

Wealth Management

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REGISTERED INVESTMENT ADVISOR

Money and the Single Senior



Facts of life: Most retirees will be single for some period of time, and most of those singles will be women. Throughout the life cycle, financial planning for singles differs from planning for couples. Obviously, there is only a single set of assets to work with, and no surviving spouse to plan for. Less obviously, taxes are higher for singles, and they have no partner to fall back upon in case of adversity.

These differences become especially acute for single seniors, as they have less room for error in their financial management. When the single senior is a widow or widower, it often is the case that the deceased spouse was the financial manager for the couple, making singlehood doubly difficult.

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Estate Planning

Estate and Gift Tax by the Numbers

In March the Congressional Joint Committee on Taxation released a summary of the current state of federal taxation. The sources of federal revenue were identified and ranked. As has been true for many years, the federal estate, gift and generation-skipping transfer taxes were bringing up the rear. The report included appendices that put revenue sources into

historical context.

The income tax has long been the primary driver, at 45% to 50% of total collections over the years. Social insurance taxes come next, at 30% to 35%. The share of each of these has been fairly consistent despite the many tax law changes that have occurred over the years. The corporate tax collections have been more

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Hard to Predict

"Predictions are hard, especially about the future" is a saying that has been variously credited to Mark Twain, Samuel Goldwyn, Yogi Berra, and Neils Bohr. (Danish politician Karl Kristian Steincke actually was the first to use it, in 1948, according to the online Quote Investigator.) In no field is the saying more true than in economics. Economists have a poor record in calling the turning points in the economy.

This phenomenon was explored in a recent article in *Bloomberg Businessweek* ("Why Are Economists So Bad at Predicting Recessions?"). The International Monetary Fund does economic forecasting. Of the 469 downturns that have occurred in various countries around the world since 1988, only four were predicted by the spring of the year before recession began. Only 111 were predicted in the spring of the year in which they occurred—that's less than a 25% success rate. Private economists have done no better. A second study found that of 153 recessions from 1992 to 2014, only five had been predicted by private prognosticators the year before.

Several factors may account for the difficulty of making predictions. Economic data collected by governments inherently come

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Single senior . . . CONTINUED

Some experts counsel seniors to consolidate their financial accounts when possible. Fewer accounts will mean less paperwork, freeing up time to monitor each remaining account more closely. Making the paperwork more manageable will make it easier to stay on top of bills, avoiding late fees and reducing interest charges. One may also notice a discrepancy or be able to take advantage of an opportunity, given more time for review.

Delegated powers

For single seniors, the most vexing problems are associated with incapacity. Should you become incapacitated, temporarily by illness or permanently through aging:

- Who will pay the bills?
- Who will track the investments?
- Who will make decisions about real estate?

- Who will make certain that the taxes are paid?

- Who will balance the checkbook?

The first solution that comes to mind for these questions is the financial durable power of attorney. This document allows another person or a corporate fiduciary to step into your shoes, financially speaking, and make binding decisions on your behalf. A durable power of attorney may be as broad or as limited in scope as needed to make you comfortable. You'll need to see your lawyer to have the power of attorney drafted and executed.

Another axis of anxiety concerns health care. In this area, you may need:

- a health care power of attorney, with medical instructions to be followed if you are incapacitated;
- a Health Information Portability and Accountability Act (HIPAA) authorization, so that your agent has full rights to

your medical records;

- a health care proxy that may give someone decision-making power at the end of life;
- a living will that outlines your expectations for medical care near the end of your life.

