

# Spring Cleaning... and Estate Planning

**A**s you clean out your closet this spring, it is also a good time to clean out your desk, as well as those personal files buried deep within your computer. Just like our closets, our files and financial plans need to be cleaned and updated on a regular basis.

In fact, most planning professionals recommend that our plans be overhauled whenever we experience a major life event such as marriage, divorce, birth of a child, or death of a parent. Even in the absence of a major change, it is a good idea to review our plans every couple of years. Discombobulating changes have a way of cropping up: that friend to whom you left a bequest may have passed away, or perhaps you are caring for a parent who is showing signs of dementia. Leaving a large amount of cash or securities outright to that parent would no longer make sense.

But just having an updated will is not enough. It is necessary to think through your asset list and to determine if your will “operates” on all your assets. The point here is that a great many common assets—retirement assets including 401(k)s, IRAs, and joint bank accounts—pass on to the beneficiary designated via account opening forms. So these assets are not typically governed by your will. They are governed by that form—now likely in the back of your desk or some forgotten online file—you filled out years before.

The trick here is to avoid what is called a “cufflink will.” Let’s consider an example. Joe is close to his only brother, Bob. Joe works with his broker and designates Bob as the beneficiary of his large IRA account. He also stops by his bank



and makes Bob the joint owner of a good-sized bank account. Just to be sure that everything goes to his brother, Joe has a lawyer draw up a will which says that all his assets will pass to him. Beyond his IRA and bank account, Joe’s assets amount to an extremely lovely pair of gold cufflinks and an almost worthless timeshare.

Many years later, Joe and Bob have a falling out and Joe no longer wants to leave his hard-earned assets to Bob. So he goes to another lawyer who promptly draws up a new will saying that all of Joe’s assets will be split evenly between his niece, Agnes, and a favorite charity. But Joe neglects to change the beneficiary of his IRA and the title to his bank account. And now Joe dies! What will Agnes and the charity get? Despite Joe’s good intentions, Agnes and the charity will share the pair of cufflinks and the worthless timeshare. And this is because Joe’s will only “operates” on the cufflinks and the timeshare. His IRA and bank account—the truly valuable assets—are governed by the beneficiary designation form Joe filled out—and never updated—donkey’s years ago.

So do yourself a favor—take stock of your financial and estate plans on a regular basis. Make sure that your plan effectively accomplishes your wishes. You want to be sure, after all, that your assets go to the people and the charity of your choice. ■

**IF YOU WOULD LIKE MORE INFORMATION ABOUT PLANNED GIVING OR ABOUT HOW TO LEAVE A LEGACY TO CATO, PLEASE CONTACT GAYLLIS WARD, OUR ASSOCIATE VICE PRESIDENT OF DEVELOPMENT. GAYLLIS CAN BE REACHED AT [GWARD@CATO.ORG](mailto:GWARD@CATO.ORG) OR (202) 218-4631.**