THE WALL STREET JOURNAL.

Helping Two Sisters Enjoy and Share Their Wealth

ILLUSTRATION: BARI GOODMAN FOR THE WALL STREET JOURNAL

By ALEX COPPOLA
July 9, 2015 11:24 a.m. ET

Having never married or had any children of their own, two sisters, both retired and in their 60s, had lived together for their entire lives.

ALSO IN WEALTH ADVISER

- Confronting a Client's Other Adviser
- Eschewing Client-Account Minimums
- Visit the Wealth Adviser page

And despite having amassed an estate worth more than $12 million through inheritance and their own earnings and savings, the women lived an exceptionally frugal lifestyle. Rather than draw on their sizable investment accounts for income, the siblings were living off their Social Security benefits.

That decision surprised their new adviser Mary Sterk, president of Sterk Financial Services in Dakota Dunes, S.D. The firm—an affiliate of Woodbury Financial Services—manages $150 million for 700 clients.

During their first meeting together, Ms. Sterk and the women not only reviewed their various assets, but also discussed their feelings about them.

"Although they had both accumulated significant wealth, they were almost nervous to use it," recalls the adviser. Because a portion of their estate had been inherited, the siblings felt it was their responsibility to pass money down to their five nieces and nephews.

Mary Sterk *PHOTO: STERK FINANCIAL SERVICES*

Unfortunately, the only estate-planning tools the women had in place were a pair of outdated wills. Both had been drawn up two decades earlier and provided for an inefficient transition of wealth.

The documents stipulated that if one of the sisters died, her assets would pass to her sibling. Upon the second sister's death, they would pass to the women's brother, and finally to his children. That meant that to reach their ultimate goal, the assets would be subject to three rounds of estate taxes as well as a state inheritance tax imposed on non-lineal descendants.

In all, the adviser estimated that the process would cost the sisters nearly $5 million. The estate-tax exemption at the time was $3.5 million.

"What we wanted to do was help them make adjustments to that plan, which would allow them to really enjoy the money they had, while ensuring that their estate wishes were fulfilled in the most tax-efficient way possible."

With an attorney and a CPA on board, Ms. Sterk set about tackling her first goal: Helping alleviate the women's anxiety around handling their money. They did that by moving a number of their IRA assets into liquid-managed accounts and annuities. That gave the women a steady stream of income that could supplement their Social Security.

"Mismanaging their money was a major source of stress for these clients and forced them into a lifestyle that was less comfortable than it could have been," says Ms. Sterk. "By giving them a strategy for drawing on their wealth in a deliberate, responsible manner, they could stop fretting over and really enjoy the money they had worked hard to earn and patiently saved."

Next, they addressed the issue of inheritance through the establishment of a family limited partnership for the benefit of their nieces and nephews. Instead of passing through multiple hands, and being taxed redundantly, the women's assets would be distributed directly to the beneficiaries of the FLP.

"Those assets went from being taxed three times, to being taxed just once," Ms. Sterk says.

The FLP's structure provided the sisters with control over their assets and some protection. Because their estate included valuable rental property, defense from liability was an important feature for the woman. Also, the FLP reduced the taxable value of their overall estate since the assets could be discounted due to a lack of marketability.

In all, those changes will save the women's heirs close to $4 million in estate and inheritance taxes.

To help cover the remaining $1 million in taxes that would have to be paid on the inherited assets, the women took out life-insurance policies whose beneficiary was an irrevocable trust. Upon the clients' deaths, their brother's children will receive the proceeds from that trust.

By all accounts, says Ms. Sterk, the plan was a great success.

"They went from literally scraping by on Social Security to using their money to travel around the world. It gave these women a confidence in their finances and their future that changed the very way that they lived their lives."

-Alex Coppola can be reached at 212-416-2056