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# Add Up The Pluses And Minuses Of A Living Trust

A revocable living trust can be a valuable tool in your estate-planning kit, but it is not without its potential drawbacks. For starters, a living trust generally should be viewed as a supplement to a will rather than a replacement. You likely will need a valid will to tie up all the loose ends of your estate. Furthermore, how well a living trust will work often depends on state laws.

The basic premise is relatively simple: You establish a living trust, transfer assets to it, and name a trustee to handle its administration. If you designate yourself as the initial beneficiary, you're entitled to receive income from the trust for the rest of your life. But you also need to designate secondary beneficiaries—typically, your spouse, your children, or your spouse and your children—who will be entitled to receive the assets in the trust when it terminates.

Unlike with other kinds of trusts, you retain some measure of control of a living trust while you're alive. You may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely if you wish. The trust only becomes irrevocable when you die.

With that basic framework in mind, consider the pluses and minuses of a revocable living trust.

**Pluses of a Living Trust**

- It avoids probate. This is the main reason for using a living trust. Normally, if someone dies with a will in place, surviving family members will need to go through the probate process. Probate can be lengthy or short depending on the circumstances and state law. However, probate doesn't apply to the assets you've transferred to a living trust, so your beneficiaries have immediate access to cash. (Assets transferred by joint rights of survivorship also are exempt from probate.)
- It avoids guardianships and conservatorships: This benefit often is overlooked, but a fully funded living trust can sidestep restrictive rules relating to guardianships and conservatorships. If the trust is structured properly, beneficiaries will have access to assets without interference from a judge if you are incapacitated. Otherwise, a guardianship or conservatorship can last much longer than probate.
- It provides privacy. As opposed to probate, which is open to the public, the provisions of a living trust are protected from prying eyes. A will has to be filed with the appropriate court but a living trust does not. This can be a major advantage if you treasure your privacy.
- It helps you plan ahead. When you contemplate using a living trust,

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## *Preparing For Retirement, The Correct Way*

There are several ways to know if you are able to retire. You can wake up one day and decide you are sick of your job. Then, with a flurry of number crunching, you hope you have the ability to pull the plug. Hope, however, is not a successful strategy.

A better and more logical approach is to start thinking seriously about retirement well in advance. We like to understand how much cash will be required for you to live a desired lifestyle. We need to understand what your insurance needs are.

We can build a retirement cash-flow projection to determine if your resources will meet your requirements, even with contingencies built in.

You want to be well prepared, because once you commit it's difficult to turn back.

Often we begin the process of planning five years in advance, and update the plan multiple times prior to deciding when you should retire.

When a plan is well executed, the actual process of turning in your papers with confidence almost seems too easy, because you already have completed the hard part.

At Dickinson Investments, we have been through this process hundreds of times. We can make the process logical and help you retire with success.

Ron Dickinson

# When To Start Social Security?

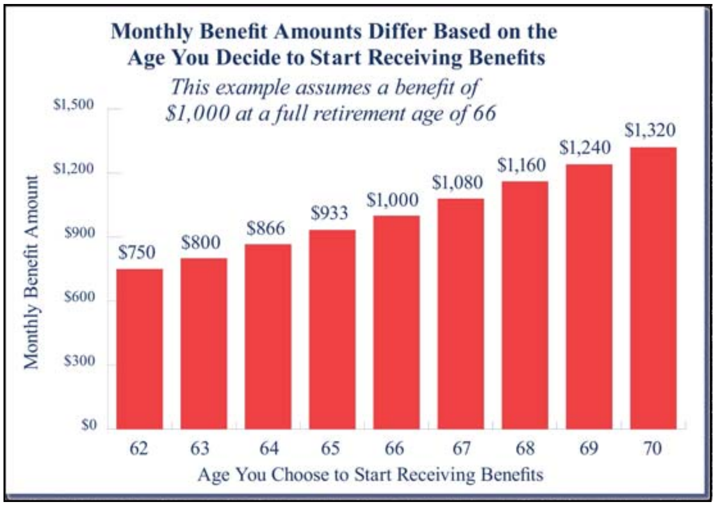
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

# IRA Rollovers: When Once Is Enough

Tax laws let you roll over money from one traditional IRA to another without owing taxes as long as you follow the rules and get it done quickly enough. But there is one restriction you might not know about: IRA-to-IRA rollovers generally are allowed only once a year, and a new court ruling says this once-a-year rule applies to all of your IRAs and not just a particular account.

This decision runs counter to what most tax experts believed. The IRS itself has interpreted the rule differently in its own publication on rollovers. Yet the Tax Court decided firmly against the taxpayer in the new case (Bobrow, T.C. Memo 2014-21).

In most cases, you won't be taxed if you transfer funds from one IRA to another as long as the rollover is completed within 60 days. (If the money isn't moved directly between trustees, income tax will be withheld and you'll have to recoup it on your tax return.) That effectively gives you interest-free use of the funds for almost two months.

But there's one fly in the ointment. According to the plain language of the tax law, a taxpayer may roll over funds from one IRA to another IRA only once a year. The Tax Court applied this rule to all of a taxpayer's IRAs in the new case.

