Trust UPDATE

Stillman BANK

May 2017

Plan for a long life

Life expectancies continue to creep higher. In just three years, from 2010 to 2013, the life expectancy for a man aged 65 increased from 17.7 years to 17.9, for women, 20.3 to 20.5. Not a dramatic change, but one that points to the need to fund a longer retirement. The top table below shows life expectancies for various ages, according to the National Vital Statistics System. Someone who has reached age 90 may expect to live nearly five more years, for example.

The second table below shows how many individuals are expected to reach a given age from each 100,000 of population. More than 84,000 will reach age 65, for example. Of every 100,000 men, 51,252 will reach age 80; of every 100,000 women, 64,427 will live to fourscore years. Nearly 2% of Americans will live to age 100, with the women outnumbering the men by 2.7 to 1.

The report also shows a significant racial disparity for life expectancies. Hispanic females have the longest life expectancy, at 84.2 years, followed by non-Hispanic white females at 81.2, and Hispanic males at 79.2. Non-Hispanic black females have a life expectancy of 78.1 years, non-Hispanic white males clock in at 76.5. Non-Hispanic black males have the shortest life expectancy, at 71.9 years.

The 20-year retirement

The tables show that more than half of those who reach age 65 will live to age 85 or longer. Two questions pres-

Life expectancies in retirement

Age	Total	Men	Women
65	19.3	17.9	20.5
70	15.6	14.4	16.6
75	12.2	11.2	12.9
80	9.1	8.3	9.7
85	6.6	5.9	7.0
90	4.6	4.1	4.8
95	3.2	2.9	3.3
100	2.3	2.1	2.3

How many people reach each age, per 100,000 born?

Age	Total	Men	Women
65	84,343	80,668	88,030
70	78,308	73,656	82,965
75	69,764	64,050	75,460
80	57,879	51,252	64,427
85	42,192	35,214	48,940
90	24,208	18,213	29,723
95	9,299	5,973	12,212
100	1,971	1,023	2,754

Source: National Vital Statistics Reports, Vol. 66, No. 3 (April 2017) ent themselves: What to do during a 20-year retirement, and how to finance it?

Joseph Coughlin, Ph.D., the director of MIT's Age Lab, recently commented on how unprepared many people are to decide how to fill their days when they stop working. He noted the ad campaign by the John Hancock Insurance Company that is centered on the retirement of Red Sox player David Ortiz ("Big Papi"). In the ads Ortiz asks his fans for their help in discovering worthwhile ways to spend his time in retirement. Coughlin reports that the crowd-sourcing approach yielded these ideas, among many others:

- Learn to play lacrosse.
- Become a dog walker.
- Save the rhinos.
- Join an outrigger canoe team.
- Become a high school gym teacher.
- Travel and give "Big Papi reviews."
- Take up arts and crafts.
- Be a backup goalie for the Boston Bruins hockey team.
- Invest in a metal detector and walk the beaches of New England.

Some suggestions are more serious than others, but they do represent a novel range of activities. Coughlin concludes: "I suspect Big Papi will do OK, with people knocking on his door with opportunities. As for the rest of us, our retirement will require an entirely new approach to planning. A new industry will form to help imagine and facilitate the decades of life we will have in older age . . . instead of just helping finance our parents' ideas of retirement."

Enter the living trust

What about the financial management part of the retirement equation? A living trust offers comprehensive investment and financial management 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.

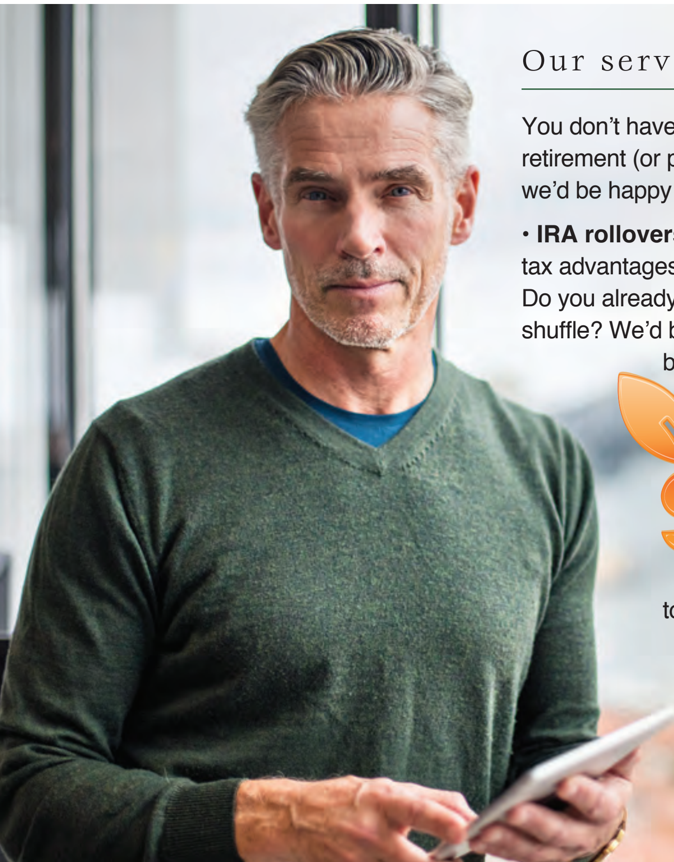
Our responsibility as trustee includes everyday investment chores—we buy and sell as you instruct us, collect dividends and interest income for you, and maintain accurate records of all transactions. We'll also keep you posted regarding important deadlines that affect your holdings.

