



## Five Documents At The Core Of An Estate Plan

**E**very estate plan is unique because of a particular family’s circumstances. Still, most people share many primary objectives that may be reflected in five documents often found at the core of a plan.

If your current estate plan doesn’t include these five items, you might need to fill the gaps. And if you don’t yet have a comprehensive estate plan in place, it’s probably time to make that a priority. Mortality can sneak up on anyone.

1. Financial power of attorney: A power of attorney is a legal document that authorizes

another person to act on your behalf. A financial power of attorney enables the “attorney-in-fact”—the person specified to act for you—to conduct your financial

affairs. Many states have a standard form for financial power of attorney.

Usually, the power of attorney is “durable,” meaning that it remains in effect in the event you are incapacitated. But you might use a non-durable power of attorney for specific purposes, such as to have someone manage your portfolio temporarily. Keep in mind that a power of attorney is enforceable only when it has been established before its creator becomes incompetent.

2. Health care power of attorney: Like a financial power of attorney, this authorizes a designated person to act on your behalf in the event you’re unable

to make your own decisions—in this case, about your medical care. This goes further than a living will, which generally applies only if you’re terminally ill or on life support, based on the prevailing state law.

Your attorney-in-fact for a health care power of attorney needs to be someone you can trust to act in your best interests. Typically, that would be a spouse, a child, or another close family member. But you’ll also need to name contingent and successor agents.

3. Health care directives: Although there are several other kinds of health

care directives that you might include in your estate plan, the most common version is a living will. Without it, family members may be left in a quandary about

end-of-life decisions involving your care. This can lead to turmoil and questions could even end up being decided in court.

Often a health care power of attorney is coordinated with a living will, or the two may be combined in a single document. Some states have forms combining these elements and reflecting other personal choices such as whether to donate your organs.

4. Will: No matter how sophisticated your estate plan is, you’ll likely circle back to the need for a will to tie everything together. A will can be



## Second Quarter Update

**2**017 has proved to be a very positive one for global stock markets to date, and the second quarter was no exception. Through June 30th, developed foreign stock markets were up 13.8%. Emerging-market and larger-cap U.S. stocks gained 18.4% and 9.3% respectively. Bonds also delivered solid returns in the quarter.

As we look back over the first half of the year, one of the most notable items is how steadily markets have risen, despite ongoing political uncertainty and geopolitical tumult. We believe this serves as a good reminder that over the long term, financial assets are priced and valued based on their underlying economic fundamentals—not on transitory macroeconomic or political events.

Looking ahead, we know there will inevitably be shorter-term market surprises, including negative ones. Given the high level of complacency we’ve witnessed in the markets so far this year, it is reasonable to think stocks could potentially be vulnerable to a negative surprise. This is why it’s more important than ever to take a long-term investment view when it comes to positioning our portfolios. While there has seemed to be little need for diversified portfolios over the past eight years of a U.S. equity bull market, history teaches that this cycle will turn too and the portfolio benefits of diversified strategies will then be apparent. Moreover, market over-reactions to shorter-term news or outcomes can create compelling longer-term investment opportunities for us, and great stock- and bond-picking opportunities for our managers.

As always, we appreciate your confidence and welcome questions about your individual portfolio or financial situation.

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# Why Turn Down An Inheritance?

**S**ometimes you just have to say no, even when it might benefit you financially. Suppose you're in line to receive an inheritance—shouldn't you welcome it with open arms? In some cases there can be good reasons to turn down the money, using a "qualified disclaimer."

Why would you ever *not* take an inheritance? The best reason is to save your family money on taxes. By using a qualified disclaimer, the assets bypass your estate and go to the next beneficiary or beneficiaries. This enables you to preserve your personal estate tax exemption to use in other ways. In addition, in many states a disclaimer may be used to avoid claims of creditors.

The combined personal exemption for estate and gift taxes is \$5.49 million in 2017, an amount that is indexed to inflation and normally increases every year. That gives most people plenty of wiggle room. But for those whose wealth exceeds that amount or who have already used up part of the exemption, estate and gift taxes may still be a major concern. In addition, most money you might want to transfer to grandchildren will be subject to the generation-skipping transfer tax (GSTT). The GSTT

exemption is the same as the estate and gift tax exemption.

If you were going to pass along assets you've inherited to the younger generation at some point anyway, the disclaimer expedites matters. The money ends up with the contingent beneficiaries named by the person who was leaving you the inheritance without ever touching your hands.



To qualify under the strict legal definition of a qualified disclaimer, the document must meet these requirements:

- It must be made in writing and signed by the disclaiming party.
- It must identify the property, or the disclaiming party's interest in the property, that is being

disclaimed.

- It must be delivered, in writing, to the person or entity charged with the obligation to transfer the assets (i.e., the executor).
- It must be written less than nine months after the date the property was transferred or the transferor's date of death.

Note that you can't alter who will receive the property you're disclaiming. For instance, if the contingent beneficiaries are your nephews and nieces, you can't redirect the money to your own children. The designations made by the person who made the bequest control where the money goes.

