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Estate Planning—**Just DO IT!**

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Estate planning can be complex and daunting for a lot of people, and many simply deal with it by putting it off. You don't have to be wealthy to need a will or a trust. If you die without a will, you die intestate and your local jurisdiction will determine how things are distributed. This means the fate of your assets, whether bank accounts, stocks, priceless heirlooms, or real estate, will be decided by strangers, which can make your estate more susceptible to fighting amongst relatives, friends, or even scam artists. Furthermore, dying without a will ensures that your estate will be tied up in a time-consuming and costly process; this can be mitigated with forethought and planning.

One of the most critical reasons for establishing a will is to name a guardian and trustee for your minor children. Although it is terrible to think of your children losing their parents, it is infinitely more difficult to think of your children losing their parents and requiring court proceedings to decide their fate. You might trust a family friend to raise your children over a distant relative, but unless you put that legally in writing, it is unlikely to happen. During an already tragic time, your children could find themselves stuck in the middle of a family conflict.

What is probate? Probate is the legal process whereby a deceased's debts and assets are settled. Unfortunately, probate is very time consuming. It also has the potential to be expensive, with as much as 5% of the value of the assets going to court fees. Even with a will, you must go through probate. However, having a will greatly facilitates the probate process.

So, if you have a will, why would you need a trust? One key reason people prefer trusts is that it preserves the privacy of their estate and avoids probate. Where a will is filed with the court and available to the public, a trust remains private. The reasons to establish a trust can include: avoiding taxes on a high-net-worth estate, passing along a family business, protecting the interests of a minor who has inherited something, or avoiding multi-state probates. You will have to name a trustee to manage the assets. A trustee is usually a person you know well and trust, both ethically and fiscally. In some cases, a trustee may also be a beneficiary of the trust. Carefully consider the responsibilities of the role of a trustee or executor (for a will) and ensure that the person you choose is willing to take on that role. You should name successor trustees or executors as a backup.

There are many types of trusts:

- **Complex** or **simple trusts** determine how the income is required to be distributed.
- **Irrevocable trusts** effectively remove all rights of ownership for assets placed in trust, usually for tax reasons.
- **Testamentary trusts** are usually for minor beneficiaries and/or to avoid probate.
- **Credit shelter trusts (CSTs)/bypass trusts** provide income to the surviving spouse, while preserving the deceased spouse's control over the remainder beneficiaries.
- **Revocable trusts** are comprehensive sets of instructions for the management and ultimate distribution of the property, accounts, and other assets you own. They are the most common type. A revocable trust **becomes irrevocable**—its terms no longer changeable—**upon the death of its grantor, or creator**. Until that time, the grantor can change the terms of the trust and add or sell assets.

One other consideration to keep in mind is that directly named beneficiaries on certain accounts—specifically life insurance or retirement accounts—**may take precedence over the will or trust**. So, let's say you got divorced after 15 years but you forgot to change the beneficiary of your 401k from your former spouse to your kids (or new spouse!). Although many states have laws that revoke a former spouse upon finalizing a divorce decree, employer retirement accounts are regulated by ERISA (federal law). Therefore, state law does not apply, and the former spouse is likely to inherit the 401k. The point is, you must keep your beneficiaries up to date

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When Kids Grow Up and Move Back Home: *A Guide*

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It's been called the new retirement wild card, but it's not inflation, health care costs, or taxes. What is the trend that's causing uncertainty about retirement prospects for so many people? It's boomerang kids, and the money their parents spend on them. In 2014, the number of young adults (ages 18 to 34) living with their parents surpassed those in other living arrangements for the first time in more than 130 years.*

Whatever the reason for moving back home, boomerang children can be a mixed blessing for their parents, both emotionally and financially. Just when parents look forward to being on their own in their final push toward retirement, their children are back in the nest. How do you help your adult children without sacrificing your own emotional and financial health? Here are some sound practices to follow:

Set Ground Rules

Establish ground rules for moving back home, including general house rules, how long they plan to (or can) stay, and how they will contribute to the household, both financially and/or by helping with household tasks. If they're employed, determine a reasonable amount your child can contribute toward rent, food, utilities, and car expenses. You can use this money to either pay household expenses or set it aside to gift to your child later. If you do set the payments aside, the lump sum can be used for a security deposit on an apartment, a down payment on a car, or other necessary expenses when your child moves out.

