

Estate Planning For Unmarried Couples

Estate planning increasingly involves considering the needs of unmarried adults in committed relationships who either cannot or do not want to marry. Nearly 6 million households consisted of unmarried adults last year. All unmarried couples face similar challenges: Unlike married couples, the law does not automatically grant them certain rights. And in many cases, their families are critical of their lifestyles. But if you are unmarried yet in a committed relationship, estate planning opportunities are still available to you. Here's a closer look at some of your options.

Plan for Distribution Of Your Assets

Your primary goal should be to ensure that your assets are distributed according to your wishes. Several estate planning tools can help you.

Wills are essential documents for unmarried couples. Without a will, state law will determine how your assets are divided. In most states, if you have no children, your assets will be distributed to your closest relatives -- your parents, siblings, nieces and nephews. If your parents predecease you, a sibling to whom you never were close could inherit your entire estate and leave your partner with nothing. By executing a will, you and your partner can specify how you want your assets distributed.

If your estate is large or if your relatives are hostile to your partner, you may want to consider a living trust. This will not only avoid probate when you die but also makes court challenges more difficult.

A living trust offers other advantages. It may be desirable if you wish to keep the nature and value of your estate private. If you plan to leave money to minors such as your children or nieces and nephews, a trust could make distributions on their behalfs according to your wishes. Finally, you can set up a trust so that your partner has the use of your estate funds during his or her lifetime. When your partner dies, the funds pass to your family members as you choose.

Some additional planning options include joint tenancy arrangements and pay-on-death accounts. You can own bank accounts jointly, or if you wish to keep control of the asset, you can make a pay-on-death designation to ensure the balance of the account is paid to your designated beneficiary when you die. These assets will pass directly to the joint tenant or named beneficiary upon death. Probate is not required on the death of the first partner but will be necessary on the death of the second partner.

Factor in Real Estate

Long-term partners who own a home together may have an additional financial concern. What happens if one partner dies and the surviving partner can no longer afford the mortgage and real estate taxes?

Buying life insurance policies on each partner's life can prevent this problem. Proceeds from a life insurance policy can make up for the deceased partner's lost salary and allow the survivor to remain in the home. Indicate to whom you wish to leave the home (or other property) in any legal documents.

Prepare for Illness

Unmarried couples should also have powers of attorney for healthcare and property in the event one partner becomes disabled or critically ill. Generally, a nonrelative has no legal rights with respect to a patient's medical treatment and may even be denied visitation rights. By appointing your partner as your agent under a healthcare power of attorney, you authorize that person to make medical decisions on your behalf if you are unable to make them yourself. A power of attorney for property allows you to name someone to handle your financial affairs in the event of disability. Again, this is even more important if ill will exists between your family and partner.

Protect Your Nest Egg

Many people are amassing large retirement funds as the stock market boom continues. If you are not married and are the beneficiary of your partner's retirement plan, you may experience a larger tax bite than a surviving spouse. Unlike a married couple, a surviving partner cannot defer income tax on the proceeds of a partner's retirement plan. If your partner's total assets exceed the estate tax exemption, the combined income and estate tax rate could be 80%. While the total tax bite is high, deferring payment of a portion of the tax may be possible.

Plan Now

Just as married couples do, nonmarried couples may need legal and financial advice suited to their needs. If you would like to discuss any of these issues in greater depth, please call us. Our professionals would welcome the opportunity to help you and your partner achieve your financial goals.