



## Going Out On Your Own Terms: Six Key Documents In An Estate Plan

**E**veryone's estate plan is unique, but these six documents are key in ensuring your final wishes are carried out and you end life on terms you have set out.

### 1. Financial power of attorney.

This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers. They may be enabled to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

### 2. Health-care power of attorney.

This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

**3. Living Will.** While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining

treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

**4. Trusts.** There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will. Because assets in a living trust don't go through probate court proceedings, it keeps the disposition of your final affairs private and asset transfers through a trust are harder to contest than assets that go through the public probate process. The probate process can also be lengthy.

Though there are a myriad of variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. While that's not the case with an irrevocable trust, it can protect assets from creditors and remove them from your taxable estate.

**5. Final Letter.** A final letter can be used to write down a plan for your funeral arrangements, who is to inherit precious family heirlooms, works of art, personal items, and to bestow final blessings and salutations to the people who matter most to you.

**6. Will.** Your will establishes how your assets will be distributed after you

## Stocks Averaged A 7.35% Premium Annually Over T-Bills For Past Two Decades

**T**he stock market has been breaking new record highs for nearly a year now, and stocks are high-priced by some traditional historical measures, such as trailing 12-month earnings. With some pundits saying stock market risk is high, this is a good time to note how investors have been compensated for taking the extra risk of investing in stocks instead of parking cash in a so-called riskless asset like 90-day Treasury bills.

Stocks, as measured by the Standard & Poor's 500, in the 20 years ended June 30th, 2021, averaged an 8.61% annual return, compared to the meager 1.26% annual return on a the risk-free 90-day U.S Treasury Bill.

Since the T- Bill is backed by the full faith and credit of the U.S. Government, it is considered a riskless investment -- while the value of stocks is subject to ups and downs and, in theory, your entire investment could be lost in stocks. Subtracting the return on T- Bills from the return on stocks, the resulting 7.35% is the premium paid for taking the risk of owning U.S. stocks over the 20-year period. To be clear, investing in America's 500 largest publicly-held companies earned investors an average of 7.35% more annually than a risk-free investment.

This 20-year period encompassed three frightening bear markets -- the tech stock crash of 2002, the financial crisis of 2008, and the Covid downturn of early 2020. Past performance is no guarantee of your future results and that, paradoxically, is precisely why investors are paid a premium for owning stocks. Yes, stocks are risky and that's why they have had a higher return than guaranteed investments throughout history.

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# Dealing With Financial Fear

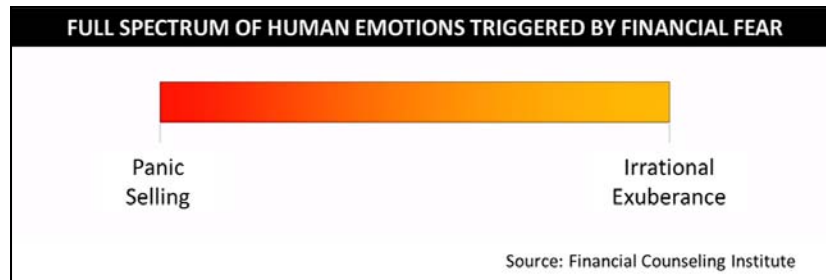
If you suffer from financial fear and anxiety, talking about it is likely to help.

In talking about it, according to Dr. Frank Murtha, a financial psychology expert, you go through a process of recognizing, understanding, and constructively reacting to your fear, rather than keeping it inside you and causing anxiety.

Whether your fear is running out of money in retirement, paying back a large debt, or caring for a family member with special needs, Dr. Murtha says personal financial issues evoke the full spectrum of human emotions -- from panic to irrational exuberance and everything in between -- but fear is the emotion that stands out as most impactful.

Professors Daniel Kahneman and Amos Tversky, founding fathers of the burgeoning social science of behavioral economics, famously discovered that people do not fear risk in investing; people fear a loss, specifically, a loss of control of the future.

In fact, investors who have suffered an investment loss or financial setback often will



actively seek out risk to break even and avert the loss. Of course, “doubling down” may actually compound a financial problem.

How we experience fear is partly dependent on physiology -- your brain chemistry. The fear center of the brain is called the amygdala and it triggers several instinctual reactions to fear. The “fight” instinct can be evoked. Although this reaction may come in

back in control of your situation. In financial terms, the flight instinct may make you want to sell a losing investment at the height of a pandemic or amid a global financial crisis.

The other lesser-known neurobehavioral fear reaction is another F word. Can you guess what it is? The answer is “freeze.” Freezing is a typical reaction in times of rising fear. You become too afraid to do

anything! “People get stuck, unable to make a decision to change a situation and they let anxiety get the best of them,” says Dr. Murtha. “A big part of dealing with financial anxiety is simply getting unstuck.”

