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FINANCIAL CONCEPTS **FALL 2018**

Estate Planning for Complicated Family Situations

Divorce and remarriage, blended families, children with disabilities, or even a financially irresponsible child can complicate estate planning to the point where procrastination is tempting. If any of these situations apply to you, the reality is you should have a well-thought-out estate plan in place.

If You Are Divorced

Your top priorities are updating your beneficiaries, last will, trusts (along with the executor/trustee), durable power of attorney, and healthcare proxy. Likewise, because you no longer have the benefit of combining your estate and inheritance tax exemptions with a spouse, you may need to consider more strategic estate planning.

If there are children involved, you'll have even more decisions including guardians of any minor children. Typically, you will not want your former spouse or his/her new blended family to receive any of your assets.

While you can name anyone as your beneficiary on life insurance policies, annuities, retirement accounts (if permitted by your plan), IRAs, and health savings accounts, your children typically cannot receive these funds until they turn 18. In the meantime, your children's appointed guardian, such as their surviving parent, could be designated by the court to manage these monies until they reach adulthood. Proper estate planning can avoid any mishandling of those funds and provide you with the reassurance your children will be financially protected.

One way to ensure this outcome is to set up a trust with an appointed trustee, such as a grandparent, aunt,

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Greetings To All!

As we write this note toward the end of October, it appears that both the weather and the markets have turned quite a bit chillier.

This is an appropriate time to share a few words from a veteran investor, Howard Marks of Oaktree Capital Management. In an interview in *Barron's*, 10/25/18 he said:

"The truth is: Investing is not easy; making money isn't easy. How can it be easy? Everybody wants to make money. It is a very competitive activity. But if you are disciplined, if you study, and if you can keep your emotions under control, then you can do these things. But one of the real keys is to keep your emotions under control. Everything in the environment conspires to make us do the wrong thing, to buy when things are going well and prices are high — and to sell when things are going poorly and prices are lower, which is the exact opposite of what we should do. But it all comes from emotion. We have to resist."

This is why we adhere to our discipline and process. We establish an appropriate target allocation with each of our accounts. This allocation is built on the specific needs, goals, and risk tolerance for each individual. As markets shift over time, we rebalance to our targets (i.e. sell high and buy low). As those who have been with us through the years have hopefully come to appreciate, this allows us to be opportunistic throughout market cycles.

On another note, we would like to introduce you to our newest team member, J. Stuart Bevan, Senior Vice President – Investments. Stuart brings a strong and diverse academic background to the group, including a bachelor's degree from Yale, an MA in accounting from the NYU Stern School of Business, and an MBA from Harvard. As a financial advisor, Stuart has built a successful wealth management practice over the past two decades. We want to take this opportunity to extend an especially warm welcome to all of Stuart's clients. We look forward to meeting with each of you in the near future.

Our goal is, and always has been, to consistently improve our process and approach and extend the depth and breadth of service we provide. We look forward to Stuart's contributions to our research and investment selection process.

As always, we want to hear from you. *Now* is an important time to review your asset allocation to ensure you are invested appropriately.

Peter, Mike, Stuart, Joe & Edita

Estate Planning

Continued from page 1

or godparent.

If You Have Remarried

While remarrying is a beautiful reminder that second chances really do exist, this can often complicate estate planning — particularly when at least one spouse has children from another marriage. The first step is to sit down with your spouse and discuss what you both feel is fair for each other and your children, perhaps categorizing what is yours, mine, and ours to reach a decision.

Because of state marital estate laws, unless you have a prenuptial agreement in place, your current spouse has legal entitlement of up to half of your estate, regardless of what your will may designate.

Assuring that your surviving spouse is provided for while leaving a legacy for your children can be a frail matter; it's important to have a plan intact that assures both your spouse and children receive what you intend. You might consider a trust, such as a marital trust, qualified terminable interest property trust (QTIP), or irrevocable life insurance trust (ILIT), which can provide lifetime income to your surviving spouse while simultaneously ensuring that your heirs receive the remaining proceeds.

If You Have a Special-Needs Child

Understandably, parents of a special-needs child are often so distracted with accommodating their child's immediate needs that important financial matters are sometimes overlooked. The consequences of putting off estate planning are far worse in these situations.

The two most important factors to consider are preserving your child's eligibility for Medicaid and other essential benefits while continuing to provide the best possible lifestyle for them. However, without a proper action plan, an inheritance could disqualify your special-needs child from vital benefits.

To avoid this situation, parents often leave special-needs children out of the inheritance equation, listing other siblings or a designated guardian as heirs with the intention that their special-needs child will be provided for as he/she continues to receive necessary medical benefits. The truth is, misuse of intended funds is always a possibility, as intentions and reality often do not mesh. A much more reassuring path is to consider a special-needs trust, which can assure your child continues to qualify for medical benefits while providing a sound financial future that can include special trips, therapeutic lessons, and life-enhancing activities.

