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Trust UPDATE

Stillman BANK

Ready for retirement?

Retirement is an emotional transition as well as a financial transformation, a declaration of financial independence. Here are some questions that one must face, and issues to sort through.

Closely held businesses. If you own all or part of a business, should your shares be redeemed by the company, when you retire? Should you sell to a family member? To an outsider? What about a merger with another firm?

Personal investments. Retirement means that your investment goals will shift: less emphasis on capital growth, more concern with capital preservation. But don't forget protection of your purchasing power. The sooner that you reach tentative decisions on how you want to allocate your invested funds when you retire, the more opportunity you will have to make necessary portfolio adjustments on a favorable basis.

Pensions and retirement funds. If married, should you choose a joint-and-survivor annuity or elect to receive higher payments for your lifetime only? (The latter choice may be better if your spouse also has good pension coverage.) Some plans offer the additional choice of a single lump sum payment of your pension benefit. Other types of retirement plans, such as profit sharing and 401(k) plans, typically pay their benefits as lump sums, but may include an annuity option.

If early retirement is under consideration, be certain that you understand how much your pension benefits may be reduced. The cutback could be severe.

IRA rollover? If you'll be receiving one or more lump sum distributions, you'll have a major income tax decision to make. Should you preserve your tax deferral by arranging for a direct rollover to an IRA? The answer could depend upon whether you are really retiring or about to embark on a second career.

Estate planning. Retirement is a moment for will review, and possibly new trust arrangements. By making lifetime gifts—setting up trusts for grandchildren, for instance—potential estate tax liabilities can be reduced. However, lifetime gifts must be irrevocable to be effective for tax purposes.

Our flexible tool for retirement security

By means of an arrangement called a *revocable living trust*, retired men and women draw upon our knowledge in investments without tying up their money or locking themselves into a program that cannot be changed as the years go by.

Continued on next page

Ready for retirement?. . . continued

With this highly flexible arrangement, we supply full investment management supervision, or submit recommendations for approval, as the client prefers. As trustee, we also provide safekeeping for securities, maintain the records needed for tax and investment purposes, redeem called or matured bonds, and take care of other routine portfolio chores.

Our customers can revise or expand the directions that they give us whenever they wish. They can add money to the trust for investment, make withdrawals or cancel the entire arrangement.

With all this flexibility, a revocable trust can offer significant additional advantages, including financial protection in the event of incapacity and probate avoidance. The trust can be the cornerstone of a fully developed estate plan. If you have not already investigated the advantages of a revocable living trust, put it high on your list of retirement options worth exploring.

We can help you

We've worked with a broad spectrum of business owners, executives and professionals to solve the problems—and maximize the opportunities—associated with retirement. Our experience is yours to draw upon. Whether you are retiring early, retiring late or regrouping to start a new career, we stand ready to propose realistic strategies, geared to your personal requirements. ☐

How long should you plan for?

In 1900 life expectancy at birth in the United States was just 49.24 years. Thanks to dramatic strides in medical science, as well as better nutrition and less hazardous occupations, Americans born in 2010 (latest data) could look forward to living 78.7 years, to 2088, on average.

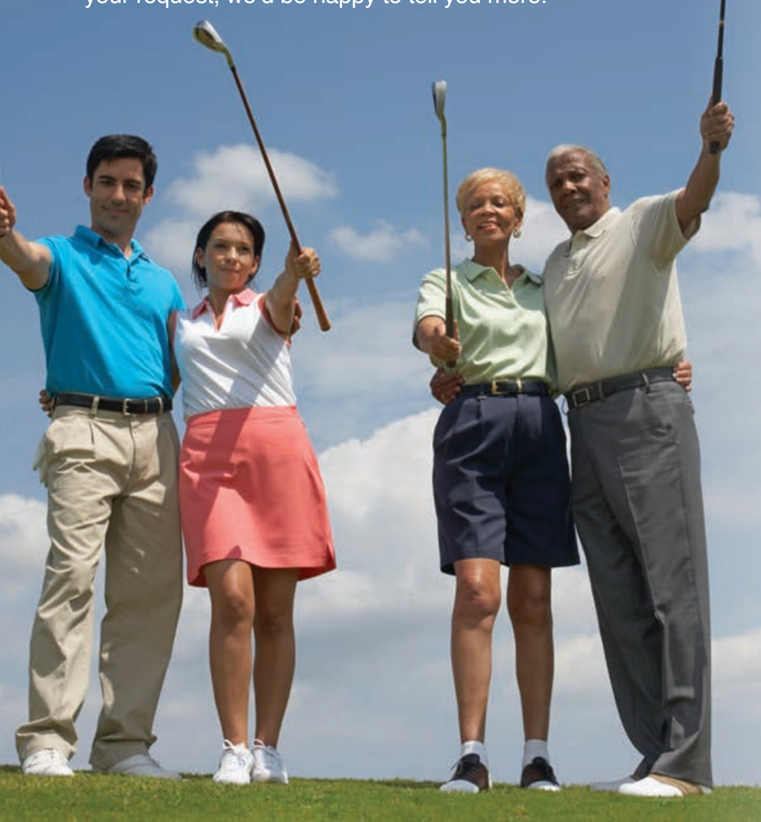
That's fine information for the youngest generation, but for those planning a retirement, the more pertinent question is, how long must my money last? The longer one lives, the longer is one's life expectancy. According to the most recent available data, the life expectancy for men age 65 in 2010 was 17.7 years (to age 82), and for women 20.3 years, to over age 85. Many retirements will last for 25 or 30 years. The table below shows expected years of life remaining at various points during retirement.

