Financial Decisions

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Protecting Yourself From Powers Of Attorney Abuse

A legal document known as a power of attorney can enable a trusted family member, friend, or advisor to make decisions on your behalf, and that can safeguard your interests if you are incapacitated or want to delegate particular responsibilities. But in the wrong hands or with inadequate guidance, a power of attorney may be ripe for abuse. It's important to understand what's at stake and take steps to protect yourself.

In its simplest form, a power of attorney gives another individual the authority to act on your behalf. As the person conferring the power of attorney, you're referred to as the "principal," while the person who is appointed to act for you is called the "agent," or "attorney in fact." Your power of attorney could be broad, giving your agent control over all of your assets. Or you could limit its scope, restricting the agent to a particular task such as selling your home or other real estate.

A durable power of attorney, the most common type, remains in effect indefinitely during your lifetime, even if you're incapacitated, while a non-durable power of attorney is typically used for a specific purpose. A "springing" power of attorney, which is not recognized by all states, can be triggered by a specified future event—an illness or disability, for example.

The main danger in creating a power of attorney is that your agent will abuse—sometimes unintentionally—the authority you've delegated. An agent might exceed his authority, for example, by giving unsanctioned gifts of property. Or the agent could be guilty of intentional "self-dealing"—buying a personal car, say, instead of using funds to pay for the principal's health care. In what may be the subtlest form of abuse, an agent might act within his authority but take an action that undermines the principal's objectives—say, by making a gift that exceeds the annual gift tax exclusion and affects the principal's estate plan.

The consequences of abuse can be devastating. Consider an elderly widow, suffering from Alzheimer's, who enters a nursing home. She has given a power of attorney to a cousin, who has transferred the woman's $100,000 savings to his own account. Whether he thought he was helping her qualify for Medicaid, by reducing her assets, or he just walked away with her money, she would be left unable to pay for her care but also barred from Medicaid, which doesn't recognize "impoverishment" resulting from such transfers.

In some cases, problems may stem from the power of attorney document itself. If the language isn't clear, the agent may inadvertently exceed the intended limits of his responsibility. Other times, a principal may be tricked by an opportunistic relative into relinquishing control or the document

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Proactive Planning

You know to call your financial advisor when major changes occur in your life, like an inheritance, or an upcoming marriage, but we can also help you navigate the "small stuff." Many seemingly inconsequential events have financial ramifications you may not anticipate. For example, when you gift a valuable piece of jewelry, a car or some other property to a relative, do you think of shifting the insurance coverage on that property to the new owner? What about the estate tax implications of such a gift? If you decide to move from NYC to nearby New Jersey, there are tax, health insurance, investment, and estate planning consequences to consider. Have you thought about updating your homeowners insurance after a major renovation?

A trusted financial planner can advise you on the impact of these events proactively rather than in hindsight. Advanced planning can avoid costly mistakes, like a larger tax burden, an insurance gap, or an estate plan that is no longer consistent with your wishes.

Our planning relationship means our clients always have access to our expertise. Feel free to call us at any time to discuss large or small decisions, or just to make sure your plans are up to date. Involving us from the onset means you can make intelligent decisions and avoid unpleasant surprises.

Florence Dupont, Ken Gutwillig,

and Linda Schoenthaler

A Quick Look At Donor Advised Funds

Charitable giving in the United States has rebounded. In 2013, such donations were up 4.9% from a year earlier. According to the "Charitable Giving Report" for 2014, large nonprofit organizations grew by 5.7%, medium-sized organizations by 3.8%, and small nonprofits by 3.6%. And 2013 marked the biggest year-over-year increase in charitable giving since the recession of 2008-09.

But some people these days want to do more than simply write checks to their favorite causes. One way to become more involved in the process is to set up a donor-advised fund.

These funds work pretty much as the name implies, giving donors more control than normal over contributions. Typically, you give money to a fund managed by a financial institution. A minimum gift of $5,000 or more may be required. Also, the fund may charge fees, based on a percentage of your assets in the fund (often charging from 0.5 to 1%), to cover administrative costs.

