Young Farmers Need an Estate Pan

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Many families feel that estate planning applies only to the wealthy. This is particularly true if they are young and have accumulated very few assets.

I recently met with a young farming couple with two young children, who, I discovered, did not have wills, did not have any life insurance, and had been showing a farm loss on their tax returns for a number of years, hence the husband had not been paying social security taxes. Although they did not have any estate tax issues, they were in desperate need of estate planning.

Name a guardian

It is critical that every person that has minor children prepares a will that names a guardian for the children.

For people that are married, both husband and wife need a separate will. In Minnesota, if both parents die without a will, a court will choose caretakers for minor children and their property.

The individual that is selected as the guardian should, of course, be asked in advance. The guardian is responsible for the children's day to day care.

The person acting as guardian for the children could also be responsible for their financial affairs, although the will could designate separate people for each of these tasks. The will is often drafted so that a trust is created for the assets inherited by the children, and a trustee is designated to manage the trust and distribute the property according to the terms of the will.

Another important aspect of estate planning for young families is assessing the need for life insurance. Life insurance can be used to fill the income gap left at the death of one of the spouses; if both spouses are working there is probably a need for both of them to be insured. The need for life insurance is often the greatest at the time that income is the lowest. Term insurance can be purchased by young healthy people fairly cheaply, and can be used to replace income should one or both of the spouses die.

Social Security credits

In addition to life insurance planning, it is also important to make sure the farming spouse is earning enough Social Security credits for his family to qualify for survivor benefits. Generally, a deceased worker needs one quarter of coverage for each year after age 21, or six quarters of coverage in the three years just before his death, for his family to qualify for those benefits.

In 2005, a worker needs to earn $920 to qualify for one quarter of coverage. However, even though a farmer may not have actual net earnings, there is an optional method available to farmers that will qualify the farmer for one quarter coverage each year through an election on his income tax return.

Finally, in addition to a will, every person should prepare a power of attorney, which will designate someone to manage the person's financial affairs if he becomes incapacitated. An advanced health care directive should also be prepared, which will provide that the person's health care wishes are respected if he becomes unable to communicate them.