

It's Your Estate Workshop - Case Study 2013 - Peter Kote (pkote@cox.net)

Sailor Bill & Lady Jane; age 86 & 90, Sailor in good health and the Lady's health is poor and she has Alzheimer's and both are US Citizens. This is both their second marriage and have three children from previous marriage and 4 grandchildren. They are retired and have an annual income of \$110K plus with a net worth of approximately \$3.6M of which about \$2.6M are IRD assets. They have no major financial concern except for continuing quality home care for Lady Jane. His primary personal objective is to provide professional money management for one of his heirs.

Financials: \$120K in assets not in trust, individual name and of that \$60K in a Sailor's Roth IRA; \$824K of commercial annuities titled in B Trust. Lady Jane Family Trust – LPL Lincoln Annuity \$515K Vanguard fund - \$200K; Sailor & Lady Family Trust - \$1.2M, majority of which is in fixed and variable annuities; Sailor Bill Survivor's Trust - \$830K of which \$600K in a commercial annuity. Cost basis is approximately 50% of today's market value.

Family Questionnaire Responses (designed by Charles Collier, Harvard University): His values in order of importance: Career success, financial independence, personal incentive & hard work and responsible uses of money. Parents had the greatest influence on him in developing values. Their parent's financial history was as a Naval Officer – Retired Vice Admiral.

Which of your parent's values affect you most today? My mother committed 20 years plus of care to her mother and she never wanted to be a burden on her children. What key values do the kids have? Sons are very successful although daughter has issues – no consistent effort on earning her way and therefore not very confident in leaving her an inheritance. What part does philanthropy play in your life? I support several charities at \$13K per year. Naval Academy and Navy Relief are institutions that have been important although I do not feel a personal responsibility beyond my family.

Estate Plan: Will – Pour-over, AHCD, Durable Power of Attorney, 4 separate Trusts of which two are irrevocable. All documents were reviewed in 2011. Two Heirs are capable of managing lump-sum distributions, hospice has not been discussed and funeral desires was not sure about but he wants to be buried at Arlington.

He does not know how much is going to the IRS but believes it to be "minimum" and wants the "max" amount to heirs and nothing to Philanthropy.

MAJOR ISSUES TO REVIEW: IRD assets titled in irrevocable trusts; his financial advisor is an LPL broker (suitability standard vs a fiduciary legal standard); Estate Planning attorney who reviewed his estate plan lacked income tax knowledge; Has not discussed medical care issues or the successor trustee issue if something were to happen to him as trustee of all 4 trusts. No sub-trust established for any of the heirs. Does he want to have his estate pay for family members to travel to Arlington?

Jack & Jill, ages 71 & 68, have 3 children and 2 grandchildren, good health and Jill is not a US citizen. Both retired and feel they have no special issues in the family. Net Worth - \$5M of which \$3.8M is IRD; Annual Income: \$180K; Their major financial concern is leaving an inheritance for their children.

Their personal objectives (check off list and were given the choice from high, moderate & low – the following were listed as high): to increase current income, defer current income, reduce income tax, conserve estate for heirs, education of grandchildren, professional investment management for heirs, transfer lump sum to heirs during lifetime, transfer wealth with income only during life, reduce Federal Estate Tax. Concerned with long term care (an 8 on a scale of 1 to 10) and have purchased insurance. **FINANCIAL:** \$830K in equity (stocks) investments (titled in one of the spouses own name); \$3.4M in traditional and Roth IRA; Home titled in Living Trust. Save about \$50K annually. Vanguard is used for all IRD assets. Social Security provides \$22K per year.

FAMILY QUESTIONNAIRE: Spouse 1 said the following are most important values: financial independence, family unity & tradition, self-esteem, permanent legacy. Spouse 2 said the same and added personal achievement. Greatest influence in developing their values: Spouse 1 & 2 – both said parents & one included personal experience. Both spouses stated they have attained their present financial status through personal effort.

Spouse 1 parents' financial history – successful but not financially wealthy Spouse 2 – worked hard and saved for the future. When asked what financial values of your parents affect you the most today, one said, “none” and the other said, “saving & having NO debt.” They both agree that \$90K per year is all they need as income per year to live comfortably.

What key values do their children have: Spouse 1 said, “Traditional family values, saving for the future, funding retirement accounts, seeking financial advice” and asked about if their values were being transmitted to the grandchildren and one said, “via parents” and the other “saving for the future, no debts” When asked how wealthy do they want their children and grandchildren to be; spouse 1 said: “financially independent and not have to worry about the future of our U.S. financial situation” and spouse 2 said “saving for the future, no debts.”