Then donors choose one or more charitable organizations to be potential recipients of their gifts. The fund reviews those selections to verify that the charity is eligible to receive tax-deductible contributions. Once the grant is approved by the fund, the money is sent to the appropriate charity, indicating that the contribution was made upon the donor-advised fund's recommendation. Gifts also may be made anonymously.

What are the tax benefits? The basic rules for charitable donations still apply. You generally can deduct monetary contributions in full, although the amount is limited to 50% of your adjusted gross income (AGI). Any excess may be carried over for up to five years. You also can claim a deduction for the fair market value of donated property you've held for longer than one year, but deductions for those gifts are limited to 30% of AGI. In either case, though, you get the deduction in the year you make the contribution, even if the money doesn't go from the donor-advised fund to the charity until a future tax year.

Keep in mind, however, that charitable deductions are among the itemized deductions that now may be reduced under the "Pease rule." The reduction is equal to 3% of the excess AGI over $250,000 for single filers and $300,000 for joint filers (but not more than 80% overall). You may want to calculate how these reductions would affect the tax-saving benefits of your generosity.

Finally, it's important to remember you can't benefit personally from your donations to a donor-advised fund. For instance, you can't authorize the fund to pay for tickets to a fundraiser that you attend or use the assets to support a political candidate.

There are literally hundreds of sponsors of donor-advised funds. Before you commit to one, do your homework on the fund's background, policies and fees. ●

Sensible Financial Vows For Newlyweds

Are you, or is one of your children, tying the knot? For any couple heading to the altar, financial matters can emerge as a major challenge. As much as you may love each other, there's no guarantee you'll be on the same page about money. In fact, it's not unusual for a "spender" and "saver" to join together in matrimony, only to find out they're at odds over finances once the honeymoon is over.

A better alternative may be to address financial issues before you wed. Consider these five practical suggestions:

1. Conduct an inventory. It may help to start by figuring out who has what and how much. List the assets you have coming into the marriage and get your partner to do the same. But don't forget the other side of the ledger. Be sure to take stock of each one's outstanding debts and other liabilities.

2. Get organized. Once you've finished the inventory, put your financial affairs in order. One big decision is whether you want to keep your individual assets separate or combine them in joint accounts. This is a personal preference, but younger couples tend to pool their resources while older couples, especially those embarking on a second or third marriage, are more likely to maintain separation, at least initially. You also will need to consider the beneficiary designations on retirement accounts and other holdings. For example, will you leave things to each other?

3. Set your priorities. Developing a long-range financial plan actually can help your marriage succeed. Do you want to have kids? Will you pay for their college? What about owning a home? It's not too early for newlyweds in their 20s or 30s to establish savings goals. Also, don't ignore the need to set aside funds for retirement, even if it's decades away. If you have other objectives—owning a vacation home,

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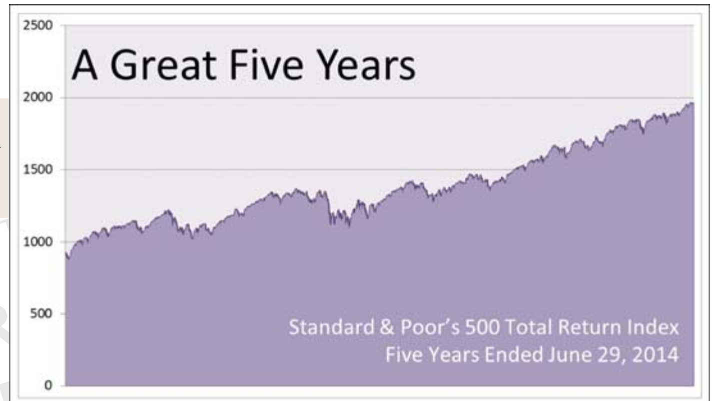
Five Years For Financial History Books

It was the sixth year -- and the sixth quarter -- in a row that stocks climbed higher -- a bull-market run so stunning that it is already assured to be talked about for at least a few generations to come.

