

## Key Components Of A Post-Divorce Estate Plan

**E**ven the best-laid plans can go astray if you get divorced from a long-time spouse. Especially if you go your separate ways after raising children and acquiring property together, your estate plan may need to be revised, and quickly.

Frequently, the main objective in a post-divorce estate plan is keeping assets away from the ex-spouse while preserving wealth for the children. But this can become complicated when one or more of the children are still minors.

Typically, your children will be next in line to receive assets under your will.

What are the potential problems? Although a divorce generally erases the rights of an ex-spouse under a will, property going to minors will be held in a conservatorship until the age of majority in the state where you reside—usually, age 18. And, if your ex-spouse is the conservator, he or she may have more control over your assets than you would have liked. A court will supervise the conservator, but that person still has considerable discretion over what happens to property.

Other problems may arise if a child doesn't have the financial knowledge and expertise to manage assets after reaching the age of majority. A good chunk of your accumulated wealth could be squandered through spending sprees or bad investments.

But you have the ability to change the plan before any problems start. You can update your estate plan by creating or modifying one or more trusts. You may be able to eliminate or revise other trusts that had your ex-spouse playing a pivotal role. If the trust allows it, you might simply replace your former

spouse with another person.

With a trust that you create, you get to name the person you want to be in charge as the trustee. This person will be responsible for



managing investments in the trust, distributing funds as needed, and other related financial duties. The trustee you choose should be someone you trust—a family member, friend, or a financial advisor or institution.

A trust may have one principal purpose or several—for example, limiting the ability of children to withdraw funds or providing protection in case of a lawsuit. A main goal may be to minimize taxes under federal estate tax rules (as well as state inheritance taxes in some cases). These five types of trusts could be helpful as part of your estate plan—but may need to be modified if you get divorced.

1. Revocable living trusts: You can be the sole trustee during your lifetime and designate a successor upon incapacity or death. Thus, you'll retain

## Planning To Thrive In 2018

**I**t's the time of year when we start thinking forward. What do we hope 2018 will bring, and what goals will we set for ourselves this year?

Soon, the presents, treats and parties of the season will be behind us, and it will be time to focus on what comes next.

You may plan to set a formal New Year's resolution, or just wish to start the new year on the "right foot," but, as usual, Financial Decisions is resolving to make this a financially healthy year for you!

We're reviewing your gains and losses with care, and checking our lists twice to rebalance portfolios for clients who need it. We're gearing up to make sure our clients employ the right strategies for the changing tax environment.

We're looking forward to sitting down with you next year and mapping out a plan to help you with your own financial resolutions - whether you're hoping to donate more efficiently to charity, to determine how to build your legacy, or to feel confident about maintaining your lifestyle in retirement.

Even if you're happy with your financial situation "as is," potential shifts in income tax policy, estate tax law, and the health insurance market could complicate your plans, so now is the time for a financial check-up.

We wish you a happy holiday season and a prosperous New Year!

Florence Dupont, Ken Gutwillig,  
and Linda Schoenthaler

*(Continued on page 4)*

# Five Steps When You Inherit Assets

**D**uring the next 30 years or so, an estimated \$30 trillion is expected to change hands, and many offspring of older Baby Boomers may inherit a small fortune. Here are five practical suggestions for handling the windfall:

## 1. Give yourself time to grieve.

If you're like most people, the loss of a loved one will be very difficult emotionally. So you're probably not going to run out and buy a luxury car or book a cruise the day after the funeral. Allow yourself enough time for your grief to abate before you make any major decisions. Don't let your heart overrule your head.

## 2. Consider the limitations.

Just because you've come into some money doesn't necessarily mean you'll be living on Easy Street. So

try to resist the impulse to splurge on items you still can't afford. You might consider using some of the money for a one-time "treat" for your family and use the rest to invest for long-term goals.

## 3. Pay down debt.

Your first instinct may be to immediately pay off your mortgage and any other debt you may have. While we do not recommend paying off all debt—your mortgage provides you flexibility and tax benefits—it would make sense to retire credit card and other debt that has high interest rates.

medium-term goal might be to help your child purchase a home or start a business. And a long-term objective for many is to secure a comfortable lifestyle in retirement.

## 5. Create an estate plan.

If you haven't done this already, your windfall is an excellent reason to prepare for the eventual transfer of

your own wealth, including the assets you've just inherited, to other family members. You might decide to establish a trust for the benefit of minors or make other arrangements to help ensure financial security for a surviving spouse or grandchildren.



## 4. Set goals.

In considering how to use your windfall, you might divide your objectives into short-, medium-, and long-term goals. For instance, in the short term you may decide to move to a bigger home. A

Fortunately, you don't have to do all this on your own. With the help of experienced professionals, you can develop a plan that makes sense. Don't hesitate to contact us for assistance. ●

# Watch Out For "Grandparent Scams"

**I**t started innocently enough. Bill Frieland picked up the phone one recent morning at around 10 am. The person on the line said, "Hi Grandpa, it's Jason." To Bill, the voice sounded close enough to his grandson's that he didn't worry. The two chatted amiably a few minutes about family and school and nothing else in particular.

