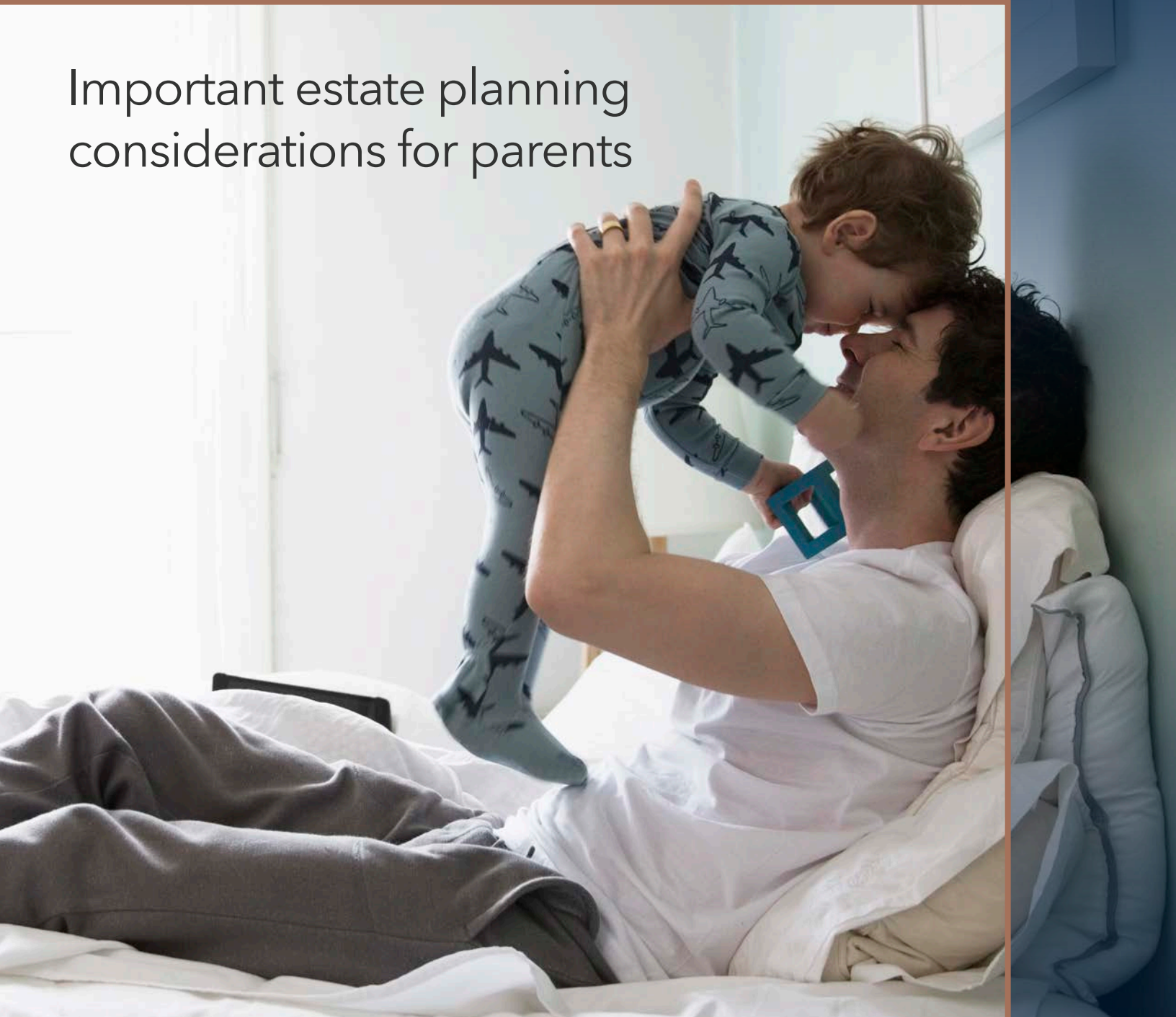




CAPITAL
GROUP®

ESTATE PLANNING
Parents

Important estate planning considerations for parents



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Planning for the unexpected

The joy of being a parent can sometimes be overshadowed by anxious thoughts: “If something were to happen to me and my spouse, what would happen to our children? Would they be taken care of? And who would look after them?”

The likely answer – if you don’t have an estate plan – is that a court will decide who becomes your children’s guardian and state law will determine who gets your assets. Not an outcome most parents like to think about.

The good news is that with a thoughtful and well-constructed estate plan, you can help put these worries to rest. The questions in this brochure will help you focus on some key decisions you’ll need to make. As a bonus, getting a head start may reduce billable hours with your estate planning attorney.

Whether you’re a new parent or you’ve simply put things off, this information is equally important. When planning for the unexpected, it’s better late than never.

What estate planning documents do I need?

An estate planning attorney can help you determine which documents make sense for you, depending on your situation. But for most people, “basic” estate planning documents include the following:

- **Will.** This is the primary estate planning document. It’s used to express how you want your property to be distributed when you die and who should manage the process (the executor). A will also allows you to nominate a guardian for your children if any are minors.
- **Revocable living trust.** In many cases, it’s important to have a revocable living trust in addition to a will. Revocable means you can change the trust over time or even cancel it, unlike an irrevocable trust, which is more or less written in stone.

