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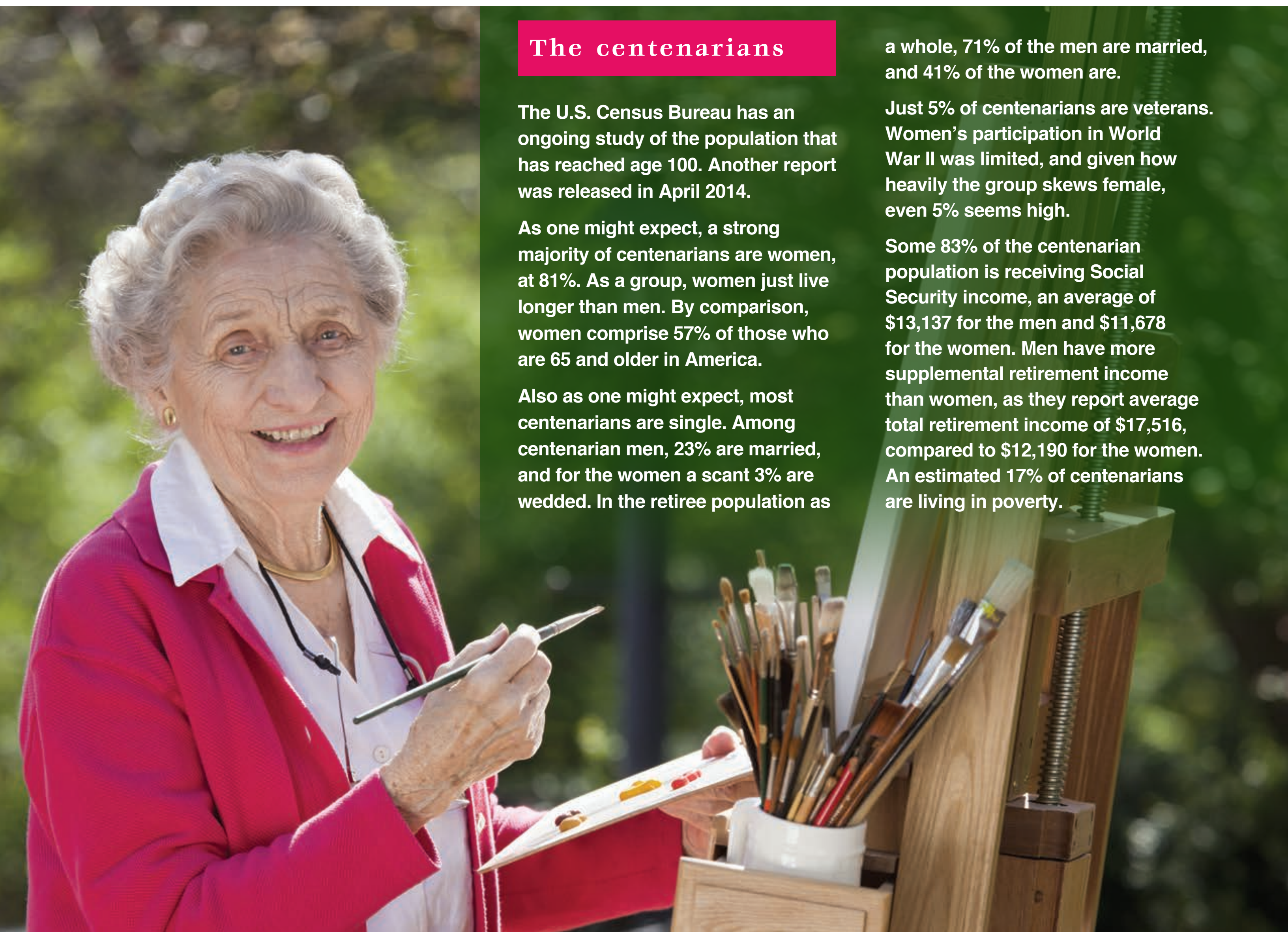
Stillman BANK

On your own

Financial and estate planning for singles

Married couples have financial and estate planning advantages that they may tend to take for granted. For example, when one spouse becomes ill or incapacitated, the other can "step up" to take over household management. When one spouse dies, generally there is no federal estate tax on assets passing to the survivor. No advance planning is required to activate these benefits (although advance planning would make it still easier).

