

T. Rowe Price  
**Estate Planning Guide**  
*Key Considerations*

# How This Guide Works

This guide is divided into four main sections:

## I. **Getting Started:** Assess Your Current Estate Plan

In this brief section, you begin the estate planning process by taking time to think about what would happen to your assets after your death.

## II. **Overview:** Learn **the What** and **the How**

Once you are prepared to begin the process, you need to know some fundamentals of estate planning. In this section, you will become familiar with both the what—fundamental estate planning terms—and the how—fundamental estate planning mechanics.

## III. **Considerations:** Make Your Plan Your Own

In this section, you have the opportunity to more fully personalize your preparation and learn about estate planning in terms of how it affects you and your unique circumstances. Plus, you can create a time line that will help you better visualize what you need to do to prepare your estate plan.

## IV. **Strategies:** Take Action on a Plan That Works Best

The last section helps you to take action and apply your estate planning knowledge and considerations to a strategy that works best for you.

The Estate Planning Guide is not intended or written as legal or tax advice, nor are we authorized to give such advice. Nothing is intended or written to be used, and cannot be used by any other person, for the purpose of (i) avoiding any tax penalties or (ii) promoting, marketing, or recommending to any other person any transaction or matter addressed herein. We encourage you to seek advice from your own legal or tax counsel. Also, the laws that may affect your situation can vary depending on your specific facts (including your legal state of residence); our goal is to provide the most widely used or understood meanings and explanations as opposed to those of any specific law. If you need to create or update your estate plan, you should confer with an estate planning attorney or professional advisor to help with your expectations and document your plan to comply with state and federal laws.

## Welcome

By reading the **T. Rowe Price Estate Planning Guide**, you will learn about many benefits of estate planning. That's right—*estate planning*. Contrary to what you may think, estate planning is not a process reserved only for those nearing retirement or for those who are very wealthy. It's an important component of your overall financial plan because it can have a significant impact on who inherits your assets and how you wish to control the process.

With this guide, you won't produce an actual estate plan. What you will walk away with, however, is a more focused picture of what you want your plan to look like. Keep in mind that if you own a closely held business or have very complex legal agreements controlling the disposition of your assets, such matters are beyond the scope of this guide. Regardless of complexity, you should meet with an estate planning attorney and review all of your arrangements to ensure that they conform to your expectations and state and federal laws.

Your estate plan should take into account your *individual* goals and objectives. Then, if you have a partner or children, their needs should be balanced with your needs to come up with a joint plan that works for all of you. A good estate planning process involves spending some time on your own, being clear and honest about what you want for your beneficiaries, and then later coming together with your partner to listen and compare notes.



To further bolster your plan, take a few minutes to answer the following questions in the space provided in the right-hand column:

1. *Who* should inherit and for *what* purposes?
2. *What* and/or *how much* should they inherit?
3. *When* (i.e., at what age) should they inherit?
4. In the meantime, *who* should control the assets?

Perhaps these exercises validated your current estate plan. Or perhaps they demonstrated that your plan needs some work. Whatever your experience, congratulations on taking time for yourself and your loved ones. Noting your desires for the final distribution of your assets is a significant first step in focusing and forming an estate plan.\*

If you are still not sure whether you have taken the proper steps to ensure that, following your death, your assets are distributed according to your wishes, working through this guide may help you validate that you are on track. It will attempt to answer some of the questions you may still have, such as: “Do I have adequate assets today to ensure the education of my children?” It will help you examine probable scenarios that could occur following your death. (These could serve as a much-needed wake-up call if you have never gone through such an exercise.) It can also help define what’s most important to you regarding the ultimate distribution of the assets in your estate if you are still unsure.

\*Keep in mind at all times that you must verify and confirm your desires in a will or other agreement that meets all legal requirements of your legal state of residence.

*Part One:* **THE WHAT**

As you review your existing estate plan or as you prepare your new one, you'll encounter some basic estate planning terms that you need to understand. We have included some of the essential terms and concepts, along with definitions and explanations.

You can use this section of the guide in two ways. You can read the whole section carefully so you are grounded in the basics, or you can use it as a reference when you run into an unfamiliar term or phrase as you're reviewing or preparing your plan. The more you understand the basics, the better job you—and your attorney—will do on your estate plan.

The best starting point for understanding the basics in estate planning is to understand **asset ownership**. Of the many possible ways you can own something, it is useful to recognize three ownership categories for estate planning purposes:

- Assets and property you own jointly,
- Assets for which you have named a beneficiary, and
- Assets you own by yourself with no designated beneficiary or where your beneficiary is “your estate.”

### Jointly Owned Assets

To increase the ease and speed of transfer of certain assets, it may be helpful to have them designated as **jointly owned with rights of survivorship (WROS)**. When one of the owners of this type of asset dies, the asset automatically becomes the property of the surviving owner(s). By presenting the necessary documents (such as a death certificate) to the institution holding the asset, the title on the asset generally can be changed. While jointly owned assets typically are held as joint tenants WROS, jointly owned assets may be held instead as **tenants in common**. In these situations, your share of the assets eventually passes to your beneficiaries or heirs, according to your will or the laws of your legal state of residence. If you have any questions about how your jointly owned assets are held, check with your estate planning advisor or the institution holding the account.

### Assets With a Named Beneficiary

Naming a beneficiary other than your estate is another way to conveniently and promptly transfer assets to your beneficiaries. Like jointly owned assets WROS, these transfers at your death avoid **probate**, which is a legal process after your death for the distribution of your assets.

Examples of assets you may own with beneficiary designations are IRAs, employer-sponsored retirement plans, life insurance, and annuity contracts. Although less common, the owner of certain investments, such as mutual funds and bank accounts, can designate beneficiaries for these assets. This is usually accomplished by completing a transfer on death (TOD) or payable on death (POD) form provided by the custodian of each asset.

### Solely Owned Assets

Assets that you own by yourself—or ones that are solely owned without a beneficiary designation—may pose the biggest question for your family when trying to determine who is going to inherit what from your estate. If you have not provided written instructions in the form of a legally effective will, your family will have to rely on the laws of your legal state of residence and state in which your real property (and sometimes personal property) is located to determine how your assets will be distributed and what assets will be used to pay the taxes and other expenses of settling your estate. Disposition of your share of any assets titled as **tenants in common** (i.e., jointly owned, but without right of survivorship) or owned as community property\* is also subject to these same potential complications at your death if you do not have a valid will.

### Will

One of the most convenient estate planning tools to use is a **will**, a legal document in which you name your beneficiaries and the guardian of your minor children and identify your executor and possibly trustees as well. You may also include strategies to be implemented at your death for saving taxes and controlling the distribution of your assets. The assets that are to be distributed according to your will are subject to probate.

\*Community property states are states in which some or all of the assets earned and accumulated during your marriage may be deemed “community property,” regardless of title. The community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

## Trust

A **trust** is a legal and financial arrangement between you as the “grantor” or creator of the trust and the trustee, the person (who may be yourself) or institution designated under the trust to control and manage any assets in the trust. Technically speaking, the trust beneficiary (you or someone else you designate) benefits from your assets but doesn’t legally own them—the trust does. In general, a trust is designed to deal with specific situations or to exercise special control over your assets. A trust has less to do with the magnitude of your assets and more to do with how you want them to be managed and their distribution controlled. Trusts fall into two broad categories: **revocable** and **irrevocable**. A revocable trust can be changed or rescinded during your lifetime. The terms and conditions of an irrevocable trust generally cannot be altered once you create it.

### Revocable Living Trust

Also known as a **living trust**, this trust enables you to maintain full control over your assets during your lifetime and, when you die, to have them disposed of privately without court filings (in most states<sup>\*</sup>) according to your specific instructions. Usually you serve as your own trustee, although you could name an institution or another individual to serve in this capacity. As trustee, you can also enter into an agreement with a bank or other fiduciary to keep records, pay bills, distribute money, or make investment decisions—all subject to your approval. Your trust is revocable, meaning you can amend its provisions or cancel the trust altogether. Because you retain complete control over the trust, the earnings, gains, and losses on the trust’s assets are reported on your personal income tax return.

<sup>\*</sup>A minority of states have laws that may require trust documents to be publicly held. Check with your estate planning attorney for more information.

## Considerations Relating to a Will and/or Trust Agreement

- **Simplicity.** Writing a will or trust may be unnecessary if you know that you wish to leave all your assets outright, without any strings attached (i.e., not in trust), to individuals and charities through the use of joint tenancy WROS and/or beneficiary designations. Keep in mind, however, that if you fail to arrange for the disposition of every asset and you don’t have a will, your legal state of residence ultimately may dictate to whom some of your assets will be distributed.
- **Complexity may be better.** In many instances, securing the services of an experienced estate planning attorney is the most expeditious way to ensure that your assets ultimately will be transferred to your heirs as you wish and that they will be invested and distributed according to your instructions. On the facing page, review the list of benefits that wills and trust agreements provide. Remember, someday your heirs will be subject to the consequences of what you do *or don’t* arrange for them now.

### Durable Power of Attorney

With a written document called a **durable power of attorney**, you grant another person (e.g., a member of your family, a trusted friend, or an attorney) power to manage your financial affairs, even in the event of your incapacity or incompetency. Because the holder of this power may have financial authority that is quite broad in scope, you must be certain that you can trust this individual completely. Many individuals use a durable power of attorney as a convenient substitute for a living trust, while others elect to have both. In the latter situation, if you are suddenly incapacitated and have not yet completely funded your revocable living trust, the person you have

appointed can add to your trust any assets that are not already included.