Asked about the pros and cons of leaving substantial wealth one said the benefits to their children are: “getting them started towards achieving financial independence” and the risk – “None.” Spouse 2 said, “saving for the future, no debts.” Both seemed to agree that the children have an 80% chance that they will have the judgment and skill of using their inherited wealth well.

When asked about what part philanthropy plays in their lives? One spouse said 20% and the other did not answer. Neither feels responsible to any institution outside of their family (family extends to brother and sister.)

They believe at present their current percentage distribution to be: Heirs 80% IRS 20% Philanthropy 0%
Percentage distribution they would like it to be: Heirs 100% IRS 0% Philanthropy 0%

ESTATE PLANNING DOCUMENTS: Will, DPA, AHCD & Living Trust – last reviewed in 2004. Have not discussed Hospice care and son knows about funeral desires. They have discussed how the first spouse to die wants his/her estate to be managed and bequeathed by the surviving spouse. The surviving spouse will have control over all assets and each child will receive 1/3 each outright.

MAJOR ISSUES TO REVIEW: Review all the documents – last review was in 2004. Use the booklet “Your Way” to fully discuss medical care for each spouse. IRD assets can be stretched out over the children's lifetime and should be discussed. Discuss issue of providing the assets “in trust” or outright to the children. Issue of Citizenship related to the Living Trust.

John & Mary Smith, age 66 and 59, retired engineer & homemaker, good health and are US citizens. There are 2 children and no grandchildren. One spouse has back and neck problems. Major financial concern is having enough income through retirement. Long term care issue is a 5 on a scale of 1 to 10. **Personal Objectives:** Increase current income, reduce income tax, conserve estate for heirs, and diversify investment assets.

FINANCIAL: Net Worth \$2.25M; Annual Income is \$130K of which \$29K is from Social Security, spent all income today. There is an expectation of an inheritance of \$250K. They have rental property valued at about \$600K and their home is valued at \$750K. Seems to have about \$1.6M in IRD assets (IRAs, Keogh, 401K – 5 separate accounts) with about \$24K in cash in checking and savings.

FAMILY QUESTIONNAIRE: Spouse 1 said the most important value today is Family unity and tradition; Spouse 2 said same. Both said Parents were the greatest influence on developing values; one spouse added church and the other added teachers and personal experiences. Both said spouses Parents were middle class with limited liquid assets. The

most important value they left “responsible use of money” and other spouse said “frugal spending, savings and the focus on education.” Both spouses agree they need to have \$140K to \$150K annually to live comfortable today.

The children possess “good spending habits” and have “respect for others.” When asked how wealthy do they want their children to be? Both said they would like the children to be “financially independent” and are fully confident that their children will use inherited wealth with good judgment and skill. The risk of leaving substantial wealth is that the children could become dependent.

Philanthropy questions were answered by “normal” & “average” and both feel they have a responsibility to institutions outside the family. When asked if it matters for their children to be philanthropic they both answered “somewhat.”

They believe their current percentage distribution is:	Heirs 95%	IRS 0%	Philanthropy 5%
Percentage distribution one spouse would like it to be:	Heirs 85%	IRS 0%	Philanthropy 5%

Present Estate Planning Documents: Did not list any estate planning documents. Titles of all assets are in Joint Tenancy with Right of Survivorship. They have had a recent discussion about health care. Heirs are capable of managing lump sum distribution.”

MAJOR ISSUES TO REVIEW: Essential to have a Will, DPA and AHCD and maybe a Living Trust. Would meet with a “fee only” advisor to assist in handling their financial affairs or give some direction which is complicated and needs the assistance of a CPA as well. IRD is a major issue and warrants a discussion with the children and for the 5% going to charity it should be from the IRD assets.

Joy, age 59, excellent health & US citizen; one child and semi-retired. “Now, I understand why so few people take you up on your offer for “Case Study” analysis!” Major concern is running out of money before I die & have a goal of leaving \$1M to my child.

Personal Objectives: Conserve estate for heir and reduce Federal Estate Tax, faster investment growth and convert unproductive assets. Need to decide whether to start gifting \$13K to my child at this stage of my life.

FINANCIAL: Net Worth about “\$3M”; Annual Income is \$70K (but not really sure). Rental property valued at about \$2.25M (that is why she considers herself “semi-retired”?) and home is valued at \$750K. Seems to have about \$70K in IRD assets (IRA) with about \$410K in checking and savings. In addition, \$1.3M in stocks and mutual funds. Bulk of estate was inherited.