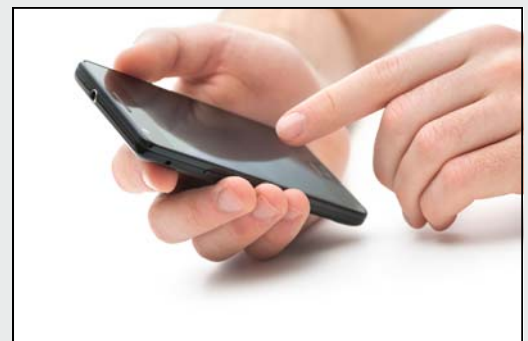
But then "Jason" dropped the hammer. He told Bill that he had been in a drunk driving accident in a neighboring state. Someone else had been injured and Jason needed \$1,950 to keep his name out of the records. An attorney who was supposedly advising

him could make it all go away for that fee. But Jason said he needed the money right away and that he was afraid to tell his parents. And he asked that Bill not tell anyone else about it because he was ashamed.

Bill was almost convinced and ready to ante up. But when the caller requested the money, there was something about his voice that made Bill pause. He had his wife call Jason's personal cellphone from her own phone while Bill was still talking to the person asking for money. It turned out Jason was safely at home, hadn't left the state in weeks and had not been in any

accident. When Bill confronted the caller with this information, the imposter quickly hung up.

Bill was fortunate he didn't fall for this "grandparent scam," but many others haven't been as lucky.



# Important Steps In Planning For Elderly Relatives

**E**state planning normally involves strategies to preserve wealth for a family's younger generation. But it may also involve elderly relatives—your parents and in-laws or maybe an aunt or an uncle—who could use your assistance. Indeed, this older generation might need your help even more than your heirs.

Consider these five steps to help your older relatives.

1. Have “the talk.” As difficult as it can be to sit down with a parent to talk about money and end-of-life decision-making, there's really no alternative to having a candid discussion of these sensitive matters. Your mom and dad may not like what you have to say, but if you start by really listening, giving them the opportunity to provide their point of view, it could launch a productive discussion. Try to address tough issues such as the possibility of relocating to an assisted-living facility or a nursing home, and don't be surprised if things get heated and emotional. Including other family members, such as your siblings, in this discussion will also be helpful, and whenever possible, have the family meetings in person rather than over the phone.

2. Create a contact list. You've probably already done this for yourself, but compiling all of the names, addresses, phone numbers,

and email addresses of crucial contacts for your older relatives can be particularly crucial. These could include financial advisors, attorneys, accountants, insurance agents, physicians, and dentists. These days, creating a digital version of the list and storing it on multiple computers makes the most sense.

3. Gather financial information. Along with a contact list, information about the relative's financial affairs and investment holdings is also essential. You'll want to know about bank and investment accounts, 401(k) or other retirement plan accounts and IRAs, life insurance policies, etc. Note current balances, account numbers, passwords, and information on Social Security benefits. You may find out that your relative has more assets than you'd thought. Use this information to formulate a plan for the future.

4. Create the necessary documents. Once everyone agrees on how to move forward, you may need to complement a will or other existing legal documents with new ones. And those your relative has may need to be revised or updated. Such documents may include:

- A will: The centerpiece of an estate plan controls how most worldly possessions—a house, cars, jewelry—will be

Scammers are able to find out personal information and sound enough like the people they are impersonating to be believable. They target elderly people and pull on their heartstrings with a story about needing cash in a hurry.

If you get a call that sounds suspicious, the worst thing you can do is to help out the caller by referring to other personal information (for example, the names and locations of other family members). Here's what the Federal Trade Commission (FTC) advises:

- Resist the urge to act immediately no matter how desperate the caller's plight appears to be.

- Verify the person's identity by asking questions a stranger couldn't answer.
- Call a phone number for your grandchild that you know is legitimate.
- Check out the story with trusted family members or friends even if you've been told to “keep it a secret.”
- Don't wire money, send a check or money order, or use an overnight delivery service or courier to get cash to your “grandchild.”
- Finally, the FTC advises consumers to report the incident at [ftc.gov/complaint](http://ftc.gov/complaint) or call 877-FTC-HELP. ●

distributed. A will also specifies an executor of the estate. This might be you, another relative, or a professional you trust.

- Power of attorney: This document authorizes someone to act on behalf of the elderly person. The most common version is a durable power of attorney that will remain in effect if the person is incapacitated. This is a vital component of most estate plans.
- Living trust: A living trust can serve as a supplement to a will. The assets transferred to a living trust don't have to go through the probate process that may be required for possessions transferred through a will, which can be drawn out and expensive. In addition, assets in a living trust are shielded from public inspection.
- Living will/health care directives: These documents provide guidance for end-of-life decisions. You'll want to make sure your relative's doctors and others also have copies so they can act according to your loved one's wishes.