In many states you may need a separate document, sometimes called an **advanced health care directive**, to grant one or more persons the power to make health care decisions for you in the event that you become incapacitated.

### Benefits of a Will and/or Trust Agreement

- You, not your legal state of residence, will control the disposition of the solely owned assets in your estate or included in your trust.
- By creating testamentary trusts under your will or revocable living trust, you may control the investment and distribution of your assets even after you have passed away.
- By creating a living trust, you may:
  - Help ensure privacy for your family and friends and charities about your final wishes.
  - Minimize required oversight by the courts in the estate settlement process.
  - Minimize potential hassles involved in distributing assets to beneficiaries.
  - Avoid the expense and inconvenience of possible probate proceedings in a second state in which you own real estate. To accomplish this, you will need to transfer the title of this real estate to your revocable trust prior to your death.

### Pour-Over Will

A living trust should be combined with an abbreviated will called a **pour-over will**. The pour-over will instructs that assets not already in the trust at the time of your death be “poured over” into the trust by the executor of your estate and disposed of by the trustee as directed in your trust agreement.

Assets added to a trust after your death by virtue of a pour-over will do not avoid probate. However, the pour-over will/trust combination still affords increased privacy since the most detailed information about the disposition of your estate resides in the trust agreement, and trust agreements in most states do not have to be filed with a court.

If you have both a pour-over will and a trust agreement, review the language in each document to be sure you have covered all the instructions for distributing the assets in your trust, plus those assets that will be subject to your will. If your will and trust agreement have been drafted properly, all of these types of provisions will complement each other, including coordination of the payment of estate taxes and expenses.

## Testamentary Trust

A trust that comes into existence after your death is called a **testamentary trust** (as opposed to a living trust). It is created under your will or revocable living trust, and it will exist for as long as that document stipulates (e.g., for a spouse's lifetime or for a certain number of years), within certain limits. The most common types of testamentary trusts include **bypass trusts, marital power of appointment trusts, qualified terminable interest property (QTIP) trusts**, and trusts for children and grandchildren.

### *Bypass Trust ("B" Trust)*

If you are married\* and have had a will prepared for you in the past by an estate planning attorney, it may include a bypass trust (also called a "family" or "credit shelter" or "B" trust). There have been some important developments for 2011 and 2012 (discussed later), but first is a description of bypass trusts and their purpose historically. This trust is designed to help your family save on estate taxes. In your will and your spouse's will, you direct that if you are the first spouse to die that your solely owned assets be used to fund this type of trust with up to whatever the personal estate exemption amount was at the time (e.g., \$5 million in 2011 and 2012). If you had simply left all your assets to your spouse and your spouse subsequently died with an estate that exceeded his or her personal estate tax exemption amount, your children would have inherited a smaller net after-tax estate than if a bypass trust had been funded upon the death of the first spouse. Examples of assets that can be used to fund these trusts are probate assets, assets already in a revocable living trust, or the proceeds of a life insurance policy or retirement account(s) in which you name the bypass trust as beneficiary.

The bypass trust can be used to provide income to your spouse and/or other family members during the surviving spouse's lifetime.

Subject to certain restrictions, you also can grant the trustee the power to distribute trust principal for particular needs of your spouse and/or other beneficiaries. If properly structured, the assets in the trust would not be included in your surviving spouse's estate—and would then "bypass" your spouse's taxable estate at his or her death. This enables assets totaling up to twice the exemption amount at the time to be passed estate tax-free to your children.

Any amount in excess of the current federal estate tax exemption amount used to fund a bypass trust is usually distributed outright to the surviving spouse or used to fund a marital trust or qualified terminable interest property (QTIP) trust.

In 2011 and 2012, however, there is a "portability" provision in the federal tax laws that is designed to achieve similar results without a bypass trust. If you were to pass away in 2011 or 2012, your executor could make the necessary estate tax return filings to leave your surviving spouse the unused portion of your estate-tax exemption if you did not have a bypass trust in your will. If no taxable gifts were ever made by either spouse, the surviving spouse would inherit the decedent's total exclusion amount, resulting in a \$10 million estate tax exemption amount being available to the surviving spouse. **Since we do not know what will happen to the estate tax laws in 2013 and there can be additional advantages to using a bypass trust, depending on your circumstances, it is important that you confer with your estate planning attorney to decide whether or not to continue including bypass trusts in your wills or have your wills revised completely.**

\*If you are married and you and your spouse are both U.S. citizens. If one spouse is not a U.S. citizen, different marital deduction rules apply. Consult an estate planning attorney or tax advisor for further details.

#### *Marital Power of Appointment Trust*

A marital power of appointment trust (also called an “A” trust) is usually funded with any amount in excess of the current federal estate tax exemption amount. Money is usually left in the trust for the spouse for investment and financial management purposes. The surviving spouse is granted a power of appointment to provide him or her with the flexibility to modify the way assets are distributed to your children or other heirs at his or her death, if he or she so chooses. This is known as “exercising your power of appointment.” Unlike assets in a *bypass trust*, the assets in a *marital power of appointment trust* are included in the surviving spouse’s taxable estate.

You should also refer to the following discussion on qualified terminable interest property trusts for more information on what is required for both types of trusts.

#### *Qualified Terminable Interest Property (QTIP) Trust*

A QTIP trust is usually created to benefit the spouse of a second marriage when there are children from the previous marriage. It provides income annually to the second spouse while he or she is alive, then, at the spouse’s death, leaves any remaining trust assets (after payment of estate taxes) to the children from the first marriage.

Both marital power of appointment and QTIP trusts are designed to “qualify for the unlimited marital deduction.”\* This means that these trusts are drafted so that no estate taxes will be due on the trust assets when the original owner dies—*regardless of the total value of assets*—and leaves them in the trust for the benefit of the spouse. To qualify for the deduction, each of these trusts must provide the surviving spouse *with the rights* to all distributions of income from the trust during his or her lifetime. The spouse does not necessarily have to *receive* distributions of income unless required to do so by specific language in the trust agreement. Note, however, that because these trust assets were not taxed at the first spouse’s death, whatever remains in these trusts at the death of the surviving spouse is subject to taxation in that spouse’s estate.

\*If one spouse is not a U.S. citizen, different marital deduction rules apply. Consult an estate planning attorney or tax advisor for further details.

### Charitable Trusts

You may wish to leave specific amounts of money (or a percentage of your estate) outright to charity under your will or living trust agreement.

Or, under some circumstances, you may choose instead to leave money to your designated charities in trust. Often these are split-interest trusts. The income beneficiary represents one interest, and the ultimate beneficiary represents the other. For example, some charitable trusts are created to provide income to one or more individual beneficiaries for a specific period of time or for a lifetime, with the remainder later passing to a charity or charities of the donor's choosing. Other charitable trusts provide income to a charity, for a specific period of time, with the remainder then passing to individual beneficiaries at the end of the term of the trust. Because these trusts are complex in nature, it is important to consult an experienced estate planning professional to avoid pitfalls and to properly assess the potential advantages and/or disadvantages of including such a trust in your estate plan.

### Charitable Donor-Advised Funds

You may feel it is important to contribute to charity during your lifetime and/or to leave a legacy in your will or trust to one or more causes that are important to you. You may also believe that your children and grandchildren should carry on your legacy of philanthropic giving.

In the past, you could accomplish these goals only by creating and managing your own private family foundation. In recent years, however, special donor-advised funds, such as The T. Rowe Price Program for Charitable Giving<sup>SM</sup>, have come into existence, and they require less time, money, and expense to create, administer, and maintain over the long term.\* Donor-advised funds are public charities that receive contributions from individuals who can deduct their gifts from their federal income taxes (subject to IRS limits) in the years in which they contribute to the fund. Donors can recommend or advise the fund on an ongoing basis as to which charities they would like to support, when, and how much.

Like a private family foundation, you can establish a donor-advised account in your name or in your family's name while you are living and/or add to it under your will or trust.

By sharing charitable distribution decisions, you and your spouse and children may actually strengthen your family ties.

\*To learn more about The T. Rowe Price Program for Charitable Giving, please complete the enclosed request card or visit [ProgramForGiving.org](http://ProgramForGiving.org). The T. Rowe Price Program for Charitable Giving is an independent, nonprofit corporation and donor-advised fund founded by T. Rowe Price to assist individuals with planning and managing their charitable giving.

### **Irrevocable Life Insurance Trust**

An irrevocable life insurance trust is a legal means through which the benefits paid by your life insurance policies pass directly to your beneficiaries without estate or income taxes. Often the death benefits from life insurance are very large and can inflate the size of an individual's taxable estate. By placing existing policies in an irrevocable trust or by having the trustee purchase the policies in the first place, the insurance death benefits will not be taxable in your estate (providing certain conditions are met) since the IRS deems that you do not have control over these assets.