FAMILY QUESTIONNAIRE: Her most important values today are: financial independence, personal achievement, self-esteem, personal incentive and hard work. Parents were the greatest influence on developing values along with personal experiences. My parent’s financial history is “one worked hard, saved and invested in the stock market successfully. Mom raised 3 children and both died prior to 2001 and had to pay a huge inheritance tax and don’t want the same thing to happen to my daughter.”

My parent’s values affect me today through keeping their car for over 10 years, having no debt, no loans and always bought everything “on sale” although generous to us as children and service providers. In answering the question how much money do you need to spend each year to live comfortably she said, “don’t know how much I spend annually but believe \$50K.”

Key values your child has: Saves for retirement, owns car, generous & thoughtful towards others. I want her to be “comfortable” because it is less stressful, greater flexibility in lifestyle & choices. The risk is that she could be irresponsible and spend too much. I am “very confident” she will have good judgment and skills to use inherited wealth.

Philanthropy questions were answered by “moderate, involved in local charities and assist friends in need” and feel a minor responsibility to institutions outside the family. When asked if it matters for their children to be philanthropic, her answer, “it shows caring.”

She believes her current percentage distribution is:	Heirs 100%	IRS 0%	Philanthropy 0%
Percentage distribution would like it to be:	Heirs 100%	IRS 0%	Philanthropy 0%

Present Estate Planning Documents: Will-Pour over, DPA, AHCD & Living Trust – last reviewed 8 years ago. Titles of all assets are in Living Trust. She has not had any conversations about health care with her agent. Heir is capable of managing lump sum distribution.

MAJOR ISSUES TO REVIEW: Meet with a “fee only” advisor with fiduciary liability especially one who has experience in managing real estate so she can make good financial decisions. Her inheritance gave her a “step-up” in basis and it may be a good time to have her assets reviewed to fit her risk tolerance and lifestyle (wants to travel extensively.) She may want to look at the issue of leaving her assets in a sub-trust with her daughter as trustee and beneficiary. And of course would highly recommend she sit down with her health care agent and complete “Your Way.”

Susie Saver, age 63, great health & US citizen; divorced, two sons, not married and no grandchildren kids. Major financial concern is getting property to heirs without paying too much. **Personal Objectives:** Conserve estate for heir, reduce Federal Estate Tax, and choose an executor and successor trustee.

FINANCIAL: Net Worth \$8.3M; Annual Income is \$100K. Real Estate valued at about \$6.6M with liabilities of about \$2M; cash account of about \$6K; \$1.2M in an IRA; \$250K life insurance with cash value of \$126K, Schwab brokerage account of \$353K.

FAMILY QUESTIONNAIRE: Her most important values today are: did not complete. Parents were the greatest influence on developing her values. My parent’s financial history is they worked 7 days a week building one house at a time together, accumulated real estate, and operated 2 hamburger stands. My parent’s values affect me today because “they worked and saved all their lives and through poor planning their entire estate (almost) ended up going to a second wife and then to her kids. (About \$4M in real estate value in 1989)”

In answering the question how much money do you need to spend each year to live comfortably she said, “\$60K.” Key values your children possess: “Good kids but spend lavishly.” How wealthy do you want them to become: “I would love them to be wealthy if they can handle it (smiley face.)” When asked about the benefits and risks she stated: “I want them to have my real estate holdings” and the risk is that it “could be spent quickly.” What is your confidence level in your children’s skill and judgment handling wealth? Son #1 not optimistic – a real spender; Son #2 may be better.

How Philanthropic and public service do you expect the 2 sons to be? Answer – “none, unless I guide them to it” and it does matter to her although she has “not done much so far.” There are intuitions that matter to her and feels a responsibility beyond her family. She doesn’t know what her current percentage distribution would be if she were to die today and does not know how she wants it to be split between her heirs, philanthropy and the IRS.

Present Estate Planning Documents: Will-Pour over, DPA, AHCD & Living Trust – last reviewed 2 years ago. Titles of all assets are in Living Trust. She has not had any conversations about health care with her agent. She states that her sons are NOT capable of managing lump sum distribution and “possibly” income only be considered for them.

MAJOR ISSUES TO REVIEW: It seems her real estate holdings have much more meaning than an asset class. She may want to consider sub-trusts for her sons and provide specific instructions to the successor trustee. She definitely needs to have a conversation about her health care desires. She may want to consider how she can enjoy her wealth for the next 20 years and have Susie Saver be a moderate & wise spender, which will set an excellent example for her sons.