Estate Planning for Young Families

Many young families put off estate planning because they are young and healthy, or because they don't think they can afford it. But even a healthy, young adult can be taken suddenly by an accident or illness. And while none of us expects to die while our family is young, planning for the possibility is prudent and responsible. Also, estate planning does not have to be expensive; a young family can start with the essential legal documents and term life insurance, then update and upgrade as their financial situation improves. A good estate plan for a young family will include the following:

Naming an Executor

This person will be responsible for handling final financial affairs--locating and valuing assets, locating and paying bills, distributing assets, and hiring an attorney and other advisors. It should be someone who is trustworthy, willing and able to take on the responsibility.

Naming a Guardian for Minor Children

Deciding who will raise the children if something happens to both parents is often a difficult decision. But it is very important, because if the parents do not name a guardian, the court will have to appoint someone without knowing their wishes, the children or other family members.

Providing Instructions for Distribution of Assets

Most couples want their assets to go to the surviving parent if one of them dies. If both parents die and the children are young, they want their assets to be used to care for their children. Some assets will transfer automatically to the surviving parent by beneficiary designations and how title is held. However, an estate plan is still needed in the event this parent becomes disabled or dies, so that the assets can be used to provide for the children.

Naming Someone to Manage the Children's Inheritance

Unless this in included in the estate plan, the court will appoint a guardian to oversee the children's inheritance. It will cost money (paid from the inheritance) and the children will receive their inheritances in equal shares when they reach legal age, usually age 18. Most parents prefer that their children inherit when they are older, and to keep the money in one 'pot' so it can be used to provide for the children's different needs.

One option is to name a custodian to receive a child’s inheritance. If a child is under the age of 18 the custodian will hold the funds for the minor child in a custodial account established under the Uniform Transfer to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA). The child will receive the full amount in the custodial account at the legal age either 18 or 21.

Another option is a revocable living trust, the preferred option for many parents. The person(s) you select, not the court, will be able to manage the inheritance for your minor children until they reach the age(s) you want them to inherit—even if you become incapacitated. Each child's needs and circumstances can be accommodated, just as you would do. And assets that remain in the trust are protected from the courts, irresponsible spending and creditors (even divorce proceedings).

Reviewing Insurance Needs

Income earned by one or both parents would need to be replaced, and someone may need to be hired to take over the responsibilities of a stay-at-home parent. Additional coverage may be needed to provide for the children until they are grown; even more if the parents want to pay for college.

Planning for Disability

There is the possibility that one or both parents could become disabled due to injury, illness or even a random act of violence. Both parents need medical powers of attorney that give someone legal authority to make health care decisions if they are unable to do so for themselves. (If at all possible you should name a primary decision maker and alternates.) HIPPA authorizations will give doctors permission to discuss your medical situation with others (parents, siblings and close friends). Disability income insurance should also be considered, because life insurance does not pay at disability.