

## **Key Factors to Consider in Managing your Retirement and Estate**

When retirement was far off in the future for you your investment strategy probably comprised of investing most of your money in stocks and mutual funds. You were in it for the long run and could ride the waves of the stock market highs and lows. As you reach retirement age the asset allocation rules change. An all stock portfolio may no longer make sense. A low-risk, all-bond portfolio might make sense for one person while assets spread out evenly across the three primary investment markets: stocks, bonds and cash maybe right for another. Each person and their circumstances are unique.

Determining what is right for you depends on how much money you will need to support your lifestyle in retirement, if that need will remain constant, and how much you intend to leave to your heirs vs. how much you spend in retirement. I recommend that you meet with your financial advisor to help you navigate the investment planning and retirement process. Creating a crew of professionals to navigate you to your safe harbor is key to proactive and effective retirement and estate planning. Multi-disciplinary and collaborative planning is achieved through the meeting of you, your CPA, financial advisor and estate planning attorney. You do not have to have a large estate to do this, but simply have a smart estate. A smart estate has lots of ways to save for retirement, manage your savings and create your estate planning documents.

**ANNUITIES** – There are a lot of ways to save for retirement and manage your savings. One product that helps you do both is an annuity, which is the only financial planning tool that can help you save and then provide you with a variety of payout options, including a secure and steady stream of income you cannot outlive.

An annuity is a flexible insurance contract. It allows your retirement savings to grow on an income tax-deferred basis and then allows you to choose a payout option that best meets your need for income when you retire, whether it is a lump sum, income for life, or income for a certain period of time. An annuity pays while you live and life insurance pays after you die.

There are both fixed and variable annuity contracts. Money in a fixed annuity earns a tax-deferred fixed rate of return from the life insurance company from which it was purchased. You are guaranteed a fixed payout every month when you decide to begin receiving income. Money put in a variable annuity is invested in bond and stock funds, which you select. The value of the annuity and how much your money grows depend on

how well those stocks and bonds perform. Like a fixed annuity, your money grows tax-deferred in a variable annuity

An annuity is just one of many retirement savings options and may not be right for everyone. An annuity is not a substitute for an employer-sponsored retirement plan like a 401K, but once you have contributed what you are allowed into the 401(k), an annuity can be a good way to increase your financial security during your retirement years.

## **ESTATE PLANNING BASICS**

You've worked hard for many years. You've planned and invested wisely. Just because you've reached all or most of your investment goals doesn't mean that you've crossed the financial planning "finish line." Now you've got to take necessary steps to ensure that your assets will be protected in life and in death. And if you're interested in leaving an inheritance, you want to make sure that the bulk of your estate gets passed onto your heirs, not the government. So how do you achieve these goals? Careful retirement and estate planning.

As you grow older and your estate grows larger, you need to shift part of your focus to making sure your loved ones will be provided for after you're gone. Estate plans are not only for the rich and famous and you don't need to be a multi-millionaire to want to protect your loved ones. A properly prepared estate plan should allow you to pass along what you own to whom you want to receive it, the way you want them to receive it, and when you want them to receive it. A great place to start is with a will. Amazingly, about 70% of Americans don't have wills. A properly prepared estate plan will also include a HIPAA-CMIA Declaration, Advance Health Care Directive, Durable Power of Attorney and Trust(s), Life Insurance, Irrevocable Life Insurance Trusts, QTIP trusts, Charitable trusts, Qualified Personal Residence trusts and many other sophisticated planning tools. Creating a will forces you to add up all of your assets – your home, your cars, your investments, your life insurance, etc. and then specify who gets what in your estate. If you have children, your will should also specify who their guardian will be if something happens to you and your spouse. If you don't take this step, this crucial decision will be left to the courts. All of these issues are far too important to be left to chance.

**LIVING WILL** – Also known as an advance health care directive, this important document enables you to specify whether you would want to be kept alive by artificial means should you become severely incapacitated due to illness or injury. This is not the kind of excruciating decision you would want to burden your family with having to make. Furthermore, if your intention would be to not go on life support if there was no reasonable expectation of recovery, having a living will means that money that might have otherwise gone to pay for life-sustaining care will now be

passed on to your loved ones.

**DURABLE POWER OF ATTORNEY** – An ordinary Power of Attorney allows someone else to act on your behalf when you cannot be present. For instance, that person can enter into contracts, negotiate, and settle matters as if they were you. An ordinary power of attorney expires when a grantor becomes incompetent or passes away. By contrast, a Durable Power of Attorney can act on a person's behalf even while that person is still alive. In the event that you become incapacitated either due to disability or dementia, a Durable Power of Attorney will ensure that someone you trust will continue to make important financial and medical transactions on your behalf long after you have lost the capacity to handle these matters yourself.