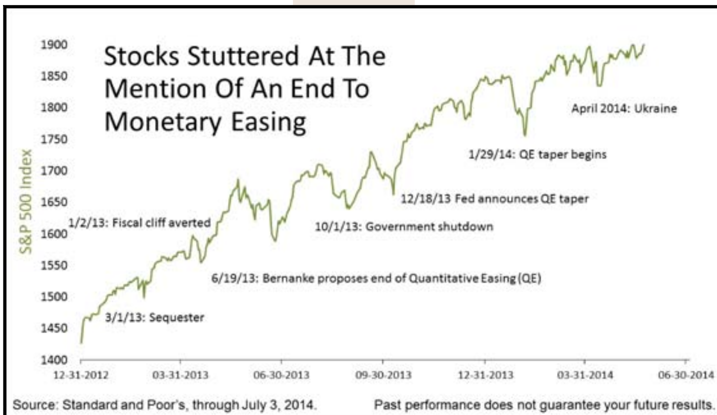
The first half of 2014 marked the bull market's fifth anniversary. From the financial crisis trough on March 9, 2009, when the S&P reached an intraday low of 666, to the end of the second quarter of 2014, stocks nearly tripled in value.

Naturally, the bull's five-year anniversary spawned headline stories across all media questioning how much longer the good times could last. Only three out of the 23 bull markets since 1900 lasted six years or longer. The Standard & Poor's 500 stock index gained +4.7% in the second quarter of 2014, soaring after a brief sell-off in early April on Ukraine-Russian tensions.

In the year that ended June 30, 2014, the S&P 500 gained +22.0%. At quarter's end, it had been more than three years since the stock market had last experienced a -10% correction. More and more of the talking heads on TV began predicting a drop in stock prices.



As with all strong bull markets, almost no one expected this to happen. Who would have predicted such strong returns on U.S. stocks when the economy was struggling to emerge from the worst financial crisis since The Great Depression of the 1930s?



Source: Standard and Poor's, through July 3, 2014. Past performance does not guarantee your future results.

It's anyone's guess, of course, when the next -20% bear market correction will come. What we do know is that key fundamental conditions that have accompanied bear markets of the past are not evident today. These are: restrictive Fed policy, signs of increased likelihood of recession, stock market over-valuation, and irrational investor exuberance.

As for bonds, the big surprise in the second quarter of 2014 was that bond yields, once again, did not start trending higher on news of the impending end of Quantitative Easing, as had been so widely expected. In fact, the forecasts for rising bond yields have been very substantially off the mark for over three years, ever since well-known bond fund manager Bill Gross proclaimed in March of 2011 that yields are likely to go "higher, maybe even much higher" upon the end of QE2.

A big worry all quarter that caused stock some market jitters was the Federal Reserve's talk of "tapering," the winding down of the government stimulus program officially dubbed "quantitative easing (QE)." Under QE, the Fed had purchased $3 trillion of U.S. Treasury and Agency bonds, pushing bond yields down to stimulate the housing market, principally, and the economy more broadly. While not long ago, stocks sputtered at the mere mention of Fed tapering, by the end of the second quarter the market seemed to accept that a world without QE just might be okay. Economic data, meanwhile, continued to improve all through the quarter. ●

for instance—factor those into the mix.

4. Don't forget insurance. While your main focus is likely to be on meeting your goals, you can't assume everything will go smoothly, and an illness or job loss could be a major setback and put pressure on your marriage. One way to hedge against future problems is to obtain health insurance, life insurance, disability income insurance, and long-term care insurance.

5. Hope for the best but plan for the worst. Almost half of marriages end in divorce. It may be difficult to broach the topic, but you may want to consider using a prenuptial agreement, especially if you're the one bringing most of the assets into the marriage or if you're getting married late in life. "Prenups" no longer carry the stigma they once did, and having a clear-cut agreement about what happens if you split up actually could help keep you together.