Because the IRS imposes strict rules on these trusts in order for the assets to be excluded from your taxable estate, it is very important that you consult with a professional advisor before creating and funding an irrevocable trust of this kind. For example, the rules include:

- You cannot be the trustee of the trust.
- You cannot change the terms of the trust, including the beneficiaries you named originally.
- When you fund the trust by transferring existing policies to the trust, you are deemed to be making a gift of the policies based on their cash value at the time of transfer. In some instances, you may have to use some of your lifetime gift tax exemption to avoid paying gift taxes for the year in which the trust is funded.
- If you die within three years of the time existing policies are transferred to the trust, the policies' face value will be included in the value of your taxable estate.
- When you fund the trust with cash to be used to buy new policies and pay annual premiums, you will be deemed to be making gifts in the amounts of the transferred cash. Fortunately, the three-year holding rule concerning funding the trust with existing policies will not apply. Often, the person funding the trust seeks to make gifts up to the annual gift tax exclusion amounts to the beneficiaries of the trust. These are then used by the trustee to pay insurance premiums each year.

Now that you have a working knowledge of THE WHAT—or fundamental estate planning terms—it's time to turn to THE HOW—or the mechanics of estate planning.

*Part Two: THE HOW*

How does everything you own eventually pass to someone else? Following is a broad overview of this process.

Wills and trust agreements can simplify the process by leaving a personal and legally enforceable statement of your wishes. But they do not necessarily cover *everything* you own, such as life insurance death benefits or retirement plan assets with a named beneficiary. And they will not cover any assets you own jointly WROS, such as a house or car, or your personal business interests where a buy-sell agreement among the business owners may be in place.

To control the flow of assets to your beneficiaries and maintain flexibility in how your assets may be used in the future, you need to take a closer look at the *how* of estate planning or fundamental *estate planning mechanics*.

**Ownership**

The last section delineated three categories of ownership:

- Assets and property you own jointly WROS,
- Assets for which you have named a beneficiary, and
- Assets you own by yourself\* for which you have no designated beneficiary or your beneficiary is your estate.

\*Including assets owned jointly as a tenant in common.

### Joint Ownership and Beneficiary Designation

Two of these three categories are easy to understand and quantify. If you own a home jointly with your spouse or another person with right of survivorship (**joint tenancy WROS**), he or she will inherit the home directly if you die first, and vice versa. If you own retirement plan assets or life insurance, the beneficiaries you have designated with the provider will inherit those assets or death benefits. Solely owned assets for which you have completed forms for automatic transfer to your beneficiaries at your death (i.e., payable on death or transfer on death) are in the same category as your assets that have beneficiary designations. All of these assets are part of your taxable estate, *but their distribution is not controlled by your will or trust—if you have one—assuming that the beneficiaries you name survive you*. Therefore, it is critical for you to periodically review your beneficiary designations for your assets, including retirement plan accounts and life insurance benefits.

Depending on the nature of the assets, the decisions your beneficiaries must make may be more complex than those involving assets that were held in joint tenancy. For example, if the inherited assets are in a retirement account or an annuity, several distribution options may be available to the beneficiary. Some of these may provide more significant tax advantages to the beneficiary than others. Therefore, it is very important for the beneficiary to investigate all of his or her options in a timely manner before making a final request for the assets from the account's custodian, trustee, or plan administrator. Despite these necessary considerations, using beneficiary designations can be a convenient way to transfer assets to your heirs.

The T. Rowe Price Guide for IRA and 403(b) Account Beneficiaries is designed to help beneficiaries understand the wide range of distribution options available to them. To request a free

copy, return the enclosed request card or visit our website at [troweprice.com/estateplanning](http://troweprice.com/estateplanning).

Assets that are transferred by joint tenancy WROS and **beneficiary designations** avoid probate (assuming your estate is not named as a beneficiary). In some states, but certainly not in all states, the probate process can be both cumbersome and expensive. You may wish to check into the laws controlling the transfer of assets in your legal state of residence to anticipate whether the probate process will be a potential inconvenience for your executor and/or heirs.

### Sole Ownership

One of the primary advantages of owning assets in your own name is that they can pass to your beneficiaries according to *your own* terms and conditions (as spelled out in your will and/or trust agreement). Simply leaving assets to someone by beneficiary designation, for example, with no instructions on how they should be invested or used could lead to problems for the individuals inheriting them. If they have no financial experience or are potential spendthrifts, your beneficiaries might not manage or invest their inheritances wisely, thereby compromising their financial futures. Naming a minor child as a beneficiary raises special concerns. While the child is a minor, assets left to him or her will be held in a custodial account. When the child reaches the age of majority (usually 18 or 21, depending upon the state), he or she *automatically* gains control of these assets. If the assets are sizable or are expected to grow significantly, the age of inheritance could be especially important to consider.

## DISTRIBUTION

As you begin to assess how your assets are to be inherited under your current plan, careful review of titles and beneficiary designations is essential because *these documents are designed to override any instructions you make in your will*. If you haven't named a beneficiary of your 401(k) plan assets, for example, your estate may be your beneficiary by default, per the plan agreement. These assets would be distributed according to state law if you don't have a will.

For assets you own in your name or that will become part of your estate when you die, you'll need to refer to your will or trust document or to your state's probate code to determine how they will be distributed. If you have a will and/or a trust, take the time to make sure you understand what it says. It may not say what you think it does, or it may be out of date. Even the most complex wills and trusts tend to be organized to cover the following topics:

- Naming of trustee or executor and (if needed) guardian of minor children
- Identification of trustee's and/or executor's powers
- Payment of taxes and final expenses
- Distribution of personal property
- Specific bequests to individuals and charities
- Creation, funding, and management of trusts
- Distribution of remaining assets (sometimes called your residual estate)

While your own documents may not follow this model exactly, you should be able to identify sections that are important to you and interpret their directions.

If you have recently drafted or updated your will and/or created or funded a trust, or if your estate is relatively simple, you probably will have no trouble interpreting what your documents say. However, if you find yourself bogged down in technical detail and unable to proceed, don't hesitate to review your current plan with your estate planning attorney. It may be that your situation is more complex than those we have been able to cover in this guide.

In order to understand how your solely owned assets will be distributed if you do not have a will, you should ask the probate court in your legal state of residence to tell you what distribution formula will be applied, depending on your family circumstances. For example, if you are married with children and die without a will, perhaps half of your solely owned assets will go to your spouse and half to your children under the laws of your legal state of residence. If you are unmarried and have no children, your assets may go to your parents and not your siblings. Is that what you would want?

If you have a signed will and/or a trust agreement, read through the documents to see what they say. Start with the total value of your solely owned assets and begin subtracting sums of money as they would be distributed by your executor and/or trustee according to your instructions. For example, if your solely owned assets equal \$300,000, and if \$75,000 of that is your personal property (i.e., your jewelry, furniture, and paintings), \$125,000 of that is the value of your residence, and \$100,000 of that is cash and securities, these assets might be distributed as follows:

**Personal property** of \$75,000: my \$12,000 worth of jewelry to my daughter, two paintings by local artists worth \$18,000 to my son, and \$45,000 worth of antique furniture divided equally between my two children.

**Specific bequests** (from cash and securities): \$25,000 to the Wilderness Society.

**Trusts** (from cash and securities): Create a trust for my granddaughter and fund it with \$50,000. Principal and income of the trust may be used at any time, at the discretion of the trustee, to pay for her educational expenses. Any assets remaining in the trust when she reaches age 25 are to be distributed outright to her.

**Remaining assets in my estate** (note that your residence must be sold by your executor or trustee to generate the cash to be distributed to your children): \$150,000 is the value of the remainder (i.e., \$300,000-\$75,000-\$25,000-\$50,000 = remainder) and is to be distributed in equal shares outright to my two children, *per stirpes* (see example on page 17).

If you do not have an estate planning attorney, you may wish to use the approach described on page 36 to learn the names of practitioners in your area.

## CONTROL

Equally as important as the future distribution of your assets is the future control of your assets. Consider this:

- If your spouse, a friend, your adult children, or your parents inherit your assets outright (not in a trust or a custodial account), they will have complete control over whatever they receive. But is this what you want, and will it be best for them?
- If your minor children or grandchildren inherit large sums from you as soon as they reach age 18 or 21, will they be ready for that kind of responsibility?
- And what about your spouse? If he or she is experienced at managing family finances and investments, you may be comfortable leaving your assets outright. But managing investments, paying taxes, and assuming sole responsibility for the family's financial needs over many years (and perhaps over more than one generation) can be a daunting task.

Fortunately, several options are available to provide for such future needs and to remove what could be a considerable burden on your heirs or beneficiaries.

If you already have a revocable living trust or have provided for trusts under your will, you probably understand the benefits of this kind of control. Leaving assets in trust means you also have the opportunity, if you wish, to restrict access to those assets. As you review your will or trust documents, in addition to simply identifying what trusts you have:

- Note provisions that may appear under “Disposition of Assets.”
- Look for phrases that indicate how and when income and principal may be distributed, such as “all income at least annually,” “income as needed,” or “principal at the discretion of the trustee.”

If you're married, what phrases appear under trusts for your spouse, children, or grandchildren?

- At what ages will they be eligible to receive distributions of principal?
- Do you want to allow earlier distributions for specific purposes, like college or medical needs?
- How closely will access to trust assets be controlled, and is there a clause (often called a **spendthrift provision**) protecting these assets from potential attachment by creditors? (Generally speaking, you would probably not want trust assets to be pledged as collateral for a loan, for example.)