Talking about financial anxiety can help you unburden yourself and that is often the first step toward re-instilling a sense of control, which is the key to fighting fear. ●







## Making A Financial Transition? Answer These Five Questions

To say current financial economic conditions are unprecedented understates things: The United States, the world’s largest economy, by far, is transitioning economically from a once in a hundred-year public health crisis. Americans are also experiencing personal financial transitions, magnified by valleys and spikes in the economy as it recovers from the Coronavirus crisis. The economy is in transition

and causing difficult personal financial transitions.

**An economy in transition.** The unemployment rate, at 6.1% in April, is far from the 3.5% achieved for months during the peak of the 2019 expansion. Meanwhile, the worst inflation threat in four decades is causing uncertainty in the stock market. In addition, the federal government spent about \$5.5 trillion to inject

### Making A Financial Transition

What financial issue will keep you awake at night?

What is your most important immediate financial goal?

What is your most important long term financial goal?

What do you want to be remembered for?

How do want your money to be used to make the world better?

Source: Frank Murtha, Ph.D., Financial Counseling Institute

## Two Observations That May Make Higher Taxes Easier To Bear

**F**or the first time since the administration of President Ronald Reagan, federal government tax policy is changing significantly. Tax cuts were in vogue for nearly four decades, but President Joseph Biden is planning on implementing higher federal taxes on corporations as well as high-income and high net-worth individuals in 2021.

As Congress debates the Biden administration's proposal for a massive increase in federal infrastructure spending, which would require an increase in taxes and government borrowing, here are two key observations made by independent economist, Fritz Meyer.

This chart shows how the United States Government spent its revenue over the half-century ended with the 2019 fiscal year. It's from the non-partisan Congressional Budget Office. Priorities shifted. Health care spending and Social Security are receiving a greater share of revenue, while defense spending has been judged a lower priority since the fall of the Soviet Union.

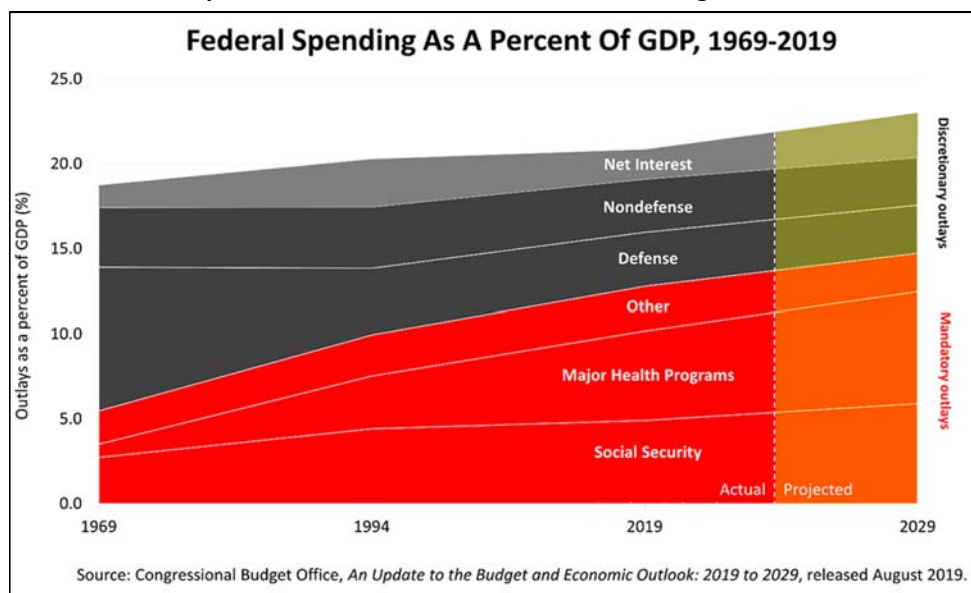
In the decade ahead, spending on Medicare, Medicaid, and other federal health programs, along with Social Security and the



interest payments on the national debt, are expected to continue to steadily increase as a percentage of the total economy.

**Observation:** The nondefense spending category, outlays for maintaining the nation's infrastructure – roads, mass transit, communication, buildings, and basic functions of American society, has been allocated a shrinking share of gross domestic product as the population grew. Federal highway, mass transit, and communication systems make America the envy of most of the world, but it has taken a backseat to other priorities.

Including all forms of taxes –



cash into the pandemic-stricken economy and keep Americans in need from starving or financial ruin. Moreover, it is almost certain that another multi-trillion dollars in debt will be added to the balance sheet of the United States by the end of 2021 to fund much-needed infrastructure improvements.

**People in transition.** The unprecedented macroeconomic transition is causing unprecedented microeconomic transitions, personal upheaval. Companies are offering buyouts to employees. Home prices in suburbia have increased significantly, causing many to reconsider buying or selling homes. As the outsized boom resonates, some entrepreneurs are

making fortunes, while others are losing everything.

If you or members of your family are buying or selling a home, planning to retire, taking a buyout, or making a financial transition, ask yourself these five questions:

1. What financial issues could keep you awake at night?
2. What is your most important immediate financial goal?
3. What is your most important long-term financial goal?
4. What do you want to be remembered for?
5. How do you want your money to be used to make the world better?