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.

We have more ideas

Our job as a 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 services for retirees. If you have not already done so, we invite you to contact one of our officers soon to learn more! ☐



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 retirement 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.
- **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.

Modern life insurance

Life insurance continues to play an important role in the financial security of affluent families. Meeting death tax obligations has become less of a concern as the amount exempt from the federal estate tax has risen, but providing enough capital for one's heirs remains an important consideration. Policy design and, in turn, the choices for consumers have evolved dramatically.

Term insurance

It's been said that one may either buy or rent a life insurance policy. The "rental" model is called *term insurance*, and it is most appropriate when the insurance need will last for only 20 years or so. If the insurance need extends beyond that time frame, permanent insurance with accumulating cash values likely will be more appropriate.

- ***Annual renewable term insurance*** provides a fixed death benefit for a premium that rises each year. This approach is a pure play on the mortality component of life insurance. Such policies also may include maximum guaranteed premiums.
- ***Level premium term insurance*** is sold for a stated number of years, such as 10, 15, or 20. The premium is fixed for the entire period. Some policies may permit renewal at higher rates. Either type of policy may be convertible to permanent insurance, but the terms of such conversions vary widely.

One who buys term insurance is expecting to outlive the policy; the insurance is there in case the unexpected happens. It's been estimated that less than 10% of the term policies sold ever pay a death benefit. Either the insured outlives the policy or stops paying the premiums, allowing the policy to lapse.

Permanent insurance

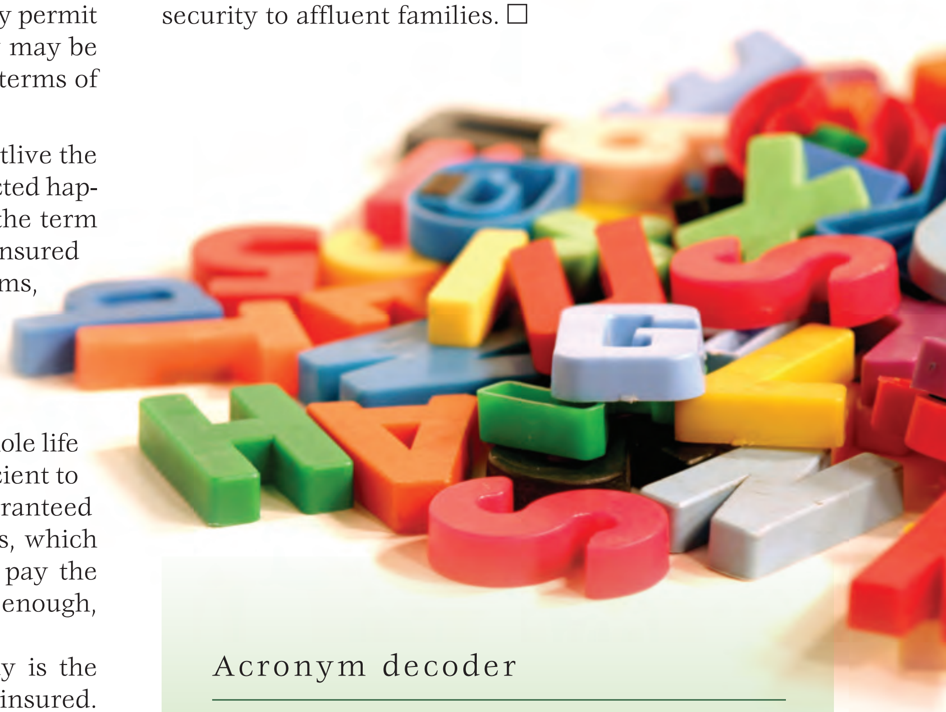
In contrast to term policies, *whole life insurance* is expected to last a lifetime. The premiums of whole life policies include an investment component sufficient to create a guaranteed cash value as well as a guaranteed death benefit. These policies may pay dividends, which can be used to buy additional insurance or to pay the existing premiums. If the cash value grows large enough, the premiums in some cases may vanish.

