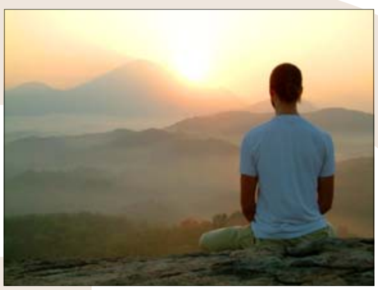
Financial Decisions

Summer 2015

780 Third Avenue, 19th Floor
New York, NY 10017
Phone: 212-920-3470
financialdecisions@findec.net
www.findec.net

Make Your Estate Plan About More Than Just Money

Estate planning often seems to be all about numbers. Maybe you start by figuring out what you have, what it's currently worth, and what its value is projected to be in the future. Then you decide how you want to slice up the pie for your heirs while forfeiting as little as possible in estate taxes. The emphasis is normally on maximizing the tax benefits available under federal and state laws, but the real goal of this process is to establish your legacy and help your family. When you look beyond the numbers, estate planning is all about people.



Part of our job as financial advisors is to help people discover what they hope to accomplish with the wealth they've built. That may involve looking back on your own life and thinking about what you've learned. What were your biggest successes and failures? What are your aspirations for your children, and what are their own goals that you could help them achieve?

Taking the time to reflect upon your personal history may pay off in ways you didn't expect. You may remember a formative episode or period in your life that taught you something that could be valuable to your children, and there might be an opportunity for your estate plan to incorporate those insights. In one case, a parent wanted to leave assets in a trust to pay for the higher education of his children. But as he talked about his objectives with his advisor, he realized that most of his real education had come from life, rather than from what he absorbed in college classrooms. So the advisor worked with the man's attorney to revise the terms of the trust so that it could finance similar experiences for his children.

In another instance, an entrepreneur confided how she had struggled for years before finally achieving success with a business venture. As a parent, she wanted to instill the same entrepreneurial spirit in her own children. Her advisors helped her devise an estate plan that would enable her children to take sensible business risks without jeopardizing their inheritances.

To uncover your own estate planning priorities, you might want to explore questions such as these:

• What was your first job? What lessons did it teach you that have stuck with you through the years? What was your most successful job? What did you learn from it?

• If you're married, how did you meet your spouse? How has your marriage enriched your life?

• If you're divorced, what lessons, personal or financial, did the breakdown of your marriage provide? In retrospect, were there things you could have done differently?

• If you have children, think about who they are and how they've changed as you have watched them grow up. What are the qualities you like most

(Continued on page 4)

It's About Greece. And Pluto.

As we go to press, an agreement has been reached between Greece and the other Eurozone countries, enabling Greece to borrow yet another $100 billion and staving off bankruptcy for a few more weeks. For now, it looks as though the Eurozone will remain intact, but we don't anticipate the situation will be resolved anytime soon.

U.S. markets continue to wallow in Greece's misfortunes, selling off each time a debt-payment deadline draws near, even though the Greek economy represents just 3/100ths of 1% of the world's total. Perhaps the focus on foreign events is a result of how well the U.S. economy is doing.

In other news, the New Horizons spacecraft flew past Pluto last week. After traveling at 36,000 mph (20 times faster than a bullet) for 9-1/2 years, and covering some 3 billion miles, the Mini-Cooper sized probe will pass within just 7,000 miles of the surface, close enough to collect samples of dust that have blown off the dwarf planet. The pictures and data that New Horizons sends back will shed new light on the origins of the solar system. Nice shooting, NASA!

In just 85 years, we have gone from discovering Pluto, to visiting it. It gives us great hope for the future to know that the world, and the universe, can be that much more advanced 85 years from now, when the 22nd Century arrives.

Florence Dupont, Ken Gutwillig,

and Linda Schoenthaler

What Are Latest Trends In Prenups?

Not so long ago, prenuptial agreements were only for the very rich. But recently, they've become much more common, especially for spouses in same-sex marriages.

A prenuptial agreement—sometimes also known as an antenuptial or premarital agreement—is a contract that a couple signs prior to marriage. The details may vary, but a "prenup" generally addresses division of assets, including those that each spouse brings into the marriage and those that are earned during the union, as well as spousal support, if the parties dissolve the marriage. But other issues may also be touched upon—for example, that a spouse will have to forfeit assets because of adultery, or provisions relating to children from the union.

Even today, prenups are often viewed warily, because they anticipate a breakup of a marriage before the parties even say, "I do." But financial realities can supersede such concerns. It may not be romantic to mention it, yet it remains true that more than half of U.S. marriages end in divorce. Some proponents of prenups argue that such arrangements can actually reduce stress in a marriage, because both spouses know exactly what to expect if they do end the relationship.

