U.S. Bank | U.S. Bancorp Investments Wealth Management

Estate planning

Insights

Contributed by Wealth Management from U.S. Bank and U.S. Bancorp Investments

The wealth planning process incorporates all facets of your financial life. Often overlooked but just as important as any other is planning for the disposition of your estate. The more successful you are at achieving your goals, the more important it can be. But having your estate in order is something you need to address no matter how large or small it may be.

An estate includes everything you own—your home, personal possessions like automobiles and furniture, your savings and investments, and your business if you own one. Regardless of how much they are worth, you should work with your tax and legal advisors to plan for, and provide instructions for what will happen to these assets after your death or in case of a disability.

Why should I plan for the distribution of my estate?

The main benefit is to take control of what happens to everything you've worked so hard all of your life to accumulate. Taking the proper steps to make sure clear instructions are specified and appropriate paperwork is completed can make all of the difference. It assures your wishes are met at the time of your death and that the process is made easy for those you leave behind.

Other issues that could be addressed in a comprehensive plan include:

- Striving for tax-efficient distribution of assets.
- Naming a guardian for minor children.
- Specifying instructions for your medical care if it becomes necessary for others to take control on your behalf.
- Transferring business assets to family members or others.
- Making sure appropriate insurance is in place to potentially protect family members.
- Reviewing all beneficiary designations.

 Important disclosures provided on page 3.

Is estate planning only a concern for those who are retired or have significant assets?

Having a plan in place is important regardless of your age or your level of prosperity. You should still be concerned that your assets are properly distributed in the event of your death, even if it is at a stage in life where it is unexpected. You should take advantage of the opportunity to specify your wishes about the distribution of assets in advance.

We believe you should consider establishing an estate plan as early as when you reach the age of majority, defined as age 18 in most states. Parents are no longer allowed to access medical or financial records or make decisions on behalf of their children when they reach majority status. Young adults should take steps to at least appoint someone to make decisions on their behalf in the event they are unable to do so due to an incapacitating medical condition.

Regardless of your age or wealth, it's important to have a plan.

What are the risks of not having a plan in place?

Without a clear estate plan, you risk losing control of who may act on your behalf and what may happen to your assets. This can occur, for example, in the event of a disability that prevents you from making your own decisions. Without clear instructions that are legally documented, the court, rather than your family, will determine how your assets are used to care for you.

In the event of your death, failure to have proper documents in place means assets will be distributed according to probate laws in your state. The amount left to your spouse, children or others will be dictated by state law, not by your own intentions. If your children are minors, the courts will control their inheritance. If an event such as the death of both parents occurs, failure to name a guardian in advance means one will be appointed for minor children, regardless of what your preferences may have been.

What types of documents should be included in an estate plan?

Several different documents may be appropriate, depending on your circumstances. Your legal advisor can help you determine which of these is suitable:

- **Will** — spells out your specific wishes for the distribution of assets upon your death as well as the guardianship of minor children. Assets titled in your name and specified in the will are subject to the probate process.
- **Health care directive** — provides clear instructions about medical treatment that should be pursued on your behalf if you become terminally ill or unable to communicate your preferences for care.
- **Living trust** — used to control how assets will be distributed after your death.
- **Durable power of attorney** — the designation of a person to take responsibility for health care decisions in the event you become incapacitated.
- **Durable financial power of attorney** — naming the person who will make financial decisions if you are unable to.

Are all assets distributed based on a will and trusts?

No. Assets such as life insurance policies, IRAs, workplace retirement plans like 401(k)s, annuities and other accounts will require you to designate beneficiaries. Those named as beneficiaries for specific accounts will receive those assets upon your death.

How do I begin the estate planning process?

Your wealth management team from U.S. Bank and U.S. Bancorp Investments can work with your tax and legal advisors to help you learn more about what to consider within your estate plan. Estate planning is an important part of your overall wealth plan, and should be addressed in the context of that plan. This process includes making sure that you've identified all of your assets and have records of them readily available. You'll also want to consult with a legal professional to help draw up all necessary paperwork and assure that everything is prepared in accordance with the laws of your state. The sooner you start this process, the more prepared you'll be.

Savings strategies

Insights

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The ability to accumulate wealth typically requires careful planning, diligent saving and prudent investing. Most of all, it requires a commitment of working toward achieving a secure financial future. Having a wealth plan in place to help you determine how much you need to save and how to make your most important savings goals a reality is a great place to start.

The key for most people is to start saving as early as possible in life and make a habit of saving regularly. If you are in the early stages of your working life, chances are you may not have significant amounts of money. But what you do have on your side is time. When it comes to saving for retirement, even a small and consistent contribution to a retirement account can help make a meaningful difference. If you are in your 20s and 30s, the clock has started. You should begin saving now.

How should I prioritize my finances?

