
CIA Report

Financial Intelligence

More Than Just Your Will

Last month we were talking to a client about her goal to take "the vacation of a lifetime." We told her that she had the finances to afford the trip, yet she was hesitant, not knowing where she would get the money. After calculating her future needs we told her we thought the best place to take the money was out of an inheritance she received a couple of years ago.

"But I can't squander the money my parents took a lifetime to save to take a trip like this" was her response.

While we had never met her parents, there have been very few occasions where we've met a parent who didn't want to give their children every opportunity in the world.

No parent wants to see their child squander their life's savings. Most want their child to enjoy their inheritance. Books have been written on the psychological aspect of receiving an inheritance. We've seen inheritances wasted in short order and on the opposite end seen inheritance checks sitting in a desk drawer or a checking account for months because of the psychological issues of doing anything with the money.

Most estate plannings take care of the "Who's, What's and How's". The plans take care of who gets what and how it goes to them. The plans look at all the assets, the beneficiaries and can contain numerous trusts and provisions to make sure everything goes to the right person at the right time.

But, most estate planning documents do not take care of the "Why's". Often this is the hardest part for a person to set up emotionally, but can be the most long-lasting and important to heirs if done properly.

Have you known someone who got a different inheritance than their siblings or other relatives? Often they give a great deal of thought trying to figure out why? Have you known someone who has gotten a large financial inheritance but not the stories and the guidance on why it was left to them? This kind of communication is often the missing part in the estate planning process.

While there are many ways to accomplish the "Why's" the most common is something called an Ethical Will. This is a document that goes along with your estate plan. It is rarely a legal document but is something that tells your heirs the "Why's".

An ethical will can take many forms, such as a written document or a video. It talks about those values that are important to the creator and what they hope their inheritors should consider in addition to the financial assets. It could discuss things such as how one hopes an inheritance is used, information on family history, or any other facts that might be important to heirs to make wise decisions regarding their future.

Many families take this to another level and have family meetings that are instructive during which the patriarchs can share their wisdom and values. While difficult for most people in our culture, these family meetings have been shown to create long-lasting legacies beyond the financial inheritance an heir might receive.

If you would like more information on how to add this extra level of planning to your estate, let us know and we'd be happy to discuss it with you.

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Coordinating Social Security Benefits with Other Retirement Assets

Understanding 401(k) Plan Fees and Expenses

What is a payable on death (POD) account?



Coordinating Social Security Benefits with Other Retirement Assets



Special rules for government pensions

If your pension is from a job where you did not pay Social Security taxes (such as certain government jobs), two special provisions may apply. If you're entitled to receive a government pension as well as Social Security spousal retirement or survivor's benefits based on your spouse's (or former spouse's) earnings, the government pension offset (GPO) may apply. Under this provision, your spousal or survivor's benefit may be reduced by two-thirds of your government pension (some exceptions apply).

The windfall elimination provision (WEP) affects how your Social Security retirement or disability benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit is modified, resulting in a lower Social Security benefit.

Social Security provides retirement income you can't outlive. And, in addition to your own benefit, your spouse may be eligible to receive benefits based on your earnings record in the form of spousal benefits and survivor's benefits. So, it's easy to see why, with all of these potential benefit options, Social Security is an important source of retirement income. But, according to the Social Security Administration, only about 40% of an average worker's preretirement income is replaced by Social Security (Source: SSA Publication No. 05-10035, July 2012). When trying to figure out how you'll meet your retirement income needs, you'll probably have to coordinate your Social Security benefits with other retirement income sources such as pensions, qualified retirement accounts (e.g., 401(k), IRA), and other personal savings.

Factors to consider

How you incorporate Social Security benefits into your total retirement income plan may depend on a number of factors, including whether you're married, your health and life expectancy, whether you (or your spouse) will work during retirement, the amount of your Social Security benefit (and that of your spouse, if applicable), other sources of retirement income (e.g., pension), how much retirement savings you have, and, of course, your retirement income needs of you and your spouse, including the income need of your spouse after your death.

