Wealth Management

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SEC REGISTERED INVESTMENT ADVISOR

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Estate Planning With a Doubled Exemption

Put your beneficiaries first.

The traditional "hot button" that has motivated people to see their lawyers about estate planning is taxation. Death taxes—inheritance taxes, estate taxes, federal taxes, state taxes—have taken a notorious toll on unplanned estates over the years.

That hot button has cooled considerably this year, as the federal estate tax exemption equivalent is $11.18 million per taxpayer ($22.36 million for married couples). The amount will increase for inflation through 2025, and in 2026 it will drop roughly in half.

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Portfolio Planning

What's in a Sector?

The S&P 500 stocks may be divided into sectors, as follows:

Consumer Discretionary	Consumer Staples	Information Technology	Communication Services	Materials
Energy	Health Care	Financials	Industrials	Utilities

Why is this important? Just as all stocks do not move in lockstep, each sector of the S&P 500 follows its own path. Some exhibit more growth characteristics; others might have less volatility and be safer in down markets. The advent of exchange traded fund (ETFs) allows individual investors to invest in sectors,

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Short Takes

A Tax Break for the Elderly—With Strings

Many states offer some tax relief for their elderly citizens. There may be some generosity behind the offer, or it may be part of an attempt to compete with lower-tax states for retiree citizens. That competition may heat up now that the state and local tax deduction is limited to $10,000. The tax relief takes different forms around the country:

- tax credits that phase out at higher income levels;
- homestead exemptions to lower property taxes;
- freezes on assessed valuations; or
- property taxes deferred until death, payable when the home is sold.

Deferred property taxes may include interest charges, as in a recent Massachusetts case.

Frances Arntz filed for property tax deferral on her home in 1989, when she was 76 years old. Her son suspects that she mistook "deferral" for "forgiveness," and did not understand that the tax would eventually have to be paid, because she had the financial resources to pay the tax. Frances never told anyone what she had done.

Frances moved out of the home in 2008,

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Doubled exemption . . . CONTINUED

An exemption that large would seem to let most families of moderate wealth off the hook. In fact, most observers expect that there will be only about 1,000 federally taxable estates in the next few years.

But estate planning always has been about much more than tax planning. Estate planning always has been about financial protection for beneficiaries, with tax minimization just a means to that end.

If you haven't attended to your estate planning, don't use the excuse of "my estate is too small to worry about death taxes" to put it off any longer.

Evaluate

To begin, you have to know what you are working with.

• *Inventory assets.* Your estate plan will have to dispose of everything that you own; otherwise the state's law of intestacy will apply. Bank accounts, stocks, bonds, real estate, business interests, of course. Don't overlook insurance policies and retirement plan benefits.

• *Identify beneficiaries.* A surviving spouse and children are the usual persons to be protected. You may have more distant relatives to include, and you may want to remember some charities in your estate plan. Don't overlook the need to care for your pets after your death.

• *Check beneficiary designations.* If you have an IRA or an employer-provided retirement plan, you already started on your estate planning when you made your beneficiary designations. These designations should be reviewed periodically, especially when there have been changes in family circumstances.

• *Weigh trust benefits.* Trusts offer a wide range of financial benefits, especially valuable when beneficiaries need help with money management. Trusts may be established and funded during life (the living trust) or in a will (the testamentary trust).

Implement

The next steps require the advice of an attorney.

• *Make a will.* Your will contains instructions for the disposition of your property. It also nominates an executor or personal representative to manage the settlement of your estate.

• *Make a living will.* This document addresses your expectations for medical care at the end of your life. You also may want to execute a power of attorney for health care to identify an individual to make medical decisions on your behalf.

• *Execute a durable power of attorney.* Identify an individual who can make financial decisions on your behalf.

• *Create a document locator.* Your family needs to know where your will and powers of attorney are kept. Your executor will need to know the location of all your other important papers, such as tax returns, account statements, property deeds, and insurance policies.

• *Make arrangements for any safe-deposit box.* Very often a safe-deposit box is closed upon death and cannot be opened until probate. That makes it a poor choice for keeping documents that will be important at death.

These steps are not complete; they are simply suggestive of the ranges of issues that you will need to address in your estate planning. ■

Sector . . . CONTINUED

instead of investing in the stock market as a whole, for example, with an index fund. In this way the investor may craft an investment management strategy that conforms to his or her risk profile and outlook on the economy.

Sectors may be further divided into industries, then to individual companies. Investing in a sector as whole gives the investor more diversification than choosing an industry or individual company.

