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# Cadence clips

FOCUSED ON WHAT MATTERS MOST.

## The Devilish Details of Estate Planning

The devil is in the details, as they say, and there are certainly plenty of devilish details when it comes to handling the transference of an estate. The financial planning process addresses the larger financial implications of estate transference relatively easily, namely how much a person's total estate would be, how much would be assessed in estate taxes, how assets can be owned to minimize both estate and income taxes, etc. Estate taxes are hefty indeed, and a game plan to avoid or reduce them is necessary. However, there are many other picky details which are easily and frequently overlooked, yet which can make an estate transfer much more difficult and more expensive than it needs to be. This article will detail many of these avoidable nuisances.

**Accounts Get Temporarily Frozen.**

When a person dies and the financial institutions holding his or her financial assets are notified, all the accounts are frozen until the institutions' policies and procedures are upheld regarding how to transfer the assets (translation: until an awful, awful lot of paperwork has been passed back and forth). This means no investments inside those accounts can be bought or sold, and it also means no checks can be written from those accounts. If events are happening in the financial markets that would be good to avoid, there is no way to do that while the accounts are frozen. If the accounts are jointly owned, then no restrictions are placed on them, but anything that is individually owned will be inaccessible until the proper paperwork is processed. Frozen accounts can be a major inconvenience, as. . .

**Access to Cash is Imperative.**

Arrangements for the deceased need to be made almost immediately, and all those arrangements will require payment. Likewise, bills still need to be paid for the deceased's property expenses, final expenses at care facilities, and other services which will need to continue. As long as one other person is listed as a co-owner on an account with check writing abilities, the cash in the account will be accessible. Otherwise, someone else will need to pay the bills and then be reimbursed, which can be problematic as sometimes final expenses can reach the tens of thousands of dollars depending on the deceased's expenses and requirements at the time of his or her death. People who own multiple illiquid investments, especially properties, are especially in need of access to cash in their estates.

To solve this potential cash shortage problem, people frequently give someone else access to and power over an account owned jointly with an aging parent or relative. Keep in mind, anyone given access to the account will have the ability to withdraw funds at any time for any reason, and if there were ever any judgement levied against that person, like in the event of losing a lawsuit, then those assets will also be made available to that person's creditors. While it may be convenient and necessary to have a second signor on an account, the trustworthiness and financial stability of that person are relevant concerns. Speaking of the trustworthiness of that person. . .

**Choose Your Estate Executor or Executrix Wisely.**

Estate executors and executrixes can end up doing a shocking amount of work while helping an estate get settled. Every financial institution has its own paperwork and verification needs. While many documents need to be notarized, other institutions require medallion stamps, which are even more difficult to secure. Accounts get frozen until death certificates and paperwork are delivered, attorneys to interpret trust language and to probate estate assets need to be chosen if not done so ahead of time, and assets need to be divided per the terms of any existing trusts and wills. The more financial institutions used by the deceased to custody assets, and the more trustees and beneficiaries, the more work the executor or executrix will end up doing. Therefore, the more this person can be trusted to manage details in a timely fashion, and the more this person can be trusted to manage the personalities of the surviving parties involved, the more successful the estate transference will probably be. A trustworthy, detailed person with enough spare time to manage everything is an ideal candidate to act as an executor or executrix, even if that person is not a child of the deceased. To make that person's job easier, along with solving the access to cash before it is needed, it makes sense to. . .

**Consolidate the Number of Financial Institutions that Custody Assets.**

Every institution has its own paperwork. Rather than having accounts at twenty different institutions and transfer agents, consolidating those down to as few accounts at as few institutions as possible makes estate management much easier. This is especially true when assets are held directly at a transfer agent which can be common with shares of stock that have been owned directly for long periods of time. Any time the relationship between the deceased and the financial institution is direct and does not involve a third party like an adviser, the changing of ownership can be delayed as the institution will need additional proof that the new person contacting them has the authority to do so. Assets at multiple institutions that need to be divided among multiple beneficiaries complicates life for both the executor or executrix and all the beneficiaries. Add an institution that hasn't been contacted by anyone in years, like a transfer agent holding individual stocks where the executor or executrix has only an 800 number and account number to call, and assets like these can experience major delays getting to their ultimate beneficiaries. So round up all the accounts while you can and consolidate them into as few as possible. Your executrix and beneficiaries will thank you. Speaking of beneficiaries. . .