What about singles? They do not have the luxury of deferring their financial planning. Single people need a Plan B, and having a Plan C might not hurt either. In par-



The centenarians

The U.S. Census Bureau has an ongoing study of the population that has reached age 100. Another report was released in April 2014.

As one might expect, a strong majority of centenarians are women, at 81%. As a group, women just live longer than men. By comparison, women comprise 57% of those who are 65 and older in America.

Also as one might expect, most centenarians are single. Among centenarian men, 23% are married, and for the women a scant 3% are wedded. In the retiree population as a whole, 71% of the men are married, and 41% of the women are.

Just 5% of centenarians are veterans. Women's participation in World War II was limited, and given how heavily the group skews female, even 5% seems high.

Some 83% of the centenarian population is receiving Social Security income, an average of $13,137 for the men and $11,678 for the women. Men have more supplemental retirement income than women, as they report average total retirement income of $17,516, compared to $12,190 for the women. An estimated 17% of centenarians are living in poverty.

ticular, singles need to plan for incapacity. What happens to your finances if something happens to you?

Key documents

To empower someone to take over on your behalf, you will need to cover both the financial and health bases. You may need to execute:

- a health care power of attorney, with medical instructions to be followed if you are incapacitated;
- a Health Information Portability and Accountability Act (HIPAA) authorization, so that your agent has full rights to your medical records;
- a health care proxy that may give someone decision-making power as you near the end of your life;
- a power of attorney over financial assets.

Powers of attorney can be tricky things. The traditional power of attorney conveys to the agent no more power than the principal has, which means that it expires when the principal becomes incapacitated. In the context of disability, the traditional power of attorney becomes useless when it is most needed. Therefore, the durable power of attorney was invented for this situation, a power that continues while the principal is not available. Another alternative is the springing power of attorney, which becomes effective only when the principal becomes disabled. That leaves open the question of how and when the presence of disability will be determined.

Unfortunately, the attorney-in-fact may face some roadblocks when trying to use the powers. In general, a power of attorney is most useful at the outset of disability. For long-term financial management, you need something more.

The living trust

A trust arrangement offers comprehensive protection that can last as long as it is needed.

You create the trust now. The trust agreement is revocable, meaning that you can make changes to it at any time, even cancelling the agreement if you see fit. Initially, the agreement may call for you to be consulted before investment decisions are implemented with regard to the assets placed in the trust.

Our responsibility as trustee includes everyday investment chores—we buy and sell as you instruct us, collect dividends and interest income for you, and maintain accurate records of all transactions. We'll also keep you posted regarding important deadlines that affect your holdings.

When and if you become incapacitated, or upon your request, we will spring into action by taking over the full management of your assets, acting as you have directed in the agreement. In addition to handling your investments, our responsibility may be extremely wide-ranging. You may authorize us to use trust income to employ household help, hire nurses, and even pay your monthly bills.

The trust can be integrated into your overall estate planning as well. You can make provision for assets that have not been placed in trust during your lifetime to pour over into the trust at your death. You can fashion an agreement that allows you to distribute your assets as you wish at your death, taking tax considerations into account.

We have more ideas

Our job as corporate fiduciary is to develop investment and financial management plans for people in a great range of circumstances. We think creatively. We don't approach our clients with preconceived notions as to the best way to achieve their unique goals.

Everyone should explore the options and opportunities presented by our trust and investment services. If you have not already done so, we invite you to contact one of our officers soon to learn more. ☐

What a living trust *doesn't* do

Recently, we received this question on the consequences of having a living trust.

If Mom puts all her investments into a living trust, will just her Social Security income be available to the nursing home?

No, the living trust does not normally protect one's assets from the claims of creditors. That's because most living trusts are revocable, meaning that the grantor can change the terms at any time. Any assets that a trust beneficiary has control over are available to the beneficiary's creditors, which would include nursing homes and unreimbursed medical expenses. An irrevocable trust may, in some circumstances, shield some assets, but Medicaid's look-back rules will come into play. Consult an experienced elder law attorney to learn more, if this issue is important to your family.

What the living trust *does* provide when long-term care is needed is uninterrupted financial management following incapacity or admission to a nursing home. Other benefits include:

- professional, unbiased portfolio management;
- uninterrupted financial protection of successor beneficiaries;
- financial privacy at death.