A trust agreement also can be drafted to provide your beneficiaries with **flexibility**. Look for language in your documents that allows for the unforeseeable. For example:

- If your spouse no longer needs the income from your bypass trust (or if it might pose an income tax burden), does your trust agreement include a **sprinkling provision** that would allow your trustee to redistribute income to a child or grandchild who needs it more?

- If your daughter wanted to move inherited assets to the trust department in her local bank in a distant state, does your trust agreement include a **portability clause** that could allow such a move?

As with other aspects of estate planning, you have the responsibility to choose the degree of flexibility that would be most appropriate for your particular beneficiaries.

Sometimes a trust will carefully control the distribution of trust assets in order to avoid the eventual inclusion of the assets in the trust beneficiary's own taxable estate. A *bypass trust* is an example of a trust that allows you to provide income for a primary beneficiary (or beneficiaries) without including the assets in the beneficiary's estate when the beneficiary dies. This is an example of how restricting your primary beneficiary's access to assets may result in your children or other secondary beneficiaries ultimately inheriting a larger share of your wealth free of estate tax.

After all is said and done, however, *you must decide whether the flow of assets that your will or trust directs will be appropriate for and acceptable to the individuals you intend to benefit*. Long-term viability, even after you die, is an important measure of a successful estate plan. If you think your current arrangements just won't work, the time to change them is *now*.

## Per Capita vs. Per Stirpes

*Are you familiar with the difference between distributing assets to your heirs per capita versus per stirpes? If you are not, you should be, especially if you are a grandparent. The difference to your beneficiaries could be significant. When you stipulate in your will, a trust agreement, or a beneficiary designation form that 50% of the assets should go to each of your two children, different distributions may occur at your death depending on whether they are designated per capita or per stirpes. If one of your two children predeceases you, distribution of the amount that would have gone to the deceased child will be controlled by the beneficiary designation form you signed and, depending on the asset at issue, then by your will or trust agreement. At T. Rowe Price, for example, your IRA assets would be distributed per capita to the beneficiaries on file with us unless you specifically stipulated to the contrary. That is, if your daughter, the mother of your grandchildren, predeceased you but your bachelor son survived, your son would inherit 100% of your IRA and your grandchildren would inherit none of it. On the other hand, if you had named your beneficiaries as 50% John Doe and 50% Susan Doe, per stirpes, your grandchildren would inherit Susan's share (50%), and John would inherit 50% of the IRA assets.*

We recommend that you review all of the contracts and beneficiary designations you have in force today and confer with your estate planning attorney as to whether they will actually accomplish what you had intended. For assets passing under a will or trust agreement, state law typically provides that distributions will be under a single method (for example, you may live in a per stirpes state) *unless the will or trust specifies otherwise*. For assets passing under an agreement (for example, an IRA or an insurance policy), distribution typically will be under a single method also, but you may have the option to select an alternative method.

Taxes can have a significant effect on how much is finally transferred to your heirs or beneficiaries. This continues to be true, even after the so-called “repeal” of the estate tax (see page 19). Earlier, we emphasized other critical reasons for creating a sound estate plan—such as thoughtfully controlling the future distribution of your assets. It remains important, however, to periodically estimate the size of your taxable estate (and if you are married, the size of your joint taxable estate)

and determine whether there will be a potential estate tax liability.

*Note: Accurately calculating your potential estate tax liability and properly completing an estate tax return require a tax expert.*

Keep in mind that your taxable estate typically includes assets that are not even part of your probate estate. For example, if you have named your child as beneficiary of your 401(k) plan and your life insurance policy, the amounts payable usually will not be part of your probate estate since they have valid beneficiary designations, but the value of the benefits payable at your death will be part of your taxable estate. You can learn more about what is included in taxable estates by visiting our website at [troweprice.com/estateplanning](http://troweprice.com/estateplanning).

**If you are not married**

If you are divorced, widowed, or have never married and you plan to leave assets to your children or other individuals, chances are your potential estate tax liability will be higher than if you were

married and planned to leave most or all of your estate to your spouse. If you have a taxable estate in excess of the current exemption amount, you should make an appointment with an estate planning attorney.

### If you are married

Just because you are married, that does not mean you don't have to worry about estate taxes. If you leave everything outright to your spouse, for example, your heirs or beneficiaries may end up paying more in estate taxes at the surviving spouse's death than if you had provided for the funding of a bypass trust under your will.

Still, being married can provide significant estate tax advantages. If you have each included a bypass trust in your will, you can help minimize or eliminate potential estate taxes, regardless of which spouse dies first.

### Payment of Your Taxes

There are numerous ways in which your will and/or trust agreement could instruct your executor or trustee to pay your estate taxes, fees, and other final expenses. Some tax clauses, for example, require that all taxes be paid from the residuary estate. Others require that they be prorated across all taxable assets; still others dictate that they be paid only from probate assets, and so forth. Depending on what your documents (or legal state of residence if you are intestate—that is, you have no will) say about the source of payments of taxes, fees, and other expenses, each of your heirs could end up inheriting more or less than you were expecting they would.

You should review the instructions in your will and/or trust agreement to determine which beneficiaries will be most affected.

### Federal Estate Taxes

In 2011 and 2012, you can pass \$5 million to your heirs or beneficiaries free of federal estate taxes,\* and if you are married, your spouse can do the same. In 2013, the \$5 million individual exemption amount will drop to \$1 million unless Congress makes the \$5 million exemption permanent or otherwise changes the estate tax laws. Currently, the top marginal rate for the federal estate tax is 35%, but it will revert to 55% in 2013.

If your estimated gross estate is more than \$5 million (in 2011), that doesn't mean there will be federal estate taxes to pay. Several deductions are available. These include:

- The **funeral and administration expenses deduction**. This includes the cost of your last illness, funeral, and burial expenses as well as attorney's fees and any probate expenses.
- The **unlimited marital deduction**, if you are married. You can leave any amount to your spouse who is a U.S. citizen free of federal estate tax. But be careful how you use this unlimited deduction: You may escape tax liability at your own death but increase the tax burden at your spouse's death (thereby reducing the assets that will be available to your children or grandchildren).
- The **unlimited charitable deduction** if you leave assets to charity. These bequests can result in an estate tax deduction for the amount of the bequest.

If you are married and your joint estate exceeds the joint exemption amount of \$10 million, understanding how your current estate plan would work is important so you can decide the most appropriate way to maximize the after-tax assets you are leaving to your children and grandchildren.

\*You could still owe state inheritance and taxes.

Tax issues indeed have a significant effect on estate planning. But they are not the only issues. Who will manage your assets? Who will manage the assets you leave your heirs? Here we provide some of the questions you should consider when putting together an estate plan.

**Financial Management of Your Assets**

If something were to happen to you—if you either became seriously incapacitated or died—who would manage your financial affairs? The answer to this question is especially important if you are single with no children or close family members who can step in to make financial decisions for you. Following are other critical questions to consider:

- Do you have a durable power of attorney, appointing someone to handle your financial affairs in the event of your incapacity (including incompetence)?
- Do you have a will or pour-over will?
- What about a revocable living trust? Have you funded the trust or authorized a person or institution (using a power of attorney) to do this in the future on your behalf? Do you have a trustee or successor trustee to invest and manage the assets in your trust if you are incapacitated? Are you content with the level of control and flexibility your trustee will have if you are incapacitated?
- What about your spouse? What about your parents or adult children? Are their financial affairs in good order? Are they knowledgeable and prepared to step in if you are incapacitated, and vice versa?

### Financial Management of Assets for Your Heirs

Will any individuals be inheriting potentially large sums of money from you in the form of assets that require special management expertise like:

- Rental properties?
- A closely held business?
- Stock options?
- Life insurance benefits?
- Individual securities and/or mutual funds?

If the answer to any of these is “yes,” have you considered whether these individuals have the expertise and/or time to manage their inheritances? If not, have you arranged for their management in your will or trust agreement or in some other legal contract? Now is the time to reflect on what problems might arise for your heirs, given your current estate plan. Perhaps you can think of ways you’d like to change these arrangements, or maybe this is an issue to put on your list to discuss with your estate planning attorney. Certainly, if you own a closely held business, you should have a buy-sell agreement in place establishing the method for valuing the business at the time of your death and providing a means for liquidating your interest in the business. You may not be able to solve all the problems associated with future settlement of your estate, but you can anticipate what they could be and do your best to minimize their impact on your executor, trustee, and beneficiaries.

### Income for Your Primary Heir/Beneficiary

If you have family members or friends who have been relying on you for some or all of their income, take some time now to think about how they would fare in subsequent years if they had to rely on their inheritance from you instead.\* Here are some questions to consider about your potential heirs’ sources of income:

- Is he or she self-sufficient? Does he or she have a thriving career that could support him or her without having to rely on your resources?
- If he or she is not earning wages, is it realistic to expect this individual to join the work force within the next five, 10, or 15 years? What kind of special training would be required to achieve this? How much would this cost? Could it be done part time?
- Do you have children that he or she would support through college?
- Do you have a large pension with built-in inflation protection that your primary heir would inherit to meet his or her financial needs?
- Would Social Security benefits be available to support your spouse? Dependent children? Dependent parents? For how long?
- If your heir has significant assets invested in retirement plans and IRAs that would lessen his or her dependence on your estate, would he or she have to take withdrawals from his or her accounts before age 59½, when a 10% penalty might be incurred? Or before the age when minimum distributions must be taken from Traditional and Rollover IRAs and certain retirement plans (usually 70½)?

