# SUNNY DAYS *or* GATHERING STORM?

## THE ROLE OF FINANCIAL FORECASTING IN ESTATE PLANNING

**The most carefully documented estate plan can still fail to accomplish its objectives if it doesn't take into account a person's financial status at important life stages. While it is crucial to forecast one's financial state at retirement, it is equally important at other significant life milestones.**

A common modern family dynamic illustrates the need for careful planning and forecasting. Divorce and remarriage often leads individuals to create an estate plan allowing a second spouse to maintain his or her current standard of living – while also benefitting children from a prior marriage. In such a situation, necessary funds must be available to accomplish these objectives. For example, if a person wants their surviving second spouse to be able to continue living in the primary residence and utilize one or more vacation homes, financial forecasting can help ensure that adequate funds will be available to maintain those homes even if other assets are passed directly to the children.

When planning for such situations years in advance, it is necessary to forecast what the future expenses of maintenance will be and whether one's funds will grow adequately to defray those expenses. It is very helpful to prepare a forecast based upon expected income, anticipated cost of living increases, and the surviving spouse's likely lifespan. This, in turn, requires making assumptions about one's own projected lifespan. If the forecast shows that funds will be inadequate, then one must consider reducing the amount that will be passed to the children. In many cases, people have a vague idea of how much will be required at their death to provide for a surviving spouse, but, when confronted with a forecast based upon realistic facts and assumptions, it is often an eye-opening experience that results in changes to their current lifestyle, investment allocation, and/or estate plan.

Gifting is also an estate planning strategy that requires financial forecasting. Given the current uncertainty regarding estate tax exemptions, people are often uncertain about whether to make gifts to children and grandchildren and, if so, in what amounts. The first step in any gifting analysis is always to determine whether current lifestyle can be maintained after reducing one's estate by the amount of the gifts. A financial forecast may also be useful in planning for exceptional circumstances that may arise during one's lifetime, such as medical and educational expenses, weddings, home purchases, and long-term care expenses.

To help clients prepare a forecast, Miller Canfield attorneys have developed a checklist of items to be considered and assumptions that must be made during the process. We also have access to software programs utilizing various asset allocation models in order to forecast where one's estate will be at future dates. This process helps create a forecast that utilizes realistic assumptions about rates of return, tax rates, future events that may impact the assets available and cost of living increases. It forces one to predict and anticipate future events and distinguish between what is important and what is not important. Finally, it can provide a path toward achieving one's objectives. If you believe such financial forecasting would be helpful in achieving your objectives, please give our office a call to schedule a session with an estate planning attorney.

Personal Services
James W. Williams 248.267.3211