To learn more about how a living trust may be integrated into your retirement planning, please arrange for a meeting with one of our officers at your earliest convenience.

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Equity styles

When you buy stocks, are you looking for growth or value? For the uninitiated the question may seem nonsensical—everyone wants both growth *and* value, and large portions please! But these terms have a specific meaning to professional investors. The terms imply dramatically different risk profiles and expectations for rates of return on investments.

The traditional "value" investor seeks to invest in companies at relatively low valuation levels. These bargain hunters of the investment world typically search for low ratios of stock price to earnings (the price-earnings ratio, or P/E), or to book value (price-to-book value ratio, or P/B). They are hoping to discover investment opportunities "overlooked" by other investors, by the market as a whole. Very often these companies are out of favor on Wall Street and may be undergoing a restructuring or other transformation expected to "unlock" great future value. Patience is an attribute most often associated with value investors. Their patience may be rewarded with higher dividend yields and lower risk of disappointment.

Growth investors, residing at the other end of the spectrum, generally pursue explosive growth of sales and earnings with little regard to price. The companies in which they invest typically sport high P/E's, P/B's and multiples of sales because their superior past records are well established. These Wall Street favorites can offer excitement and above-market rates of return, and they tend to be younger firms in the fields of technology, communications and pharmaceuticals. However, these characteristics tend to be accompanied by greater price volatility and risk of loss, especially when earnings soften.

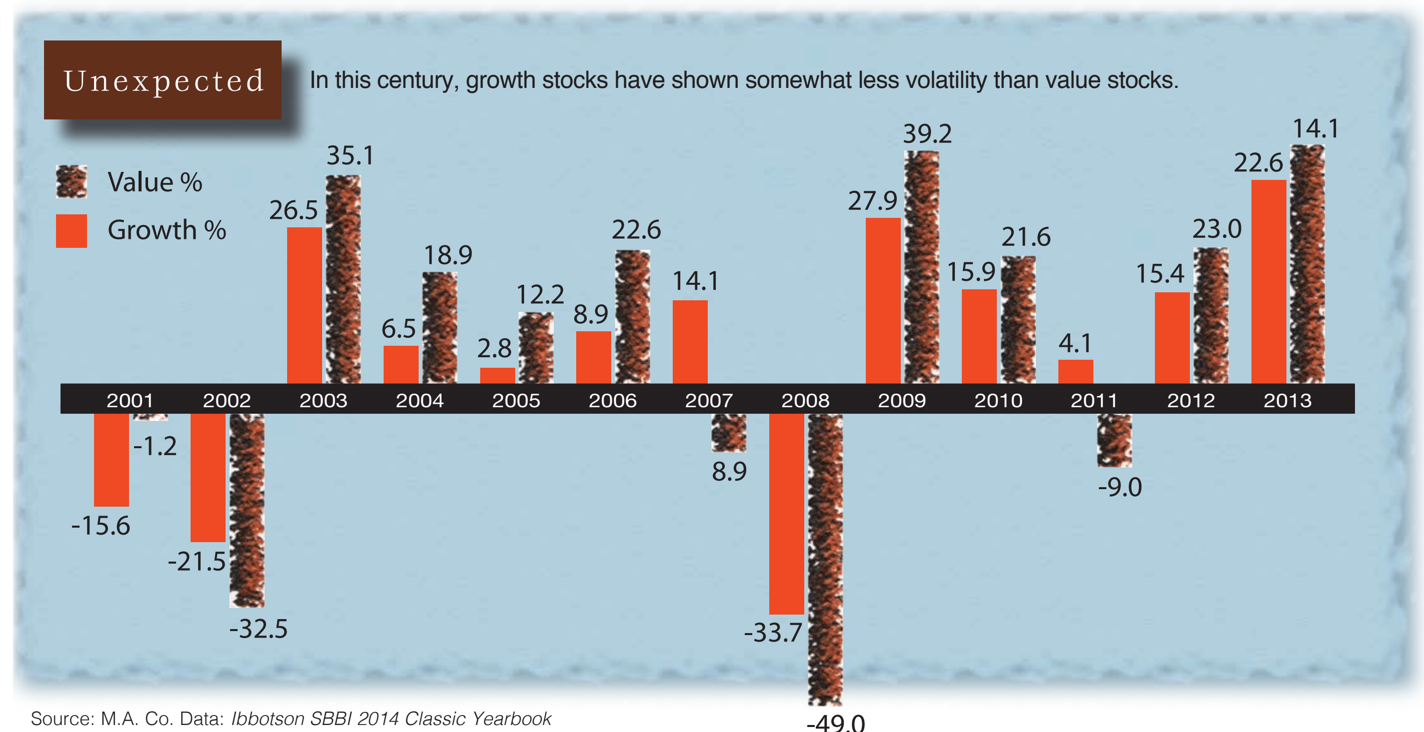
Value investors are generally thought to be more conservative, accepting lower returns in exchange for more stable prices. Growth investors, in taking greater risks in search of superior rewards over a shorter time frame, are thought to be more aggressive.

