" need an estate plan. But the reality is that everyone — especially those with significant assets — should have one. Most of us know a person who died too young and left their family without a roadmap to handle their estate or distribute their assets. Having an estate plan in place is not only smart, it's thoughtful. If the unexpected happens, your family won't be completely lost, and the hopes you have for your legacy plan won't be derailed prematurely.

What should an estate plan contain? That can be a complex question that you should discuss with your family and financial/tax advisors.

Here are five key considerations:

1. Create (or update) your will as the cornerstone of your estate plan
2. Consider a revocable trust as an alternative to a will
3. Review assets that pass by beneficiary designation
4. Understand how jointly-owned assets transfer at death
5. Establish a safe spot for your vital documents

Create (or update) your will as the cornerstone of your estate plan

For most people, the starting point of creating an estate plan is understanding how each of your assets are transferred upon your death. In general, assets that are titled in your individual name (with no co-owners) are transferred through the probate process. The local probate court where you live will appoint an executor (sometimes called a personal representative) who will then have the legal authority to transfer assets to your heirs. For these assets, it is essential to have a will. A will allows you to name an executor of your choosing, and it provides the instructions to whom the executor will transfer the assets titled in your individual name. Without a will, your state's law provides a default distribution of your assets, which may not align with your wishes. Also, without a will, the probate court decides who will serve as your executor, without your input.

If you haven't gotten around to creating a will yet, again, you're not alone. According to Caring.com, fewer than half of Americans 55 and older have wills.[2] If you have a will, well done! You've already got a good start. If you don't, that should be the first thing you do.

Consider a revocable trust as an alternative to a will

A revocable trust also allows you to direct your assets to those persons or entities you choose. However, unlike a will, assets that are titled in your revocable trust during your lifetime do not need to go through the probate process, which means your family can avoid the costs, attorney fees and delays of going to the probate court. Plus, a revocable trust can save a married couple thousands of dollars (even millions) in taxes, if they are subject to state or federal estate taxes.

In addition, a revocable trust allows you to keep assets in trust for young children (or grandchildren) until they reach an age when you feel an outright distribution is appropriate. Alternatively, there are also many advantages to keeping assets in an ongoing trust for your family members after you are gone. Holding these assets in trust may:

- Provide creditor protection for your family members, including potential divorce actions
- Shelter these assets from estate taxes in your beneficiary's estate
- Provide for the long-term management of assets for a beneficiary with special needs without disrupting government benefits.

Furthermore, in the event you become incapacitated, the successor trustee you choose would take over the administration of the trust assets, including distributing funds to you, your spouse, and your dependents pursuant to the terms of the governing instrument.

You may also want to consider a corporate trustee, which allows you to designate one party to be your administrative or directed trustee and another party to be your investment/wealth advisor. You can find details here.

Planning with a revocable trust may cost more upfront and require additional work to ensure assets are properly titled, so you should determine if a revocable trust makes sense for your situation and the legacy you wish to create.

Determine if a will or revocable trust makes more sense for your situation and the legacy you wish to create

Review assets that transfer by beneficiary designation

Certain financial assets do not transfer upon death through your will or revocable trust. Rather, they are transferred to the persons or entities you name in a beneficiary designation. These assets include:

- IRAs or other qualified retirement plans
- Life insurance
- Annuities
- "Transfer on Death" accounts

It is vital that your beneficiary designations are consistent with your overall estate plan. For instance, if you currently name your minor children as beneficiaries, it may make more sense to name your revocable trust as the beneficiary instead, so these assets will be added to the trust assets held, managed and distributed for your minor children. There could also be tax consequences determined by your beneficiary designation, so you should consider discussing your choices with your tax and legal advisors.

Understand how jointly-owned assets transfer at death

In many cases, two or more persons co-own assets as "joint tenants with rights of survivorship." This is typical among married couples, but any persons can co-own property this way. It is important to know that, when the first co-owner dies, the property passes by law to the surviving co-owner, regardless of what the decedent's will provides. It also does not pass through the probate process; the transfer is automatic. This may work well for married couples who wish to leave everything to the surviving spouse. However, it can also defeat the plan you create in your will or trust.

Just be aware that not all co-ownership has rights of survivorship! It depends on how the asset is titled. Assets co-owned without rights of survivorship (legally called "tenants in common") will pass at death like any other individually owned asset. This is typical for unrelated unmarried co-owners who may be co-investors or co-owners of a business. However, it is always best to check to be sure how these assets are titled and be aware how these assets are transferred upon death.

For jointly-owned assets, check how they are titled so you know how they will be transferred upon death

Establish a safe spot for your vital documents

Gathering the forms and information you need can help you get a holistic view of your assets and give you a preliminary sense of how you might want to proceed. It will also make a meeting with an estate planner go much more smoothly. And importantly, it can come in handy if your family needs to find critical financial information and you are unable to provide it. This document locator form can help get you on your way. You'll find an additional checklist for family members here.

