

**Estate planning**

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# Trust UPDATE

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## Who's who in your will?

**A will does more than say who gets what. You also must decide who is best qualified to fill some important job assignments.**

Everyone who accumulates any amount of money and property—an “estate”—needs a will. Even if you have moved most of your assets into a revocable living trust? Yes. You need a will to dispose of your remaining assets and to tie up

any loose ends in your estate plan.

With a will—or with a combination of a will and a living trust—you specify how and to whom your estate is to be distributed. But that's not the end of your “will power.” In your will you can name a guardian for children, if they are minors. You can say who is to settle your estate. And, if you have not already named a trustee by means of a living trust, you can designate a testamentary trustee to manage all or part of your estate for the benefit of your children, your spouse or others.

All three job assignments call for careful thought.

### **Guardian for children**

Usually, the best choice for guardian of young children is one of their aunts or uncles, or a close family friend. Don't forget to check with the person you choose to be sure that he or she is willing to accept the responsibility.

A guardian of a child also may be named the guardian of the child's inheritance. But the individual may not have money management skills or the time to learn the job. Also, laws that govern how a guardian may spend or invest money for a minor can be extremely restrictive. The better solution, where a child's inheritance is sizable, is to leave it in trust. You, not state law, determine the terms of that trust. Rather than having everything not previously expended for the child's support and education handed over as soon as the child comes of age, you might prefer to have the balance of the inheritance delivered in installments—at ages 25, 30 and 35, for example.

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### Executor/personal representative

Traditionally, an *executor* is named by will to settle the estate. If no executor is named or is able to serve, the court names an *administrator* to handle the job. Nomenclature in some states may include the variations *executrix* or *administratrix*. Increasingly, however, those assigned the job of settling an estate are referred to by an all-purpose, gender-neutral term: *personal representative*.

It is sometimes supposed that the position of executor/personal representative has become a more or less honorary position. Not so. Estate assets must be assembled, inventoried and safeguarded. Creditors must be notified and debts paid. Investments must be evaluated and monitored. Heirs must be counseled and advised. And tax work—reams of tax work—must be completed in timely fashion. Even if the bulk of an estate is held in a living trust, all requirements relating to federal and state death taxes, if any, must be complied with. See “What will your executor do?” below for additional details.

Spouses, siblings or adult children often are named to settle estates of nominal value. For larger, more complex estates, it's usually more practical to name a trust institution such as ours. Our estate specialists are equipped with administrative skills, investment experience, tax know-how and good business sense. What's more, as a corporate

executor, we're sure to be available when needed.

### Testamentary trustee

Trusts continue to have a crucial role in minimizing estate or inheritance taxes for married couples. In addition, leaving property in trust is helpful whenever it's desirable to leave someone the *benefits* of an inheritance without imposing managerial burdens.

Trusteeship, of course, is our business. We're equipped to handle all aspects of the job, from investment planning through keeping records and reporting to beneficiaries. And unlike any family friend or individual advisor you might name as trustee, we're never “on vacation” or “out sick.” Whenever a beneficiary has a question or special request, one of our trust specialists is sure to be on hand to help.

### Successful wills

The success of a will usually depends upon two factors. First, the care with which the will has been planned and kept up to date. Second, the ability of those named to positions of responsibility to carry out their duties in a manner that produces optimum results for the will's beneficiaries.

Full information about our trust and estate services is yours for the asking. Call on us. □

## What will your executor do?



Winding up the financial affairs of an individual's lifetime is not a simple, linear process. Many of these phases overlap, or occur simultaneously.

• **Inventory.** It's the rare individual who leaves a complete inventory of all of his or her financial assets and interests. Some assets are easy to find—bank and brokerage accounts with their regular statements, for example. Life insurance policies and retirement plan interests can prove more difficult to find. Interests in real property and closely held business can be the most problematic.

• **Asset management.** Investments must be monitored and income collected. Insurance must be purchased or maintained. Property taxes will need to be paid. Appraisals may be needed for collections, jewelry or other hard-to-value assets.

• **Debt collection.** Money owed by the decedent at death must be paid by the executor, after the legitimacy of the debt is confirmed. Similarly, the executor must make diligent efforts to collect all funds

owed to the decedent. Tact will be needed when the debtor is a family member.

• **Raise cash.** Estate management requires cash for paying expenses and taxes. But most estates consist primarily of property. That means the executor will have to decide what to sell and when to sell it to meet the estate's cash needs. This is where strong investment planning skills can pay off. Funds should be raised without parting with the assets best suited for future family needs.

• **Pay taxes.** This year federal estate taxes are due on taxable estates larger than \$5.34 million; next year that goes to \$5.43 million. An estate tax return will be needed for estates of this size, even if no tax will be due because of the marital or charitable deductions. What's more, a federal estate tax return will be required for smaller estates if “portability” of exemption is elected, a choice available to married couples. Some states have much lower thresholds for filing state inheritance or estate tax

returns; other states have eliminated their death taxes completely. A state tax return may be required for each state in which the decedent owned property.

In addition to the federal and state death taxes, the executor will have to file the decedent's final income tax return and fiduciary income tax returns for the estate itself.

• **Distributions.** Delivering the estate assets to beneficiaries, or to trusts for their benefit, is among the easier and more pleasant duties that the executor must discharge. Still, beneficiaries often turn to the executor for financial planning guidance, for help in collecting benefits due that don't come from the estate, and for a sympathetic ear as they adjust to the loss of a loved one.

• **Accounting.** The executor's final task is to account for all money and property that has been received and disbursed. Therefore, accurate and detailed records must be kept from the beginning of the process.

