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Single Asset Estate Planning

Minimizing inaction and delays in the estate planning process

by Albert A. Lorenzi III

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Have you ever been ready to begin a big new project and did not know where to begin? Estate planning can be like that for many clients. Clients spend a lifetime primarily focused on savings and accumulation. Then, all of the sudden, it's time to shift gears to something that can be very foreign and difficult to navigate – the estate planning process.

The Dilemma

From a practical standpoint, estate planning means sorting out a client's legacy intentions and passing assets to their heirs in an orderly, efficient manner. This includes everything from cash, investments, IRAs, family real estate, jewelry, and so forth. There may be business interests to consider as well.

With all of that, it is still just the beginning. Advisors then start to introduce available estate planning techniques such as gifting, trusts (revocable and irrevocable), GRATs, CLATs and so on. Clients then need to make the emotional and difficult decisions over who gets what. The complexities often cause clients to delay or stall the process.

Client Inaction & Delays

Legacy and estate planning can be an overwhelming task for many clients. Death is not a fun thing to think about let alone talk about. As a result, many clients have done very little to get their estates in order.

As Desmond Tutu once said, "there is only one way to eat an elephant: a bite at a time." If clients become overwhelmed with all the decisions and struggle to understand all the components, they may not take any action. After all, what good is a great estate plan if it's never implemented?

Inaction or no action can cause a potential financial tragedy if a client passes away unprepared. Even if your client has an estate plan in place, estate planning should never be a "set it and forget it strategy." Estate plans should be reviewed, adjusted, and notarized any time there is an important life event.

The Single Asset Estate Planning Conversation

The Single Asset Estate Planning conversation is designed to help clients stay focused and move forward with the estate planning process. Single Asset Estate Planning focuses the conversation, initially, around a single asset that will have the biggest impact on your client's estate upon their death. By initially focusing on a single asset that is important to clients, they can see the impact of inaction or delays on their overall estate. This is often the motivation to help clients get the basics in place (i.e., will, durable power of attorney, healthcare proxy, etc.). It helps clients feel less overwhelmed so they can take action.

Bringing Value to Your "A" Clients

The Single Asset Estate Planning concept resonates well with clients – particularly those with a unique opportunity to leave behind a legacy of significant assets. These could be your best "A" clients who may or may not have an estate currently over the exemption limit or could be impacted adversely if exemption limits were to come down.

The ideal client could simply be "the millionaire next door" who lives conservatively and spends less than the 4% distribution rule. All in all, it is about helping your clients move forward with simple, manageable steps.

Reviewing the Client's Balance Sheet

Once you've identified a client who has delayed their estate planning, you can look at their balance sheet and identify a single asset or account the client doesn't need for future income. The goal is to identify an asset that would not transfer efficiently upon death or may cause a significant tax exposure for the client's beneficiaries.

These types of assets are typically going to be IRAs, annuities, or muni-bond accounts, to name a few. They have income tax with respect to the decedent and can make the single biggest impact on your client's tax exposure or legacy.
Next, you can show the client what their retirement plan would look like if they did not include this single asset, or a portion of the asset, for future income needs.

It allows you to demonstrate how their overall financial plan still works without the asset. The client can then allocate the asset for legacy and estate tax planning needs without disrupting their future lifestyle. At this

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As Quoted...

"Benefits brokers and advisors can protect their healthcare clients by ensuring their disability insurance covers mental health and substance abuse events that are disabling in nature. Many policies limit benefits or exclude these types of disabilities from coverage."

Jeff Brunken, president of MGIS, a disability specialist, from his article, Advising Health Care Clients In A Post-Pandemic World.

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point, the client feels comfortable knowing they can still do everything they need for estate planning without relying on the single asset for income or lifestyle needs.

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Advancing Your Clients' Overall Financial Plan

Once the single asset in question has been identified, the next step is to determine how best to leverage that asset and address the overall objectives in your client's financial plan. As an example, life insurance is often a tool to consider as it provides tax-favored benefits and immediate leverage. In most cases, it can provide a significant internal rate of return at death.

Moving an Inefficient Asset to a Tax-Advantaged Asset

There are several options to consider in the Single Asset Estate Planning strategy. For instance, what is the impact of taking a distribution from a tax inefficient asset and moving it over to a tax-advantaged asset? What might this look like in terms of a result?

If the tax-advantaged asset is life insurance, you can focus on the leverage life insurance can provide in your client's overall financial plan. By showing your client how the rate of return on premium-to-death benefit can be favorable, your client will understand the impact of tax-advantaged estate planning. Further, the rate of return on life insurance is generally tax free, allowing you to show the client the pre-tax equivalent of the single asset if it were left alone.

This is one example of how life insurance is one of the most powerful single tools in estate planning. It provides immediate leverage of an asset. The benefit is paid income tax free to the beneficiary, and if properly held in an irrevocable trust, is not included in the estate tax calculations either.

As an aside, when it comes to gifting or the use of irrevocable trusts, consider how things work from a tax perspective. Irrevocable trusts are typically defective for tax purposes and are taxed at higher rates. There is no step-up in basis on assets owned by an irrevocable trust. This makes life insurance an ideal asset for the trust to own.

The Impact

Using the Single Asset Estate Planning conversation, you educate your clients by quantifying, "if you died today how much would go to your loved ones versus Uncle Sam and taxes." Clients will see they can build a wealth transfer strategy around this single asset, giving them a better understanding of the purpose and the related benefits. This is the real impact of the Single Asset Estate Planning conversation – creating awareness and a sense of urgency for clients to take action with estate planning.

Does the Single Asset Estate Planning conversation address all your clients' estate issues? No, of course not, but the simplicity of targeting a single, typically tax inefficient, primary asset helps move the estate plan along. It allows clients to get the ball rolling, while making it easier to fine tune other aspects of their overall financial plan.

The Real Benefit

When you take the estate planning process one step at a time, your client stays more engaged. The Single Asset Estate Planning conversation helps clients wrap their arms around the process, which makes them more apt to take action. It reduces the initial complexity, so clients feel less overwhelmed.

As important estate planning steps are completed in manageable bites, before you know it, their estate is in order. As an advisor, you will look like a hero to your clients and their beneficiaries (who can become your potential future "A" clients).

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