Much like a will, a prenup ensures that assets will be distributed in an agreed-upon manner, so it's important for both spouses to be up-front about their net worth. As part of the process, prospective spouses need to list all of their ownership interests and decide on an equitable distribution that suits their particular situation. Frequently, there's some give and take before the parties come to an agreement, especially if one partner comes into the union with significantly more wealth than the other.

It is important to note that state law may have a major impact on such negotiations. "Community property" states may pose particular hurdles.

Until recently, prenuptial agreements applied only to marriage between a man and a woman. However, in the wake of the U.S. Supreme Court case invalidating part of the Defense of Marriage Act (DOMA), prenups for same-sex couples are on the rise. These couples, too, can use a prenup to resolve issues relating to assets accumulated prior to the marriage and during the union.

Prior to the recent Supreme Court decision legalizing gay marriage in all states, prenups were an especially important tool for a same-sex couple if they planned to move to a state that didn't recognize same-sex marriage. While all states must now recognize same-sex marriage, it is uncertain as to how well gay rights will be protected in some states, so a prenup may still be especially beneficial for gay couples.

Of course, having conversations before a marriage about which partner gets what if the union ends is bound to be awkward. But settling these matters now may be worth the trouble if it helps avoid acrimony later. ●

When To Start Social Security?

Once you enter your 60s and thoughts of retirement loom ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, answering this question is not easy.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. Your start date will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on your work record.

The accompanying chart provides an example of how the monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, choosing instead to start benefits at age 62 would lower your monthly benefit by 25%, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women,

The Importance Of Year-Round Tax Planning

Chances are, you prefer to think about taxes as little as possible. But unfortunately, just avoiding the subject won't keep the Internal Revenue Service at bay. Paying attention long before tax season gives you time to implement strategies that could save you a substantial amount of money. "You can't plan backwards," says Victoria Serles, partner and director of the Private Client Wealth Management Practice with the Seattle office of BDO Seidman, a national accounting firm. "But people who consider their taxes months ahead of time tend to be very satisfied with the results."

Putting the following strategies into effect throughout the year could lower your tax bill AND give you greater peace of mind:

Donate Wisely.

While most people realize charitable donations provide tax deductions, fewer people realize the importance of strategizing before making major gifts.

For example, imagine that you recently pledged $10,000 to your favorite charity. You may plan to use cash holdings or to sell an asset to make this donation, but donating low basis stock could significantly reduce your tax burden. Rather than selling the stock, paying gains taxes on the sale, and then donating the proceeds, you could donate the stock directly, avoiding the gains tax entirely!

If you are charitably inclined and have especially high income this year, now is the time to explore more complex giving strategies, like setting up a private foundation or a Donor Advised Fund. These vehicles allow you to make a large contribution (and reap a large deduction) now, but let you distribute the funds to charity whenever you choose, even in future years. These vehicles have varying advantages and disadvantages, but we can help you find the solution that best suits your needs.

Maximize retirement savings.

For 2015, the annual contribution ceiling for retirement plans is set at a maximum of $18,000 in pre-tax dollars going into a 401(k), while the limit is $5,500 for an individual retirement account. Catch-up contributions for savers 50 or older extend those limits by $6,000 a year for 401(k)s and $1,000 for IRAs. Any deductible contributions you divert into these accounts are an "above the line" deduction, meaning they immediately reduce your taxes. So if you're saving less than the maximum, consider boosting your contributions now to spread the increase over the rest of the tax year. Wait until year-end and "you might not have the cash flow available to maximize that opportunity," says Serles.

Time your deductions and your income.

Knowing your tax situation means you can take deductions when you need them most.

If your income is lower than usual this year, you may consider waiting until early next year to pay your property taxes, or you may want to take advantage of your lower tax bracket by converting some IRA funds into a Roth IRA. You may also wish to postpone deductions or accelerate income if changes in the tax law will usher in higher tax rates next year.

On the other hand, if this year's income is high, you may want to accelerate deductible payments like real estate taxes, legal fees, or medical expenses to maximize your deductions.

If you work on a consulting basis, you even have some control over when you get paid. In a high income year, you can choose to bill your clients in January, rather than in December, to delay receiving additional income until a (potentially) lower tax year.

Keep the Cash on Hand.

We make sure to update our clients (or their accountants) about the gains and losses in their accounts throughout the year. Some clients need this information for the calculation of their estimated tax payments. Others like being able to earmark a certain portion of the proceeds to cover the taxes on their gains. Also, regular tax analysis has an emotional benefit, as it allows you to avoid the shock of a large annual tax bill.

Manage your business taxes.

If you're self-employed or receive income from a side business, mid-year is a good time to make sure you're on track with your estimated taxes. Check with your tax specialist to see whether you're sending the government the correct amount each quarter. The longer you wait, the less time you'll have to pay what you owe, and if you end up underpaying estimated taxes, you could be hit with a penalty. To reduce business taxes, you might consider employing your children. "That provides a deduction to you, and their income is taxed in a lower bracket," says Serles. Another option is to increase the tax-deductible benefits you provide to your employees or yourself. You can also use a business surplus to increase inventory, or make capital investments, which will lower your tax bill AND benefit your company in the long term. Acting well before the end of the year will let you maximize the amount you can deduct.