Living trusts

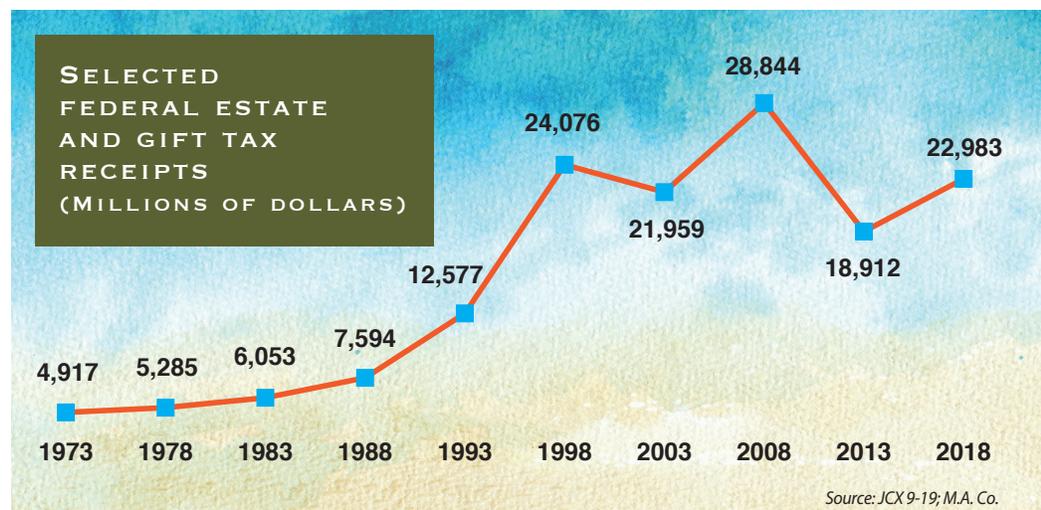
Affluent individuals often rely upon a living trust for financial management in retirement. A living trust can provide financial protection in the event of disability or incapacity, as a durable power of attorney does. A living trust offers additional advantages, such as financial privacy at death and probate avoidance.

A living trust is not a panacea; it doesn't solve every financial or investment problem. Still, a trust can be the cornerstone for successful financial and estate planning. ■

Estate and gift tax . . . CONTINUED

volatile, as they are more sensitive to the economy generally. In 2006, for example, corporations paid 14.7% of total federal taxes. This fell by roughly a third, to 9.0% by 2017, the year before the reforms of the Tax Cuts and Jobs Act of 2017. The estimate for 2018 is 6.2%—the same as it was in 1983.

The federal estate and gift taxes provide a scant 0.7% of total federal revenue. Its share was over 2% in 1971-1973, and has hovered near 1% since 1990. The relative insignificance of estate and gift taxes will likely worsen, as this report covers periods before the doubling of the



amount exempt from such taxes.

Shares are one thing; dollars are another. Some \$22.9 billion in federal estate and gift taxes was estimated to have been collected in 2018. That sounds like a lot.

But to put it into perspective, the federal excise tax on gasoline raised \$22.5 billion that year; the excise tax on tobacco brought in \$13.0 billion; and the excise tax on alcohol was worth \$10.6 billion. ■



Everyone Needs a Will

As important as estate planning is, that has long been a hard sell for most Americans. A 2017 survey by Caring.com revealed that only 42% of U.S. adults had a will or a living trust in place. In part, it's an age thing, as the table below shows.

WHO HAS MADE A WILL?	
Age cohort	% with a will or living trust
18-36	22%
37-52	36%
53-71	60%
72 and older	81%

Source: www.caring.com/articles/wills-survey-2017

When asked why they hadn't done their estate planning, 47% of survey respondents said that they "just hadn't gotten around to it." Some 29% felt that "they didn't have enough assets to leave anyone."

Interestingly, more people have attended to their end-of-life medical issues than to creating a plan for their property. Fully 53% of respondents reported having a health care power of attorney in place.

The hot buttons

As difficult as motivating people to take care of planning their estate has been in the past, it may become even trickier in the future. The temporary doubling of the

amount exempt from the federal estate and gift tax, to \$10 million for singles and \$20 million for married couples (plus inflation adjustments), means that the vast majority of Americans no longer need to plan to achieve tax savings. There are exceptions in states that continue to levy their own death taxes (estate tax, inheritance tax, or both), because states typically have much lower thresholds for taxation. Still, only a minority of states have held on to their death taxes.

