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# Leaving it to Others

## The ABCs of Beneficiaries

Whether you buy life insurance or an annuity, join an employer's retirement plan, or open an Individual Retirement Account, you'll be asked to designate a beneficiary to receive the proceeds or benefits at your death. Too often, people give little thought to this decision. They simply jot down whoever seems the most logical choice at the time — generally a spouse or child — or sometimes they don't designate a beneficiary at all.

### A Will is Not the Way

If you don't name a beneficiary, your money will wind up in estate and then distributed to your heirs under your will. Your family won't receive the assets until after your estate is probated.

### Naming Your Spouse

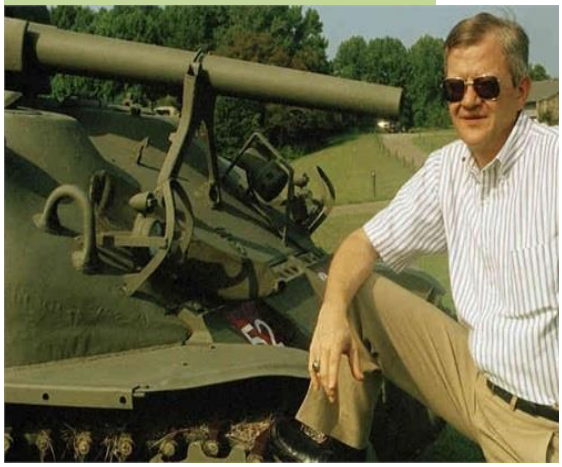
For many married couples, naming a spouse provides the greatest planning flexibility.

For instance, if you have not yet begun receiving required minimum distributions (RMDs) at your death, your spouse can begin taking RMDs based on his or her life expectancy without

**(Continued on Page 4)**

Contents

Special Interest Articles



# Tom Clancy's Tank and Other Collectibles

Tom Clancy, author of military and intelligence thrillers, died in 2013. He left an estate estimated at over $80 million, which included a tank "with low mileage."

Clancy loved military technology, both high and low. Some questioned he could only have gleaned the details in his early books through classified documents.

Even before WikiLeaks, Clancy proved how much information was available if one knew where to look, and if one used a little imagination to connect the dots on the technological continuum.

Besides the tank, Clancy left other military collectables, which his current wife, designer Alexandra Marie Llewellyn, General Colin Powell's cousin, probably did not use to decorate her Manhattan home. Nor did it seem his children fought over who got the tank.

*In some cases, a collectible means more than just an investment. If this is the case, take the time now to share the love with those who will inherit it. You would be surprised how this will bring you together and provide a shared memory that will last for generations.*

## Tom Clancy's Tank

Collecting stuff gives a lot of pleasure to the collector. Aaron Gellman, my first boss out of grad school, suggested I collect an artifact on every trip I take as a way of recalling the adventures. Business trips meant racing through airports and staying at Holiday Inns, so there wasn't much to hold on to. But collections happen. Here are some ideas on how to handle them at the end.

Although each of us enjoys a hobby, we should take note of a few rules along the way:

- The notion you are collecting as an alternative to investing rarely pays off.
- If your collection rises in value, and you sell it, you may be in for a surprise: the long term capital gains rate on collectables is 28%.
- Collectables are worth only what they sell for. As tastes change, so will the value of your collectable.
- Selling the collectables will cost money. Auction houses charge between 10% and 30% of the sale price. Using an independent appraiser also costs money. As with any investment, consider the transaction costs on both ends.
- Investing in rare clocks or Dutch art from the 17th century is even more esoteric. You may understand these things, but your kids won't. Provide a video tour of your collection, so your heirs will stand a fighting chance.
- Transporting collectibles will also cost money and run the risk of items breaking in transit.

Best solution: Either sell it yourself, or, if there is a large appreciation, arrange for the sale to occur immediately after your death to save the capital gain taxes. Most importantly, you save your heirs the burden of finding buyers and the disappointment from not realizing the value you placed on the items.

# Is there a Point to Life Insurance in Retirement?

After retirement, people shed themselves of the many things that were so important and necessary during their working life – like wing tipped shoes and appointment books. Something else that people have is life insurance. Is there any need to hold onto something that primarily was there to protect an income that no longer exists?

The unequivocal answer is maybe. Here are some sample strategies:

**Late Inning Relief** – After your kids pay for the colleges of their kids -- your grandchildren -- the life insurance you are considering cancelling could replenish their assets.

**Leaving Your Mark** – The charity you support with a few dollars here or there would appreciate the gift of life insurance with the commitment of also donating the premium to keep the policy going. Consult your tax adviser to make sure both gifts are still tax deductible.

**Helping Your Grandchildren's Grandchildren** – consider putting the insurance in a trust that will pay for the educational costs of all your downline descendants. Now you're helping your grandchildren afford to do their best for their kids, without causing them to lose eligibility for financial aid.

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David Barol, MPP, CFP®, CLU, ChFC, was selected to join the Select Member group of Lincoln Financial Advisors: Sagemark Consulting Private Wealth Services. The firm's Sagemark Consulting Private Wealth Services program (SCPWS) focuses on clients in the high net worth market. This recognition was determined by identifying financial planners most capable of working in this marketplace. Reaching this success is a significant achievement and requires mastery of the art of creative financial planning, a willingness to exert the extra effort necessary for truly superior results, and consistent and continuous service of the highest quality.

Specializing in providing integrated, personalized solutions, David uses a client-centered process that understands our core value statement of "Serve First, Last, and Always"™.

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**Beneficiaries (cont. from Page 1)**

penalty, even if he or she is under age 59½. (Otherwise, the IRS imposes a 10% tax penalty in addition to income tax.) A spouse also has the option of rolling over the assets into his or her own IRA and waiting until the year after she turns age 70½ to start the RMD. Your spouse is free to name his own beneficiary for the new account.

If you die after the required beginning date, the RMD for the remainder of your account must be as rapid as under the distribution method used as of your death. If you have a designated beneficiary, distributions can be taken over the longer of (a) the beneficiary's life expectancy or (b) your remaining life expectancy. If you die without a beneficiary, distributions must be taken over your remaining life expectancy – or faster. If your surviving spouse is your sole beneficiary, she can also choose to roll your plan into hers (once the RMD for your year of death has been taken.)

## Consider the Children

You also should designate at least one contingent beneficiary. Children are a frequent choice for contingent beneficiary. But naming your spouse primary beneficiary and your children contingent beneficiaries may not be the best arrangement. If your children are minors when they receive your benefits the court will appoint the guardian to receive and hold the money for them.

Also, unless you make other arrangements such as designating a trust as your beneficiary, your primary beneficiary will have access to the assets and, in the case of IRAs, can designate her own beneficiaries, effectively disinheriting your children.

Designating beneficiaries is no easy task – and the rules change. Your decision will affect your family's financial security.



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