Among other things, a revocable living trust states how your trust property will be distributed when you die and who will manage the process. In this case, that manager is called a trustee. The added advantage of having a properly funded living trust is that you can avoid the cost and hassle of probate. Probate is the legal process of certifying that a will is valid, collecting the assets, paying debts and expenses, and then distributing the remaining assets to your beneficiaries. In many states, it can be expensive and burdensome.

If you create a living trust, it becomes your primary estate planning document.

- **Financial power of attorney.** This document allows you to name someone to handle financial matters on your behalf. The range of powers you grant can be very narrow (i.e., letting someone handle a specific transaction), very broad (i.e., giving someone the authority to take virtually any action related to your financial matters) or somewhere in between.
- **Health care directive and living will.** This document goes by various names but is generally used to appoint someone to make health care decisions for you if you’re unable to do so, and to express your end-of-life wishes.

Already have an estate plan in place? You’re ahead of the game – with one caveat: If your plan was created before the major tax law changes of 2018 or if any of your circumstances have changed, you should have an attorney review it.

Who should be trustee? Executor? Guardian? And what are the differences between these roles?

These terms can be confusing, but here's one way to think about them: The trustee (for a trust) or executor (for a will) is in charge of the "stuff," and the guardian is in charge of the children. Sometimes these roles will overlap. But each one requires a different skill set, meaning different individuals may be needed.

- **Guardian.** This person is responsible for raising your children if you're unable to do so, caring for them on a daily basis.
- **Trustee/executor.** This person oversees the gathering of your assets, the payment of taxes and any other final expenses, and then the distribution of your assets to your children (or whomever else you may have selected as beneficiaries). If you provide continuing trusts to hold and protect your assets for your children, the trustee will handle management and investment of the assets, and the distribution of the assets to your children and their guardians.

Here are some questions you may have about these roles:

Should the trustee/executor and guardian be the same person?

It depends on your situation. If you have a go-to person you trust to serve in both roles, it may make sense to name that person for convenience. However, having different individuals is often beneficial, because they can provide checks and balances and offer diverse perspectives. Just remember that these individuals will need to work together.

Should the trustee/executor and guardian be a family member?

Again, this depends on your situation and relationships. Here are some factors to weigh:

- The age of the individuals you're considering
- Where they live: Are they in the same city where you're raising your children, or across the country?
- Their family composition: Are they married? Do they have their own children?
- Their personal financial situation

Whether trustee, executor or guardian, it's important to get permission from the person you're appointing before naming them in your plan.

Is the guardian I appoint in my will guaranteed to be my children's guardian?

No, it is merely a suggestion, as the court is responsible for appointing the guardian based on the best interests of the children at the time. The court will usually follow the parents' wishes unless there are extenuating circumstances. In any case, whether trustee, executor or guardian, it's important to get permission from the person you're appointing before naming them in your plan.

What if my children are too young to handle money?

If your children are minors when you die, an outright distribution – giving them all of your assets at once – may not be appropriate. As an alternative, many parents with young children set up continuing trusts, naming their children as beneficiaries. Under this arrangement, your assets are handled and distributed by an adult you trust to make decisions in your children's best interests. This is designed to prevent them from going through their inheritance too quickly.

An estate planning attorney can help you structure the trusts, but here are some factors to consider:

- The distribution guidelines (also known as the standard of distribution): How does the trustee decide whether distributing money or other assets to your child is appropriate? For example, a commonly used standard is that distributions should be used for the child's health, education, maintenance and support.
- The term, or length, of the trusts: Are there mandatory distributions at certain ages, or do the trusts continue for the children's lifetimes?
- The trustee: Who would be the best person in this role? Or would a corporate trustee, like a bank or trust company, be appropriate?





Do I need life insurance?

Because of the high cost of raising children today, many parents consider purchasing life insurance. One of the primary benefits is that your children receive the proceeds free of income tax. There are two basic types of life insurance:

- **Term insurance.** This type of insurance provides coverage for a specific time period and pays out a death benefit if you die during that period. If you're young and healthy, it's a relatively inexpensive and effective way to provide your children an income-tax-free pool of money if you die prematurely.
- **Permanent insurance.** This type of insurance doesn't expire – it pays a death benefit no matter when you die. It usually also includes an investment component.

One thing to keep in mind if you have substantial assets and purchase an insurance policy with a significant death benefit is the potential for owing estate tax. To help avoid it, you may wish to consider placing the policy in an irrevocable life insurance trust. This is a type of living trust set up for the purpose of owning a life insurance policy. When you die, the proceeds from the policy are excluded from your taxable estate, as long as the trust is structured and administered properly. Your estate planning attorney can help with that.

Ready to get started?

By working through the questions explored in this brochure, you've taken an important first step in preparing to create your estate plan. The next step is to meet with an estate planning attorney. Trusted friends, colleagues or your financial professional may be able to provide referrals.

Finally, if your financial situation is complex, consider connecting your estate planning attorney with your financial and tax professionals to help ensure everyone's on the same page. With the right team in place, you'll be on a path to a thoughtful estate plan – and you can start to rest easier at night.

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