\*To learn more about how to create a time line for your beneficiaries or how to help assess whether or not the assets you plan to leave your beneficiaries will generate sufficient income to meet their needs, visit our website at [troweprice.com/estateplanning](http://troweprice.com/estateplanning).

Your answers to these questions might reveal that you may not be leaving enough income-producing assets for your primary heir to meet his or her financial goals. T. Rowe Price's research has shown that it is difficult to estimate—using simple average return projections—how much money your heir might need in order to cover an expected time period.

Therefore, instead of using an average return approach, T. Rowe Price has turned to a more sophisticated methodology for estimating hundreds of hypothetical future economic scenarios for heirs who will be generating an income stream from their inherited assets. These scenarios include ones with sharp down markets in the first years to others with strong up markets during these years. T. Rowe Price uses these simulations to estimate the likelihood of success\* of your heir not running out of money prematurely if he or she withdraws a certain amount in the first year and increases that amount by 3% each year for inflation.

\*Success is defined as having at least \$1 in assets at the end of the term for which he or she is expected to need them.

The results of these simulations may be helpful to you as you estimate how much you wish to leave your heir in accumulated taxable assets—in the form of invested savings and/or life insurance death benefits. To start, review the table on page 23 that depicts a variety of time horizons over which your heir may expect to need the assets for income. The table includes the percentage of the assets that T. Rowe Price's computer simulations suggest your heir could withdraw in the first year, with the dollar amount increased by 3% for inflation every year thereafter. Three simulation success rate categories are depicted: 99%, 90%, and 70%. As you can see, the larger the amount your heir withdraws annually, the lower the likelihood of success. The success rate categories you may want to consider will depend on your heir's overall financial condition.

### Approximate Amount Your Heir Could Spend In First Year\* If He Or She Inherits \$100,000 Today

Length of Time Heir Expects to Need to Generate Income	Likelihood Income Source Will Last for Given Time Period		
	90% Likelihood	80% Likelihood	70% Likelihood
5 years	<b>\$18,216</b>	<b>\$19,032</b>	<b>\$19,692</b>
10 years	<b>\$8,916</b>	<b>\$9,444</b>	<b>\$9,876</b>
15 years	<b>\$5,880</b>	<b>\$6,300</b>	<b>\$6,744</b>
20 years	<b>\$4,380</b>	<b>\$4,800</b>	<b>\$5,136</b>
25 years	<b>\$3,504</b>	<b>\$3,852</b>	<b>\$4,188</b>
30 years	<b>\$2,940</b>	<b>\$3,288</b>	<b>\$3,540</b>

\* Increased by 3% for inflation each year thereafter.

Source: T. Rowe Price. Assumes your heir is single and inherits assets in a taxable account to generate income for the periods shown (5–30 years). All inherited assets are invested in a 40% stock/40% bond/20% short-term securities portfolio. All investments are assumed to be taxable, dividend and capital gain distributions are reinvested, and each withdrawal amount is pretax. One or more of the assumptions used in these calculations may not be appropriate for your situation. This table is for illustrative purposes only and not intended to represent the returns of any specific security.

The table above may be used as a guide for determining the size of the annual payment that your heir can withdraw from your inheritance in the first year following your death. The table is based on an inheritance of \$100,000. If the inheritance is \$500,000, simply multiply the corresponding number in the table by five to get the approximate initial withdrawal amount. If your balance is not a round figure, you can use the first of the following two formulas to help assess your heir's initial withdrawal amount. If you know the amount you would like your heir to be able to withdraw in the first year and are looking for the corresponding approximate total amount that you would have to leave, please use the second of the two formulas below.

**Withdrawal Amount in First Year** = (Total Inheritance Amount/\$100,000) X Corresponding Dollar Amount in the Table

For example, if you leave your heir \$425,000, the approximate amount he or she could withdraw in the first year if income is needed for 15 years with a 90% likelihood of not running out of money prematurely would be:  
 $(\$425,000/\$100,000) \times \$5,880 = \$24,990$ .

**Inheritance Required** = (Desired Withdrawal Amount in First Year/Corresponding Amount in the Table) X \$100,000

For example, if you wish for your heir to be able to withdraw \$55,000 in the first year (adjusted annually for 3% inflation) and continue for 10 years with a 80% likelihood of not running out of money prematurely, the approximate amount you would have to leave your heir would be:  $(\$55,000/\$9,444) \times \$100,000 = \$582,380$ .

### Monte Carlo Simulation

Monte Carlo simulations model future uncertainty. In contrast to tools generating average outcomes, Monte Carlo analyses produce outcome ranges based on probability—thus incorporating future uncertainty.

#### Material Assumptions Include:

- Underlying long-term expected annual returns for the asset classes are not based on historical returns. Rather, they represent assumptions that take into account, among other things, historical returns. They also include our estimates for reinvested dividends and capital gains.
- These assumptions, as well as an assumed degree of fluctuation of returns around these long-term rates, are used to generate random monthly returns for each asset class over specified time periods.
- These monthly returns are then used to generate hundreds of scenarios, representing a spectrum of possible performance for the modeled asset classes. Analysis results are directly based on these scenarios.

#### Material Limitations Include:

- The analysis relies on return assumptions, combined with a return mode that generates a wide range of possible return scenarios from these assumptions. Despite our best efforts, there is no certainty that the assumptions and the model will accurately estimate asset class return ranges going forward. As a consequence, the results of the analysis should be viewed as approximations, and users should allow a margin for error and not place too much reliance on the apparent precision of the results.

- Extreme market movements may occur more often than in the model.
- Some asset classes have relatively short histories. Actual long-term results for each asset class going forward may differ from our assumptions—with those for classes with limited histories potentially diverging more.
- Market crises can cause asset classes to perform similarly, lowering the accuracy of our estimated return assumptions and diminishing the benefits of diversification (that is, of using many different asset classes) in ways not captured by the analysis. As a result, returns actually experienced by the investor may be more volatile than estimated in our analysis.
- The model does not take into consideration short-term correlations among asset class returns (“correlation” is a measure of the degree in which returns are related or dependent upon each other). It does not reflect the average periods of “bull” and “bear” markets, which can be longer than those in the modeled scenarios.
- Inflation is assumed constant, so variations are not reflected in our calculations.
- The analysis does not use all asset classes. Other asset classes may provide different returns or outcomes than those used.
- Taxes are not taken into account, nor are early withdrawal penalties if applicable.
- The analysis models asset classes, not investment products. As a result, the actual experience of an investor in a given investment product (e.g., a mutual fund) may differ from the range of estimates generated by the simulation, even if the broad asset allocation of the investment product is similar to the one being modeled. Possible reasons for the divergence include, but are not limited to, active

management by the manager of the investment product or the costs, fees, and other expenses associated with the investment product. Active management for any particular investment product—the selection of a portfolio of individual securities that differs from the broad asset classes modeled in this analysis—can lead to the investment product having higher or lower returns than the range of estimates in this analysis.

### Modeling Assumptions

- The primary asset classes used for this analysis are stocks, bonds, and short-term bonds. An effectively diversified portfolio theoretically involves all investable asset classes including stocks, bonds, real estate, foreign investments, commodities, precious metals, currencies, and others. Since it is unlikely that investors will own all of these assets, we selected the ones we believed to be the most appropriate for long-term investors.
- T. Rowe Price has analyzed a variety of investment strategies using computer simulations to determine the likelihood of “success” (having at least one dollar remaining in the portfolio at the end of the time period) of each strategy, shown as a percentage. The initial withdrawal amount is the percentage of the initial value of the investments withdrawn in the first year where the entire amount is withdrawn on the first day of the year; in each subsequent year, the amount withdrawn is adjusted to reflect a 3% annual rate of inflation. The simulation success rates are based on simulating 1,000 possible future market scenarios and various withdrawal strategies.
- Results of the analysis are driven primarily by the assumed long-term, compound rates of

return of each asset class in the scenarios. Our corresponding assumptions, all presented in excess of 3% inflation, are as follows: for stocks 4.90%, for bonds, 2.23% and for short-term bonds, 1.38%.

- Investment expenses in the form of an expense ratio are subtracted from the return assumption as follows: for stocks 0.70%, for bonds, 0.60% and for short-term bonds, 0.55%. These expenses represent what we believe to be a reasonable approximation of investing in these asset classes through a professionally managed mutual fund or other pooled investment product.

**IMPORTANT: The information regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. The simulations are based on assumptions. There can be no assurance that the results shown will be achieved or sustained. The charts present only a range of possible outcomes. Actual results will vary, and such results may be better or worse than the simulated scenarios. Clients should be aware that the potential for loss (or gain) may be greater than demonstrated in the simulations.**

The results are not predictions, but they should be viewed as reasonable estimates.

Source: T. Rowe Price Associates, Inc.

### Other Questions to Consider

Once you begin to imagine your family or friends without your financial support, other questions will emerge. To help you answer those, take a moment to look at the illustration to the right, then create your own time line using the tool provided on the T. Rowe Price website ([troweprice.com/estateplanning](http://troweprice.com/estateplanning)).

As you can see, simply by including on the calendar how old each of your heirs will be over the next 15 years may provide you with a new perspective. For example, if you are married with children, now is a good time to think about how old your spouse will be when your children are ready for high school or college. What does this answer tell you about the possible financial needs of your family members at that time?