# The happy problem: sudden wealth

## **Changing circumstances can bring unexpected problems.**

The most routine sources of sudden wealth are inheritances and lump sum distributions from employer retirement plans. Other events that can affect one's financial landscape include:

- divorce settlement;
- insurance settlement;
- sale of a business;
- contract signing bonus;
- initial public offering;
- exercise of employer stock options.

As much as we all might wish for a windfall, there is a well-documented record of evaporation of sudden wealth. Many lottery winners are broke within a few years, for example.

Inexperience with tax and investment issues is one part of the problem, of course. But there's also an emotional component, experts have found, that needs to be addressed. That's one reason for the common counsel to avoid rushing into any major decisions. Especially if the wealth is an inheritance, there may be issues of grief and loss intermingled with the possibility of financial security.

## **Signs of trouble**

When the wealth transfer trigger is one of life's major turning points, such as retirement or the death of a family member, the recipient of the windfall may be put into a vulnerable posture. The sudden change of financial circumstances can itself be bewildering and can lead to unfortunate decisions. Behavioral worries to watch for include:

- recurrent money-related ruminations;
- "ticker shock," a cycling of hope and anxiety that parallels the stock market's volatility;
- sleep disorders;
- guilt over the good fortune, inhibiting decision-making and undermining pleasure;
- fears of loss of control; paranoid thinking; concern about being exploited or hurt by others.

These are signs that professional financial management guidance is likely to prove helpful.

## **Deferrable decisions**

The first steps one needs to take upon receiving a windfall involve setting goals and developing strategies. A realistic assessment of long-term needs may not be easy, but it provides an important foundation. Matching resources to those needs comes next, followed by a strategy for investing and managing one's new assets. Until these steps have been taken, major temptations such as the following should be avoided:

**Early retirement.** As alluring as jumping off the treadmill of daily work life may be, one needs to plan for longevity as well. You need enough financial resources to cover the unexpected as well as what you can foresee.

**Relocation.** Changing domicile is a major life decision. Before permanently moving to a new city or state, it may be wise to live there temporarily, so as to become confident that it will be all that is hoped for.

**Major gifts.** Family members, friends, even charities may approach the recipient of sudden wealth with requests for help. Keep in mind that a gift is forever, and the income that gift might earn goes along with it. Be certain that you really can afford to part with the capital. Don't overlook the fact that major gifts to friends and family may trigger gift tax obligations as well.

## **If you have come into a fortune**

We have quite a bit of experience with wealth management. We know all about financial transitions and attendant emotional adjustments. When you come into significant sums, call upon us for:

- *personal investment accounts*, with asset allocation planning, unbiased investment advice and fees linked to account value (not transactions);
- *revocable living trusts*, for an added measure of financial flexibility, including protection in the case of disability and probate avoidance;
- *rollover IRAs* to extend the tax-deferral benefits for your retirement money.

## **If you will be giving a fortune**

If your estate plan includes a substantial legacy for a younger family member who lacks full financial maturity, consider using a trust for the bequest. Your trust will be a gift of more than financial resources. You will be including our investment and financial management expertise as well. A gift or bequest in trust can provide for a lifetime of financial security. □

## Giving efforts

*The Chronicle of Philanthropy* conducted a study of changes in charitable giving efforts resulting from the Great Recession. The results were somewhat unexpected.

- From 2006 though 2012, the charitable gifts of those who earn more than \$200,000 annually soared, even after taking inflation into account. In 2012 they donated an aggregate \$77.5 billion. However, during that period this group saw their income rise even faster. Thus, as a percentage of adjusted gross income, this group's giving declined by 4.6%.
- Those making less than \$100,000, in contrast, increased their generosity by 4.5% during this period (as a percentage of their adjusted gross income), with aggregate gifts of \$57.3 billion.
- Giving rates by state residency ranged from a high of 6.56% of AGI for Utah to a low of 1.74% for New Hampshire residents.
- The most generous "blue" state, meaning a state that voted for Barack Obama in the 2012 election, was Florida, with a giving rate of 3.22%. Florida came in 18<sup>th</sup> in the ranking; the top 17 states all voted for Mitt Romney.
- Despite the oil boom, North Dakota saw a 16% drop in the rate of giving there, falling to 2.37% of AGI. That was the largest drop in effort in any state.
- Nine of the 10 large cities with the highest giving rates are in the Sun Belt, with Salt Lake City leading the way.
- Itemizers claimed total charitable deductions of \$180 billion in 2012, roughly 3% of total income. The median income of those who itemize was \$83,823, and the median charitable contribution was \$3,176.

*Caveat:* These findings are based entirely upon those who itemize their tax deductions, as they are based upon tax-filing data. A great many charitable gifts never get reported to the IRS, as even affluent families may decide to use the standard deduction instead of itemizing. What's more, this study could not have picked up any charitable IRA rollovers, as such transfers don't get reported on Form 1040.

## New transfer tax numbers

For 2015 the annual gift tax exclusion will stay at \$14,000 per donee. The annual exclusion is a use-it-or-lose-it proposition. Parents or grandparents who haven't yet utilized their 2014 exclusion may want to take action before the end of the year.

The unified federal lifetime estate and gift tax exemption rises next year to \$5.43 million. That applies on an individual basis, so a married couple has two exemptions to work with, a total of \$10.86 million. □

# Season's Greetings!

*This year, why not give your family the gift of lasting financial security?*

*Call on us to learn more about the benefits that our trust and investment services can provide to you and your family.*



**Kirk Hosler**  
Senior Vice President & Trust Officer  
(815) 332-8872  
kirkh@stillmanbank.com



**Jeffrey Hartle**  
Vice President  
(815) 332-8843  
jeffh@stillmanbank.com

**Stillman**  
BANK

Trust & Asset Management  
8492 E. State Street • Rockford, IL 61108  
815-332-8100  
www.stillmanbank.com