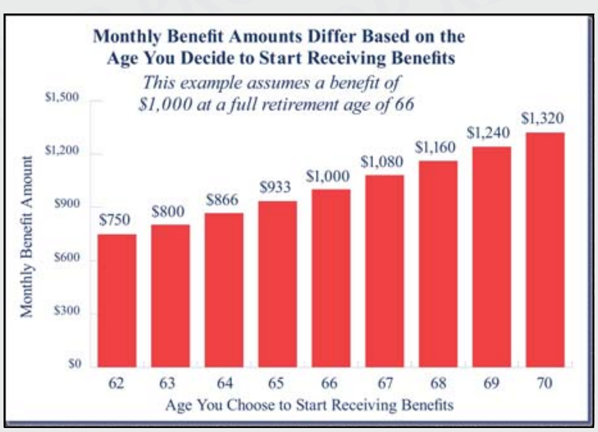
Some tax planning techniques are more complicated than others. We are happy to coordinate with you and your accountant to identify the best strategies for your individual situation. ●

---

who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of your family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●



Source: Social Security Administration

Take Out Umbrella Insurance For A Rainy Day

From time to time, everyone gets caught in the rain. That's why it makes sense to acquire "umbrella" insurance.

Homeowner's insurance covers a multitude of ills involving your principal residence. Similarly, auto insurance will pay to fix a damaged bumper—and the dent in the car you ran into—after you've met your deductible. But each of these policies is usually limited to no more than $500,000 in coverage for losses.

An umbrella insurance policy, also known as excess liability coverage, extends your personal liability coverage beyond normal policy limits. It's protection against worst-case scenarios, unlikely but possible events that could wipe you out financially. Here are answers to common questions about this type of insurance.

Who needs excess liability coverage? An umbrella policy is a good idea for most affluent individuals, especially those who own a home, frequently drive a vehicle or have teenage children who are driving. An umbrella policy is crucial for those who operate a home-based business or serve on boards of nonprofit organizations; employ domestic staff; or maintain a high public profile.

How much coverage do you need? Though this depends on your personal circumstances, an umbrella policy of at least $1 million is probably a good idea. Consider the following when determining how much coverage you need: 1) physical assets 2) investable assets 3) future earnings 4) potential inheritance 5) the legal environment 6) risk profile and 7) potential for loss.

Most top property and casualty (P&C) insurers will provide coverage of up to $5 million, but if you're particularly worried about personal liability claims, you can get higher policy limits (up to $100 million) from a handful of firms.

What does it cost? Umbrella insurance is relatively inexpensive. Typically, you'll pay between $250 and $500 a year for coverage of $1 million. Every extra million may cost you about $150. That means, at the high end, you would probably spend around $1,100 a year to maintain a $5 million policy.

What's covered? This differs from policy to policy, but umbrella insurance can usually fill in the cracks around other insurance. For example, your auto policy might not cover you for an accident overseas, but an umbrella insurance policy probably will. The policy might also provide protection against sexual harassment claims and personal injury "torts" such as discrimination, libel, and slander. And if your guest slips and falls and you're hit with a $5 million judgment? Having this insurance could save your house, your savings, and your financial future.

Why isn't it more prevalent? Unlike homeowner's or auto insurance, umbrella insurance has traditionally been viewed as a luxury, and it's not mandated by law. However, it is quickly becoming essential in this litigious society. For an annual personal liability review, please call our office. ●

More Than Just Money

(Continued from page 1)

about them? What qualities about them do you wish were different?

• What values and principles would you pass on to your children if you could? Why are those things important to you? How might they make a difference in the future happiness of your children?

• What circumstances led to your current financial status? Did you work your way up the corporate ladder? Are you an entrepreneur? Did you inherit a large amount of money?

• What is your greatest financial success? How did you achieve it? What has been your greatest failure? What do you wish you had done differently?

• What is the smartest financial decision you ever made? What factors—your education, your work experience, things you learned from your parents, other relatives, or friends—put you in a position to make the right choice? What has been your worst decision?

• Where does philanthropy rank on your list of priorities? What organizations or institutions do you routinely support, either with financial gifts or by serving as a volunteer? Do you hope to leave a charitable legacy?

• What religion or spiritual tradition, if any, do you practice? How have your raised your children? How important is religion or spiritual tradition to your family?

• What is your educational background? What opportunities have you given your children? Do you want to help your children and other heirs pay for their schooling?

Answering these and similar questions may suggest ways in which your estate plan could support your heirs in their quests for fulfilling, meaningful lives. And while it's important to structure your estate to minimize taxes, other goals are just as crucial. We can work with you and your attorney to create or revise a plan that addresses your priorities. ●