Age	Men	Women
65	17.7	20.3
70	14.2	16.5
75	11.0	12.9
80	9.1	9.7
85	6.5	6.9
90	4.6	4.8

Source: National Vital Statistics Reports, Vol. 63, No. 7

Our services for retirees

You don't have to be retired to benefit from these financial services, but if you have started your retirement (or plan to soon), you should give them some careful consideration. At your request, we'd be happy to tell you more.



- **IRA rollovers.** When you receive a plan payout, you may preserve tax advantages for your retirement capital by arranging for an IRA rollover. Do you already have such an account with another firm, but feel lost in the shuffle? We'd be happy to help you move your IRA so that you can begin to benefit from our personalized investment management.

- **Personal investment accounts.** After careful study of your goals and circumstances, resources and risk tolerances, we recommend, implement and monitor a personalized investment program for you. Because we charge annual fees linked to market value, our best interests and the best interests of our clients are linked clearly.

- **Living trusts.** The same personalized investment guidance is available to clients who wish to set up their investment programs as revocable living trusts. A trust-based financial plan doesn't impair the client's control of his or her investments, but it does offer such added benefits as probate avoidance, integration with the estate plan, and financial management in the event of prolonged illness or incapacity.

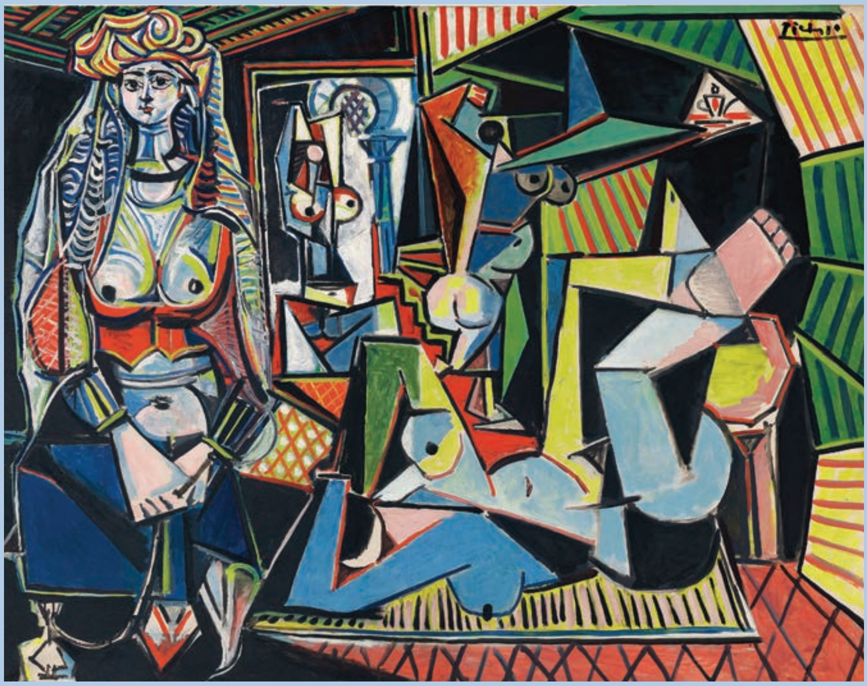
Art as an investment

Data points from the art world:

- In 2004 460 works of art sold for more than $1 million. In 2014 there were more than 2,000 such sales.
- Two major art auction houses, Christie's and Sotheby's, sold roughly $14 billion worth of art last year.
- In a single week in May of 2015, nearly $2 billion worth of art changed hands. Christie's alone sold $1 billion worth in three days.
- Picasso's *Les Femmes d'Alger (Version "O")* fetched $176.4 million at that Christie's auction, the highest amount ever paid so far for a painting. Roughly $160 million went to the seller, and the difference was the commission paid to Christie's for arranging the sale.

