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Financial Planning & Investment Management

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Charitable Trusts: Choices for Gifting

The greatest benefit of charitable giving is the knowledge that you've helped make a difference in the lives of others. Charitable trusts allow you to take your generosity one step further than simply writing a check.

A charitable trust is a set of assets that a donor signs over or uses to create a charitable foundation. The assets are held and managed by the charity for a specified period of time, with some or all interest that the assets produce going to the charity. Charitable trusts come in two basic types: remainder trusts and lead trusts.

Charitable Remainder Trusts

A charitable remainder trust (CRT) is an irrevocable, tax-exempt trust in which you place assets to provide income for yourself during a specific period of time. You can choose how you want those interest payments, either in a steady stream to count on (annuity trust) or ride the market fluctuations (unitrust). After the period you've specified (which could end at your death), the remaining assets will be turned over to the charity of your choice. The trust can be funded with a wide assortment of assets, including bonds, mutual funds, stocks, and real estate.

A CRT offers flexibility, a lifetime income stream for you, and significant tax benefits to you and your heirs. Ultimately it may be even more beneficial for you than a simple bequest.

For instance, if you have an appreciated asset like real estate, and you sell the property yourself, you will likely pay a great deal in capital gains taxes. But if you transfer the property to a charity through a CRT, the trustee may be able to sell the property with no gift, estate, or capital gains taxes for the donor. The trustee can then set up an investment that will provide an income stream for you, which will be subject to ordinary income taxes and capital gains. At the death of the last beneficiary or the end of the trust period, the trust ends. The amount remaining in the trust is distributed to the named charity.

Charitable Lead Trusts

In the case of a charitable lead trust (CLT), the charities receive the interest from your gift for a set period -- typically 10 to 20 years. At that time, whatever is left in the trust goes to a noncharitable beneficiary, such as your children or yourself.

Estate planners recommend a CLT for people with substantial wealth to stash assets whose value will undoubtedly appreciate in the future so that the increased value escapes any taxation in the donor's estate. Overall, this route carries fewer tax advantages than other charitable trusts because you don't surrender full responsibility.

Setting Up a Trust

If you do decide to set up a trust, note that you'll have to pay annual administration fees to maintain it. Also note that you can't dissolve the trust, though you can change its beneficiary. Talk to your legal counsel to determine which option is right for you.

Source/Disclaimer:

The information in this communication is not intended to be legal or tax advice and should not be treated as such. Each individual's situation is different. You should contact your legal and/or tax professionals to discuss your personal situation.

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Estate Planning Tips for Singles

Estate planning isn't just for rich, elderly people. Everyone needs to have a will and estate plan in place to provide for contingencies that may occur, and in the event of the individual's death, to dispose of his or her property, minimize estate taxes, and provide for loved ones.

Estate planning is also just as important for single individuals as it is for married couples. Unless appropriate arrangements have been implemented, state law controls. If an individual becomes unable to manage, the courts may appoint a guardian for the individual's person or property to make personal or financial decisions for the individual.

To avoid keeping your assets out of probate and out of the control of a court-appointed guardian, you need to ensure you've made your wishes clear. Here are some tips for singles when it comes to estate planning.

- **Create a will.** A will is a legal document that provides instructions for disposing of an individual's property on his or her death. By writing a will, you can ensure that your estate will be distributed as you would want.
- **Create a revocable living trust.** Unlike a will, a living trust lets your "Successor Trustee" distribute your assets to the beneficiaries named in the document without going through probate. A revocable living trust covers three phases of your life: while you are alive and well, if you become mentally incapacitated, and after you die. While you are alive, the trust agreement will have specific provisions allowing you to manage, invest, and spend the trust assets for your own benefit. If you are determined to be mentally incompetent and can no longer properly serve as Trustee, then the trust agreement will name a successor "Disability Trustee" to take over and manage all of your finances. When you die, your Successor Trustee will be able to step in and pay your final bills, debts, and taxes. The trust agreement will then contain instructions about who will receive the balance of the trust funds after all of the bills have been paid.
- **Draw up powers of attorney.** Unmarried partners or friends generally can't make medical and financial decisions for each other without signed authorization. Singles should select a person they want to act for them and sign legal documents that give him or her that power. It is possible to have different attorneys for different situations. For example, you could sign a durable power of attorney to allow someone to manage your finances and set up another durable power of attorney for health care decisions.
- **Set up a living will.** A living will (sometimes called a health care declaration or physician's declaration) is a legal document that a person uses to make known his or her wishes regarding life-prolonging medical treatments. Depending on the state you live in, you may be able to combine this declaration with a durable power of attorney to create an advance health care directive.
- **Make sure your beneficiary designations are correct.** Your named beneficiary on life insurance policies and investment accounts will inherit those assets no matter what your will or living trust says. Remember to review and update documents related to those accounts every few years or after a life event such as a divorce or birth of a child.

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Using Index Funds as Part of Your Portfolio

There are two approaches to mutual fund investing: active and passive.[1] An active management style means the fund manager uses analytic or forecasting tools to select individual stocks for the fund portfolio. In a passive approach, the fund manager simply buys whatever stocks are represented by a well-known market index. Funds that attempt to match exactly the day-to-day fluctuations of a market index are index funds.

By investing in an index fund that mimics the S&P 500® stock index, for example, an investor could achieve some measure of diversification in most of the 500 widely held stocks traded on the New York Stock Exchange, the American Stock Exchange, and NASDAQ.[2]

Index funds purchase or sell shares of stocks only when the index replaces stocks or when investors buy or sell shares of the fund. Unlike actively managed funds, index funds do not attempt to buy stocks based on the fund manager's outlook for certain companies or for the market in general.