**IRA Assets Will Receive Different Treatment if Even One Beneficiary Is Not a Person.**

Specifically, the deceased's qualified assets (IRAs) will not be able to be stretched over the beneficiaries' lifetimes if even one of the beneficiaries is a charity, trust, or other non-human entity or organization. The one exception to that is when a trust is named as sole beneficiary and is specifically designed to stretch the IRA distributions for beneficiaries by also having only people and no non-human entities as beneficiaries. So, no matter where the ultimate beneficiary list for the IRA lives, all the beneficiaries have to be people to receive this beneficial tax treatment. Having to withdraw all the assets in an IRA account within five years after the death of the account holder can cost beneficiaries a large percentage of those assets in income taxes and destroy the favorable, on-going tax treatment they would have received had they been allowed to remain in IRAs. This is also one argument to roll 401(k) assets into IRAs as most 401(k)s do not allow the assets to be stretched over the lifetimes of the beneficiaries, thereby causing them to lose a lot of money to taxes and missed growth. And speaking of trust ownership. . .

**Accounts Actually Have to Be Owned or Named as Beneficiaries of a Trust to Benefit from the Trust.**

We have seen this quite frequently: someone goes to an attorney and he or she dedicates the time and money to figure out how their assets will be managed and divided upon his or her death by creating a trust, and then nothing is done after that. A trust will only work when after it is created you take the time to change the ownership of your accounts to that trust, or to change the beneficiary of your accounts to be that trust. This process is known as funding the trust. Just creating a trust doesn't accomplish this, you have to take the next step and make the trust owner or beneficiary of those assets. And speaking of naming beneficiaries. . .

**Named Beneficiaries > Trusts > Wills.**

Whomever is named as the beneficiary of your accounts or insurance policies receives those assets. Even if you have a will or a trust that says someone else is to receive your assets upon your death, a beneficiary designation is like a royal flush in a poker game: it trumps everything. In this case, the strongest claim on the assets of your Schwab accounts is whomever or whatever is named as the beneficiary of those accounts. It doesn't matter if anything else says otherwise; whomever is named will get those assets. Likewise, the language in a trust is regarded as superior to the language in a will, so if your trust owns or is beneficiary of your assets, those assets will be divided based on the language in that trust regardless of what your will says. So review the beneficiary designations, especially on accounts you have owned for a long time because. . .

**The Wrong People Inherit Estate Assets All the Time.**

Like the empty trust scenario identified a couple sections above, we have seen the situation many, many times where a person dies never having changed the beneficiary of his or her accounts or insurance policies and those assets were distributed to a person or people other than the one or ones the deceased would have wanted at the time of death. People and relationships change over time. People get married, get divorced, have children, etc., and any of these changes may require a beneficiary change, yet many needed beneficiary changes never get made. A common one we see is where a person opens a 401(k) account when they are young and unmarried and name parents or siblings as the beneficiary. They then get married and have kids. Without changing the beneficiaries on that 401(k) account, the husband or wife and kids will not get that money in the event of the account owner's death. So check your beneficiaries periodically. With all the different institutions holding the accounts, and all the different relationships we have with people who help us with our finances, it is also helpful if you. . .

**Have an Easy to Find List of All Your Financial Professionals and How to Contact Them.**

Financial advisers, insurance agents, CPAs, account Internet addresses with usernames and passwords, and any other information about where your money and investments are kept should be available to your executor or executrix when the time comes. Even just a list of names and phone numbers can save your estate manager a lot of time and aggravation. But keep it in the house somewhere, because. . .

**Access to Safe Deposit Boxes Is Limited After Death.**

If a safe deposit box is jointly rented, then either party can access it at any time, including the survivor after the deceased's death. However, a safe deposit box rented to an individual can usually only be accessed by a court appointed representative, or the executor of an estate so long as the executor can prove that relationship exists, like with a copy of the will. Wills can frequently go decades without being amended, so it is certainly possible the executor named in a will twenty years prior is no longer the desired person. The bank can only go on what's in the will. Access to safe deposit boxes by spouses and children may be granted, but only for the purposes of looking for a will and final resting instructions and information. However, states laws and bank policies do vary widely on these points, so it makes sense not to keep anything that requires swift action, like account lists, contact numbers, and burial information in the safe deposit box. If you want to keep important financial and final resting information in your safe deposit box, it is imperative you know, understand, and have a game plan for how the box will be successfully accessed after your death, so make sure you know what the institution's policies are on safe deposit access after death. A lot of times only a court-appointed representative is allowed to remove any other contents in the box, which means your estate must be probated to receive a court-appointed representative. This brings us to our final bit of frequently misunderstood details when it comes to settling estates. . .