However, S&P Dow Jones, the manager of the indices, recently revised the classification of some of the larger companies in the S&P 500, which, in turn, may affect the performance of ETFs. The telecommunications sector, for example, was expanded beyond telephone and wireless carriers, so as to reflect better the changing economy. The new Communication Services sector includes Facebook, Alphabet, Paypal, Netflix, Walt Disney, and Snap.

Amazon remains in the Consumer Discretionary group, and Apple will anchor the Information Technology index, representing about a fifth of that sector. The IT sector had been 20% of the S&P 500, but now is about 15%.

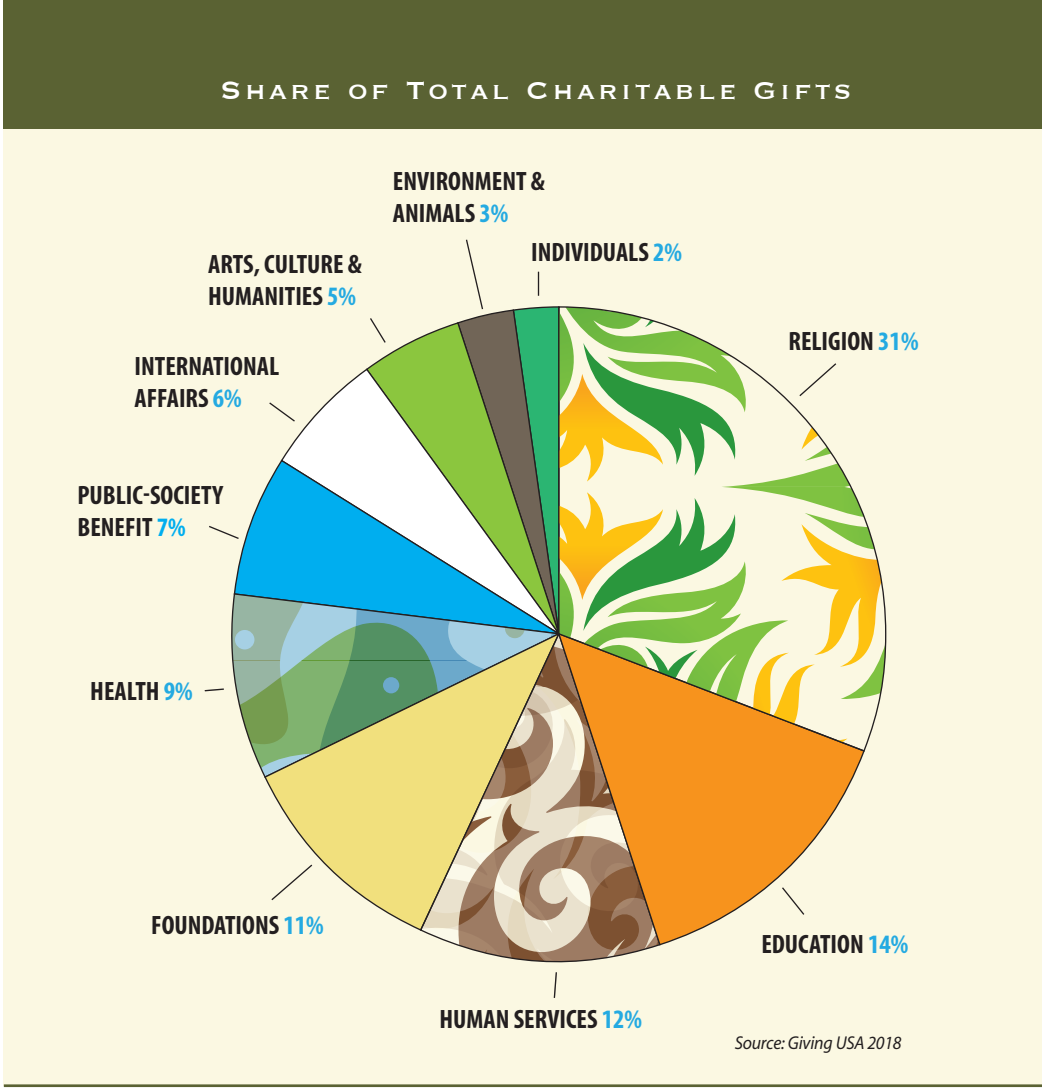
The markets reacted calmly to these changes, but the new classifications could influence investor choices and strategies in the future. ■

Charitable Giving Growing Nicely

The nonprofit sector did very well in 2017, according to the June 2018 report issued by Giving USA. Total gifts to charity exceeded $400 billion for the first time, reaching $410.02 billion. Gifts from individuals are the largest component, and were $14 billion ahead of the 2016 pace. All giving sectors grew, as shown in the table below.