Discuss your child's long-term plan for independence. Does your child have a job or are they looking for work? Does your child need or want to go back to school? Is your employed child saving money for future needs (e.g., a house down payment or graduate school)? Are your child's plans realistic? What steps are they taking to meet their goals? It's a balancing act, and there's no right answer or set road map. It's common for parents to wonder if they're making a mistake by cushioning their child's transition to independence.

Turn off the Free-Flowing Money Spigot

It can be tempting for parents to pay all of their adult children's expenses, big and small, in an effort to help them get on their feet. Doing so is unlikely to teach them self-sufficiency and will foster further dependency on you.

Consider giving your child a lump sum to budget, and make it clear that is all the financial assistance you plan to provide. Or consider loaning your child money at a low interest rate. If you can't afford to hand over a sum of cash or prefer not to, perhaps help with a few critical expenses.

Critical expenses include: health insurance, reliable transportation to work, a basic cellphone, minimum student loan and credit card payments, and any other expenses necessary for your child to seek or keep employment. If your child is 26 years old or younger, look into adding them to your family health plan; otherwise, consider helping them pay for health insurance. Think twice about co-signing a new car loan or agreeing to expensive lease payments. Help your child buy a cheaper used car and raise the deductible on their car insurance policy to lower premiums. Have your child research the best repayment plan for student loans, but don't pay the bills unless it's absolutely necessary. Same goes for credit card balances. Your child can switch to a less expensive cell phone plan or consolidate phones under a family plan; have your child pay their share. Bottom line—it's important for your child to live within their financial means, not yours.

Solidify Your Own Retirement Plan

Even if your child contributes financially to the household, you may still find yourself paying for the items they can't afford: student loans or medical bills—or bigger ticket items like graduate school or a house down payment. Beware of jeopardizing your own retirement to help your boomerang kids. First, make sure your retirement savings are on track. A financial professional can help you see whether your current rate of savings will provide you with enough retirement income. Knowing that can also help you decide what you can afford to spend on your adult child.

*Source: Fry, Richard. 2016. "For First Time in Modern Era, Living with Parents Edges Out Other Living Arrangements for 18- to 34-Year-Olds." Washington, D.C.: Pew Research Center, May.

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and review everything in your estate plan after any life changes (marriage, divorce, kids, death, or out-of-state move).

No matter how complex your life is, there are many considerations for estate planning. You should make it a priority to discuss your desires with your family, and you should retain an estate attorney to legalize everything. A full estate plan will include powers of attorney, medical directives, wills, and trusts as applicable. You can expect to pay anywhere from one thousand to several thousand dollars depending on individual needs.

One of the biggest gifts you can leave your family is a well thought out, transparent, organized estate. Be as forthcoming as you can with your family, as secrecy does a disservice to everyone. Plan for the worst but hope for the best.

Five Perils of a **High Income**

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Most of us would love to have a high income. After all, having extra money to spend on vacations, housing, activities for the kids, and to achieve financial independence doesn't sound like a bad thing. But high earners face more barriers to reaching their financial goals than the rest of us. Whether your income is in the upper echelon now or that is your aspiration, take care to avoid these pitfalls.

Retirement Plan Savings Are Limited

One reasonable rule of thumb is to save 15 percent of your earnings over your working life to achieve financial independence. If you have a healthy annual income of $100,000, most likely you can put up to $18,500 per year into a retirement plan for work. You may also qualify for a $5,500 Roth IRA contribution each year. This means you could put aside up to 24 percent of your annual pay into retirement accounts, not including the employer match.

Imagine that your earnings reach a relatively stratospheric $200,000 annually. That same retirement plan now allows you to put in just over nine percent of your pay, while you don't qualify for a Roth IRA contribution because you earn too much. Saving nine percent over time for retirement is unlikely to be enough. This is often where high-income earners veer into the traps of cash value life insurance and variable annuities, which are generally expensive and complex ways to save for your future. Instead consider automated, regular contributions to a taxable investment account at a mutual fund company such as Vanguard or a low-cost brokerage firm such as Charles Schwab. By going beyond the confines of your retirement plan, you set yourself up well to reach financial independence at a reasonable age.

Disability and Life Insurance

The more income you have, the more income you must protect in case you are unable to work or you die before your life expectancy. Medium to large size employers often offer long-term disability insurance, which would pay your family through retirement age if you're no longer able to work. If you have a high income, then that coverage may not extend to cover enough of your income to ensure your family's financial health in the face of your disability. You may need to purchase an individual disability policy on your own.

Life insurance offered through work is rarely enough to support your survivors. If you have a high income, it's likely that your family's needs would require the proceeds of additional life insurance coverage purchased independently from your employer.