An Irresponsible Adult Child

It's quite common for parents to worry that a child could get into serious trouble when presented with a large sum of money. This depends on a variety of factors, such as age at the time of inheritance, lifestyle, or even addiction issues. Consider establishing a trust — such as a spendthrift trust or incentive trust — in which the appointed trustee can limit your child's inheritance to several installments throughout the course of his/her lifetime (even on an annual basis if you wish), place conditions such as good behavior on the disbursements, or even appropriate the funds for something as specific as college tuition.

Please call to discuss this topic in

Time — Friend or Foe?

Here's when time is your foe: when you have only a couple of years left to work and don't have enough accumulated to retire. And here's when time is on your side: you start saving in your twenties, save every month, and keep saving until you retire. That's when you're putting the power of compounding to work for you.

The sooner you start saving, the less you'll have to put away each month to accumulate the needed funds for retirement. For example, say as a 25-year-old you open an IRA and save $100 a month ($1,200 per year). The IRA earns an average of 6% a year. After 40 years — when you're 65 and ready to retire — your account balance could grow to over $185,000.

But let's say instead, you put off saving until you are 45. At the same rate of saving in an IRA with the same returns, by the time you're 65, your IRA balance would be just about $44,000. Starting when you're 45, you'd have to contribute $420 a month to save about $185,000. At least that would be less painful than if you waited until you were 55. Then to match the end result, you'd have to save $1,175 per month. *(These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

One way people often try to compensate for getting a late start in saving is to shoot for a higher rate of return. Instead of settling for the 6% a year we used in the example above, why not go for 10%? But there are two problems with that strategy. The first is that investments don't always provide consistent returns.

Second, to earn higher rates of return, you have to take on more risk. That's fine when the big returns come in; but in the long run, big returns in some years are usually paid for with big losses in others.

Not everyone realizes time spent not saving can have a significant cost and there are only so many ways to make up for it. The sooner you start putting more money aside, the better. ❍❍❍

Easing into Retirement

The sun is shining and a warm breeze blows in off the water. You gaze out over the water and settle back into your hammock without a care in the world. That's the retirement dream, right? It may come true — but not in the instantaneous, snap-of-the-fingers way you may be envisioning. You just might spend a little less time in the hammock and more time exploring new interests, or even working.

There are many reasons why someone would choose to ease into retirement. For some, it is a question of financial insecurity. For others, they may not feel ready to leave their job yet. Many retirees feel they are missing out on the social part of their former working life or want to continue to feel the thrill of problem-solving. Whatever reason makes the retiree decide to just dip their toes into retirement and continue to work is generally beneficial for their bank account and well being.

When you are retired but not ready for an exclusively hammock-dwelling lifestyle, there are a few factors to consider:

- Is it financially worthwhile to resume working? Consider your potential income after taxes and any additional expenses that returning to work could incur (gas, lunches, work-appropriate dress, equipment, unpaid training fees, etc.) and determine if the new income will boost you into a higher tax bracket or even eliminate any currently advantageous deductions.

- How will any additional income affect your Social Security benefits? If you are full retirement age* or older, you do not have to worry, because any earnings will not affect your benefits. However, those between the ages of 62 and full retirement age will lose $1 of benefits for every $2 of earnings over $17,040 in 2018.

*Note: Remember the full retirement age is gradually increasing. It is currently 66 years old, but increases to 67 years old, depending on the year you were born.

While those factors could certainly be detrimental to the part-time retiree, there are others that are uniquely beneficial:

- If you are close to age 70½ and going back to work, you may not need to take minimum distributions from your 401(k) or employer plan. This means that your fund can continue to grow tax deferred.
- If you want to start a business as a retiree, you have the benefit of time and experience, as well as the motivation in doing what you are passionate about. Be careful not to use your retirement savings to fund the business.

If you decide to ease into retirement by reducing your workload to part-time hours, you may miss out on some hammock time, but there are many benefits that could more than make up for it when it comes to peace of mind. Just make sure you know why you are going back to work before you make the leap.