**Wills Do Not Avoid Probate, and Most Trusts Do Not Avoid Estate Taxes.**

There are some common misperceptions about wills and trusts. Wills provide for a more orderly distribution of estate assets upon death as it makes it easer for the probate judge to understand what may have been intended, however a will still results in the assets being probated. To be even clearer: you are not avoiding probate if you only have a will, and probating an estate costs time and money.

Likewise, trusts that are revocable (changeable) while the trustee/owner is still alive will still result in those trust assets being considered part of the deceased's estate. Only funded trusts considered irrevocable before the individual trustee/owner dies will be outside of that person's estate as those assets are considered to be put outside the person's estate before death. In order for a trust to not be considered revocable, the trustee can only have limited control over and limited access to the assets inside the trust. One frequently used irrevocable trust is known as an "ILIT", which stands for "irrevocable life insurance trust". Not to get bogged down in detail, but this allows for life insurance proceeds to be placed outside of someone's estate. Without such a device, insurance proceeds are considered part of someone's estate, and can quickly push the total estate value into estate tax territory.

Unfortunately, we cannot highlight every single last detail to manage when it comes to settling an estate, however this list goes a long way toward identifying a host of picky little issues that are often overlooked when people are planning on the distribution of their estates. The more work you do ahead of time, and the more thought you put into how your estate representatives and beneficiaries are going to take possession of all that you've worked hard to accumulate, the more you will lighten their loads at a difficult time and maximize the value of your ultimate estate.

**Key Takeaways:**

- Accounts get frozen when the institutions are notified of a death, and access to cash may be completely cut off without planning for this eventuality.
- Owning a cash account jointly can make access possible, however the other person has full access to that account.

- Executors and executrixes can end up doing a lot of detailed, mundane work: choose yours wisely.
- Check the beneficiaries on your accounts, insurance policies, wills, and trusts periodically.
- Be aware of the implications of one or more of your IRA beneficiaries being an organization or charity instead of a person.
- Consolidating accounts before death reduces the paperwork needed after death, sometimes tremendously so.
- If you have a trust or trusts, make sure they are actually connected to your accounts by either the trusts owning or being the beneficiaries of the accounts.
- Know your bank's policies on post-death access to your safe deposit box.
- If you want to avoid probate with your assets, you will need a trust and not just a will; if you want to avoid estate taxes, you need an irrevocable trust instead of a revocable ("living") trust.
- Have a list of contact names and numbers for your financial relationships readily accessible.