Finally, don't forget about beneficiary designations for retirement plans, IRAs, and life insurance policies—they supersede provisions in a will and are important to keep up to date.

5. Look for ways to minimize estate and gift taxes. Assets transferred to relatives or friends are shielded from federal estate and gift taxes both by unlimited marital deduction for gifts to spouses and a unified estate and gift tax exemption of \$5.49 million in 2017 covering transfers to anyone who's not a spouse. Your older relative can also make yearly gifts of as much as \$14,000 to multiple recipients.

Estate planning for an elderly relative will inevitably be intertwined with your own plan, so don't do things in a vacuum. Your professional financial advisor can steer you in the right direction. ●

# Lending Money? Watch Your Tax Step

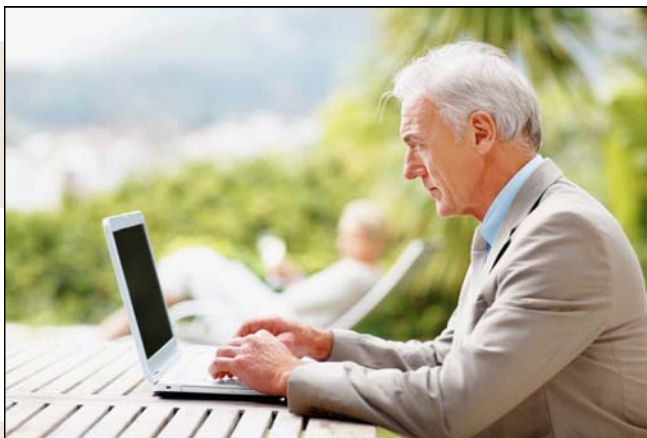
**D**oug Burnside is in a quandary. His daughter, Megan, needs money for her new business venture. But Doug can't afford to give her the money outright and she has had trouble getting a loan from a bank.

What can be done? One idea is for Doug to lend his daughter the cash. Megan can repay Doug, with interest, if the business succeeds. Everyone wins.

But this kind of intra-family loan brings several potential tax pitfalls. As long as the loan is for \$10,000 or less, there won't be a problem. However, if the borrowed amount is larger and he doesn't charge the going rate of interest, the IRS will "impute" interest for him, based on its own assumptions. He'll end up being treated as if he had charged his daughter interest, even though he hadn't, and he'll owe tax on that "phantom income" that he didn't receive.

In such cases, if the loan is for

\$100,000 or less, the interest you will be considered to have received annually for tax purposes is limited to the amount of your child's net investment income for the year. And if that amount doesn't exceed \$1,000, you can avoid taxable interest income on the intra-family loan. But the IRS may still intercede if it suspects that you're trying to dodge the tax liability.



How do you figure out what the "going rate" for interest is? It depends on several factors, including the type of loan, its length, and the

interest rates in your local area. You might be able to charge slightly less than a local bank would get, but you can't go overboard.

What happens if Megan's business fails and she can't pay Doug back? The IRS could determine that the "loan" was always meant to be a gift. To avoid that problem, it's best to have an attorney draft a formal loan document. It should include the usual terms that would be found in a bank loan. For instance, the document will usually indicate:

- The amount of the loan;
- The time allowed for repayment;
- The interest rate structure;
- A description of the collateral securing the loan.

Finally, have the loan document witnessed and notarized. This is the best proof you can have if the IRS ever challenges the deal. Also, keep records showing repayments to demonstrate that the arrangement is a bona fide loan. ●

## A Post-Divorce Estate Plan

*(Continued from page 1)*

a high level of control while you're alive. You may sell trust assets, amend the terms of the trust, or revoke it entirely. Generally, the trust becomes irrevocable when you die.

2. Life insurance trusts: Life insurance proceeds paid out from a policy insuring your life are exempt from estate tax only if you don't possess any "incidents of ownership" (for example, the right to change beneficiaries) in the policy. To avoid dire tax results, you could set up an irrevocable life insurance trust (ILIT) and transfer complete ownership of the policy to the ILIT.

3. Bypass trusts: As the name implies, a bypass trust (also called a

"credit shelter trust") is established so that funds can bypass your spouse's estate on their way to your children. Because the trust effectively can use the full estate tax exemption for each spouse, it enables a married couple to transfer millions of dollars without paying any federal estate tax.



4. Q-Tip trusts: With a qualified terminable interest property (Q-tip) trust, a surviving spouse must receive all the income, but not principal, and the children can receive the remainder upon the surviving spouse's death. This trust is often used to defer estate tax until the second death.

5. Spendthrift trusts:

This type of trust is designed to protect against creditors (including a spouse you have divorced or are divorcing).

Finally, you may also use a trust for your own benefit, in lieu of a prenuptial agreement, to protect your own interests in the event you remarry. ●