The documents described above are some of the basic estate-planning tools. Together, they'll go a long way toward ensuring that your assets are managed and distributed according to your wishes.

But what happens when you have an estate that's worth more than \$5.34 million? That's when things become a bit more complicated. Under current federal law, estates over \$5.34 million are subject to estate taxes. If you have an estate tax liability, you need a plan that will ensure that the bulk of your estate will go to your heirs, not the government. There are many strategies and techniques to accomplish this, and a financial advisor and attorney who specializes in estate planning can help you create the plan that's right for you.

**GIFTING** – One of the simplest ways to reduce your estate tax liability is to transfer money to loved ones while you're still living. This is called "gifting" and here's how it works. Every U.S. citizen is entitled to give away up to \$14,000 per person per year. A husband and a wife can give \$28,000 to any child, grandchild or anyone else for that matter, and as long as you stay within the limits, none of these "gifts" are subject to gift or estate taxes.

**BYPASS TRUSTS** – If you die and you're married, the proceeds of your estate can be passed on to your spouse tax free pursuant to the "unlimited marital deduction." But if you've bequeathed a sizable estate to your spouse, all you've really done is shift the estate tax burden. One way to address this problem is by creating bypass trusts for you and your spouse. Bypass trusts allow each spouse to take advantage of the federal estate tax exemption. In other words, the IRS allows up to \$5.34 million to "bypass" your estates. This simple arrangement can save your children hundreds of thousands of dollars in estate taxes.

**LIFE INSURANCE** – Life insurance can help address a number of estate planning issues. First, one of the main reasons people buy life insurance in the first place is to create an estate. Most of us would like to bequeath an inheritance to our loved ones. But not all of us will succeed in creating a sizable estate to pass along. Life insurance does something that no other product can do – it can create an instant estate.

Life insurance is also a great vehicle for paying estate taxes. When a person with an estate tax liability dies, their family members often have no choice but to quickly sell off certain assets to pay for federal and state estate taxes, lawyers' fees, probate costs, etc. The proceeds from a life insurance policy create instant liquidity when someone dies, eliminating the need to hastily liquidate other assets, often for a fraction of their true value.

**IRREVOCABLE LIFE INSURANCE TRUSTS** – Life insurance can also create an instant estate tax problem for your heirs if you don't plan properly. For example, consider a couple in their 40's that has equity in their home of \$400,000 and an additional \$300,000 in stocks, mutual funds, 401Ks and college savings plans for their three children. Because they have three young children, both parents have \$2 million in life insurance coverage. If one of them were to die, they would go from not having any estate tax liability (remember they currently have a net worth of \$700,000) to having a fairly sizable one (the surviving spouse would have a net worth of \$2.7 million).

One way to address this situation is to set up an irrevocable life insurance trust. This is a trust that owns your life insurance policy (or policies). It pays the premiums to keep the insurance in force, collects the death benefits when you die, and distributes the money according to the terms of the trust. Since you don't own the insurance, the proceeds aren't included in your estate.

You determine the trust terms when you set it up. For example, you determine to whom distributions will be made and how they will be handled. It is quite common to name one's spouse and children as beneficiaries. You can include provisions in the trust that pay income to your spouse during his or her life or to allow the trustee to supplement your spouse's income to maintain his or her lifestyle or to handle unexpected expenses. If the surviving spouse dies prematurely too, the trust should specify how the proceeds will be divided among the remaining beneficiaries. When there are multiple children, it is fairly common to have the principal paid out in equal shares when the children reach certain age milestones. For instance, distributions might be made on three occasions, when the children reach ages 25, 30 and 35.

**OTHER OPTIONS TO CONSIDER** – In addition to irrevocable life insurance trusts and bypass trusts, there are QTIP trusts, Charitable trusts, Qualified Personal Residence trusts and many other sophisticated planning tools. The best way to make sense of the myriad of options available to you is to consult with professionals – financial advisors, attorneys, accountants – who specialize in estate planning. They can help you make the right choices for your family, ensuring that the lion’s share of your estate gets passed onto your heirs, not Uncle Sam.

By now you should be aware or at least thinking that a basic will is not enough. For further information see my article entitled, “**Why a Basic Will is Not Enough?**” Each estate plan is unique and should be custom tailored and drafted from scratch considering your unique situation and anticipated future changes.

I invite you to have a personal discussion with myself and welcome a collaborative team approach to such initial discussions with your CPA, investment advisor and myself. Proper and effective estate planning will avoid probate costs and fees, family heartache, maintain privacy and confidentiality, asset protection and avoid unnecessary taxes.