Sagemark Consulting℠
A division of Lincoln Financial Advisors

# A Case Study:
# Affluent Retirees

**Here's a closer look at the level and quality of the financial planning provided by Lincoln Financial Advisors:**

John, 57, is married to 54-year-old Beth. John is an executive with an apparel company, but will be retiring later this year. Their only child, Steve, is married, but has yet to start a family. They both have simple wills, Living Trusts, and Powers of Attorney, but have done little in the way of retirement or estate planning.

John has $500,000 (net value before taxes) in vested, yet unexercised, non-qualified employer-sponsored stock options, and $1,000,000 in his employee retirement plans – 50% of which is invested in company stock. Beth has IRA assets of $250,000, and jointly they own a $500,000 non-qualified investment portfolio, a residence with a $250,000 value, net of the mortgage, and $250,000 in unencumbered investment property. John also owns $750,000 of life insurance on his life with Beth named as the beneficiary. Their total estate is worth $3,500,000.

## Concerns

- While John and Beth have sufficient resources to support their desired standard of living through age 90, a significant portion of their assets – the company stock options – have yet to be converted to spendable dollars.
- Their investment portfolio is vulnerable to "business risk," given that the majority of their investments are concentrated in one holding, John's company.
- They have not structured their estate to take advantage of each of their Unified Credits.
- John's existing life insurance is included in the estate.
- In summary, there is no plan in place to provide for: 1) the most efficient use of assets during lifetime; or 2) the most effective distribution of assets at death.

## Potential Solutions

- Establish a conversion strategy for the company stock options, taking into account both market timing and income tax issues.
- Develop an overall investment allocation suitable to the cash flow needs and reposition the assets accordingly. Roll over the company retirement plans into a self-directed IRA to allow for more flexibility in investment choices.
- Given the need for immediate cash flow, yet preferring to maximize the benefits of continued tax deferral in the qualified plans, consider liquidating only an amount necessary to supplement the non-qualified assets in supporting the retirement income need through John's age 70½ when the required minimum distribution takes effect. This would allow them to take advantage of favorable IRS provisions regarding capital gains treatment on a portion of the value of company-owned stock in the qualified plans.
- Utilize the "stretch-IRA distribution strategy" concept for assets under the Unified Credit amounts that John and Beth will not need to support their own financial independence. This will allow for continued tax deferred growth potential for the benefit of their son, Steve.
- Establish A/B Trusts to take advantage of each of the Unified Credits.
- Consider naming a qualified charity as a beneficiary on qualified assets, not only to transfer the desired amount to a particular organization, but also to reduce or eliminate estate and income tax consequences on this bequest.
- Remove the existing $750,000 in life insurance from the taxable estate by either transferring it to an Irrevocable Life Insurance Trust (ILIT) or, based on the economics of underwriting, surrender it and purchase a survivor life policy in an ILIT. In addition, the proceeds of the policy upon the death of John (or the second to die between John and Beth) may be protected from any creditors or divorce proceedings encumbering the heirs.



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