

Financial Planning vs. Estate Planning: Key Differences

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Financial planning and estate planning go hand in hand, but there are some key differences.

By Charles A. Borek

Financial planning is all about creating a strategic, actionable roadmap for your money during the time you're here on earth to enjoy it.

It's about looking to the future, but it fundamentally deals with the here and now. When attending to your financial planning, you're looking to manage your assets to achieve certain lifetime goals, whether those goals are paying college tuition, making your retirement savings last longer or buying a beach bungalow. Money does not appear magically. The strategies you put in place today will determine whether you can achieve your lifetime financial goals.

As you map those out, you're likely asking yourself, or your financial adviser, questions that deal with constructing an appropriate risk profile for your portfolio. This can include whether certain types of investment (e.g., real estate, cryptocurrency, etc.) are right for you, and whether you should roll over your 401(k) money into an IRA (and if so, whether to choose a Roth or a traditional IRA). A financial planner can also help with spending decisions, such as whether it would be better to buy or lease a car.

Thoughtful financial planning is also about looking more deeply into the future for the time when you're no longer here on earth to enjoy it or when you're incapacitated and unable to express your wishes in real-time. This can include considering what happens if something unexpected befalls you, how much and what kind of life insurance to buy or whether to sell an existing life insurance policy,

Importantly, as the saying goes, you can't take it with you. Everything you have is yours to

enjoy while you're here, but when your time is up, it's all going to end up in the hands of others. Your "estate" is the stuff you leave behind when you die. While you may have wonderful ideas about who will benefit from your assets when you're gone, death puts an end to the best-laid plans. That is, of course, unless you have properly planned your estate.

Financial Planning & Estate Planning: The Venn Diagram

While estate planning and financial planning are as different as ping pong and pickleball, like those activities, they are inherently the same concepts applied to different contexts. They are two peas in a pod. Any holistic financial plan recognizes that life is interconnected, with individuals wanting to ensure their loved ones and causes closest to them benefit from their lifetime of carefully planned financial decisions.

Again, financial planning is about mapping out your financial future while you're here to smell the roses.

Estate planning, in the simplest terms, means setting forth instructions for what happens to the assets you own when your breathing stops. The main document for estate planning is either a will or a revocable living trust (RLT). Both have their own benefits and drawbacks. A durable power of attorney and an advance health care directive are also usually a part of the estate planning process. In each case, you appoint someone to make decisions for you – financial decisions in the first case and health care decisions in the latter.

One area of significant overlap between financial planning and estate planning is that both can address tax issues.

Estate planning addresses death taxes, which come in several forms, primarily the federal estate tax, state estate taxes, the generation skipping transfer tax and inheritance taxes. In many cases, some or all of these taxes may be inapplicable due to generous exemptions or the identities of your beneficiaries. An estate planning attorney can identify which, if any, taxes you should be concerned about and build a plan to navigate around them to the extent possible.

Financial advisers may also be well-versed in death taxes and strategies to minimize them, but they cannot draft estate planning documents unless they are licensed attorneys. The tax focus of financial planning is generally on income taxes you have to pay while you're alive. Income tax planning takes into account two factors: timing and characterization. Due to the time value of money, a financial adviser may be able to improve your tax situation by structuring your investments so that income becomes taxable later rather than sooner.

Furthermore, characterization of income as tax-free, long-term capital gains, short-term capital gains or ordinary income can make a big difference in how much you will pay. A financial adviser can help with both issues, for example, by recommending a plan that times the recognition of capital gains to correspond with offsetting capital losses.

Another area that's increasingly causing financial planning and estate planning to overlap is the looming wealth transfer from aging boomers to their children, a mix of Generation X and millennials. A projected \$84 trillion in wealth will change hands between now and 2045, given the fact that boomers are all between the ages of 61 and 79 this year, with an [average American lifespan of 78.4](#).

A portion of this wealth transfer is already occurring while boomers are alive, as studies have shown that more than half of parents with adult children [have already made significant financial contributions to their kids, and nearly two-thirds](#) say that early giving is being reflected in their estate plan. This phenomenon exemplifies how financial planning and estate planning need to work in harmony.

A third and obvious example of estate planning and financial planning crossing paths is via your beneficiary designations. The beneficiaries listed on your retirement accounts and life insurance policies supersede your will and directly determine who receives these assets. Unfortunately, beneficiary designations are often neglected after a significant life change and former (or estranged) spouses sometimes end up collecting surprise sums of money. Without proper coordination in your planning, even a carefully constructed estate plan can be undermined by outdated information.

The Bottom Line

Financial planning and estate planning focus on different horizons, but they function best when working together. The financial decisions you make in life impact what's available for those you want to benefit after your death, and your estate planning wishes should inform certain financial decisions today.

It's important to do both, and to do both together. Create a strategy that bridges the present and the future and focuses on the people and values you care about most.

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