A factor to consider is that Social Security has a "built-in" protection against longevity risk. Benefits increase each year you delay starting benefits through age 69 (benefits do not increase past age 70), so the later you start receiving benefits, the greater the benefit amount. In addition, Social Security benefits are inflation-protected, and may increase with annual cost-of-living adjustments based on increases in the Consumer Price Index.

How much you may pay in income tax may also factor into your retirement income plan. For example, distributions from tax-qualified accounts (e.g., 401(k)s, IRAs, but not including Roth IRAs) are generally taxed as ordinary income. Up to 85% of your Social Security benefits may also be taxed, depending on your modified adjusted gross income and tax filing status. Tax issues are complex, so you should talk to a tax advisor to understand your options and the tax consequences.

Pensions

If you're lucky enough to have a traditional employer pension available, that's another

reliable source of income. You'll want to be sure that you effectively coordinate your Social Security benefit with pension income. Your pension may increase in value based on your age and years of employment, but it may not include cost-of-living adjustments (COLAs). As mentioned earlier, Social Security not only increases the longer you delay taking benefits, but it may increase with COLAs.

If your pension benefit increases past the age at which you retire, you might consider waiting to take your pension (either single or joint and survivor with your spouse) in order to maximize your pension benefit amount. Depending on your income needs, you could start Social Security benefits earlier to provide income. Or, if you've already reached your maximum pension benefit, you could start your pension first, and defer Social Security in order to receive an increased monthly benefit later. Your decision depends on your individual situation, including your pension benefit amount and whether it increases in value after you retire, and the pension options that are available to you (e.g., single life, qualified joint and survivor). You can get an explanation of your pension options prior to retirement from your pension plan, including the relative values of any optional forms of benefit available to you.

Personal savings

Prior to retirement, when it came to personal savings, your focus was probably on accumulation--building as large a nest egg as possible. As you transition into retirement, that focus changes. Rather than concentrating on accumulation, you're going to need to look at your personal savings in terms of distribution and income potential. Your savings potentially can provide a source of income to help you bridge any gap between the time you begin retirement (if you've stopped working) and the time you wait to begin taking Social Security benefits.

One option you might consider, depending on the amount of retirement savings you have and your income needs, is taking some of your savings and purchasing an immediate annuity, which will provide a guaranteed (based on the claims-paying ability of the annuity issuer) income stream. In this way, your remaining savings may have a chance to increase in value, while delaying Social Security benefits increases your annual benefit as well.

Incorporating Social Security into your retirement income plan involves several other important factors. Talk to your financial professional for help in developing the best plan for you.

Understanding 401(k) Plan Fees and Expenses



Fees and expenses are factors that may affect your investment returns, and therefore impact your retirement income.

***These are hypothetical examples and are not intended to reflect the actual performance of any specific investment, nor are they an estimate or guarantee of future value.**

If you direct your own 401(k) plan investments you'll need to consider the investment objectives, the risk and return characteristics, and the performance over time of each investment option offered by your plan in order to make sound investment decisions. Fees and expenses are factors that may affect your investment returns, and therefore impact your retirement income.

Why should I care about plan fees?

In a 401(k) plan, your account balance will determine the amount of retirement income you will receive from the plan. While contributions to your account and the earnings on your investments will increase your retirement income, fees and expenses paid by your plan may substantially reduce the balance of your account.

Assume that you're an employee with 35 years until retirement and a current 401(k) account balance of \$25,000. If returns on investments in your account over the next 35 years average 7% and fees and expenses reduce your average returns by 0.5%, your account balance will grow to \$226,556 at retirement, even if there are no further contributions to your account. If fees and expenses are 1.5%, however, your account balance will grow to only \$162,846. The 1% difference in fees and expenses would reduce your account balance at retirement by 28%.*

The following table demonstrates how varying levels of fees and expenses can impact the growth of a hypothetical 401(k) plan account after 35 years, assuming a \$25,000 starting balance, 7% annual return before expenses and fees, and no additional contributions.