Before doing anything else, you should make sure you have an emergency fund. Cash reserves serve as a safety net for unexpected expenses such as medical bills, car repairs, or a job loss. If you are employed and earn a steady paycheck, you should have a "rainy day fund" equal to at least three months of living expenses. If your income source is less stable, up to six months expenses should be covered. Routine deposits into a savings account will give you easy access to your money when you need it. Making automatic contributions to your savings account may be one of the best ways to help keep your balance growing, even if it is just $10 a month.

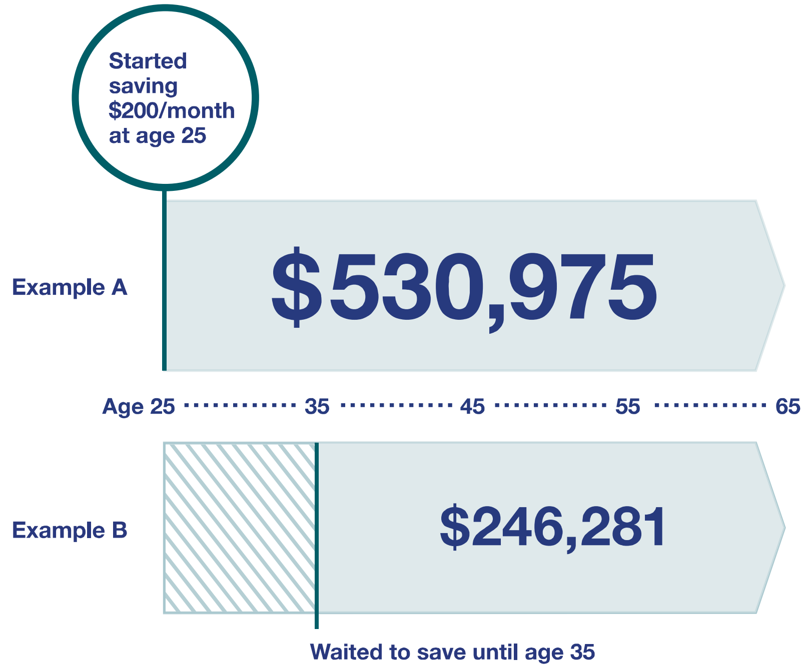
If you are faced with student loan debt, you may be trying to find the right balance between paying off those loans and saving for retirement. The amount you need to save for retirement each month increases the longer you delay starting a dedicated savings plan. While you may be eager to pay student loans down as quickly as possible, you should consider a payment schedule that works within your budget and still allows you to focus on your future financial goals.

Real growth.
Compound interest.

It's important to start saving early, since compound interest can make a dramatic difference over time. The power of compound interest is that it is not only calculated on the initial principal of your retirement savings account, but also on the accumulated interest of prior periods.

At left are two examples of individuals who set aside $200 a month, earning an average annual return of 7 percent. This illustrates the benefit of starting to save as early as possible.

Example shown is for illustrative purposes only and not indicative of any investment. It assumes no withdrawals or fees. Given the current historically low rate environment, a 7 percent rate of return is possible if money is invested. It is important to remember that investing involves risk, including potential for loss of principal invested.



Why should I begin saving for retirement today?

The simple answer is to leverage your greatest advantage – time. Like most young people, saving for your retirement may be a distant priority. However, in your 20s and 30s, you have the advantages of time and compound interest on your side.

Consider what happens with two different savers. In the illustration above, one starts setting aside $200 per month beginning at age 25, while the other waits ten more years to start saving at the age of 35. The ten-year head start results in the early saver generating more than twice as much in savings by age 65.

Every dollar helps, but your biggest benefit is to start early. Keep in mind, the power of compounding interest can help grow that money over the years.

Does saving just a few dollars make a difference?

Even if your budget is constrained, setting aside just $25 from each paycheck into a savings or retirement plan (less than $2/day) can make a big difference. If you receive a paycheck every two weeks, it adds up to $650 per year. The key is the power of compound interest. Assuming you earn 7 percent per year, if you set aide this modest amount from each paycheck for 40 years, you could accumulate $143,000.

What is a good way to save for retirement?

Taking advantage of an employer-sponsored retirement plan, such as a 401(k), may be an easy and effective approach. In most cases money is automatically deducted from your paycheck before taxes are paid. All earnings in your retirement account accumulate on a tax-deferred basis. You choose how you want to invest your savings based on investment options available in the plan. Your employer may even offer to match your contributions up to a certain limit. Find out more from your employer and the plan administrator.

How does an employer's matching plan work?

If your employer offers it, the matching plan can be one of the fastest ways to grow your 401k. A common method used by employers is to match 50 percent of employee contributions up to the first 6 percent of salary. If this option is available to you, it means if you set aside 6% of your salary in a workplace retirement plan, your employer will match that amount, effectively doubling your money before it is even invested. Don't miss out—find ways to increase your savings to capitalize on the full match offered by your employer.

What other ways can I save for retirement?

