LITTLE HOUSE CAPITAL

# Estate Planning: An Introduction



By definition, estate planning is a process designed to help you manage and preserve your assets while you are alive, and to conserve and control their distribution after your death according to your goals and objectives. But what estate planning means to you specifically depends on who you are. Your age, health, wealth, lifestyle, life stage, goals, and many other factors determine your particular estate planning needs. For example, you may have a small estate and may be concerned only that certain people receive particular things. A simple will is probably all you'll need. Or, you may have a large estate, and minimizing any potential estate tax impact is your foremost goal. Here, you'll need to use more sophisticated techniques in your estate plan, such as a trust.

To help you understand what estate planning means to you, the following sections address some estate planning needs that are common among some very broad groups of individuals. Think of these suggestions as simply a point in the right direction, and then seek professional advice to implement the right plan for you.

## Over 18

Since incapacity can strike anyone at anytime, all adults over 18 should consider having:

- A durable power of attorney: This document lets you name someone to manage your property for you in case you become incapacitated and cannot do so.
- An advance medical directive: The three main types of advance medical directives are (1) a living will, (2) a durable power of attorney for health care (also known as a health-care proxy), and (3) a Do Not Resuscitate order. Be aware that not all states allow each kind of medical directive, so make sure you execute one that will be effective for you.

## Young and single

If you're young and single, you may not need much estate planning. But if you have some material possessions, you should at least write a will. If you don't, the wealth you leave behind if you die will likely go to your parents, and that might not be what you would want. A will lets you leave your possessions to



**Jeremy S. David, ESQ., CFP®**
Managing Director & Chief Fiduciary Officer
617-545-5605
Jeremy.david@littlehousecapital.com
35 Braintree Hill Park Suite
Braintree, MA 02184

anyone you choose (e.g., your significant other, siblings, other relatives, or favorite charity).

## Unmarried couples

You've committed to a life partner but aren't legally married. For you, a will is essential if you want your property to pass to your partner at your death. Without a will, state law directs that only your closest relatives will inherit your property, and your partner may get nothing. If you share certain property, such as a house or car, you may consider owning the property as joint tenants with rights of survivorship. That way, when one of you dies, the jointly held property will pass to the surviving partner automatically.

## Married couples

For many years, married couples had to do careful estate planning, such as the creation of a credit shelter trust, in order to take advantage of their combined federal estate tax exclusions. For decedents dying in 2011 and later years, the executor of a deceased spouse's estate can transfer any unused estate tax exclusion amount to the surviving spouse without such planning.

You may be inclined to rely on these portability rules for estate tax avoidance, using outright bequests to your spouse instead of traditional trust planning. However, portability should not be relied upon solely for utilization of the first to die's estate tax exclusion, and a credit shelter trust created at the first spouse's death may still be advantageous for several reasons:

- Portability may be lost if the surviving spouse remarries and is later widowed again.
- The trust can protect any appreciation of assets from estate tax at the second spouse's death.
- The trust can provide protection of assets from the reach of the surviving spouse's creditors.
- Portability does not apply to the generation-skipping transfer (GST) tax, so the trust may be needed to fully leverage the GST exemptions of both spouses.

Married couples where one spouse is not a U.S. citizen have special planning concerns. The marital deduction is not allowed if the recipient spouse is a non-citizen spouse (but a $194,000 annual exclusion for 2026 (up from $190,000 in 2025), is allowed). If certain requirements are met, however, a transfer to a qualified domestic trust (QDOT) will qualify for the marital deduction.

## Married with children

If you're married and have children, you and your spouse should each have your own will. For you, wills are vital because you can name a guardian for your minor children in case both of you die simultaneously. If you fail to name a guardian in your will, a court may appoint someone you might not have chosen. Furthermore, without a will, some states dictate that at your death some of your property goes to your children and not to your spouse. If minor children inherit directly, the surviving parent will need court permission to manage the money for them.

You may also want to consult an attorney about establishing a trust to manage your children's assets in the event that both you and your spouse die at the same time.

You may also need life insurance. Your surviving spouse may not be able to support the family on his or her own and may need to replace your earnings to maintain the family.

## Comfortable and looking forward to retirement

If you're in your 30s, you may be feeling comfortable. You've accumulated some wealth and you're thinking about retirement. Here's where estate planning overlaps with retirement planning. It's just as important to plan to care for yourself during your retirement as it is to plan to provide for your beneficiaries after your death. You should keep in mind that even though Social Security may be around when you retire, those benefits alone may not provide enough income for your retirement years. Consider saving some of your accumulated wealth using other retirement and deferred vehicles, such as an individual retirement account (IRA).

## Wealthy and worried

Depending on the size of your estate, you may need to be concerned about estate taxes.

For 2026, $15,000,000 ($13,990,000 for 2025) is effectively excluded from the federal gift and estate tax. Estates over that amount may be subject to the tax at a top rate of 40%.

Similarly, there is another tax, called the generation-skipping transfer (GST) tax, that is imposed on transfers of wealth made to grandchildren (and lower generations). For 2026, the GST tax exemption is also $15,000,000 ($13,990,000 for 2025), and the top tax rate is 40%.

Whether your estate will be subject to state death taxes depends on the size of your estate and the tax laws in effect in the state in which you are domiciled.

## Elderly or ill

If you're elderly or ill, you'll want to write a will or update your existing one, consider a revocable living trust, and make sure you have a durable power of attorney and a health-care directive. Talk with your family about your wishes, and make sure they have copies of your important papers or know where to locate them.

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