

The values-driven estate plan

In light of recent economic and market events, many people have rethought and, perhaps, adjusted some financial goals. It's unlikely, however, that they have undertaken a major reassessment of the values and ideals that they live by.

These two worlds—personal and financial—coexist and intersect. For instance, some people will consider investing (or not investing) in a particular company based upon their social beliefs. Parents want their children and grandchildren to know, understand and emulate their values, not only today but also long after they're gone. They hope to accomplish this goal by word and deed. A “values-based” approach to estate planning reinforces it by action.

Laying a foundation

In conventional estate planning, resources and heirs are identified; then a tax-efficient transfer strategy is developed. A values-based approach to planning puts at least equal importance on the ideals that you would like to see live on in the minds and hearts of your loved ones.

The first step is to articulate clearly the values that you want to impart—for example, the need to recognize one's heritage and respect family traditions or to acknowledge the importance of contributing to the community and the world at large. These goals then can be incorporated into a written document, often called a *mission statement* (or a variety of other names). The statement sets the guidelines that will allow for translating these goals into an overall estate plan.

Balancing needs, generosity and values

Creating a mission statement calls for you to examine the resources that you will need to maintain your financial independence for your lifetime. From there you decide on the appropriate legacies for your heirs. Finally, you choose how to distribute your “social capital,” a term used by the late Scott C. Fithian, author of *Values-Based Estate Planning: A Step-by-Step Approach to Wealth Transfer for Professional Advisors*. Fithian defined social capital as either the tax that you will pay on your assets or the charitable donations that you will make. It represents the part of your wealth that goes neither to you nor to your heirs.

Prioritizing these three elements—financial independence, legacies and social capital—will let you see how your values can be integrated into your existing estate plan. For instance, if you are strongly inclined to philanthropy, you may decide ultimately to reduce the size of the legacies to your heirs. Or if imparting your values to your loved ones stands first and foremost in your planning, the amount of tax that you might have to pay or the nature of your charitable giving will be of secondary importance.

The “how” of instilling your values

Setting aside the resources for a comfortable life is a matter of projections and of dollars and cents. Your advisors can give you an estimate of the death taxes (federal and state) that your estate will have to pay and help you formulate your charitable bequests. But how, exactly, can your mission statement be translated into actions that will perpetuate your values?

One approach is to establish an *incentive trust*, either now or in your will. An incentive trust allows you to reward the behavior that you wish to encourage or to delay an inheritance until an age when you believe that your offspring will have matured sufficiently to recognize the wisdom and truth of your value system.

In the same vein, if you fear that a large inheritance will put a damper on a child’s ambition, the trust can be fashioned to allow distributions only if he or she has earned a sufficient income. Often, payouts are designed to match a child’s employment earnings, based upon a formula (dollar for dollar, for example).

If you value education highly, payments of income or principal from the trust may be tied to an objective, such as completion of college or graduate school or the attaining of a certain grade point average. The goal could be to encourage a certain career path, for example, by having the trust provide for supplemental payments when a child becomes a teacher, follows a religious vocation or engages in a certain professional practice. Extra amounts might even be provided if a child leaves a career to become a stay-at-home parent.

Discouraging certain behaviors may be possible. For example, you might leave instructions in the trust document that forbid distributions in the case of destructive behaviors such as alcohol or drug abuse.

The final decision

As with any estate plan, values-based or otherwise, it's critical to leave professionals in charge who are best equipped to set the plan in motion and monitor it so as to make sure that your goals are achieved. Two key players in this regard are your *executor* and *trustee*.

When we assume the responsibilities of serving in these capacities, we bring much to the table: experience, objectivity, constant availability, sensitivity to the needs of your heirs while remaining completely impartial in following your instructions. These are especially important qualifications for an executor and trustee that you will expect to play a major role in perpetuating your ideals and beliefs for what might be generations to come, a role that we are uniquely qualified to fill.

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Any developments occurring after January 1, 2010, are not reflected in this article.