Are index funds right for your portfolio? Consider the following.

- **They have lower expenses than active mutual funds.** The passive approach of index funds generally means the expense ratio of index funds is substantially lower than that of actively managed stock funds. The average expense ratio of index funds was 0.13% in 2012, compared with 0.92% for actively managed funds.[3] The higher management expenses of actively managed funds make it more difficult for them to outperform index funds on a consistent basis. Management fees and expenses are deducted from a fund's results in the calculation of returns.
- **There are many varieties to choose from.** The 500 companies within the S&P 500 index, for example, constitute only a portion of the U.S. stock market and represent only large-capitalization stocks. The Russell 2000 small-cap index; the S&P 400 MidCap index (an unmanaged index of 400 stocks generally considered representative of the U.S. midcap market); and the Morgan Stanley Europe, Australasia, and Far East index (EAFE) are among the most widely quoted indexes, and there are many index funds that track these.[4] The variety of index funds available allows investors to diversify into a wide array of stocks by indexing according to investment goals and risk tolerance.[5]
- **They're not out to beat the market.** Because index funds track the market, they may not deliver above-average returns that are sought by more aggressive investors. In addition, index funds are required to imitate their benchmarks and their managers are usually restricted to using only very limited defensive steps. More conservative growth-oriented investors may be more comfortable with a stock fund that seeks to limit downside risk, but may also lag the market somewhat on the upside.

By combining funds that track different types of market indexes, or by supplementing index funds with actively managed funds or individual stocks, you can build a diversified portfolio designed to seek returns appropriate for your investment time frame and goals.

Source/Disclaimer:
[1]Investing in mutual funds involves risk, including loss of principal.
Before investing in mutual funds, consider the funds' investment objectives, risks, charges, and expenses. Contact the mutual fund company or your financial professional for a prospectus or summary prospectus (if available) which contains this information. Please read it carefully.

[2]The S&P 500 index is an unmanaged index that is generally considered representative of the U.S. stock market. It is not possible to invest directly in an index.

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[3]Source: Investment Company Institute, *ICI Fact Book*, April 2013.

[4]Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments. Foreign investments involve greater risk than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.

[5]Asset allocation and diversification do not assure a profit or protect against a loss.

Living in Retirement: A Three-Phased Approach

Although many Americans now plan for a retirement up to 20 years, your retirement may last much longer.

Traditionally, retirees were advised to project income needs over the length of time of retirement, add on an annual adjustment for inflation, and then identify any potential income shortfall. But the planning required may not be that linear. For example, research suggests that some retirees' expenses -- other than health care -- may slowly decrease over time. That means many retirees -- depending on personal expenses -- may need more income early in their retirement than later. This necessitates taking a fresh look at retiree expenses and income, as well as withdrawal and estate planning strategies.

Phase 1: The Early Years

The need to potentially stretch out income over a longer period than previous generations also means that some people may not want to tap Social Security when they're first eligible. Consider that for each year you delay taking Social Security beyond your full retirement age until age 70, you'll receive a benefit increase of 6% to 8%, depending on your age. One caveat: If you do decide to delay collecting Social Security, you may want to sign up for Medicare at age 65 to avoid possibly paying more for medical insurance later.

Also plan ahead as to how you'll pay for health care costs not covered by Medicare as you age. Remember that Medicare does not pay for ongoing long-term care or assisted living and that qualifying for Medicaid requires spending down your assets.

If you have accumulated assets in qualified employer-sponsored retirement plans, now may be the time to decide whether to roll that money into a tax-deferred IRA, which could make managing your investments easier. A tax and financial professional can also help you decide which accounts to tap first at this point in your post-retirement planning -- a situation that could significantly affect your financial situation.

Finally, don't overlook any pension assets in which you may be vested, especially if you changed employers over the course of your career. Pensions can supply you with regular income for life.

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Phase 2: The Middle Years

By April 1 of the year after you reach age 70½, you'll generally be required to begin making annual withdrawals from traditional IRAs and employer-sponsored retirement plans (except for assets in a current employer's retirement plan if you're still working and do not own more than 5% of the business). The penalty for not taking your required minimum distribution (RMD) can be steep: 50% of what you should have withdrawn. Withdrawals from Roth IRAs, however, are not required during the owner's lifetime. If money is not needed for income and efficient wealth transfer is a goal, a Roth IRA may be an attractive option.

Also, consider reviewing the asset allocation of your investment portfolio. Does it have enough growth potential to keep up with inflation? Is it adequately diversified among different types of stocks and income-generating securities?

Phase 3: The Later Years

Review your financial documents to make sure they are true to your wishes and that beneficiaries are consistent. Usually, these documents include a will and paperwork governing brokerage accounts, IRAs, annuities, pensions, and in some cases, trusts. Many people also draft a durable power of attorney (someone who will manage your finances if you're not able) and a living will (which names a person to make medical decisions on your behalf if you're incapacitated).

You'll still need to stay on top of your investments. For example, an annual portfolio and asset allocation review are important. Keep in mind that a financial advisor may be able to set up an automatic rebalancing program for you. And finally, be aware that some financial companies require that you begin taking distributions from annuities once you reach age 85.

Preparing for a retirement that could encompass a third of your life span can be challenging. Regularly review your situation with financial and tax professionals and be prepared to make adjustments.

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