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Guide...Protect...Preserve

Add Up The Pluses And Minuses Of A Living Trust

A revocable living trust can be a valuable tool in your estate-planning kit, but it is not without its potential drawbacks. For starters, a living trust generally should be viewed as a supplement to a will rather than a replacement. You likely will need a valid will to tie up all the loose ends of your estate. Furthermore, how well a living trust will work often depends on state laws.

The basic premise is relatively simple: You establish a living trust, transfer assets to it, and name a trustee to handle its administration. If you designate yourself as the initial beneficiary, you're entitled to receive income from the trust for the rest of your life. But you also need to designate secondary beneficiaries—typically, your spouse, your children, or your spouse and your children—who will be entitled to receive the assets in the trust when it terminates.

Unlike with other kinds of trusts, you retain some measure of control of a living trust while you're alive. You may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely if you wish. The trust only becomes irrevocable when you die.

With that basic framework in mind, consider the pluses and minuses of a revocable living trust.

Pluses of a Living Trust

• It avoids probate. This is the main reason for using a living trust. Normally, if someone dies with a will in place, surviving family members will need to go through the probate process. Probate can be lengthy or short depending on the circumstances and state law. However, probate doesn't apply to the assets you've transferred to a living trust, so your beneficiaries have immediate access to cash. (Assets transferred by joint rights of survivorship also are exempt from probate.)

• It avoids guardianships and conservatorships: This benefit often is overlooked, but a fully funded living trust can sidestep restrictive rules relating to guardianships and conservatorships. If the trust is structured properly, beneficiaries will have access to assets without interference from a judge if you are incapacitated. Otherwise, a guardianship or conservatorship can last much longer than probate.

• It provides privacy. As opposed to probate, which is open to the public, the provisions of a living trust are protected from prying eyes. A will has to be filed with the appropriate court but a living trust does not. This can be a major advantage if you treasure your privacy.

• It helps you plan ahead. When you contemplate using a living trust,

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What Do You Think Your Life Will Be Like In Retirement?

Much that is written about or spoken about retirement relates to the need to save for your life after work. How much have you accumulated? How much more do you need to save? How is your money invested? Should you downsize your home? Have you planned far enough into the future?

These are all legitimate questions you'll want to address well in advance of the day you finally call it quits. But are you also asking yourself the "other" question: What will my retirement be like? Your lifestyle is likely to change drastically when you retire, and it's a good idea to try to prepare yourself for the road ahead.

Recognize that the changes aren't just financial. Are you mentally and physically ready for retirement? Often, people who stop working wonder what to do with all of their free time. Here are some of the possibilities you might want to consider:

• Start or expand a hobby.
• Join a gym or take up golf or another sport.
• Become active in a seniors group.
• Volunteer for charity work.
• Travel extensively.
• Go back to school or otherwise learn a new skill.
• Go back to work on a part-time basis (perhaps as a consultant).

These activities may provide purpose and meaning in the years ahead as you focus on the quality of life you hope to enjoy in retirement. It's just as important to set your sights on your personal objectives as it is to save enough money to live on.

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When To Start Social Security?

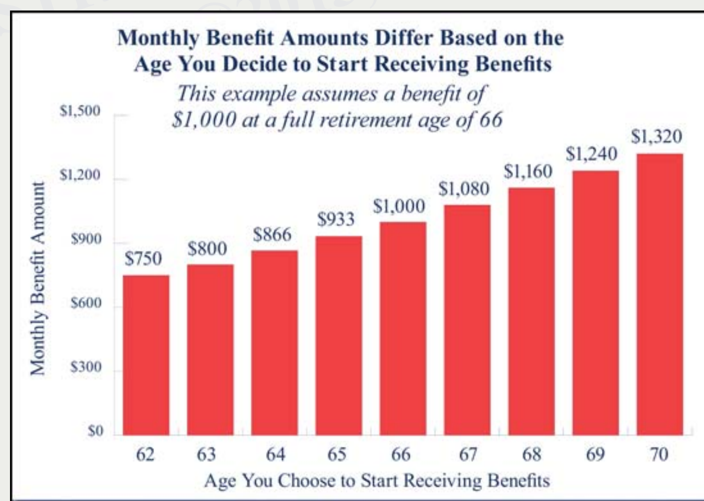
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

What Are Latest Trends In Prenups?

Not so long ago, prenuptial agreements were only for the very rich. But more recently, they've become much more common, especially for spouses in same-sex marriages.