Organizing your vital documents and writing down where they are located will help your family find these critical documents if you are incapacitated or after you are gone.

Step 3 | Establish vehicles to fund your legacy decisions

Once you have an updated will, you may find it handles all your legacy asset allocation decisions. However, you may also want to use other vehicles, such as a trust or an endowment to fund various causes that are near and dear to you. If so, you're in good company. Americans gave $499.3B in 2022. Foundation giving ($105.2B) and giving by bequest ($45.6B) both increased from 2021 levels.[3]

There are many ways to create entities that can fund the causes you care about far into the future: trusts, Donor Advised Funds, charitable foundations, bequests and more. And as you might expect, each has its own set of tax implications and funding rules.

For brevity's sake, we'll highlight a couple of the more popular ones: Donor Advised Funds and private foundations. Of course, we highly recommend you speak with a financial advisor to discuss which of these — or other options — may be best for your situation.

Donor Advised Funds: Charitable foundation lite

One way our clients often make charitable contributions is by donating to a Donor Advised Fund (DAF). Think of it as an easier and less costly alternative to a charitable family foundation.

Donor Advised Funds allow donors to make a charitable contribution, receive an immediate tax benefit and then recommend grants to charities over time.

Does a Donor Advised Fund make sense for me?

HOW A DONOR ADVISED FUND WORKS

- You donate either cash or appreciated stock to the Donor Advised Fund and receive the allowable charitable tax deduction.
- You, with the support of your advisor, control the investments in the donor-advised fund.
- Your investments in the Donor Advised Fund grow tax free.
- You control your Donor Advised Fund account during your lifetime, with named successors to carry on your legacy.
- You recommend which charities you want to provide a grant to.
- You control how much you want to grant out to the charity or charities each year (usually at least 5% of the principal each year).

The concept is simple and the approach is savvy. Again, it's important to integrate a DAF into your overall charitable giving strategy. Discuss this with your wealth advisor to see how best to maximize the benefit of the donation as well as the long-term impact on your financial plan.

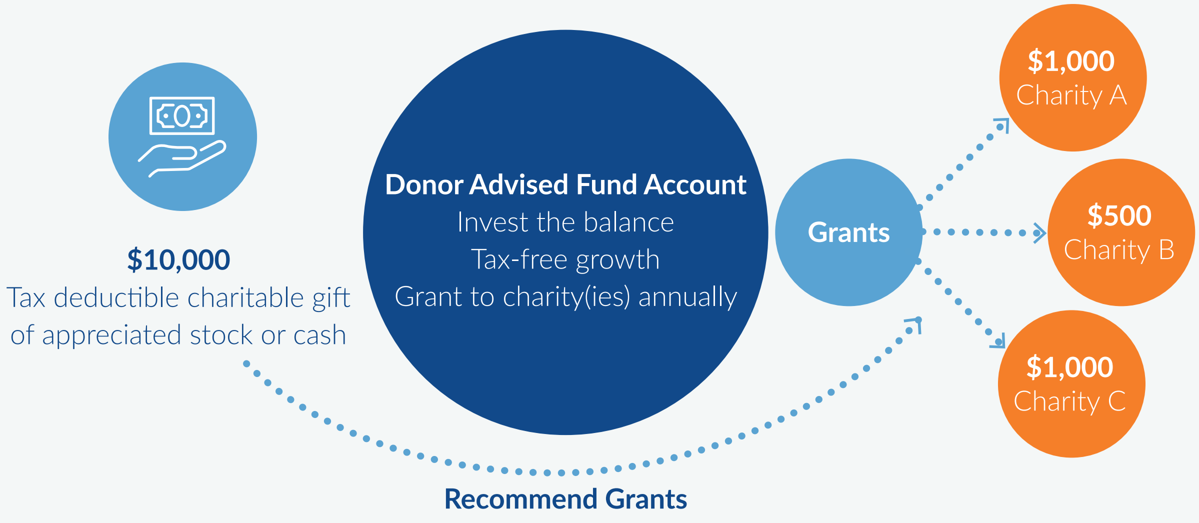
Private foundations

Private foundations can be a tax advantageous vehicle for you to donate to the causes that mean the most to you and your family. Foundations made up 21% of charitable giving in 2022.[3]

Foundations can make grants with fewer restrictions compared to a DAF to help ensure that donations are aligned with your wishes. However, foundations can be expensive to organize and operate, so they may make more sense for larger contributions. Also, a private foundation can be a good vehicle for your descendants to get involved with your legacy of giving. However, this only works if they have the time and motivation to get involved with the private foundation.

For a comparison between private foundations and DAFs, check out our **article here**.

DAFs and private foundations funded during your lifetime can create an income tax deduction. Funding at death can reduce estate taxes.



Step 4 | Communicate your plan to your family

Although the allocation of assets can be stated in a will or in trust documents, explaining your values is a whole different ballgame.

