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Trust UPDATE

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BANK

March 2013

Three core benefits of having a living trust

A cautionary tale from “down under.”

Although the following true story happened in Australia, it easily could have taken place anywhere in the U.S. The names, taken from a court case, have not been changed.

Betty May Harris was an elderly widow with a \$12.5 million fortune. She had no descendants, but she did have nieces and a nephew. In 1996, when she was 82 years old, Betty May executed a will naming as her sole beneficiary one niece, Coralie Hart, even though Betty May had very little contact with her.

In 2004 Betty May was hospitalized.

She was visited there by her neighbors, Mr. and Mrs. Gray, whom she had known for 35 years. Betty May was reluctant to contact her relatives, but eventually Mrs. Gray learned how to get in touch with Coralie. After Coralie came to see Betty May in the hospital, she went to Betty May's house to look through her financial papers. There she discovered her status as the sole heir under the 1996 will, as well as the extent of Betty May's fortune.

Coralie applied to be named guardian for Betty May. Based upon the testimony of a physician who examined Betty May in the hospital, and

who believed that she suffered from moderate dementia, Coralie and her son-in-law, Mr. Swindells, became guardians. Mr. Swindells then transferred Betty May's assets to his own name and began charging significant fees for his financial management work.

When she returned from the hospital, Betty May was outraged to discover that her house had been ransacked. What's more, she had lost control of her own bank accounts and was very angry about the guardianship. She turned to her friends, the Grays, who arranged for her to be seen by two consulting neurologists.

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The neurologists concluded that Betty May was not suffering from dementia. More importantly, they advised that she was competent to draft a new will. Betty May disinherited all of her relatives in a 2005 will, leaving her property instead to the Grays.

The living trust alternative

What could Betty May have done to protect herself and her money from her relatives? She could have established a living trust. With a living trust, another person or entity (such as us) is designated as trustee and charged with financial management duties. A living trust arrangement delivers three core benefits.

Uninterrupted financial protection. A living trust agreement can instruct us to perform a wide variety of special tasks when the need arises. These tasks might be as simple as paying a world traveler's quarterly estimated taxes while he or she is out of the country . . . or as complex as handling all household financial matters for a customer who has suffered a stroke and needs a housekeeper and nursing home care.

Older men and women often find this "future protection" aspect of our services especially attractive. With proper planning, living trusts can do much to avoid the financial management problems that arise during a prolonged period of incapacity—problems that might otherwise have to be dealt with by a court-appointed

conservator. In Betty May's situation, there would have been no need for a guardian, as the trustee already would have had matters in hand.

Professional asset management. After studying your goals and circumstances, our asset-management specialists will map out a diversified investment program appropriate to your requirements. Like many of our customers, you may authorize us to select specific investments on your behalf, confident that we will carry out this responsibility faithfully. We have no securities to sell, nor do we receive commissions on purchases and sales. Our annual compensation is limited to the moderate fees that we charge as trustee.

As trustee, we keep complete, accurate investment records and submit periodic reports to you. We also provide safekeeping for securities, watch for matured or called bonds, handle redemptions and exchanges and attend to other chores that individual investors find so time consuming. Our objective is not only to add to your financial security but also to give you more opportunity to enjoy it.

Avoiding probate. Assets placed in a living trust are said to avoid probate because these assets are removed from the "probate estate"—the estate controlled by a will. Trust assets are distributed to beneficiaries or held in continuing trust, as directed in the trust agreement. Thus, using a living trust as the core of an estate plan may lead to reduced settlement costs.

More importantly, delays are avoided. For example, a married person's living trust can simply keep operating, uninterrupted by estate-settlement procedures, for the benefit of the surviving wife or husband.

Living trusts also help to keep estate plans private. Unlike probated wills, provisions for the distribution of assets contained in living trust agreements do not normally go on public record. The confidentiality of trust-based estate plans has made them attractive to public figures, ranging from Henry Ford II to Dwight Eisenhower to John Lennon.



Five reasons to take advantage of our living trust service

Planning to set up a living trust? Already have a trust of the self-trusted variety? Here are some good reasons to place your trust in our care.

- 1. Reliability.** We understand the special responsibilities of a trustee. All trust funds in our care are safeguarded by both internal and external audits.
- 2. Experience.** Trusteeship is our business.
- 3. Responsiveness.** Financially successful individuals and their families expect personal attention and responsive service. We deliver.
- 4. Objective investment guidance.** Unlike investment advisors who are compensated mainly by sales commissions, we earn our reasonable trustee's fee by providing our trust clients with unbiased, personalized guidance.
- 5. Convenience.** From bill-paying to retirement planning, we can provide or obtain just about any convenience or special service that our trust clients desire.

The rest of Betty May's story

At Betty May's death in 2009, Coralie offered the 1996 will for probate. Mrs. Gray came forward with the 2005 will. Coralie argued that by 2005 Betty May was incompetent, lacking in testamentary capacity. Coralie alleged that Betty May had delusions and was paranoid, believing that her relatives were trying to take advantage of her, seeking her money.

Looking at the actions that the relatives actually took, the Court ruled that Betty May's beliefs may or may not have been accurate, but they certainly were not delusional. She did have the capacity to make a new will, and the inheritance for the Grays was upheld.