Which approach is really better?

There have been a number of indices developed over the years to compare growth and value investments. Eugene Fama and Ken French developed the Fama-French Index, the results of which are published annually in the *Ibbotson SBBI Classic Yearbook.* In the Fama-French index, book value is divided by market capitalizations, with some adjustments. Value companies have a high book-to-market ratio, while growth companies will have a low ratio. The 30% of companies with the highest ratios constitute the value index, and the 30% with the lowest ratio will be the growth index. The middle 40% is considered a blend of the two styles.

The graph below shows the relative performance of the two styles for large-cap stocks in this century. Over the past ten years, growth has slightly outperformed value, with a compound annual return of 8% versus 7.5%. However, if one begins the examination in 2000, when the Internet bubble collapsed, the picture changes. From 2000 through 2013, value stocks had an annual compound return of just 0.3%, but that was far better than the -1.8% of growth stocks.

One would expect that growth stocks would have higher highs and lower lows than value stocks, but the graph shows that this assumption has been wrong in recent years. Value stocks had the worst single year, in 2008, with a loss of nearly 50%. But they handily beat the growth stocks in both 2012 and 2013, making up for the loss. ☐



Source: M.A. Co. Data: *Ibbotson SBBI 2014 Classic Yearbook*

IRS announces an extension

Join a brand-new estate tax concept with a critical Supreme Court ruling, and you get an unusual case of IRS flexibility. The concept is the portable federal estate tax credit, known by the technical name Deceased Spouse's Unused Exemption, or DSUE. This provision was added to the tax code temporarily in 2011, and made permanent in 2012. The new rule permits married couples to double their federal estate tax exemption without resorting to trust planning. The 2013 Supreme Court decision extending federal tax treatment of married couples to same-sex married couples interacts with this new rule, according to the IRS.

Assume these facts: Spouse 1 died on January 1, 2011, survived by Spouse 2. Spouse 1's estate consisted of $2 million in joint bank accounts with Spouse 2. No estate tax return was required for Spouse 1, and none was filed. That inherently means that Spouse 1's estate did not make a DSUE election, because an estate tax return is mandatory for securing this tax benefit. Next, Spouse 2 died on January 14, 2011, with a taxable estate of $8 million. An estate tax return was filed, and taxes were paid on the $3 million in excess of the exclusion from federal estate tax. However, if the DSUE election had been made for Spouse 1, no estate tax would have been due.

Under the new IRS Revenue Procedure, Spouse 1's executor has an extension of time to file the DSUE election, which will get Spouse 2's estate a full refund of taxes. The reason for the unusual generosity of the IRS is the *Windsor* decision in 2013, mandating that same-sex married couples be eligible for the marital deduction from federal estate taxes. That means that they are eligible for the DSUE election as well, though they couldn't know that in 2011. Although that may motivate the Procedure, the relief is not limited to same-sex married couples. The extension of time is available for decedents who:

- had a surviving spouse;
- died after December 31, 2010, and on or before December 31, 2013;
- had an estate small enough so that no estate tax return was required; and
- did not have an estate tax return filed.

By following the steps in the Revenue Procedure, an executor now may make a late DSUE election. To recover estate taxes paid, a claim for credit or refund must be filed by October 14, 2014, even if the DSUE election hasn't been made by then. ☐

We manage money for small investors

Our clients protect their financial independence and provide for their families with revocable trusts. With gifts in trust, they make the financial future brighter for their children or grandchildren.

We are proud of our ability to provide experienced, responsive trusteeship. To learn more about our services, please arrange to meet with one of our trust professionals.

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