Finally, remember that we're here to provide whatever financial assistance you may need. ●

Please remember that different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Financial Decisions, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. A copy of the Financial Decisions, Inc.'s current written disclosure statement discussing our advisory services and fees is available upon request.

Important Disability Facts To Consider

You probably already understand the importance of having life insurance. The proceeds from a life policy can help cover your family's current expenses and may provide a cushion for the future if you die prematurely. But another kind of coverage—disability income (DI) insurance—is often ignored or neglected. That's a mistake, because DI insurance can be even more vital than life insurance in maintaining a family's financial well-being. A new white paper from the Council for Disability Awareness, an independent nonprofit group, provides these six startling facts.

1. More than one in four of today's 20-year-olds will become disabled before they retire. (Source: Social Security Administration, Fact Sheet, March 18, 2011)

2. Some 8.5 million disabled U.S. wage earners were receiving Social Security Disability Insurance (SSDI) benefits at the end of September 2011. (Source: Social Security Administration, Office of Disability and Income Security Programs)

3. Ninety percent of new long-term disability claims are the result of an illness, not an accident, and fewer than 5% of claims are work-related. (Source: 2011 Council for Disability Awareness Long-Term Disability Claims Study)

4. The average long-term disability claim lasts 31.2 months. (Source: 2010 GenRe Disability Fact Book)

5. New applications for Social Security Disability Insurance (SSDI) benefits increased 27% from 2008 to 2010. (Source: Social Security Administration, Office of Disability and Income Security Programs)

6. About 100 million workers lack private disability income insurance. (Source: Social Security Administration, Fact Sheet, March 18, 2011)

If you don't have DI insurance, either through a policy from your employer or one you've bought on your own, you can choose among a wide array of products whose costs and benefits vary widely. Here are several factors you'll need to take into account.

- How a policy defines "disability" is crucial. The best policies pay benefits if you can't work in your chosen profession, and they don't consider the nature of an injury.
- DI insurance policies generally require a waiting period before paying benefits, and a shorter waiting period normally translates into higher premiums.
- Typically, a policy will state how long and under what circumstances it will pay disability income benefits. It could, for example, provide benefits only until you qualify to receive Social Security retirement benefits.
- If you opt for a noncancellable policy, the insurer can't drop you off its rolls if your health declines.

Finally, don't be seduced by the low costs of a fly-by-night operation. You'll be better off opting for an experienced company with a good reputation. ●

Powers Of Attorney

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could be executed improperly and not be accepted by financial institutions.

How can you enjoy the benefits of a power of attorney without putting your financial well being at risk? These suggestions could help.

1. Get it right from the start. Have the document drafted by an attorney experienced in estate planning, and then discuss the details with everyone who might be affected. If there are questions or objections, the attorney can address them in the final document.

2. Consider limiting the powers in the document to a specific few. While a broad power of attorney may be advisable in some situations, a narrower scope, with detailed explanations of what the agent can and cannot do, could reduce chances of abuse.

3. Use a professional you trust as the agent. There are clear benefits to working with someone who is experienced and is bound by a profession's standard of ethics. Another option is to use co-agents—for example, pairing an adult child with a professional—although this can be burdensome unless responsibilities and procedures are clearly defined. And if the estate is large enough to separate some assets into a trust, a corporate trustee could be best. It's also important to have at least one successor agent in case there's a problem with the primary agent.

4. Require regular reports to a third party. Having your agent provide accounting statements to a third party such as a trusted advisor creates a system of checks and balances that could prevent or uncover irregularities.

5. Coordinate the power of attorney with other aspects of your estate plan. Handled properly, a power of attorney can be an essential estate planning tool, and it should be reviewed periodically to make sure it reflects your current wishes. We can work with your lawyer and other advisors to make sure all of your interests are being served. ●

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