BY MORIAH ADAMO

Estate planning is the process of creating a plan to manage your property and assets while you are alive and distribute them after your death. While everyone jokes about "death and taxes", planning for these events is something most people postpone and some neglect altogether. Even those who do plan can fall into common traps that lead to serious problems for loved ones down the line. Here are the 5 worst estate planning mistakes people make and how to avoid them.

1. FAILING TO PLAN

The worst mistake you can make is not planning at all! Many assume that if they don't create a will or formal estate plan, then assets will simply pass to their family. In reality, if you die without a plan, state law dictates how and when your assets will be distributed after your death. This process, called "intestate succession," may not align with your wishes. For example, many think that if they do not plan their surviving spouse will inherit the entire estate. However, that is not the case. Further, close friends, charities, or extended family may receive nothing. Taking the time to plan ensures that you control who gets your assets and minimizes costs for your family. Worse yet, if you do not appoint agents to make decisions on your behalf regarding your finances and healthcare, and you become unable to manage your affairs, the court may appoint someone to make these personal decisions for you. Known as guardianship, this process can be expensive, time-consuming, and impersonal.

2. BELIEVING THAT JOINT ACCOUNTS SIMPLIFY PLANNING

Some people think that having an account with a child or spouse is a shortcut to estate planning. While joint accounts do allow easy access to funds if one owner passes away, they can also create serious issues. For instance, if the child listed on a joint account faces lawsuits, creditors could seize funds from that account to cover debts, even if those funds were meant for the parent's support. Joint ownership can also lead to family disputes. If only one child is named on the account, legally that child has sole ownership after you pass. That child may be unable or unwilling to divide the funds fairly or without incurring tax consequences. Moreover, as far as the government is concerned, funds held in joint bank accounts are wholly yours. They are presumed to be part of your estate for tax and Medicaid eligibility purposes.

3. GIFTING THE WRONG ASSETS

Gifting can help reduce estate taxes, but it's important to think about the tax implications. For example, giving away assets that have appreciated over time, like stocks, can burden the recipient with capital gains tax. However, if they inherit the asset instead, they may benefit from a "step-up" in basis, resulting in less tax. Knowing which assets are better to give away now versus later can help avoid unintended financial consequences for your heirs.

4. FAILING TO USE A TRUST WHEN YOU OWN PROPERTY IN MULTIPLE STATES

If you own real estate in more than one state, your estate may need to go through probate in each of those states, which can be time-consuming and expensive. Placing property in a trust can avoid this multi-jurisdictional problem, since the trustee can transfer trust property privately. This reduces costs and simplifies the process for your heirs.

5. NEGLECTING BENEFICIARY DESIGNATIONS

IRAs, retirement accounts, and life insurance policies are great ways to pass on wealth, but failing to keep beneficiary designations up to date can lead to unexpected consequences. If no beneficiary is listed, the asset may need to pass through probate, leading to delays, creditor exposure, and possibly taxes. This can take away a significant portion of the account's value. By ensuring beneficiaries are current and naming secondary (or contingent) beneficiaries, you can help your heirs avoid excessive taxes and receive the funds as intended. By working with an experienced professional, you can avoid these common mistakes, ensure your assets are managed as you intend, and minimize conflict for loved ones.