Investment News **Volume 2 February 2016**

Will You Avoid These Estate Planning Mistakes?

Too many wealthy households commit these common blunders.

Many people plan their estates diligently, with input from legal, tax, and financial professionals. Others plan earnestly, but make mistakes that can potentially affect both the transfer and destiny of family wealth. Here are some common and not-so-common errors to avoid.

Doing it all yourself. While you could write your own will or create a will or trust from a template, it can be risky to do so. Sometimes simplicity has a price. Look at the example of Warren Burger. The former Chief Justice of the United States wrote his own will, and it was just 176 words long. It proved flawed – after he died in 1995, his heirs wound up paying over $450,000 in estate taxes and other fees, costs that likely could have been avoided with a lengthier and less informal will containing appropriate language.[1]

Failing to update your will or trust after a life event. Relatively few estate plans are reviewed over time. Any life event should prompt you to review your will, trust, or other estate planning documents. So should a life event affecting one of your beneficiaries.

Appointing a co-trustee. Trust administration is not for everyone. Some people lack the interest, the time, or the understanding it requires, and others balk at the responsibility and potential liability involved. A co-trustee also introduces the potential for conflict.

Being too vague with your heirs about your estate plan. While you may not want to explicitly reveal who will get what prior to your passing, your heirs should have an understanding of the purpose and intentions at the heart of your estate planning. If you want to distribute more of your wealth to one child than another,

Continued on page 2...

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2016 Market Performance 01-01-2016 to 01/31/2016

DJIA ^DJI Down –5.50%
S&P 500 ^GSPC Down –5.07%
NASDAQ ^IXIC Down –7.86%
Russell 2000 ^ RUT Down –8.85%

* Index performance does NOT include any fees (Gross of fees)

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write a letter to be presented after your death that explains your reasoning. Make a list of which heirs will receive particular collectibles or heirlooms. If your family has some issues, this may go a long way toward reducing squabbles and the possibility of legal costs eating up some of this or that heir's inheritance.

Failing to consider what will happen if you & your partner are unmarried. The "marriage penalty" affecting joint filers aside, married couples receive distinct federal tax breaks in this country – estate tax breaks among them. This year, the lifetime gift and estate tax exclusion amount is $5.45 million for an individual, but $10.9 million for a married couple.[1,2]

If you live together and you are not married, it is worth considering how your unmarried status might affect your estate planning with regard to federal and state taxes. As *Forbes* mentioned last year, federal and state taxes claimed more than more than $15 million of the $35 million estate of Oscar-winning actor Phillip Seymour Hoffman. He left 100% of his estate to his longtime partner, and since they had never married, she could not qualify for the marriage exemption on inherited assets. While the individual lifetime gift and estate tax exclusion protected a relatively small portion of Hoffman's estate from death taxes, the much larger remainder was taxed at rates of up to 40% rather than being passed tax-free. Hoffman also lived in New York, a state which levies a 16% estate tax for non-spouses once estates exceed $1 million.[1]

Leaving a trust unfunded (or underfunded). Through a simple, one-sentence title change, a married couple can fund a revocable trust with their primary residence. As an example, if a couple retitles their home from "Heather and Michael Smith, Joint Tenants with Rights of Survivorship" to "Heather and Michael Smith, Trustees of the Smith Revocable Trust dated (month)(day), (year)". They are free to retitle myriad other assets in the trust's name.[1]

Ignoring a caregiver with ulterior motives. Very few people consider this possibility when creating a will or trust, but it does happen. A caregiver harboring a hidden agenda may exploit a loved one to the point where he or she revises estate planning documents for the caregiver's financial benefit.

The best estate plans are clear in their language, clear in their intentions, and updated as life events demand. They are overseen through the years with care and scrutiny, reflecting the magnitude of the transfer of significant wealth.

Citations.

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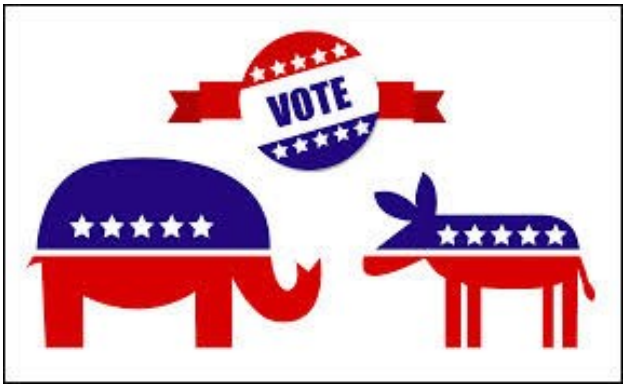

Dealing With Sudden Retirement

How ready are you?

What if you are laid off or forced into retirement before 65, or even before 60? If that happens to you, what do you do in response now that the next phase of your life is starting sooner than you planned?