Also, you can't disclaim property once you've accepted it. For example, if you receive money and use a small portion to pay for funeral arrangements for the

decedent, you can't disclaim the inheritance afterwards.

Although future changes in the tax code might discourage the use of disclaimers, for now this is still a viable technique. Be sure to consult with your legal and financial advisors about any inheritance you may receive. ●

# How You Can Manage Risk Aversion

**D**uring the early part of 2017, the stock market was rolling merrily along, with the Dow Jones Industrial Average (DJIA) breaking through the 20,000-point barrier for the first time. But the "Trump bump" won't last forever and some prognosticators are forecasting eventual doom and gloom. In all likelihood, the stock market will continue to experience ups and downs, just like it has throughout its history.

Regardless of whether the market is going up or down, or staying relatively stable, your portfolio should reflect your personal aversion to risk. Primarily, there are three types of risk

to address in this overall philosophy:

**1. Risk of loss of principal:** This is the risk of losing the money you initially invested. Say you buy a stock for \$1,000 that jumps to \$1,200 before it falls back to \$900. If you sell the stock at that point, you will have lost \$100 of principal.

**2. Risk of loss of purchasing power:** You may be willing to limp along with modest returns, but you're losing money if the inflation rate exceeds your rate of return. For instance, if you acquire a bank CD paying a 2% annual rate and inflation rises to 3.5%, you're losing 1.5% in the purchasing power of that investment.

### 3. Risk of outliving your savings:

Is your investment plan overly conservative? Remember that the stock market historically has outperformed most comparable investments over long periods, although there are no absolute guarantees. Therefore, you're likely to fare better with a well-devised investment plan than you would if you stuffed your money under a mattress. Otherwise, you might outlive your savings, especially given recent increases in life expectancies.

Risk assessment surveys can provide some insights. Typically, an analysis will reveal that you tend to be either a conservative, moderate, or

# 10 Common Questions About Social Security

If you're nearing retirement or you recently retired, you probably have plenty of questions about Social Security retirement benefits. Here are answers to 10 common queries posted online by the Social Security Administration (SSA).

**Q1. How do I obtain a replacement Social Security card?**

A. You can get an original Social Security card or a replacement card if yours is lost or stolen for free. Generally, all you have to do is submit the request to the SSA online. However, in some states, you must show additional documentation. Visit the SSA website for more information.

**Q2. How do I change or correct my name on my Social Security number card?**

A. If you're legally changing your name because of marriage, divorce, court order, or for any other reason, promptly notify the SSA and obtain a corrected card. This service is also free. Simply follow the procedures for getting a replacement card.

**Q3. What are the ramifications if I receive Social Security retirement benefits while I'm still working?**

A. If you haven't reached full retirement age (FRA) and you earn more than a specified annual limit, your benefits are reduced under this "earnings test" as follows:

- If you're under FRA for the entire year, you forfeit \$1 in benefits for every \$2 you earn that exceeds the annual limit. For 2017, that ceiling

is \$16,920.

- In the year in which you reach FRA, you forfeit \$1 in benefits for every \$3 earned above a separate limit, but only for what you earn before the month in which you reach FRA. For 2017, this limit is \$44,880.

Beginning with the month in which you reach FRA, you can receive benefits that won't be affected by whatever you may earn.

**Q4. What is my FRA?**

A. It depends on the year in which you were born. The FRA gradually increases from age 65 for those born in 1937 or earlier to age 67 for those born in 1960 and after. The FRA for Baby Boomers born between 1943 and 1954 is age 66.

**Q5. Can I collect benefits if I retire before my FRA?**

A. Yes. You can retire and apply for benefits as early as age 62, but your monthly benefits will be reduced by as much as 30% in that case.

**Q6. Are benefits increased if I wait to apply until after my FRA?**

A. Yes. You can receive increased monthly benefits by applying for Social Security after reaching FRA. The benefits may increase by as much as 32% if you wait until age 70. After age 70, there is no further increase. Visit the SSA website to figure out the exact amount of your "early" and "late" benefits.

**Q7. How do I apply for Social Security retirement benefits?**

A. You should apply for retirement benefits three months before you want your payments to start. The easiest and most convenient way to apply is to use the online application. Note that the SSA may request certain documents to verify your eligibility.

**Q8. How do I handle benefits for an incapacitated person?**

A. If your elderly parent or someone else who is entitled to receive Social Security benefits needs help in managing those benefits, contact your local Social Security office about becoming that person's representative payee. Then you assume the responsibility for disbursing the funds for that person's benefit.

**Q9. Who is entitled to receive Social Security survivors' benefits?**

A. A spouse and children, or both, of someone who has died may be in line for benefits based on that person's earnings record. Visit the SSA website for more details. Survivors must apply for this payment within two years of the date of death.

**Q10. Are Social Security benefits subject to tax?**

A. Yes, but not everyone is liable. You are taxed on Social Security benefits under a complex formula if your provisional income (PI) exceeds the thresholds within a two-tier system. PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income, and (3) one-half of the Social Security benefits you received.