A prenuptial agreement—sometimes also known as an antenuptial or premarital agreement—is a contract that a couple signs prior to marriage. Details may vary, but a "prenup" generally addresses division of assets, including those that each spouse brings into the marriage and those that are earned during the union, as well as spousal support, if the parties dissolve the marriage. But other issues also may be touched upon—for example, that a spouse will have to forfeit assets because of adultery, or provisions relating to children from the union.

Even today, prenups often are viewed warily, because they anticipate a breakup of a marriage before the parties even say, "I do." But financial realities can supersede such concerns. It may not be romantic to mention it, yet it remains true that more than half of U.S. marriages end in divorce. Some proponents of prenups argue that such arrangements actually can reduce stress in a marriage, because both spouses know exactly what to expect if they do call it quits.

Much like a will, a prenup ensures that assets will be distributed in an agreed-upon manner. So it's important for both spouses to be up-front about their net worth. As part of the process, prospective spouses need to list all of their ownership interests and decide on an equitable distribution that suits their particular situation. Frequently, there's some give and take before the parties sign off, especially if one spouse has accumulated significantly more wealth than the other.

Note also that state law may have a major impact on such negotiations. "Community property" states may pose

Avoid Emotional Portfolio Withdrawals

The Standard & Poor's 500 stock index is the benchmark against which most investors measure the performance of their portfolios, but that's not such a good thing. For, although the widely-cited index represents the value of America's 500 largest publicly-held companies, it does not represent the performance you should expect from a retirement portfolio.

Prudence demands diversification of a retirement portfolio far beyond 500 blue-chip stocks into multiple asset classes. Surprisingly, so do history, math, and greed.

It turns out that a multi-asset retirement portfolio historically generates returns almost identical to the S&P 500, but without much of the drama.

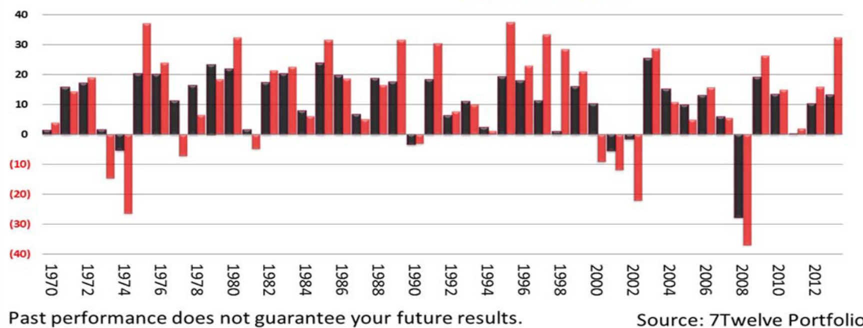
Since performance data on a broad range of asset classes first became available 44 years ago, investors in a seven-asset portfolio sidestepped the worst of the terrible dips that befell the S&P 500.

In 2008, for example, when the world financial system teetered on the edge of collapse, the S&P 500 lost as much as 37%. Investors in a multi-asset also suffered frightening losses, but the 28% pullback they suffered was a mere two-thirds of the loss on the S&P 500.

The Math Of Losses In 2008¥

% Portfolio Loss	Portfolios	% Gain Needed To Break Even
-5%		5.3%
-10%		11.1%
-15%		17.6%
-20%		25.0%
-27%	Multi-Asset Portfolio	37.0%
-30%		42.9%
-35%		53.8%
-37%	S&P 500 Index	58.7%
-40%		66.7%
-45%		81.8%
-50%		100.0%
-55%		122.2%
-60%		150.0%
-65%		185.7%
-70%		233.3%
-75%		300.0%

¥Required % Gain = [1 / (1 – % Loss)] – 1
Past performance does not guarantee your future results.
Source: 7Twelve Portfolio



Put another way: The 10.4% annualized return on the S&P 500 versus the 10.3% multi-asset portfolio over 44 years are nearly identical, but investors in the multi-asset portfolio earned their return without experiencing the extreme lows of the S&P 500—losses so large they are more likely to compel selling stocks at market-lows and then missing the next bull-run.

The "math of losses" makes it hard for a portfolio diminished by losses to become whole again. Losing 20.0% of a portfolio requires a 25.0% gain to break even. And the math becomes more tyrannical with larger losses.

Recovering from the 37% loss in the S&P 500 investors sustained at the market bottom in 2008 required a 58.7% gain. To recuperate from its 28% decline sustained by investors in the multi-asset portfolio required a 37% gain.