As a first step, gauge where you stand financially. It could be that the full-time job you just left will be your last. It could be that you have been thinking seriously about retirement. Depending on your outlook, you may see your glass as half-empty or half-full – but no matter your outlook, you need to assess your financial position.

With no income from work, your household will be more reliant on your spouse's income or savings (assuming you are married at the time). So how big is your emergency fund? Is your cash position strong enough so that you can lean on it for a while until you decide how much you want or need to keep working?

Do you want (or need) another full-time job? Do you see yourself transitioning into part-time work? Or are you looking forward to retirement? Regardless of your employment prospects, you will have to calculate the amount of income you receive (or can potentially receive) from other sources – the pension or termination payout you were (hopefully) given, your investments, and other sources of passive income.

If that income doesn't appear to be enough, should you apply for Social Security as soon as you can? Many financial professionals will tell you no, and here is why: for each year you delay filing for Social Security benefits, your benefits grow by about 8% (from age 62 to age 70). If you were born in 1954 and you file for Social Security benefits at 62 in 2016, you will reduce your monthly Social Security benefit by 25% as a consequence.[1,2]

On the other hand, some people really need the money and/or are in poor health, so they would rather have the income sooner rather than later. Your projected lifetime Social Security benefit remains the same regardless of when you first file for benefits, so even healthy retirees sometimes sign up as early as they can. In fact, in a June survey of more than 600 retirees taken by the Nationwide Retirement Institute, 76% of Americans who had been retired less than 10 years and 68% of Americans who had been retired 10 years or longer said that looking back, they felt they applied for Social Security at the right time.[1]

Nevertheless, a time like this is a great time to examine Social Security claiming strategies with help from a financial professional – especially if you are married or have been married. The wrong move could leave a great deal of money on the table.

Can you take advantage of any benefits as you leave work? Talk to the HR officer. If you have not been informed of your eligibility for severance pay or an early retirement package, ask about it. Depending on the circumstances of your exit, you may also qualify for Social Security disability benefits or unemployment benefits.

It will not be cheap to secure health insurance if you need it. If you are lucky, you worked for a big company, giving you COBRA eligibility. Maybe you are even luckier – perhaps your employer offered you the option of retiree health benefits when you were hired. (Hopefully, that offer still stands.)

See what you can do to reduce spending & taxes. Leaving work early might mean that your retirement is longer than anticipated. This calls for a reassessment of your retirement income strategy and your probable retirement expenses, including your day-to-day spending habits.

What fixed expenses are non-negotiable? What can you trim? If you are married, you and your spouse should be on the same page regarding how much you spend and what you spend money on. Perhaps gifts to children or grandchildren should be ceased. Maybe you could sell the house and move someplace cheaper. Maybe just one car is enough. You could eat out less. Spending less on mere wants is appropriate in your situation.

Every tax dollar you can save is a dollar back in your wallet. So pay attention to investment location and the impact of taxes on your portfolio, as you may be deriving income from investment accounts.

Stay positive. You may not have left work on your own terms, but you have an opportunity I your hands – the chance to change, and perhaps even reconceive, the way you live and work from this moment forward. If you have significant retirement savings, you may even be surprised at the potential your future holds.

Citations.

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The IRS Changes to 529 Plans

Learn about the two new tax perks for these college savings vehicles.

Do you have a 529 plan account? Then you will want to know about a pair of federal tax law changes which may benefit you and your student, one involving a February 16 deadline.

As 2015 ended, Congress passed the Protecting Americans from Tax Hikes Act (PATH). Deep in its fine print were two "sweeteners" – tax changes designed to help parents with 529 plans.

You can now pay for computer hardware & software with 529 plan dollars. Under the old rules, this was rarely permitted. In fact, federal tax law only allowed it if a university or college required students to have certain computer hardware, software, or computer-related technology as a condition of enrollment.[1]

That restriction is gone now. Starting this year, you may buy computers, computer software, associated hardware, and related equipment with 529 plan funds. These technology expenses now fall under the category of Qualified Higher Education Expenses.[1]

Refunded 529 plan money may now be reinvested in the plan. Here is where the February 15 deadline matters. If you have received a refund of money that was a 529 plan withdrawal from an Eligible Educational Institution, you can now put it back into the same 529 plan within 60 days. (For tax purposes, you will want a receipt showing when that 60-day period began.)[1]

Why is February 16 important? Because that is 60 days from the day PATH was enacted, and if you received such a refund at any time during January 1-December 18, 2015, you have until Tuesday, February 16, 2016 to put that money back in the account. If you meet that deadline, the refunded money will not be categorized as a non-qualified 529 plan distribution that is fully taxable and also subject to a 10% penalty.[1,2]

All 529 plan owners should be aware of these important changes for 2016 and years to follow.

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