- For a PI between \$32,000 and \$44,000 (\$25,000 and \$34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds \$32,000 (\$25,000 for single filers).
- For a PI exceeding \$44,000 (\$34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds \$44,000 (\$34,000 for single filers) plus the lesser of the amount determined under the first tier or \$6,000 (\$4,500 for single filers).

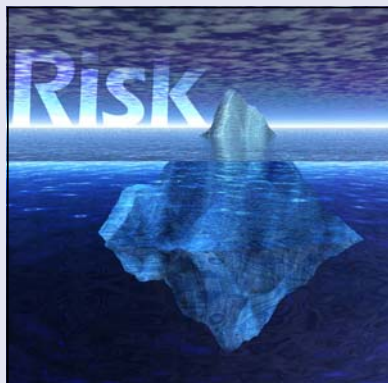
In many cases, these answers will lead to even more questions. The SSA website is helpful, but you may need additional guidance for your personal situation. Don't hesitate to contact us for assistance. ●

aggressive investor, within certain ranges. Your portfolio should reflect this characterization.

If you indicate a more conservative bent, you may want to fine-tune your investments accordingly, taking into account asset allocation and diversification methods. Again, these strategies do not offer any guarantees, nor do they protect against losses in declining markets, but they remain fundamentally sound.

Other potential ideas are to

weight your portfolio more heavily to bonds than you did in your younger days. The technique of "bond



laddering," with bonds maturing at different dates, is a variation on this theme. Similarly, conservative investors may emphasize dividend-paying stocks and blue chips, as well as mutual funds and exchange traded funds (ETFs) offering diversification.

Every situation is different. Reach out to us to address your specific concerns. ●



# How Now, Dow Jones Industrials?

**Y**ou see it reported every day in the financial news: The Dow Jones Industrial Average (DJIA). And the Dow made headlines back on January 25, 2017, when it cracked the 20,000-point mark for the first time in its history. But what exactly is the DJIA and what do the fluctuations in points really mean?

The DJIA is a long-time barometer for the way the stock market is moving although it's not the only one, and it may not be the best measure of the thousands of stocks listed on the major exchanges. Some experts consider the Standard & Poor's (S&P) 500 and the NASDAQ to be more reliable indicators. Nevertheless, even if you don't put much store into whether the DJIA goes up or down on a given day, it does have an interesting history.

The Dow measures the movements of just 30 stocks. Traditionally, those have included the "blue-chip" companies considered to be the bedrock of the American economy. So, when the DJIA finally punched through the 20,000-point mark, it may have seemed like a triumph for the economy as a whole.

The roots of today's DJIA can be traced back to before 1900. Charles Dow, co-founder of *The Wall Street Journal*, simply added up the closing prices of one share of each of a dozen companies he had selected to measure, and then divided the total by 12 to arrive at a daily average. Subsequently, the list was expanded to include 30 of the top industrial companies, with the daily average computed by dividing the total price of those stocks by 30.

But the math became trickier over time as stocks began to split and share prices became skewed. The solution to keep the DJIA going was to make periodic adjustments in the figures in order to keep the average historically consistent. Despite this change, this indicator still is referred to as an "average," although these days it isn't.

What's more, the ever-changing list is no longer limited to industrials. It now includes major retailers, technology companies, and financial services firms.

Also, of course, the percentage gains grow smaller as the total number of points goes higher. For instance, when the Dow reached the 6,000-point level more than 20 years ago, that

represented a 20% increase from the 5,000-point mark. But the jump from 19,000 points to 20,000 points, another 1,000-point gain, was just a 5.3% increase.

In any event, don't discount the psychological and emotional impact that swings up and down in the Dow may have. You can't help hearing it on the news every day and it often affects investor judgment, especially when the economy is in turmoil or is booming. ●



## The Core Of An Estate Plan

(Continued from page 1)

used for a wide range of purposes, including (but not limited to):

- Dividing your assets and allocating them to your beneficiaries;
- Naming guardians for your children;
- Achieving estate tax benefits;
- Arranging gifts to charity;
- Creating trusts for your beneficiaries;
- Excluding certain family members from inheriting your assets;
- Avoiding a lengthy probate process; and
- Thwarting potential legal challenges.

A will may refer to other documents in your estate plan. If you don't have a legally valid will and you die "intestate," your estate will be governed by the laws of the applicable state.

5. Revocable trusts: Finally, your estate plan may include more revocable trusts, which let you change terms based on future events or preferences. Such trusts are commonly called living trusts—or, more technically—inter vivos trusts—because you create them while you are alive.

With a revocable living trust, you can transfer assets to the trust to

be managed by a party you designate. The transferred assets aren't subject to probate.

Other kinds of trusts can also be created to complement the rest of your estate plan. These trusts might be designed to minimize potential state or federal estate taxes, as well as to protect assets from creditors or in the event of a divorce.

This list of estate planning basics can be a good starting place for many families. You'll need the help of an experienced attorney and other advisors to create a plan that fits your family's needs. ●