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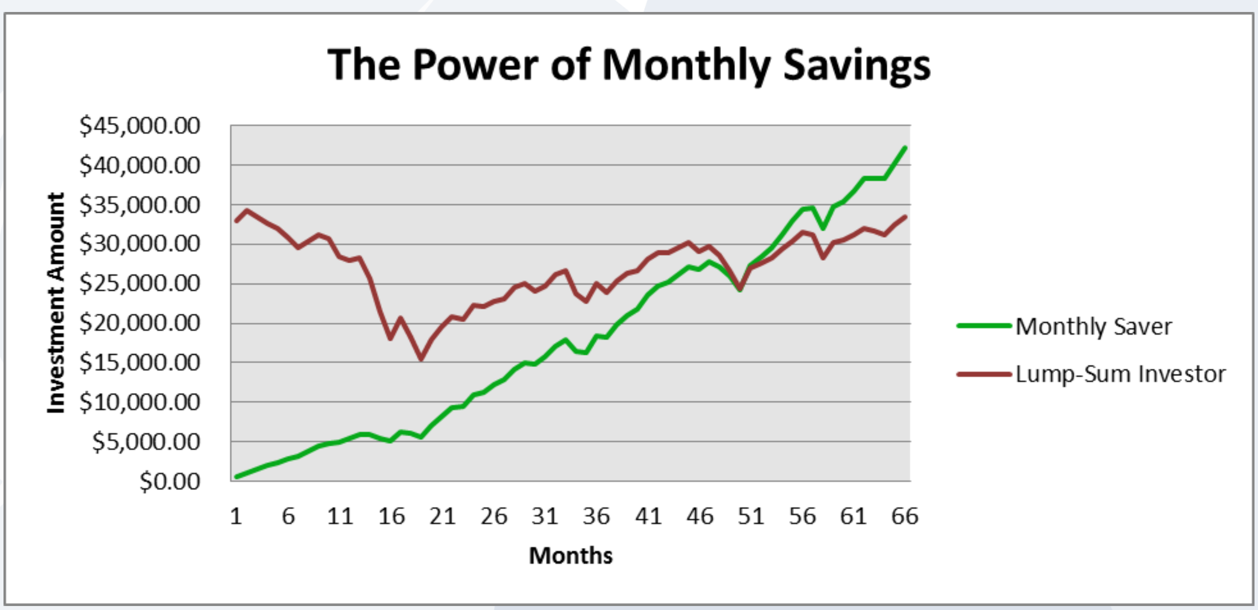
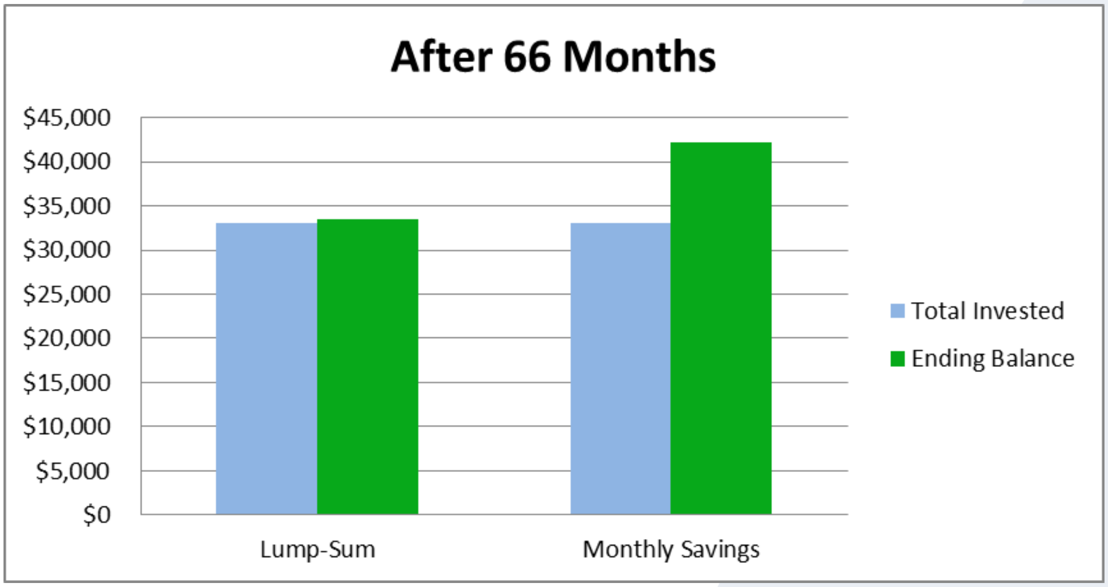
# The Power of Monthly Savings

One of our core philosophies at Cadence is to preserve principal against large losses when those losses look most probable. Now would be one of those times. As a result, we'll generally take a more conservative approach with our clients' assets than we ordinarily would if markets were less expensive. When it comes to systematic savings however, a down market doesn't have quite the same negative impact as it does with a larger lump sum. Where it is sometimes wise for an investor to sell out of the market toward the beginning of a decline, it is almost never wise to stop an automatic investment program when the market's down.

Let's look at what would have happened if we had invested $33,000 into the S&P 500 back in September of 2007. Using just the price index, we would have experienced a loss of 53% by March 2009 just 19 months later. It would have taken an additional 47 months, or a total of 5.5 years to get back to the initial investment of $33,000.



On the other hand, had we initiated a systematic savings program of $500 each month starting at the same time, September 2007, we would have only lost 40% as of March 2009. So saving systematically doesn't mean we avoid losses, but those losses may be less severe. More importantly, rather than taking 5.5 years to get back to even, the systematic saver gets all of her money back after 28 months of investing. That's over three years sooner than with the lump sum investment! In addition, in February 2013 when the lump-sum investment is just getting back to even at $33,000, the monthly investment of $500, which totaled $33,000 in payments, is worth over $42,000. That's a return of over 27%!




So think of it this way… As the market drops, you're actually able to buy more shares with the dollars you're investing. If the market goes really low, you're buying a lot of stuff on the cheap which helps you turn a profit much sooner than if you only made one initial investment at higher levels. By only investing a fixed dollar amount each month, you're not able to invest too much when stocks are expensive, keeping greed in check, while on the other hand, by sticking to the plan on the way down, you're able to continue getting better deals the lower the market goes. This forced discipline can really pay off over the long run.

Down markets are inevitable. In fact, at this very point in time, the likelihood in our opinion is that over the next 5 to 10 years, we'll experience much lower market returns than normal due to a down market being in the cards. But that doesn't necessarily spell danger for the monthly saver. While you're battening down the hatches with your existing assets, keep those monthly savings programs intact. They'll force you to buy things on the cheap, which after all, is the ultimate goal of investing.