Borrowing Capacity

Mortgage companies crack me up with their mandated lending standards in that they care much more about your income than your net worth. Accordingly, higher income families can qualify for a tremendous amount of mortgage debt, even with the recent increase in rates. If you have a family income of $250,000 and $200,000 in equity in your current home (or in savings), then lenders may allow you to borrow enough to purchase a $1.4 million house, if not more in some cases. The payment on this mortgage would represent 35 percent of your gross income. Just because the mortgage lenders will give you the loan doesn't mean it's a good idea. We prefer that clients keep their payment at 25 percent of their income or below.

Confusing High Income for Wealth

When a high income supplies big deposits into your checking account twice a month, it's easy to start feeling wealthy. The difference between income and wealth is a simple but profound distinction. Income, while it lasts, can support your current spending needs, while wealth in the form of assets is required for you to have the option to stop working. While a high income is nice, it's much more important to chart your net worth, a measuring stick to determine if you're close to financial independence.

Harder to Retire

A $1 million net worth would put you in the upper reaches of American investors, but if you're accustomed to a high income of $200,000 then it may not be nearly enough for you to retire. In contrast, if your family is accustomed to living off an $80,000 income, then it's likely that social security will replace a much higher percentage of your income needs than those of the higher income family. Social security and pensions do comparatively less for bigger spenders. If your income is higher, make sure you save enough to provide your family with financial security even when you're no longer working.

The Richest Man in Town

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Mr. Stokes Brown was the richest man in town. At least that was what many folks said. He lived in a small town in Tennessee, and if he was not the richest, he was very close. Mr. Stokes had a shock of silver hair and was always impeccably dressed. He was unassuming and unfailingly kind to me. He was urbane and sophisticated, patrician in his manners. He arose every morning, put on a suit and tie, and went to his office, where he and his secretary managed his investments. He married my wife's Aunt Sadie when they were both in their early 70's. Sadie was likewise a wonderful and elegant lady. Sadie maintained her beauty well into her eighties, and I loved to spend time and talk with both of them. We would see Stokes and Sadie two or three times a year at family gatherings, and I would always seek out Stokes's opinion about investments, the economy, politics, or whatever he cared to discuss. He was well-read and knowledgeable about any number of topics.

I was reminded of Stokes recently as I was reading about the challenges—both economic and otherwise—that we face in America today. I was just about ready to yield to the "perma-bears" (who have been predicting that the end is near for decades) and head for the hills, hunker down, and look for a way to survive the coming Armageddon. Then I remembered an encounter I had with Stokes several years ago. It was not long after the tragic events of 9/11. The "tech wreck" was in full steam and taking the rest of the stock market with it; the country was slipping into a recession, and the world was still sorting out the Asian currency crisis. I was pretty low, having watched my meager little nest egg erode over the past few months as the market declined. When I encountered Stokes on this occasion, I could not wait to get his take on the situation we were facing. I began by asking him if he still had any of his money in the stock market. He replied "Why of course. Why do you ask?" I explained that I thought the country was in real trouble and that I had lost a sizable portion of my retirement fund that was in stocks. I said that I was getting cold feet when it came to my investments. I will always remember his reply. He said that I should stay the course with my equities, maintain reasonable diversification, and wait for the markets to recover as they always had in the past. Then, he pointed an index finger, crooked by age, at me and said "Don't you ever forget this! No one has ever made any real money betting against this country, not ever in its history! We will survive this period just as we have survived all the rest of our challenges." Then he proceeded to tell me that he had always had a considerable portion of his money in American equities. As I left Stokes that day I was not totally convinced of the soundness of his advice. Thus far however, it seems he knew better than I.

I saw Stokes for the last time a few years ago in a small room in a hospice beside his beloved Sadie's bed, where her life slowly ebbed away. We did not talk about investing that day; we talked about Sadie and the twelve wonderful years they shared together. Stokes passed away within a year of Sadie. We should all hope to grow old with the class and dignity he and Sadie displayed. I miss both of them very much.

I do not pretend that our country does not face some significant problems and some of them should be confronted quickly. However, I find Stokes Brown's advice still worthy of our consideration. He was a successful investor in part because he was able to think beyond the next news cycle or next quarter's profit report. He did not allow today's headlines to dictate his investment philosophy; he had a sense of history and was always encouraged by America's innovation and resilience. Since he was able to tune out the short-term chatter, he was still focusing on the long term well into his 80's. So, I think I will continue to follow Stokes Brown's advice; I will not be betting against America! You would be well advised not to either.

Remember, money is certainly not the most important thing; but still, money matters.

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