T. Rowe Price offers a number of online tools and resources designed to aid you in your estate planning. To create your own time line, access the Create a Time Line for Your Heirs tool at [troweprice.com/estateplanning](http://troweprice.com/estateplanning). Or create your own schematic drawing or diagram to help you realize more concretely what you need to do to prepare or revise your estate plan to meet your heirs' expected income needs.

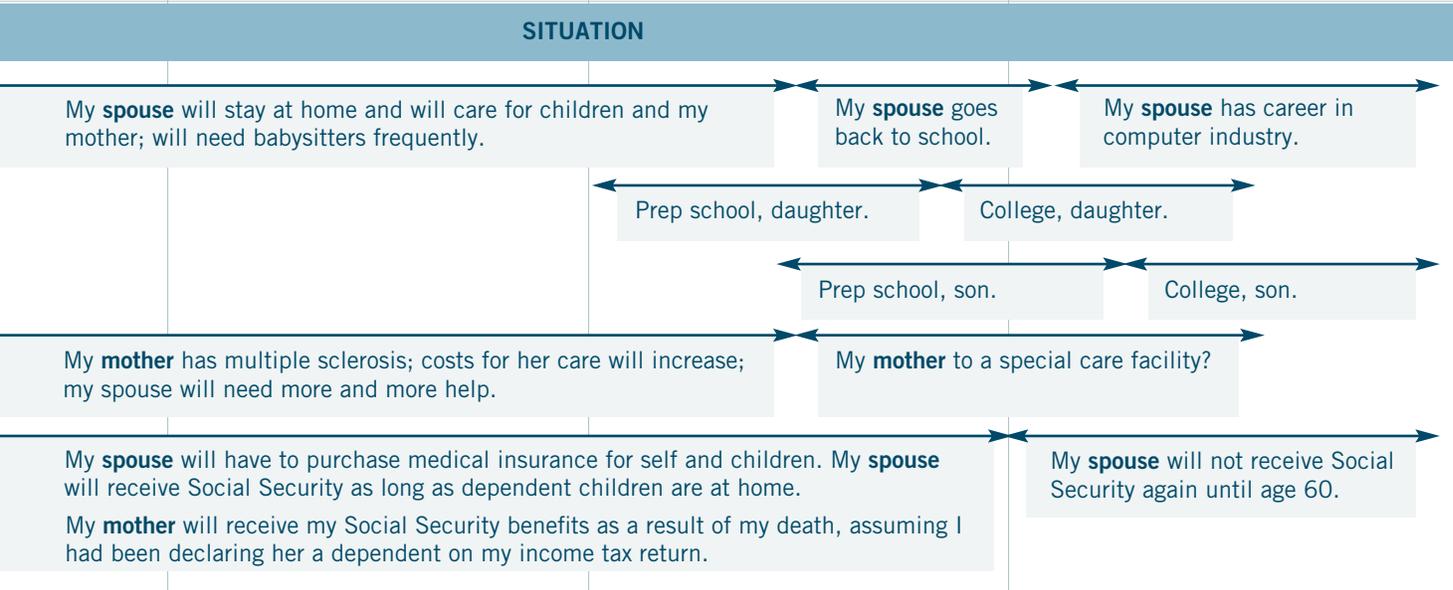
### Time Line For Your Heirs—*Example*

If you were to die today, consider what the next 15

DESCRIPTION	0 years
Age of your primary beneficiary	<b>35</b>
Age of your child	<b>7</b>
Age of your child	<b>4</b>
Age of your dependent parent	<b>70</b>
<b>Your primary beneficiary</b>	<input checked="" type="checkbox"/> Has a career now need one or wants home
<b>Your children</b>	<input type="checkbox"/> Have careers now enough? If have could they support primary beneficiary?
<b>Your dependent parent</b>	<input checked="" type="checkbox"/> Would live in your Has special needs money?

years might be like for your heirs. What financial needs would they have?

	CURRENT YEAR PLUS		
	5 years	10 years	15 years
	40	45	50
	12	17	22
	9	14	19
	75	80	85



**CONSIDERATIONS IN EXAMPLE**

or would to stay at	<input type="checkbox"/> Can continue to maintain home is living in now, or would need one with less maintenance or better location?	<input checked="" type="checkbox"/> Eligible for Social Security? Age 60 or dependent children. Need to purchase medical insurance for family?	<input checked="" type="checkbox"/> Need for job training? When return to work force? Expects an inheritance?
or not old careers, your pri-	<input checked="" type="checkbox"/> Minor children needing day care? Babysitters?	<input checked="" type="checkbox"/> Costs of private school? College? Eligible for scholarships? Loans?	<input type="checkbox"/> When able to hold part-time/full-time jobs?
house? that cost	<input checked="" type="checkbox"/> When might parent need to go to special care facility? Should parent purchase long-term care insurance?	<input checked="" type="checkbox"/> Eligible for Social Security? Must have been declared your dependent on your income tax return.	<input type="checkbox"/> If primary beneficiary moved to new part of country, would dependent parent come also?

Now it is time to take action and apply your estate planning knowledge and considerations to a strategy that works best for you and your beneficiaries. At this point, you may either be very comfortable with your existing plan or ready to make changes with the assistance of your attorney. Following are a series of scenarios that detail potential strategies to help you achieve your goals. They are organized around four broad areas of estate planning: **control**, **asset preservation**, **charity**, and **family harmony**.

Keep in mind that although a strategy may be effective for achieving one of your goals, the same strategy could be completely detrimental to accomplishing another goal. Therefore, it is important that you not implement any of these possible strategies without the advice and counsel of your attorney. These suggestions are provided to make you aware of your options and to help you appreciate why the services and experience of your attorney will be invaluable as you decide to make changes to your plan.

## Control

I want to **increase** control over the assets in my estate.

To control the disposition of your estate assets personally and to avoid potential ambiguities (i.e., how your assets will be managed, invested, spent, etc.), your attorney should draft or update for you a will and/or living trust agreement as well as a durable power of attorney or limited power of attorney. More specifically:

**To avoid or minimize probate** (*which may or may not be advisable*):

- Fund your revocable living trust now.
- Own certain assets in joint tenancy WROS.
- Change beneficiary designations from your estate to specific individuals or trusts.
- Create PODs or TODs with your financial institutions for certain assets.

**To increase restrictions on access to assets:**

- Create (or increase) trusts under your will; consider whether a bypass and/or QTIP trust might be appropriate.
- Limit the distributions of principal and income (in certain instances).
- If you have created trusts for young beneficiaries, consider increasing the ages at which they can receive distributions.

**To restrict the use of the trust assets or restrict the circumstances under which some trust assets can be withdrawn:**

- Consider carefully who or what institution you will name as trustee and/or executor. (Some trustees may be less likely than others to acquiesce to requests from trust beneficiaries for discretionary distributions from testamentary trusts.)
- Do not include a portability clause in your trust agreements. This way your beneficiaries will not be able to change trustees, except by court order.

**If you are leaving assets by beneficiary designation:**

- Understand how a plan's or account's custodian would handle per capita or per stirpes beneficiary designations.
- Consider leaving beneficiaries their inheritances in trust rather than outright to individual beneficiaries.

**If you own real estate in a state different from your legal state of residence:**

- Consider putting the property in your revocable living trust now in order to avoid ancillary probate (i.e., probate in the state where the real estate is located in addition to probate in your legal state of residence) at your death or the death of your spouse.

## Control

*I want to **decrease** control over the assets in my estate.*

To decrease control over the assets in your estate, your attorney should review or update your will and/or living trust agreement and change any limited power of attorney to one that permits your attorney-in-fact to perform more duties on your behalf. Or you can:

- Name a family member or close friend to be trustee and/or executor. This individual may be more likely to acquiesce to permissible requests from trust beneficiaries for discretionary distributions from testamentary trusts.
- Leave your spouse a “power of appointment” over some or all of the assets in your testamentary trusts (this may have estate tax consequences).

### **To allow beneficiaries increased access to assets:**

- Reduce the number of trusts (or their restrictive provisions) under your will.
- Give your trustee discretion to make distributions of principal and income whenever possible (some trusts require restrictions). You might consider including a sprinkle or spray provision, for example, in your bypass trust giving your trustee discretion to distribute trust income to multiple beneficiaries of the trust.
- Consider adding a **5 and 5 power** to the marital power of appointment trust, which allows your spouse more freedom to access the assets in the marital trust. Each year, your spouse may withdraw the larger of \$5,000 or 5% of the trust assets—with no questions asked by the trustee as to how the assets will be used. This is a noncumulative power, which means that if your spouse does not withdraw assets by the end of the year, the privilege cannot be carried over to the following year. Instead, a new 5 and 5 power is granted each year.
- Provide your surviving spouse with the right to dissolve the marital trust at any time if he or she desires.

## Flexibility

I want to **increase** flexibility over the management of my assets during my lifetime and/or at my death.