Average Annual Fees and Expenses	Ending Balance After 35 Years*
0.0%	\$266,915
0.5%	\$226,556
1.0%	\$192,152
1.5%	\$162,846

How do I learn about my plan's fees?

The first step is to become informed about the different types of fees and expenses charged by your plan, and the way they are allocated to plan participants. The best way to do this is to study the fee disclosure information that your 401(k) plan provides to you.

Investment fees

By far the largest component of 401(k) plan fees and expenses is associated with managing

plan investments. Your disclosure statement should clearly indicate the total annual operating expenses of each investment option. For example, in the case of a mutual fund, these operating expenses may include investment management fees and 12b-1 fees. These fees are charged against the assets of the fund and reduce the fund's total return. The annual operating expenses will be shown both as a percentage of assets (expense ratio) and as a dollar amount for each \$1,000 invested. For example, a fund may have an expense ratio of .15%, or \$1.50 for each \$1,000 invested. In this case, \$10,000 invested in the fund would cost \$15.00 annually (10 times \$1.50).

Your plan's disclosure material will also describe any shareholder-type (transaction) fees that apply to each investment option--things like sales charges and loads, withdrawal fees and surrender charges, and fees to transfer between investment options.

Your plan must also provide a chart that lets you easily compare information about each investment option. For example, if your plan allows you to choose among different mutual funds (or from different families of mutual funds), the difference in fees and expenses may help you choose between two or more funds that are otherwise similar in performance and investment strategy.

Administrative fees

The day-to-day operation of a 401(k) plan also involves expenses for basic services--plan record keeping, accounting, legal and trustee services--that are necessary for administering the plan as a whole. Sometimes employers pay these expenses. Sometimes they're paid by the plan, and either allocated to all participants in proportion to account balances (that is, participants with larger accounts pay more of the allocated expenses) or charged as a flat fee to each participant's account. Your fee disclosure should contain an explanation of any fees and expenses that may be charged to participants' accounts. You'll also receive an explanation of any fees and expenses that may be charged to your individual account--for example, fees for taking out a loan or processing a qualified domestic relations order.

Remember that fees and expenses are just one factor to consider when choosing an investment for your 401(k) plan account. You'll also need to consider a fund's investment performance in relation to the fees charged. However, all things being equal, minimizing the fees and expenses you pay to your 401(k) plan may help you increase your retirement nest egg--so be informed and review all your options carefully.

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Arthur D. Kraus and Mitchell S. Kraus are registered representatives with and securities offered through LPL Financial, Member FINRA/SIPC

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.



What is a payable on death (POD) account?

A bank account can be designated as payable on death to someone of your choice. The bank pays these funds to this person almost immediately at your death, and the funds will generally not be subject to probate.

The payable on death designation is very simple and flexible. You can change the designation until your death, and the individual you designate has no right to the money until your death. Indeed, the individual will not receive the account unless he or she outlives you. A POD designation can also be used with U.S. savings bonds.

A typical bank account would be subject to probate at your death. Property subject to probate generally incurs fees, such as attorney's fees, and the transfer of probate property may be subject to delays of one to several years. A POD account usually avoids probate, and the named beneficiary can generally access the funds immediately after your death, without significant delays.

The requirements for a POD account may vary somewhat under state law, and state laws

determine what is subject to probate. Ask your bank, attorney, or financial advisor to make sure that the account won't be subject to probate. A POD designation used with appropriate U.S. savings bonds will not be subject to probate in any state.

You do not make a gift for gift tax purposes when you name the beneficiary of a POD account. You remain subject to any income tax on funds in a POD account while you are alive. And funds in a POD account are subject to estate tax at your death. Of course, if your spouse is the named beneficiary, the funds would qualify for the estate tax marital deduction. If the named beneficiary is two or more generations younger than you (e.g., a grandchild), the funds may also be subject to generation-skipping transfer (GST) tax at your death. Substantial exemptions (\$5,250,000 in 2013) are available to protect property from estate tax or GST tax.

A similar provision, transfer on death (TOD), is available for the transfer of stocks, bonds, and mutual funds to a named beneficiary at your death.