We can be your trustee

Is a living trust part of your financial management plan? If not, we'd be pleased to tell you more about the advantages that it has to offer. If you already have a living trust, why not make us your trustee? Call on us this month to learn more. □

Chasing yield

The reason that the Bernie Madoff investment fraud continued for so long is that Madoff didn't promise investors that they would get rich quick. He promised steady returns without risk. An offer of a 25% return in one year sets off alarm bells for most investors. Offers that downplay the risk of loss should also.

Recent stock market volatility and the Federal Reserve's policy of low interest rates have driven more and more investors to unconventional assets, styled "alternative investments" or "exotic investments." According to one estimate, Americans have some \$712 billion in complex investments that claim to provide higher returns without the volatility of the stock market. Savers are looking for a stable source of income, something that was not so very hard to find five years ago. Some of these investments have soured, leading to action by securities regulators. Among exotics mentioned in a recent *New York Times* article:

- Part ownership in a fleet of luxury cars;
- An interest in a company supposed to produce a bilingual television show, "Hacienda Heights"; and
- Interests in nontradeable real estate investment trusts (REITs). In fact, Massachusetts regulators fined a major brokerage firm for selling these securities to investors who were not sophisticated enough to understand them. The firm promised to reform its sales process.

Be an informed investor

The Securities and Exchange Commission (SEC) offers a wide variety of resources to those who are willing to investigate before they invest. For example, offers of a sale of securities must be registered with the SEC, and important details about it may be found in the SEC's EDGAR database or by calling its toll-free investor assistance line at (800) 732-0330. The SEC also provides information on the background and qualifications of investment professionals.

Commonsense financial advice also may be had from the SEC investor bulletins, available at its website. For example:

- ***Paying off high-interest debt may be the best investment strategy.*** Eliminating credit card interest rates that easily may exceed 20% annually has no risk and an immediate, above-market return.

- ***It can be costly to ignore the fees associated with buying, owning and selling an investment product.*** One of the usual characteristics of an "alternative investment" is a high commission for the broker who sells it. High costs make it very difficult to achieve high net returns. Surrender fees also must be taken into account.

- ***Active trading and some other very common investing behaviors actually undermine investment performance.*** A large body of academic research supports this assertion.

- ***Research shows that con artists are experts at the art of persuasion, often using a variety of influence***

tactics tailored to the vulnerability of their victims. The SEC cites tactics such as phantom riches, source credibility, social consensus, reciprocity and scarcity as techniques to watch out for.

- ***The key to avoiding investment fraud, including scams that target specific groups, is using independent information to evaluate financial opportunities.*** Such information needs to come from outside one's family or social community.

We can help

For a second opinion on any of your investment ideas, call on us. □



SEC warns of government impersonators

The latest twist in investment scams features the scamster pretending to be a government regulator. The problem has become severe enough to prompt the Securities and Exchange Commission (SEC) to issue an alert about it. The SEC does not endorse investment offers, assist in the purchase or sale of securities, or participate in money transfers. SEC staff will not, for example, contact individuals by telephone or e-mail for purposes of:

seeking assistance with a fund transfer;

forwarding investment offers to them;

advising individuals that they own certain securities;

telling investors that they are eligible to receive disbursements from an investor claims fund or class action settlement; or

offering grants or other financial assistance (especially for an up-front fee).

Should you receive such a contact, do not send money or personal financial information. The SEC has several mechanisms to verify the identity of its employees, as well as a complaint form for reporting fraud attempts.



A century of income taxes

This year marks the centennial of the 16th Amendment to the Constitution, authorizing the imposition of income taxes. The Amendment was sent to the states on July 12, 1909, and was ratified on February 3, 1913. The Revenue Act of 1913, implementing the modern income tax, was enacted on October 3, 1913. Here are what Presidents have had to say about the income tax since then.

I trust that the Congress will give its immediate consideration to the problem of future taxation. Simplification of the income and profits taxes has become an immediate necessity.

—Woodrow Wilson

I can't make a damn thing out of this tax problem. I listen to one side and they seem right—and then I talk to the other side and they seem just as right, and here I am where I started. God, what a job!

—Warren G. Harding

Governments are necessarily continuing concerns. They have to keep going in good times and in bad. They therefore need a wide margin of safety. If taxes and debt are made all the people can bear when times are good, there will be certain disaster when times are bad.

—Calvin Coolidge

If the Nation is living within its income, its credit is good. If, in some crises, it lives beyond its income for a year or two, it can usually borrow temporarily at reasonable rates. But if, like a spendthrift, it throws discretion to the winds, and is willing to make no sacrifice at all in spending; if it extends its taxing to the

limit of the people's power to pay and continues to pile up deficits, then it is on the road to bankruptcy.

—Franklin D. Roosevelt

Every real American is proud to carry his share of any burden. I simply do not believe for one second that anyone privileged to live in this country wants someone else to pay his fair and just share of the cost of his Government.

—Dwight D. Eisenhower

It is a paradoxical truth, that tax rates are too high today, and tax revenues are too low, and the soundest way to raise the revenues in the long run is to cut the tax rates.

—John F. Kennedy

Make sure you pay your taxes; otherwise you can get in a lot of trouble.

—Richard M. Nixon

[The federal income tax system is] a disgrace to the human race.

—Jimmy Carter

The taxpayer—that's someone who works for the federal government but doesn't have to take a civil service examination.

—Ronald Reagan



What can you do with a trust?

Our trust services provide continuous family financial protection, from one generation to the next. Every family is unique; a trust may be tailored to fit every family circumstance, the common and uncommon alike.

Let us help your family!



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