To increase flexibility, you may wish to create and fund a revocable living trust now, naming yourself as trustee with a contingent trustee who can assume these responsibilities for financial management when you are no longer interested or able to do so. (This approach usually results in a smoother and easier transition of management of your assets than if the trust is not funded until you are incapacitated or have died.) Or consider creating a revocable living trust now but do not fund it. Instead, arrange for an individual to be your attorney-in-fact, who can transfer assets into your trust in the event you should be incapable of doing so yourself. In addition:

- Include sprinkle or spray provisions whenever possible in your trusts.
- Give your trustee a great deal of discretion regarding how to invest the assets in the trust and how and when to make gifts from your trust and distributions to trust beneficiaries.
- Encourage your surviving spouse to consider disclaiming assets you leave if he or she knows at the time of your death that he or she will not need them for financial support. *Note: A beneficiary generally must disclaim assets within nine months of your date of death and must not have taken any distributions from these assets in the meantime.*

I want to **decrease** the flexibility my trustee and beneficiaries have over the management of my assets.

To decrease flexibility, remove sprinkle or spray provisions from your trusts. In addition:

- Give your trustee very little discretion regarding how to invest the assets in the trust and how and when to make distributions to trust beneficiaries.
- Permit principal distributions to beneficiaries from trusts only at specific ages and/or events, such as graduation from college or holding a job for five years.
- Remove any clause permitting beneficiaries of the trust to move it from one trustee to another under certain conditions.

## Asset Preservation

*I want to **reduce** my potential final expenses.*

You can reduce the potentially high costs (in some states) of probate by funding your trust (or trusts) while you are alive so they avoid probate. Putting real estate that you own in another state in your trust can be a particularly effective strategy for avoiding ancillary probate, which could be cumbersome and costly for your heirs.

*I want to reduce my own estate tax liability and/or the estate tax liability of my spouse if he or she survives me.*

- Discuss with your estate planning attorney the pros and cons of including a bypass trust in your will or trust versus, at least for 2011 and 2012, relying on the portability provisions of the federal tax laws that potentially can achieve a similar result.
- Make current donations to charities or to a charitable donor-advised fund, such as The T. Rowe Price Program for Charitable Giving<sup>SM</sup>.
- Make annual gifts to family, and perhaps friends, of up to \$13,000 each, tax-free in 2011 (this is the IRS annual exclusion gift tax amount; it will increase with inflation in future years). If you make gifts to individuals jointly with your spouse, together you can give up to \$26,000 annually, gift tax-free, to each recipient in order to reduce the size of your joint taxable estate. Consider funding a 529 college savings plan account for each of your children or grandchildren. For tax year 2011, these plans allow you to gift up to \$65,000 per account beneficiary immediately (\$130,000 for married couples making a proper election) with the potential to average it out over five years without incurring federal gift taxes.
- Pay tuition and medical expenses of grandchildren or other beneficiaries directly to service providers, over and above the annual gift tax exclusion amount without incurring any gift taxes.
- Make significant contributions to charity during your lifetime and/or leave specific bequests to charity.
- Make total current gifts to family and others (over and above annual gifts of \$13,000 per recipient in 2011) of up to the allowable lifetime gift tax exemption amount (\$5 million per spouse in 2011) without paying any gift taxes. However, whatever part of the lifetime gift tax exemption amount you give away now will be subtracted from the amount your estate can ultimately pass estate tax-free to your heirs (\$5 million in 2011). Under what circumstances might you do this now? If you are extremely comfortable financially and are certain that neither you nor your spouse will ever need those assets for daily living expenses or long-term care, giving them away now removes any future taxable income and further appreciation of these assets from your estate. (This is sometimes referred to as an **estate freeze** technique.)
- Transfer existing life insurance policies to an irrevocable life insurance trust (certain tax rules apply).
- Purchase more life insurance on your life (usually best purchased by the trustee of an irrevocable life insurance trust) to pay the estimated estate taxes that may be due at your death or at the death of your surviving spouse.

## Privacy

I want to **increase** the privacy and confidentiality of my estate plans.

To increase the privacy and confidentiality of your estate plans, you can:

- Create a pour-over will and a revocable living trust.
  - A pour-over will is usually a relatively short document that avoids inclusion of detailed provisions regarding distributions to beneficiaries whenever possible.
  - A revocable living trust usually is the longer document of the two and includes most of the detailed provisions regarding distributions to beneficiaries (the trust is not a matter of public record in most states).\*
- Fund your living trust now or at least appoint someone with power of attorney so you preserve the option of funding it at a later date if you become incapacitated and cannot do it yourself.

\*Check with your estate planning attorney for information about your state.

## Charity

I want to take care of certain individuals **and** contribute to my favorite charity.

To leave an inheritance that benefits certain individuals and your favorite charity(ies), consider creating a **charitable remainder trust** now or under your will or trust agreement. A loved one can receive income from the charitable trust during his or her lifetime or for a certain period of time. The charity or charities of your choice are ensured to receive the balance remaining in the trust at the end of the term.

Or you may wish to leave a bequest to a **charitable donor-advised fund** such as The T. Rowe Price Program for Charitable Giving<sup>SM</sup>. You can provide recommendations to the donor-advised fund on future distributions to qualified public charities, or you can name an individual or family member to act on your behalf. This may be an ideal way to involve your heirs in philanthropy.

You also can consider leaving specific bequests to charities outright for restricted purposes, such as for the organization's endowment or student scholarships.

One important point to consider when you are deciding how to treat bequests to charity is the order in which you wish them to appear in your will or trust agreement. In other words, do you wish to have your bequests to charity distributed first, before remaining assets are distributed to your other beneficiaries? Or would you prefer to have your charitable beneficiaries inherit a certain percentage of the remainder, if any, of your estate? (In the former situation, it is possible that some of your primary beneficiaries may never inherit any of your assets; and in the latter situation, your charities may never inherit.)

## Family Harmony

I want to **change** the distribution of assets to my beneficiaries.

To increase or decrease the assets to be distributed to your spouse or other primary beneficiary, or to increase or decrease the number of individuals and/or charities receiving bequests, you can:

- Include or eliminate specific bequests.
- Increase or reduce the amount passing to your primary beneficiary.
- Increase the assets your primary beneficiary will inherit to generate income needed to live on.
- Transfer assets to others from your estate now. Whether you expect to owe federal gift taxes or not, you can consider the potential benefits of giving some of your assets away now for the long-term protection and benefit of your heirs and beneficiaries. *Never make such gifts, however, at the possible expense of your own financial well-being.*
- Give or leave more to charity.
- Determine whether you would like to distribute assets *per capita* or *per stirpes*.

I want to **improve** the ease and speed of transfer of assets to my beneficiaries.

To improve the ease and speed of transfer to beneficiaries, you can:

- Title more assets in joint tenancy WROS.
- Arrange for some assets to be payable directly on death (POD or TOD) to certain beneficiaries.
- Avoid naming your estate the beneficiary of your IRAs, retirement plan assets, or life insurance policies.
- Make some gifts of assets now if you have more than enough to live on.
- Consider declaring assets to be marital property if you live in a community property state or are moving from a community property state to a common law state.

*I want to **care** for minor children and/or loved ones over a long period of time.*

If you have minor children or grandchildren, review the trust(s) you have created for them under your will or trust agreement. While the children are younger than college age, you may wish to leave money to all of them in one single trust. This way your trustee will have the flexibility to distribute the trust assets on an as-needed (not necessarily equal) basis, just as you do for them today. Once the youngest child reaches adulthood, the single trust can be divided into equal shares and managed separately. (Consider including a clause in each of these trusts that prevents the trust assets from being assigned or attached by creditors—known as a **spendthrift clause**.)

If you are concerned about leaving a large sum of money to children when they reach the age of majority, you may want to avoid using accounts for minors called UGMA (Uniform Gifts to Minors Act) and UTMA (Uniform Transfers to Minors Act), where they usually become the children's property to do with as they wish at age 18 or 21, depending on your state and, sometimes, the type of asset. Instead, consider creating trusts that distribute their inheritances gradually (for example, one-third at age 25, half of the remainder at age 30, and so on). This could give the children time as they mature to learn financial responsibility and to make better and/or different use of each distribution as it is received.

*I want to **protect** the interests of my beneficiaries when selecting a trustee.*

Choosing your trustee (or co-trustees) can be the most important step in your estate planning strategy. Larger trusts may require the services of a trust company or bank trust department as trustee or co-trustee with a family member. But smaller trusts can be complicated too. Choosing a friend or relative may offer emotional support to you and your beneficiaries, but make sure your trustee is up to the financial duties of the job or has the power as part of the trust to hire professional advisors.

Fulfilling this responsibility can be quite a burden, especially as trust assets grow and family circumstances change over time. Even minor oversights by a well-intentioned trustee can create friction within families.

To avoid misunderstandings and potential strife, communicate your plans, wishes, and intentions not only to your trustee and spouse, but also to your entire family (and any other beneficiaries). Financial and estate planners can help you create a road map that everyone involved can understand. Overcoming your natural resistance to revealing your intent may help ensure that your wishes are carried out with understanding and acceptance.

## FINAL STEPS

### Confer With Your Spouse

If you and your spouse have reached this point in the T. Rowe Price Estate Planning Guide separately, it's now time to sit down together and discuss what each of you has learned. It's also the time to compare notes about what will actually happen from a *financial* perspective if one predeceases the other. Until now, you have each explored what will happen to your assets if you predecease your spouse, but neither of you has yet examined that information *from your own perspective as the possible survivor*.

