Wealth Matters Newsletter

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How to Keep Your Money in Your Family

Whether you have your family in mind, or lifelong friends, you want their futures to be safe and secure. You want the people you love to prosper in life. And what better way to show your devotion and appreciation than by ensuring your hard-earned money and investments go to them—after your passing?

So, how do you keep your money in your family or within your circle of closest friends rather than lost to legal fees or government portions?

Estate planning is the key. Why is planning your estate so important?

- You avoid probate court. In many states, probate fees can reach 5% of the value of the estate. For an estate valued at $5,000,000, can you imagine paying $250,000 in fees?
- Planning your estate will lessen the tax burden on your heirs. If you die without a will, the laws of your state, not you, govern how your estate is distributed. However, inheritance laws generally favor spouses, domestic partners, and blood relatives. But why leave it to the legal system to decide?
- Many people who are beginning to plan their estates seek professional financial advice following the loss of a loved one or a close friend. While wise, the timing may be off. The best time to start estate planning is immediately—to avoid potential worst-case scenarios, such as mental decline or sudden death of a spouse or loved one.
- Comprehensive estate planning helps protect beneficiaries, both adult and children. With adults, a plan helps guard against bad financial decisions later. With children, it designates guardians or conservators to protect minors' financial interests.
- A solid estate plan with asset protection provisions may help shield your assets from potential creditors. Even if you don't have creditors on your personal side, an estate plan is beneficial for business owners who want the business side of their estate handled properly as well.

You're planning to enjoy many more years with your family and friends. What can you do now to ensure your money goes to loved ones rather than subject to high taxes?

Here are 5 ways to maximize your family money in the here and now:

1. You can spend your money and your assets, which will ultimately reduce your tax burden and benefit your family. Obviously, your first priority is to your loved ones, not to bolstering government coffers. The

problem, however, is that you may live a good, long life, and your goal is to ensure you don't outlive your wealth. This option is worthwhile if you have plenty of cash reserves and a robust estate.

2. Gifts pose the same challenge if your estate and your assets have the potential for a long-shelf life. While giving to family and friends is noble, the IRS establishes restrictions on giving levels. You may give up to $15,000 each to individuals or charities before having to file gift tax returns. The maximum lifetime gift tax exemption is $11.18 million.
3. You may lend to family members and friends. However, to stay IRS compliant, you should draft a loan note that includes the loan amount, payback date, interest rate, and any collateral or security. This enables you to avoid the IRS's gift classification.
4. You may pay wages to your family; 4 in 5 older Americans suffer from at least 1 chronic disease and may need care. By 2030, more than 1 in 5 Americans will be over the age of 65. The IRS allows for the paying of wages to family members, which helps build their Social Security earnings record. Services may include providing home health care or performing other household or small business-related work.
5. You can create a life estate deed, which transfers the family's house to a child while the parents retain the right to live in the house. Following the death of the parents, children don't have to go through lengthy probate proceedings. The home transfers to children—beneficiaries or remaindermen—as a gift. A life estate deed may also remove the home from consideration as a personal asset when applying for Medicaid assistance for long-term care needs.

If you are unclear about your rights and opportunities to provide for your family, even future generations, let us know. We can discuss how estate planning fits into your overall financial plan.

Sources Available Upon Request

Should a Trust be the Beneficiary of Your IRA? Factors to Consider

For many Americans, the assets in their Individual Retirement Account represent a significant portion of the wealth they hope to leave to their loved ones. You may have heard that creating a trust and naming it as the beneficiary of your IRA is a good way to direct how your assets are distributed after your death and force your heirs to "stretch" the IRA for generations. However, trusts and inherited IRAs are complex vehicles that have a lot of details to get right. Here are some of the pros and factors to consider regarding naming a trust as a beneficiary of your IRA:

Advantages to Naming a Trust as an IRA Beneficiary

While directly inheriting an IRA is perfectly fine for many heirs, it can be inappropriate in some situations. Under these circumstances, a trust may be able to help you control how your IRA assets are distributed after you're gone and help protect your family's wealth.

Protect minor children: If you name minor children or grandchildren as beneficiaries without additional instructions, a guardian will likely be appointed by a court, which can be a complicated and lengthy process and may reduce the benefit your heirs get from the inherited assets.

Navigate blended family dynamics: For families with children from multiple marriages, a trust can help you make sure every member of your family inherits according to your wishes.

Provide for children with special needs: If one of your beneficiaries has special needs, inheriting an IRA could jeopardize his or her ability to qualify for Social Security disability benefits or other forms of assistance.

Avoid spendthrift tendencies: It's also worth considering whether you think your heirs can handle an inheritance responsibly once they reach adulthood. Young or spendthrift adults might be inclined to simply cash out the IRA and pay the taxes instead of taking advantage of deferred distributions. A trust can explicitly detail how much your heirs are able to receive each year and delay when they gain control over the assets.

Protect family wealth from creditors: Trusts can also protect your family's wealth from divorce and bankruptcy. A 2014 Supreme Court case found that, unlike your own retirement accounts, an inherited IRA is not protected from creditors in the event of a bankruptcy. If you worry that your heirs might face divorce or bankruptcy proceedings, a trust might be worth considering.

Other Factors to Consider When Naming a Trust as an IRA Beneficiary

Mistakes are easy to make: Trusts are very complex instruments that must be carefully worded to be able to accomplish your objectives. If the trust is not created to meet federal regulations, your heirs could lose most of the benefits of inheriting tax-advantaged IRA assets.

For example, if the trust is not accepted as a "see-through" or "look-through" trust, the trustee may be forced to distribute the IRA's assets over a five-year period instead of stretching the distributions over a longer life expectancy.

Simple mistakes like naming a charity as a trust beneficiary are enough to trigger expensive tax consequences for your heirs.

Professional advice is critical: If you are going to name a trust as a beneficiary, it's critical to work with an attorney who understands your personal situation and has experience with trusts and inherited IRAs. We also recommend checking with your IRA custodian to make sure that trust provisions are compatible with the document governing your IRA.

Simplicity may not suit your needs: Trusts are complex and can be costly to create and maintain, but they are often worth the trouble if you have significant assets to protect or face a complex estate situation. In many cases, naming a spouse as primary beneficiary of your IRA and children as contingent beneficiaries is enough to preserve the tax benefits of your IRA for your heirs, but many high net worth individuals will have factors that need special attention and could need more protection.

How Can We Help?

Ultimately, choosing beneficiaries for your IRA is a task that is best accomplished with professional advice that coordinates all aspects of your estate strategies. Estate planning is a very complex area and it pays to get the details right. If you haven't reviewed your estate strategies recently or have questions about trusts, inherited IRAs, or beneficiary provisions, please give us a call. We can help you explore your legacy goals and work closely with experienced attorneys and tax professionals who can help you identify the best solutions for your personal situation.

Community Involvement

Did you know 34,000 Johnson County residents live below the federal poverty level? The Johnson County Christmas Bureau serves nearly 12,000 low-income neighbors each year. Our team had the opportunity to volunteer in their Holiday Shop, where pre-qualified clients choose groceries, personal care items, holiday gifts, books, hats, gloves, scarves and winter coats for themselves and their family members. To learn more about this organization, visit www.jccb.org.

Continual Improvement

We are pleased to announce that Ryan Brooke has earned the Chartered Financial Consultant® (ChFC®) designation. The ChFC® program prepares professionals to meet the advanced financial needs of individuals, families and small-business owners. They are trained to identify and establish goals and then formulate, implement and monitor a comprehensive plan to achieve those goals.

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