It pushes investors into scarier situations and makes it more difficult to have faith that nothing—no natural disaster or political, financial or religious crisis or war—will bring down the world and bring an end to the progress of humanity. ●

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particular hurdles.

It used to be that prenuptial agreements applied only to marriage between a man and a woman. However, in the wake of the U.S. Supreme Court case invalidating part of the Defense of Marriage Act (DOMA), prenups for same-sex couples are on the rise. These couples, too, can use a prenup to resolve issues relating to assets accumulated prior to the marriage and during the union.

Another reason for same-sex couples to consider a prenup is the possibility that a marriage might end with one or both partners residing in a state that doesn't recognize same-sex marriages. The prenuptial agreement can provide adjustments based on this scenario.

Of course, having conversations before a marriage about which partner gets what if the union ends are bound to be awkward for both traditional and same-sex couples. But getting such things settled now may be worth the trouble if it helps avoid acrimony later. ●

How To Downplay The Kiddie Tax

From a tax-planning standpoint, it's often good to get investments out of the hands of highly taxed parents and into the accounts of children or grandchildren who are in much lower tax brackets. This can result in overall savings on current taxes while also removing assets from the parents' taxable estate. Of course, you have to be willing to part with your stocks or bonds, but that might make sense for other reasons, too.

Still, there's one problem with this simple solution. A tax-law provision known as the kiddie tax could negate many of the advantages of giving investments to your offspring.

Generally, investment income is taxed to the person who receives it—to the owner of the assets. So if you move stocks or mutual funds into the names of your children, they (rather than you) will be taxed, often at a much lower tax rate than yours. Suppose you're paying at the highest possible rates—you're in the top 39.6% income tax bracket and you also owe the 3.8% surtax on net investment income. That gives you a combined federal tax rate of 43.4%, whereas your son or daughter might be in the 10% or 15% tax bracket for ordinary income. On an investment generating $10,000 a year, having a child own it potentially could save your family the difference between 43.4% and 10%, or $3,340 in tax cost.

But then there's the kiddie tax. For a child who is your dependent and under age 19, or a full-time student under age 24, unearned income from investments that exceeds a specified threshold—$2,000 in 2014—is taxed at the parents' tax rate. So in the example of an investment generating $10,000 a year, $8,000 of the income could end up being taxed at the 43.4% rate, and then your family would lose all but $668 of the overall tax savings.

Nevertheless, there are several ways you can mitigate the effects of the kiddie tax. For instance:

• Keep an eye on the annual threshold. You might limit the asset transfer to an amount that would generate no more than about $2,000 in unearned income. Once the child is old enough to avoid the kiddie tax, you could give more.

• Suggest that your children manage their own holdings to keep investment income at a minimum—for example, by holding municipal bonds or stocks that don't pay dividends. Again, that could change once they're no longer subject to the kiddie tax.

• Consider other ways to transfer income—perhaps by hiring your son or daughter to work for your company. Because wages aren't unearned income, that amount won't count toward the kiddie tax threshold.

In any event, be aware of the possible tax ramifications of family income-shifting. It can be a sound technique for many parents, but you need to consider your own situation, with help from your tax advisor. ●

A Living Trust

(Continued from page 1)

you'll need to examine your current assets to determine what to transfer to the trust. Sorting through your files can provide a snapshot of your financial picture that should have other benefits, too.

Minuses of a Living Trust

• It costs money. You'll need to use an experienced professional to set up a living trust, and in addition to that initial cost, you'll also pay annual fees if you use the professional as your trustee. (But you can be the sole trustee during your lifetime.) Generally, it costs more to create a living trust than to establish a will, but the living trust may be less expensive over the long run.

• It can be time-consuming. You're not done when you put your John Hancock on the living trust documents. You'll still need to contact financial institutions and transfer agents to change ownership of accounts; issue new stock certificates; revise business interests; sign and record real estate deeds; and re-title cars and other property.

• It isn't a panacea. Don't expect a living trust to address all of your estate-planning issues. Having an up-to-date will often is still central to an estate plan. Also, if you devise a "pour-over will" to catch the assets that don't go into the trust when you die, that will still has to be probated. For some people, these issues cancel out the benefits of using a living trust in the first place.

• It can be contested just as a will can. In fact, state laws generally allow a longer time to challenge a living trust than they do for a will. And creditors still can make claims against the assets included in a living trust.

Finally, whatever you may have heard, there are no estate tax benefits for transferring assets to a living trust.

In the end, the decision whether to a use a living trust is a purely personal one. Obtain all the information and guidance you need. ●

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