Please call if you'd like to discuss this in more detail. ❍❍❍

A Budget for College Students

Many students will first handle money without parental supervision during college. To help keep expenses down and avoid conflicts, you might want to develop a budget to guide your child's spending. As you go through the process, consider the following:

- First consider all potential expenses, including food, travel, clothing, entertainment, phone, periodicals, computer expenses, medical and dental expenses, and insurance.
- Develop a preliminary budget for the first couple of months of college. You may find that you forgot about certain items. After your child has lived on his/her own for a couple of months, you can develop a more realistic budget.
- If your child has trouble sticking with the budget or can't account for large sums, have him/her keep a journal for a few weeks that details all expenditures.
- Consider providing your child with a debit card rather than a credit card. Since your child's spending will be limited to the amount on deposit, it is harder to overspend.
- Explain the basics of credit cards. Make sure your child doesn't use a credit card as a means to overspend. Make sure your child understands that if the balance isn't paid in full each month, a significant amount of interest will be due on the outstanding balance. If you teach your child nothing else, try to instill the concept of paying credit card balances in full every month.
- Have your child provide you with a written monthly comparison of his/her actual expenses to budgeted amounts. ❍❍❍

Retirement Planning for Stay-at-Home Spouses

Millions of Americans are stay-at-home parents. While they may not get paid a regular salary, they perform vital work caring for children and managing the household. Unfortun-ately, since it's a job that doesn't come with a paycheck, it leaves those moms and dads (and their spouses) in a tough spot when it comes to retirement.

A spouse who doesn't work is going to have a tougher time preparing for retirement. Obviously, no income means that saving for the future is difficult. Plus, a person who doesn't work isn't paying into the Social Security system. Even if you're out of the work force for just a few years while your kids are young, those nonworking years can cause you to fall behind in retirement savings. But staying home with the kids doesn't have to mean jeopardizing your financial future, provided you have a plan.

Don't Neglect Your 401(k) Plan

Many parents work outside the home for a time before they decide to stay home. If you had a 401(k) plan before you left the work force, don't forget about those funds when you take time off. Depending on your plan's requirements and investment options available, you may be able to keep your money where it is, or you might want to roll over your savings to an IRA. In either case, you'll want to keep an eye on your funds, making sure you have the proper asset allocation and that your investments are rebalanced as necessary.

Whatever you do, don't cash out your savings unless it's truly a financial emergency. Doing so will put you even further behind in your retirement savings.

Set Up a Spousal IRA

Usually, you must have earned income to contribute to an IRA. But the IRS has created a special exception to help nonworking spouses prepare for retirement. It's called a spousal IRA. This kind of IRA works just like a traditional IRA. The husband or wife who works can contribute $5,500 a year to an IRA on behalf of his/her spouse ($6,500 if you're over age 50). The money can go into either a traditional or Roth IRA, provided you meet all the other requirements.

Essentially, using a spousal IRA allows you and your spouse to double your IRA savings. However, you do need to file a joint tax return to be eligible for a spousal IRA. One other benefit of a spousal IRA is the assets are held in the nonworking spouse's name. That means if you eventually divorce, the spouse who doesn't work has retirement assets that are already his/her own.

Set Up a SEP IRA or Individual 401(k) Plan

You may be a stay-at-home mom or dad, but that doesn't necessarily mean that you're not working in some fashion. Many people who don't have careers outside the home earn money through consulting, freelance work, or home-based businesses. If this applies to you, you might want to consider setting up a SEP IRA or an individual 401(k) plan to help you save for retirement. Assuming you earn enough money, you'll be able to save more than you would in a spousal IRA.

Don't Stop Saving

Whatever you do, don't forget about retirement saving just because you're out of the work force for a while. Set aside what you can for the future, even if it's just a few dollars a month. That can be hard to do when your income is limited, but it's still important. You can also encourage your spouse to maximize his/her own retirement savings so you are both on track for retirement.

Please call to discuss this in more detail. ❍❍❍

Market Data

Indicator	Month-end Aug-18	Sep-18	Oct-18	Dec-17	Oct-17
Prime rate	5.00	5.25	5.25	4.50	4.25
Money market rate	0.45	0.47	0.43	0.33	0.32
3-month T-bill yield	2.08	2.18	2.31	1.45	1.02
20-year T-bond yield	2.91	3.13	3.27	2.66	2.61
Dow Jones Corp.	3.84	4.14	4.36	3.13	3.08
30-year fixed mortgage	4.18	4.74	4.45	3.51	3.55
GDP (adj. annual rate)#	+2.20	+4.20	+3.50	+2.90	+3.20

Indicator	Month-end Aug-18	Sep-18	Oct-18	% Change YTD	12 Mon.
Dow Jones Industrials	25964.82	26458.31	25115.76	1.6%	7.4%
Standard & Poor's 500	2901.52	2913.98	2711.74	1.4%	5.3%
Nasdaq Composite	8109.54	8046.35	7305.90	5.8%	8.6%
Gold	1202.45	1187.25	1214.95	-6.3%	-4.3%
Consumer price index@	252.00	252.15	252.44	2.3%	2.3%
Unemployment rate@	3.90	3.90	3.70	-9.8%	-11.9%
Index of leading ind.@	110.80	111.20	111.80	5.1%	6.2%

— 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

November 2014 to October 2018