An interesting aspect of life insurance today is the degree to which control has been offered to the insured.

- ***Premium flexibility.*** With a current assumption universal life policy, the insured can adjust the premiums as his or her circumstances change. Amounts in excess of the cost of insurance are credited to the cash value.
- ***Investment flexibility.*** With variable universal life policies, the policyholder designates how the cash value will be invested.
- ***Premium guarantees.*** Sometimes the most important consideration is that a specific stream of premium payments will result in a specific death benefit, no matter how the cash value investment performs. In that situation, a guaranteed universal life policy should be examined.
- ***Cash value accumulation and distribution.*** Insurance policies can provide important supplementation to retirement income streams.
- ***Blends.*** Rather than choosing between term and permanent insurance, an individual may choose some of both. For example, someone with young children may need $2 million of coverage until the children finish their educations, but only $1 million once they've left the nest. A $1 million 20-year term policy coupled with a $1 million whole life policy may be an affordable way to meet both objectives.

Steady demand

The number of life insurance policies in force in the U.S. fell during the last recession, from 335 million in 2008 to 272 million in 2012. Since then the industry has stabilized, and some 281 million policies were in force in 2015. As policy designs continue to evolve to meet policyholders' objectives and preferences, the industry appears poised to continue providing an essential element of financial security to affluent families. ☐



Acronym decoder

As insurance offerings have evolved, new vocabularies have emerged to describe them.

ART • Annual Renewable Term

LPT • Level Premium Term

WL • Whole Life

CAUL • Current Assumption Universal Life

GUL • Guaranteed Universal Life

EIUL • Equity-Indexed Universal Life

VUL • Variable Universal Life

Fine art and death taxes

Jeffrey Hyland was the executor and residuary beneficiary of Eva Kollsman's estate. At her death in August 2005, Eva owned two 17th-century Old Masters paintings: *Village Kermesse, Dance Around the Maypole* by Pieter Brueghel the Younger and *Orpheus Charming* by Jan Brueghel the Elder or Jan Brueghel the Younger or a Brueghel studio. Soon after Eva's death, Hyland was approached by George Wachter of Sotheby's about the possibility of Sotheby's handling the auction of the paintings. Wachter was an expert in Old Masters. In September 2005 Wachter sent Hyland a letter stating that the paintings were worth $500,000 and $100,000 respectively. The valuation was "based upon a firsthand inspection of the property" but gave no other basis for the values. At the same time, a consignment agreement was sent for Hyland's signature, in which the values of the paintings were estimated to range from $600,000 to $800,000 for one and $100,000 to $150,000 for the other.

On Eva's estate tax return, Hyland valued the two paintings at $600,000, attaching Wachter's valuation letter as evidence.

Also that September, Hyland consulted with a fine art services firm about having the paintings reframed and, if appropriate, cleaned. After insuring the paintings for a combined $1.2 million, the restoration proceeded. By all accounts, the paintings were much improved in the process.

So much improved that in January 2009, Sotheby's sold the *Maypole* painting for $2.1 million.

The IRS challenged the estate's valuations of the paintings. At trial, Wachter offered several reasons for the discrepancy between his valuation and the subsequent sale price. When he valued the *Maypole* it was quite dirty, and whether it could be cleaned was unknown. There is a risk that an attempt to clean an old work of art will damage it, even destroy it. That would depress the price a buyer would be willing to pay. The restoration in this case was very successful, which increased the painting's value more than Wachter could have anticipated. Finally, the market for Old Masters paintings had improved significantly in the interim, due to an influx of Russian buyers.

The Tax Court rejected Wachter's valuation, believing that it was self-serving. He had a conflict of interest, in that he was seeking to be the agent for the auction of the paintings. The Court also felt that Wachter had exaggerated the dirtiness of the painting and the effect it would have on value.

The IRS expert used comparable sales, even though that can be problematic when it comes to art—when every piece is unique, what is truly comparable? The Service nevertheless found the value at death to be $2.1 million. The Court accepted the IRS position, subject to a 5% discount to account for the dirtiness. ☐