Contributing your own perspective to the creation of your spouse's plan is very important. If you have strong feelings about the way assets you inherit will be controlled or about how much income will be available to you from inherited assets, pensions, and so forth, *now* is the time to discuss these thoughts with your spouse. Work together to ensure that each spouse's plan is satisfactory and comfortable for both of you.

### Confer With Your Estate Planning Attorney

If you wish to make changes to your estate plan, T. Rowe Price encourages you to make an appointment with your estate planning attorney. If you don't have one, the right-hand column on this page suggests ways you may be able to locate an attorney who has the expertise you need. Take with you any notes you've made in this guide and a concise summary of what you want your new or revised estate plan to accomplish. You may wish to include your **time line** if you think that it would serve as a good basis for your discussion with the attorney.

### Finding an Estate Planning Attorney

For a list of highly experienced estate planning attorneys practicing in your immediate area, contact the following nonprofit group:

American College of Trust and Estate Counsel  
(ACTEC)  
901 15th Street, NW  
Suite 525  
Washington, DC 20005  
actec.org

We also recommend that you visit the Martindale-Hubbell Lawyer Locator website, <http://lawyers.martindale.com/marhub>, to identify attorneys who are practicing in your city or town. From the list, you can select those who have identified themselves as specifically practicing in the areas of estate planning, trust administration, and elder law, for example. Martindale-Hubbell also has a website for the general public, [lawyers.com](http://lawyers.com), that offers some practical information about choosing an attorney, including "12 Questions to Ask Your Lawyer" and links to other websites you may find of interest.

Once you have narrowed your selection, you might also choose to confer with trust officers in your community bank if you are considering naming the bank as your executor or trustee. These officers often work with attorneys in your area on a regular basis and may be able to provide insight as to which ones may best meet your needs.

## Your Estate Planning “To Do” List

- 1. Write down in your own words how you want your assets to be distributed after your death.
- 2. Review all of the contracts and beneficiary designations you have in force today and confer with your estate planning attorney as to whether they will actually accomplish what you intend.
- 3. Determine how, under your current estate plan, assets would be distributed and whether you should make changes in the allocations to your beneficiaries. Are any desired beneficiaries missing or should any be dropped?
- 4. Assess whether you wish to make any changes in the amount of control and flexibility your current plan provides your beneficiaries and (if applicable) trustees.
- 5. Make sure you will be leaving adequate sources of income for your beneficiaries. Do you need to provide additional sources of income (e.g., life insurance)?
- 6. Estimate the amount of estate taxes that will be due at your death and, if you are married, the amount of taxes due if your spouse predeceases you and/or you predecease your spouse. If the figure is significant, consider changing your estate plan(s) and/or making gifts now to minimize estate taxes.
- 7. Consider funding now with all or some of your assets—a revocable living trust (if it is currently unfunded) to maximize flexibility, privacy, and convenience for you and your beneficiaries. If you have real property in states other than your legal state of residence, consider deeding this property to your trust now in order to avoid ancillary probate at the time of your death.
- 8. Be certain that you understand the language in your current estate planning documents. If you don't, ask your attorney to explain unclear statements and how they will affect your heirs or beneficiaries.
- 9. Have a frank discussion with your spouse or loved one to make certain he or she is comfortable with how your estate plan will affect him or her if you die first. If he or she is not comfortable, make any changes to your plan on which you can both agree.
- 10. Review/choose an executor of your estate, a trustee for your trusts, and a guardian of your minor children. Consider a durable power of attorney, advanced health care directives, a living will, and organ donor papers.
- 11. Update your will and/or revocable living trust agreement in accordance with your wishes with a knowledgeable estate planning attorney who practices in your legal state of residence.



## Estate Planning Assistance Online

T. Rowe Price offers complete access to valuable, in-depth estate planning insights and information online. If you have a plan, you can immediately access materials that will help you review it in light of your current circumstances. If you do not have a plan, the site can walk you through the process of shaping a plan that meets your needs.

Our site offers a broad range of information, such as the major types of trusts often used in estate plans, the importance of asset titling, key issues to consider when making beneficiary designations, and additional research sources. You also can access a number of useful tools that can aid you in your estate planning process.

Visit the T. Rowe Price estate planning website at [troweprice.com/estateplanning](https://troweprice.com/estateplanning).

## Related Services

T. Rowe Price offers a wide range of financial services to help make retirement and estate planning easier. We've included a brief summary of each for your convenience:

### **College Savings Plans (529 plans)**

We manage state-sponsored 529 plans that can help you give a child, grandchild, or any loved one a strong start toward meeting future educational costs. They offer the advantages of tax-deferred growth potential, plus professional money management, and distributions for qualified educational expenses are federal tax-free.\* The plans let you invest generous amounts per beneficiary, and contributions aren't limited based on your income. This makes 529 plans powerful estate planning tools since you may be able to contribute up to \$65,000 immediately (\$130,000 for married couples making a proper election) and average it out over five years without paying federal gift taxes.

*Please call 1-800-332-6407 or visit [troweprice.com](http://troweprice.com) to request a plan disclosure document, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. Please consider, before investing, whether your or your beneficiary's home state offers any state tax or other benefits that are only available for investments in that state's plan. T. Rowe Price Investment Services, Inc., Distributor/Underwriter.*

### **The T. Rowe Price Program for Charitable Giving<sup>SM</sup>**

This national donor-advised fund is an effective way to simplify your charitable giving and enhance your tax planning. Once you make your initial contribution to establish your Program account, you can recommend grant distributions to your favorite charities at any time. And until the assets are distributed, they're invested in pools that are professionally managed by T. Rowe Price. You can save on taxes by donating cash or long-term appreciated securities. By transferring securities in kind to the Program, you can deduct the full market value (up to IRS limits) and owe no capital gains taxes on the donated securities. You have the advantage of online account access that makes it easy to track your account and submit recommendations for grant distributions.

### **T. Rowe Price Guide for IRA and 403(b) Account Beneficiaries**

Beneficiaries of IRAs and 403(b) accounts face a range of options for receiving their inheritance. To help them make the right decision for their individual situation, this guide covers key information relevant to the inheritance process. There's a clear explanation of the steps beneficiaries must take in order to keep their inherited assets tax-deferred. Specific considerations are included for spousal and non-spousal beneficiaries and multiple beneficiaries as well as suggestions for investing the assets. Throughout, beneficiaries are directed to T. Rowe Price retirement specialists for assistance.

For more information on any of these services, return the enclosed reply card or call us at **1-800-332-6407**.

\*Earnings on a distribution not used for qualified expenses may be subject to income taxes and a 10% federal penalty.

## Visit an Investor Center Near You

If you would prefer to meet with us in person, visit one of our Investor Centers. You'll get one-on-one service from an Investment Counselor who can help you with your key investment goals, such as planning for retirement, rolling over an old 401(k) or 403(b), or selecting a mutual fund.

For directions, call 1-800-332-6407 or visit our website: [troweprice.com/investorcenters](http://troweprice.com/investorcenters).

### **California**

*Century City*  
10100 Santa Monica Blvd.  
Suite 100  
Los Angeles, CA 90067  
310-772-3000  
Toll-free 877-218-7272

*Walnut Creek*  
1990 N. California Blvd.  
Suite 100  
Walnut Creek, CA 94596  
925-817-1900  
Toll-free 800-239-4706

### **Colorado**

*Colorado Springs*  
2220 Briargate Pkwy.  
Colorado Springs, CO 80920  
719-278-5700  
Toll-free 866-728-9925

### **District of Columbia**

*Washington, DC*  
900 17th St. N.W.  
Farragut Square  
Washington, DC 20006  
202-466-5000  
Toll-free 888-801-0316

### **Florida**

*Boca Raton*  
925 S. Federal Hwy.  
Suite 175  
Boca Raton, FL 33432  
561-338-4300  
Toll-free 800-840-9509

### *Tampa*

4211 W. Boy Scout Blvd.  
8th Floor  
Tampa, FL 33607  
813-554-4000  
Toll-free 877-453-6447

### **Illinois**

*Northbrook*  
40 Skokie Blvd.  
Suite 100  
Northbrook, IL 60062  
847-313-4500  
Toll-free 800-820-3427

### *Oak Brook*

1900 Spring Rd.  
Suite 104  
Oak Brook, IL 60523  
630-645-9700  
Toll-free 866-266-0330

### **Maryland**

*Baltimore*  
105 E. Lombard St.  
Baltimore, MD 21202  
410-345-5757  
Toll-free 888-453-7326

### *Owings Mills*

Three Financial Center  
4515 Painters Mill Rd.  
Owings Mills, MD 21117  
410-345-5665  
Toll-free 877-374-5245

### **Massachusetts**

*Wellesley*  
386 Washington St.  
Wellesley, MA 02481  
781-263-1200  
Toll-free 800-732-3056

### **New Jersey**

*Paramus*  
81 E. Route 4 West  
Suite 102  
Paramus, NJ 07652  
201-712-4700  
Toll-free 888-224-1587

### *Short Hills*

51 JFK Pkwy.  
Short Hills, NJ 07078  
973-467-6800  
Toll-free 877-301-9771

### **New York**

*Garden City*  
1100 Franklin Ave.  
Suite 101  
Garden City, NY 11530  
516-535-6100  
Toll-free 800-618-3015

### **Virginia**

*Tysons Corner*  
1600 Tysons Blvd.  
Suite 150  
McLean, VA 22102  
703-873-1200  
Toll-free 866-864-9847