Feel free to contact us about your personal situation. ●

federal, state, and local; income, sales, value-added, estate, and property taxes – the U.S. has one of the lowest total tax burdens among the 37 developed nations that are members of the Organization of Economic Cooperation and Development (OECD). Countries, such as China, Brazil, India, and Russia, are not OECD members and excluded here.

**Observation:** The comparatively low tax burden of the U.S. allows some flexibility in solving the country's long-term spending problems.

Nobody wants to pay more taxes, but these two observations might make the series of tax hikes expected to be enacted in the weeks ahead easier to bear. ●

# Do The Top 1% In Income Pay Enough Income Tax?

**D**o the top 1% in income in America pay enough income tax? Here are the facts to decide.

In 2018, the latest data from the Internal Revenue Service show 153.6 million individual income tax returns were filed. Of those returns, 1.6 million

reported adjusted gross income of \$500,000 or more. Thus, almost exactly 1% of individual returns filed in 2018 reported income of \$500,000 or more. Using income as a gauge of wealth, rather than net worth, these are the “one-percenters.”

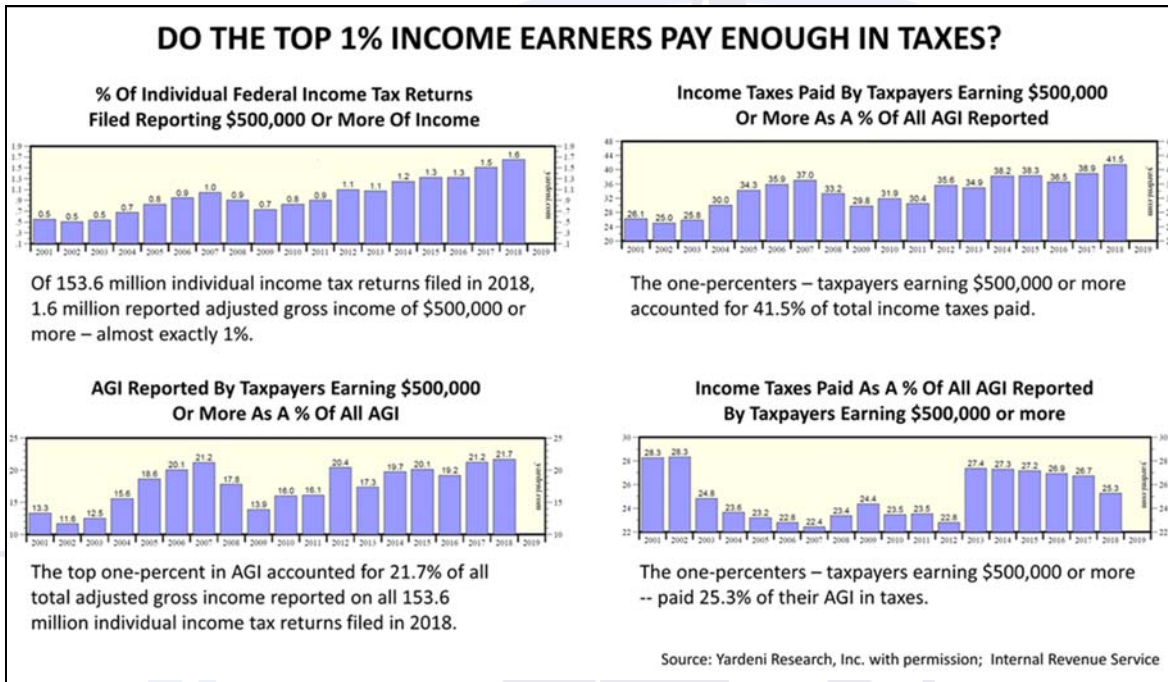
The one-percenters – taxpayers

earning \$500,000 or more in adjusted gross income – accounted for 21.7% of total adjusted gross income reported on all 153.6 million individual tax returns filed.

The once-percenters accounted for 41.5% of total income taxes paid and they paid 25.3% of their adjusted

gross income in taxes 2018, which was less than they paid before the tax cut of signed into law in December 2017.

Was that enough? We will leave it to you to decide, but those are facts. No matter your answer, tax hikes on income and wealth are almost certain to be enacted in 2021. You can count on us for advice as well as the facts in dealing with your personal situation. ●



## Six Key Documents

(Continued from page 1)

die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

If you die without a will—“intestate,” in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can’t be without.

Drawing up documents is left to legal professionals but coordinating the drafting of these documents with your attorney to ensure your final objectives in life are met after your death is often

the province of a trusted financial advice professional, as is assuming powers over your financial affairs should you ever become incapacitated and quarterbacking a team of professionals.

How to best invest your final assets in the people and beliefs you hold most dear requires your most careful consideration and planning and is not a responsibility we take on lightly. If you have questions about going out on your own terms that you set out, please don’t hesitate to contact us. ●