How do I start a conversation with my family?

Even deciding whether to have discussions individually or in a group can be difficult. In a group setting, the message is consistent and unmistakable. Individual conversations increase the chances for misunderstanding, as children may fight over their interpretation of your values instead of having a clear understanding from you. That could lead to the poor execution of your wishes if things are delayed because of disagreements.

Emphasize legacy, not numbers

Parents should emphasize that the most important thing is the family's relationship, and the transitioning of assets should be done in a way that keeps the family together. They should confirm that those family members they choose to execute on their behalf as an executor, trustee, and/or power of attorney (POA) understand and are comfortable with the role. They may also choose professionals to succeed them, such as a bank or trust company, in case the role becomes too difficult and causes stress on family relationships.

You should also set expectations about what, if anything, you plan to give your children to avoid frustration later. A recent study found that 68% of millennials and members of Gen Z have received or expect to receive an inheritance, and 75% of those plan to save or invest it.[4] Including a trusted advisor such as your financial advisor, accountant or attorney may help with difficult multigenerational family discussions.

Confirm that family members chosen to act as executor, trustee, and/or power of attorney are comfortable with the role.

Achieving clarity on how you expect your assets to be distributed is particularly important if you choose to handle these decisions via a will alone. With a trust, the particulars are essentially ironclad. With a will, you rely on beneficiaries to carry out your wishes. Making sure everyone involved knows what you want — and especially WHY you want it — is paramount. The attractive part of that approach is that it will let your beneficiaries be flexible and adaptable in how they put your assets to work in ways a trust might not allow.

How do you start the talk?

Whose responsibility is it to initiate the conversation about an estate? The relationship dynamics of each family are different. But generally, parents who are preparing an estate plan will need to instigate a discussion of wealth transfer to keep the process moving. Properly framing the conversation is vital. Having "the talk" should be presented as something positive to reduce stress and anxiety about mortality and personal loss. It should be clear that the conversation is about legacy building — about creating a plan about how your family should be honored and how its story should be told.

Be sure everyone involved knows what you want, and especially WHY you want it.

For example, in addition to putting numbers to their wealth, families should talk about what sacrifices were made to achieve it, so their work ethic is passed down from generation to generation. They should discuss their reasons for wanting to achieve wealth beyond simple security, such as to help certain causes, so heirs will know how to continue their work. This may even motivate your children to take actions later, such as volunteering or being present to award a scholarship on your behalf.

Make clear that the conversation is about how your family should be honored and how its story should be told.

Even so, initiating such conversations can be difficult because they require asking personal and sensitive questions that can be viewed as inappropriate. They also require providing very honest answers to those people who will have to execute plans on behalf of a loved one. As always, listening and communication are paramount.

Step 5 | Consider partnering with a professional

If you feel certain parts of the conversation may be difficult for others to understand, it may be helpful to include trusted advisors in the discussion, such as your attorney, accountant and/or your wealth advisor. They can help explain your rationale and why certain processes and procedures are being done the way they are.

Ask advisors how they have helped families working on legacy planning. What examples can they provide?

A wealth advisor can also to help facilitate the appropriate conversation with counsel and discuss what other planning strategies may be appropriate for your family. You will have a partner who can help guide you through the process and make it easier for all involved.

In fact, as you may have noticed throughout this guide, a wealth advisor can be a big help when figuring out tax ramifications, explaining regulations and employing tax-savvy strategies. If you've decided to get started on legacy planning, we highly recommend integrating a wealth advisor into the mix early. They can prove an invaluable ally in what should ultimately be a fulfilling testament to all you've accomplished in your life.

Additional tools

Here are a few additional resources that may help you get the legacy process started.

- **Document locator:** If you have an estate plan, it is advisable that these documents be reviewed every three to five years with your attorney.
- **Who does what?** Agents, trustees, executors, etc. all serve different functions. This article explains the differences.
- **Planning for aging parents.** Many people find there are major barriers preventing their families from having open communication about financial decisions regarding an aging family member. This article can help.

About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture.

Mesirow Wealth Management is the firm's founding capability. We are the initial namesake business of Norman Mesirow, whose vision was to serve with purpose, applying the highest standards of professionalism in advising individuals and families on their most important life goals.

We look forward to having an opportunity to serve you and your family.

To learn more, visit mesirow.com/wealthmanagement, call 847.681.2300 or email wealth@mesirow.com.

1. https://www.nptrust.org/philanthropic-resources/charitable-giving-statistics/

2. https://www.caring.com/caregivers/estate-planning/wills-survey/

3. https://doublethedonation.com/nonprofit-fundraising-statistics/#:~:text=21%25%20of%20total%20nonprofit%20giving,%2C%20and%20health%20(10%25)

4. https://www.usatoday.com/money/blueprint/credit-cards/study-great-wealth-transfer-plans/#:~:text=Key%20findings,to%20save%20or%20invest%20it.