What accounts for the price surge at the top end of the art market? An increasingly global demand, particularly from Asia, for such pieces is one factor. The extended period of low interest rates also may be contributing to the price increase—many will suppose that price increases in fine art will easily outstrip today's bond yields. The idea of art as an investment has resurfaced.

In fact, in April *The New York Times* reported on a new service for those who buy art as an investment rather than to display—reportedly some 76% of art buyers. A $70 million warehouse opened in Long Island City, Queens, for the sole purpose of storing highly valuable art, with "Mission Impossible" grade security. The owners of the art might never take possession of their pieces. The majority of the available space already has been leased.



CHRISTIE'S IMAGES. LTD. 2015

Art versus stocks versus bonds

The eye-popping price appreciation of Picasso's *Les Femmes d'Alger (Version "O")* is partly a function of the unusually long holding periods between sales. The financial market data is from the Ibbotson SBBI 2015 Classic Yearbook, published by Morningstar. *Data for illustration only; you cannot invest in an index.*

Average annual total return for each period

Year	Picasso's *Les Femmes*	Long-term Government bonds	S&P 500-stock index	Inflation
1956-1997	12.3%	6.4%	11.6%	4.4%
1997-2015	9.0%	8.0%	7.8%	2.2%

Source: M.A. Co.

What is the benchmark?

Picasso's *Les Femmes* was created in 1955 and first sold, with other paintings, for $212,000 in 1956. The painting next changed hands in 1997, when it sold for $31.6 million. Although such price appreciation may seem remarkable, it is not much higher than the total return of the S&P 500 over the same period of time. It does substantially outstrip the total return of long-term government bonds. See the table *Art versus stocks versus bonds* for details.

A tax angle

There also may be a tax factor at play in some fine art sales. Reportedly, some buyers are structuring their purchases as "like-kind exchanges" under Section 1031 of the tax code. With this approach, as one "trades up" to more valuable pieces of art, capital gains taxes may be deferred, perhaps indefinitely. Should the art be held until death, those taxes are forgiven under the "basis step-up" rule.

Some legislators, however, have proposed excluding the category of fine art from the protection of the like-kind exchange rules. ☐

Amateurs and incompetents

Should you name a family member to settle your estate? Would that save the family some money? For small estates, maybe so. For larger estates, entrusting a relative with the important and complicated job of settling an estate can prove to be false economy, as the following true story demonstrates.

Virginia Escher died on December 30, 2008, at age 92, with an estate worth some $12.5 million. Her cousin, Janice Specht, was named executor of the estate. Janice had no experience at being an executor, never had owned stock, and, in fact, *never had been in an attorney's office*. Nevertheless, she accepted the job. Ms. Escher's lawyer was Mary Backsman, who had 50 years of experience in estate planning (so she must have been in her 70s). Ms. Specht retained Ms. Backsman as the estate's attorney.

Backsman did not reveal to Janice that she was battling brain cancer at that time.

Specht knew that a substantial estate tax was going to be due, and she knew the due date. She also knew that shares of UPS stock held by the estate would have to be sold to raise the needed cash. Specht followed up with Backsman concerning progress on administering the estate, and she was assured that everything was fine. The assurances continued after Specht received notices from the probate court that estate accountings had not been timely filed. When the deadline for the estate tax went by, Backsman reported that she had filed for an extension, but she had not. Additional irregularities piled up, but Specht did not act.

Fourteen months after the estate tax should have been paid, Specht obtained a new attorney, who filed an estate tax return within 90 days. The IRS assessed some $1.1 million in penalties and interest, which the estate paid. The estate in turn sued Backsman for malpractice, a suit that was settled about a year later.

Now the estate seeks a refund of the penalties and interest, because the estate had relied upon the advice of counsel. No such relief is available, the Court held, even if the attorney involved were incompetent. Specht had many warning signs of trouble. Her failure to act sooner amounted to willful neglect of the problem. The disability of the attorney did not render Specht disabled.

The Court noted that, in view of the malpractice action against Backsman, the State of Ohio had refunded the late penalty and interest on its estate taxes. "It is truly unfortunate that the United States did not follow the State of Ohio's lead," the Court concluded.

The better choice for estate settlement is a corporate fiduciary, such as us. We are trained in this work, we know what the deadlines are, and we meet them every day. It's our business, not a sideline. Call on us to learn more. ☐