Abstract: Parents or recently married people in their 20s or 30s probably haven't given much thought to estate planning. But consider this question: What would happen to the children if either spouse unexpectedly died? Although painful to consider, the tragedy could worsen if the parents didn't execute a living trust, will and powers of attorney. This article examines trusts young parents can include in their estate plans.

Start Estate Planning Now To Protect Your Young Family

If you are in your 20s or 30s and the parent of young children, or recently married and planning to start a family, you probably haven't given much thought to estate planning. When you think of it you may envision your parents as they retire and make gifts -- either outright or in trust -- to you, your siblings or their grandchildren. What you may not have thought of are the consequences of not having an estate plan.

Consider this question: What would happen to your children if you or your spouse died in an accident? It may be painful to think about, but you could compound the tragedy if you don't provide for your children by executing a living trust, will and powers of attorney.

Estate planning techniques and tools are somewhat different for young couples with children or single parents than for older parents with adult children. For example, because you're still building your estate and saving for your children's college educations, gifting probably will not be part of your estate planning strategy. But one powerful technique that benefits you as well as older estate planners is the use of trusts. Let's take a closer look at how trusts can benefit your estate plan.

A Matter of Trusts

A trust not only minimizes estate tax and avoids probate, a primary need for older estate planners, but also protects your children when you or your spouse die. It can be irrevocable or revocable. In an irrevocable trust, your assets are no longer under your control and the IRS considers them outside of your estate, thus they won't be subject to estate tax when you die. With a revocable trust (or living trust), you continue to maintain control of your assets, but they are subject to estate tax.

A living trust can provide for the secure management of the money you leave your children when you die. If your surviving spouse is not confident about managing substantial assets, or if both you and your spouse die, a living trust may name an institutional trustee to invest and distribute the funds according to your instructions. Such a trustee, usually a bank, will use professional money managers and provide the principal to your children for their basic material needs, education, healthcare, reasonable comfort and whatever you deem important for their support.

Shedding Light on the ILIT

An irrevocable life insurance trust (ILIT) holds your life insurance policy -- and the funds used to pay its premiums -- outside of your estate so the proceeds won't be subject to estate tax after you and your spouse die. In addition, an ILIT may protect the insurance policy from a hostile creditor's claim.

When you purchase life insurance, be sure you have adequate coverage and upgrade the policy as your needs change. The policy's face value should be large enough to generate sufficient income -- in the form of interest and dividends -- for your surviving family members to live comfortably.

Establish a Gift Trust -- When You're Ready

As your estate grows and your family's lifestyle changes, regularly review your estate plan with your professional advisors. After you pay for your biggest expenses -- such as your home and children's college tuition -- consider establishing a gift trust for each of your children. You can make annual contributions of up to $10,000 per child -- the yearly amount that is exempt from gift tax. A gift trust is a simple way to pass wealth to your children estate and gift tax free.

Begin Planning Now

Although contemplating your mortality may not be pleasant, it's a must if you and your spouse are new parents or considering starting a family. Creating an estate plan now will ensure your children's financial well-being when you or your spouse die. To begin planning your estate, please give us a call. We would be happy to help get you started. And to learn how to fund your living trust, please fax back page 6 for a complimentary copy of our Estate Planning Insights report, "Have You Properly Funded Your Living Trust?"

Estate Planning For Young Childless Couples and Singles

Even if you don't have children, an estate plan is still a necessity because you do have heirs. Who are your heirs? They could be your parents and siblings, other relatives, or friends. Unless you have an estate plan, those heirs will have to wait months or years for the probate court to approve their inheritance after your death. In addition, they may lose some of their inheritance to estate tax.

Begin by creating a will or living trust. It can provide for heirs or even any children you may have in the future. If your combined estate is worth at least $675,000 in 2001, you should also create a trust to minimize estate tax. In addition, draw up powers of attorney for property and healthcare, in case you are incapacitated and unable to make important decisions on your own.

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