Some charities are concerned that 2018 may not see similar growth in giving, because tax incentives for charitable giving have been reduced. The doubling of the standard deduction means that far fewer taxpayers will be itemizing, and nonitemizers see no tax benefit from their gifts to charity. The doubling of the amount exempt from the federal estate tax might mean that fewer Americans employ charitable trusts to control their estate tax exposure. It will be years before such behavioral changes can be identified with confidence, however.

Nearly a third of charitable gifts go to religious organizations, and educational institutions come in second at 14%. The graph above breaks down the categories.



Gift Source	2017 Total ($billions)	% Increase from 2016	Share of Total Charitable Giving
Individuals	$286.65	5.2%	70%
Foundations	$66.90	6.0%	16%
Corporations	$20.77	8.0%	5%
Bequests	$35.70	2.3%	9%

Source: Giving USA 2018

Split-interest charitable trusts

There are trust-based strategies that allow an individual to create public and private beneficiaries and reap attractive tax benefits. These include:

Charitable remainder annuity trust. A private beneficiary (or multiple beneficiaries) receives a specific dollar amount from a trust for life or a number of years. When the trust terminates, a charity receives the remaining trust assets. Income, gift and estate tax deductions are available to the trust creator.

Charitable remainder unitrust. Similar to the annuity trust, with this approach the income distribution for private beneficiaries is calculated each year as a percentage of the trust assets, rather than as a set dollar figure. This allows beneficiaries to share in the appreciation in the value of trust assets while preserving all the rest of the tax benefits.

Charitable lead trust. This trust approach involves a role reversal, in that the charity receives the trust income distributions and the assets remain in private hands at the end of the trust term.

Interested in becoming a philanthropist? We'd be pleased to tell you more. ■

so the deferrals ended. Her son began to rent the home, and he took charge of paying the property tax every year. The tax bills included a notation at the bottom: "Prior tax bills outstanding." Unfortunately the son overlooked that warning.

When Frances died in 2018, her children expected to inherit the house free and clear, as the mortgage had been paid long ago. Instead, they received a property tax bill from the town for $170,000. Some $50,000 was for the deferred taxes, the rest was interest that had been charged at 8%. About $70,000 of the interest was incurred after 2008, from the time Frances moved out until she died.

The heirs are understandably upset that the town didn't warn them about the tax time bomb. But the town did follow the letter of the law, and in fact had that notice on the bottom of every tax bill. The notice just didn't spell out how big the bomb was, or the interest that was running.

Financial discussions between elderly parents and their adult children can be difficult, even emotional. But they are very important to have.

Collectors Corner

Image courtesy of Bonhams

An exquisite piece of furniture? Actually, no, but an exquisite miniature—5¼ x 8 x 3 in.—of a cabinet, done by Japanese artist **Komai Otojiro** (1842-1917). Otojiro was noted for his mastery of a technique in which a thin gold sheet is hammered onto an iron surface. The entire surface of this piece is minutely decorated with rustic scenes, all within borders of geometric and floral ornament. The cabinet's two hinged doors are closed by a silver clasp and pin, and its four drawers have silver handles. Otojiro's work was very popular with wealthy European and American travelers.

Money and Satisfaction

Lotteries have become enormously popular in the United States. There is a widespread perception that many lottery winners burn through their newfound wealth rather quickly, and don't end up better off in the long run.

Swedish researchers have examined this question more rigorously, in a manner akin to a randomized test of a drug's efficacy. They surveyed winners of major prizes in the Swedish lottery as well as minor winners and lottery players who did not win, a total of 3,362 players. The surveys were taken from five to 22 years after the event. The findings are interesting.

- Lottery winners were significantly more satisfied with their lives, and that extra satisfaction lasted for decades.
- Those who won hundreds of thousands were measurably more satisfied than those who won tens of thousands.
- The winners did not rapidly spend their winnings, and did not quit their jobs. They did tend to retire earlier.
- Oddly, the researchers found that winning the lottery did not affect happiness. It is thought that questions about happiness go to mood or feelings, while questions on life satisfaction trigger more broadly based introspection.
- Winning the lottery had no discernable affect on physical or mental health of the winners or their children.

So, although money can't buy happiness, it can—at least in Sweden—buy satisfaction.

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