Consider opening an Individual Retirement Account (IRA). You can choose a Traditional or Roth IRA or a combination of the two. An IRA usually gives you more investment options than a workplace savings plan. Both Traditional and Roth IRAs provide a tax-advantaged way to save. With a Traditional IRA, contributions may be tax deductible, depending on your income level and whether you have access to a retirement plan through your employer. Earnings are tax deferred and withdrawals at retirement are taxed as income.

With a Roth IRA, contributions are made with after-tax dollars and withdrawals are tax free once certain holding period requirements are met. Contribution limits and other rules apply, including required minimum distributions for Traditional IRAs.

One factor in determining whether to contribute to a Traditional or Roth IRA is whether you expect your income tax rate in retirement to be higher or lower than what you currently pay. That's because it can determine whether the tax rate you pay on your Roth IRA contributions (today's tax rate) is higher or lower than what you would pay on your Traditional IRA withdrawals in retirement. You should consult with qualified tax and financial professionals about your specific situation.

How fast will my savings potentially grow?

It depends on how you invest your money. One simple way to estimate the growth potential of your savings is using the "Rule of 72." In short, divide the average annual return you earn (or think you can earn) into 72. The result represents the number of years it can take to double your money. For example, if you invest $1,000 and earn a return of 7 percent per year, your investment should grow to approximately $2,000 in a little over ten years (72 ÷ 7 = 10.3 years).

How much should I be saving for retirement?

The answer depends on your income and priorities. A good practice is to try to set aside at least 10 percent of your income to help meet future goals. If you can make that a habit, it should become easier to adjust the remaining 90 percent of your money to meet your current expenses. If 10 percent seems like too much to start out, try to save as much as you can as soon as you can.

Tapping into an employer-sponsored retirement plan may be the easiest and most effective approach to saving for your retirement.

The key is to avoid procrastinating when it comes to building toward your future financial security. Challenge yourself to increase your contribution every six to twelve months. When you get a raise, increase your contribution as well.

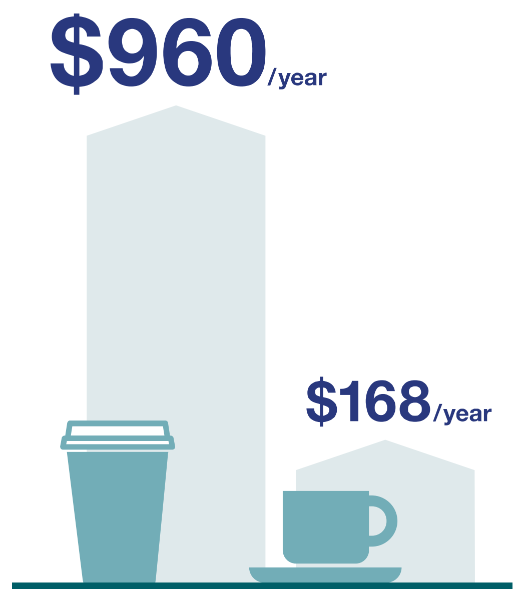
My budget is tight, where can I find the money to save?

It may be easier than you think. Every dollar helps, especially if you start early. Saving the equivalent of just $3.30 per day adds up to $100 a month. Keep in mind the power of compound interest can help grow that money over the years. Don't think you can come up with $3.30 a day? Here are some simple places to look:

- **Be smart about home energy use:** If you go to work each day, adjust your thermostat to reduce your heating and cooling expenses. The Department of Energy says that you can generally save as much as 10 percent a year on energy bills by adjusting your thermostat by 10 degrees (turn the temperature down in heating months, turn it higher in cooling months) for eight hours a day.[1]
- **Skip the latte and make your own:** A $4 latte on your way to work can add up to $80 or more a month. That's $960 a year. Make your own cup of coffee at home for less than $1; let's say $0.70. That's $14 a month, or $168 a year, saving you $792.
- **Cut the cable cords:** Chances are you only watch a fraction of the cable channels you pay for. Find cheaper alternatives that allow you to watch your favorite shows.
- **Take the bus or carpool:** Find ways to cut down on your transportation expenses.
- **Don't pay unnecessary fees (overdraft, late fees, ATM fees):** Plan ahead to have sufficient cash on hand. If you find yourself short of cash, smartphone apps make it easy to find your bank's nearest ATM.
- **Use technology:** There are tons of free apps you can use to help keep track of how you are spending your money. Nothing will get you saving faster than seeing just how much you spend on life's luxuries.

Skip the coffee shop.

Make your own. A $4 latte on your way to work can add up quickly. Making a cup of your own coffee instead may save you as much as $792 a year.



Conclusion

More than ever before, your long-term financial security is in your hands. No matter what your age, an emphasis on saving as much as you can is the key to achieving your most important goals. Your U.S. Bancorp Investments Wealth Management Advisor can work with you on building a wealth plan that will help you determine the most effective savings strategies to help make your goals a reality.

[1] U.S. Department of Energy, "Fall and Winter Energy-Saving Tips," www.energy.gov.