In the last century, trust departments could encourage their customers and prospects to establish marital deduction trusts for very major tax savings, to motivate them to see an estate planning attorney promptly. No longer. The advent of the portable federal exemption means that the basic tax benefit of such a trust may be had simply by filing an estate tax return and electing the Deceased Spousal Unused Exemption Amount (DSUEA). The election is permitted whether the decedent had an estate plan in place or not.

With the elimination of tax savings as an estate planning goal, the benefit that has been most important all along comes to the front: disposing of property in an orderly way, according to one's wishes.

Failure to have an estate plan means that the state's intestacy statute takes over. Intestacy rules are the government's best guess of what someone would have chosen had he or she taken the time to plan. Even so, settling an estate via intestacy can be costly and time consuming.

Will registration

When someone appears to have died without a will, there are questions, especially if substantial assets are involved. Was a will executed, but then lost? Where should one look for a will? If someone has executed a will, how can he or she be confident that the heirs will find the will?

Stacey Jerome-Miller is the President of The US Will Registry. That organization provides a secure and comprehensive data base for the locations of wills that have been registered with it. There is no charge for the service. Ms. Jerome-Miller lays out the details of the operations of her organization in "Where's There's a Will, There's a Way," 32 *Probate & Property* No. 4 (July/August 2018).

The registry does not hold any of the estate planning documents, only the information on the draftsman and the document location. It provides an avenue of inquiry when there is a question about whether someone really died intestate. ■

Hard to predict . . . CONTINUED

with a lag, and often get revised. Making a good prediction is a hard job. Studies have shown that warning about a recession that never happens is relatively rare, while failing to forecast a recession is a far more common mistake. There may be an element of herd instinct involved here—the reward that comes from standing out from the crowd may be seen by some as not enough to offset the risk of being wrong. In any event, forecast failures are so routine that they are almost never career ending for an economist.

The current economic expansion in the U.S. began in June 2009 and is quite long by historical standards. There have been some worrying signs that the economy could be slowing. However, there is no consensus building as yet. According to the National Association for Business Economics, 10% of its members expect a recession to start this year, and 25% expect one in 2021. The largest group is taking the safest position, projecting a recession to begin in 2020.

A lot can happen between now and then.

Employment remains strong

The March employment numbers were very encouraging and should allay fears that a recession is coming soon. Some 196,000 jobs were added in March, beating the consensus expectation of 170,000 new jobs. What's more, the figures for the prior two months were revised upwards. February was not quite as bad as earlier thought, and there were 312,000 jobs added in January.

Unemployment remains at a historic low of 3.8%, as does the rate of new claims for unemployment insurance. Average hourly earnings increased in March at an encouraging rate of 3.2%, year over year.

COLLECTORS CORNER

***Constitution and Guerriere,* oil on canvas (1917) by Antonio Jacobsen (1850-**

1921). Born in Denmark, Jacobsen moved to the New Jersey side of New York harbor in 1873. There he began painting portraits of sail and steam vessels, eventually producing more than 6,000 such works, which made him the most prolific marine artist

in history. Jacobsen was admired for both his artistry and his accuracy. This painting depicts the fierce, classic battle at sea in the War of 1812 between the *USS Constitution* and *HMS Guerriere*. The battle ended in a great victory for the *Constitution*, which was dubbed "Old Ironsides" because cannonballs bounced off some of the hard planks from which the ship was constructed. Jacobsen's painting fetched \$9,840 at a Skinner auction.



Image courtesy of Skinner, Inc.
www.skinnerinc.com

The bottom line is that growth in the U.S. economy remains strong, though perhaps not quite as strong as in 2018. The major concerns are that the positive effects of the 2017 tax reform may be starting to fade, and the rest of the world's economy may be slowing.

Another important source of uncertainty is Brexit. Will Britain finally leave the European Union or not? What would the

consequences be? Might other European nations decide to follow suit?

The final questions hanging over the economy concern the outcome of trade negotiations with China. Will an agreement be reached, mitigating the potential damage that might come from tariffs? Or will trade relations worsen, damaging the prospects of exporters?

Predictions certainly are hard. ■



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