In this case, a taxpayer in 2008 received a distribution from traditional IRA #1 on April 14 and then took money out of IRA #2 on June 6. He repaid the required amount into IRA #1 on June 10 and did the same for IRA #2 on August 4. Because both repayments were made within the 60-day "window" for IRA rollovers, the taxpayer believed each rollover qualified for tax-free treatment. Therefore, he did not report any tax liability for IRS rollovers on his 2008 tax return.

However, the Tax Court said the once-a-year limit on IRA rollovers

# Wall Street's Anachronistic Ways In The Internet Age

Wall Street's largest firms are asked every December by Barron's, a venerable weekly financial newspaper, to predict which industry sectors will outperform in the year ahead. Fritz Meyer Economic Research, an independent economic research publisher, has tracked the strategists' predictions annually since 2007 and his 2014 research report shows why Wall Street is fast-becoming an anachronism.

Every January, Fritz Meyer, an independent economist, publishes a scorecard showing how the Wall Street giants' picks from a year earlier have performed.

"I'm the only one that I know that's doing this — systematically holding these strategists accountable for their lousy calls," says Meyer, who was an investment strategist at one of the world's largest mutual fund companies before establishing his own independent economic research firm in 2008.

Meyer has documented Wall Street's calls since Barron's began annually publishing the strategists' forecasts in 2007 in a mid-December cover story. The respected weekly newspaper, which is widely followed by Wall Street's army of brokers, is an excellent publication, but its annual "Outlook" cover story exposes why Wall Street is losing market share to independent financial advisors.

According to Meyer, anyone who followed the investment advice from the Wall Street giants in 2014, as published in Barron's December 16, 2013, would have underperformed the Standard & Poor's 500. "There is no single strategist who I can see made consistently winning sector calls," says Meyer, "and I'm not aware of any strategist or money manager who can consistently do any better than this group of 10 representing the highest-profile firms."

Before the Internet age, Wall Street could make predictions without much fear of ever being held accountable. Now, in an age of transparency, TV ads with stampeding bulls don't mean as much. Truth is viral. In the Internet age, a single independent researcher can document Wall Street's track record of poor performance, Wall Street's brand and TV ads can't dispute the facts, and transparency prevails.

According to Meyer's research, the sector "picks and pans" made by Wall Street's strategists included three good calls, but the four bad calls is what would have really hurt an investor's results. All 10 Wall Street firms had been bullish on technology in December 2013, and that was a good call. The S&P Technology Index, gained 18% in 2014 and returned second-best results of the 12 industry sectors. However, the consensus forecast among the analysts had been bullish on technology in each of the previous four years; this was the first year the consensus was right.

Six of the 10 strategists interviewed by Barron's panned utilities in December 2013 and only one of them picked utilities to outperform the S&P 500 stock index. Utilities engendered the most negative outlook among the strategists, but it was the No. 1 performing sector in 2014, soaring 24%. Along the same lines, six of the Wall Street firms panned Consumer staples and that industry's stock index gained a whopping 13% in 2014 — a gain you would have missed if you had followed Wall Street's advice.

The financial news media lack the wisdom or incentive to hold Wall Street accountable for giving bad financial advice. But Wall Street firms are a dying model for the financial advice profession and are being replaced by independent advisors like our firm, and Meyer's independent research is a clear indication of the reasons why. In the Internet age, transparency is inevitable, and Wall Street's outmoded ways are exposed as a relic of the past. The folly of the notion that big Wall Street firms can offer better financial advice than a small independent firm like ours is laid bare. ●

## Wall Street's Top Strategists' 2014 Track Record

Barron's 2014 Forecast[1] Survey of 10 stock market strategists' sector picks and pans for 2014

| | Consumer Discretionary | Consumer Staples | Energy | Financials | Health Care | Industrials | Information Technology | Materials | Telecom Services | Utilities |
|---|---|---|---|---|---|---|---|---|---|---|
| Federated | | 👎 | | | | 👍 | 👍 | 👍 | 👎 | 👎 |
| Blackrock | 👎 | 👎 | 👍 | | | | 👍 | | | 👎 |
| Barclays Capital | | 👍 | | 👎 | | 👍 | 👍 | 👎 | | 👎 |
| Columbia Mgmt. | | | | | | 👍 | 👍 | | 👎 | 👎 |
| Goldman Sachs | 👍 | 👎 | | | | 👍 | 👍 | | 👎 | 👎 |
| JPMorgan Chase | 👍 | 👎 | | 👍 | | | 👍 | 👍 | | 👎 |
| Citi Research | 👎 | | | 👍 | 👎 | | 👍 | 👎 | 👎 | 👍 |
| Morgan Stanley | 👎 | 👎 | 👎 | | 👍 | | 👍 | 👍 | | |
| Prudential | | 👎 | | 👍 | | 👍 | 👍 | 👎 | | |
| BofA Merrill Lynch | 👎 | | 👍 | | 👍[2] | 👍 | 👍 | | 👎 | 👎 |
| Net (+/-) | -2 | -5 | +1 | +2 | +1 | +6 | +10 | 0 | -5 | -6 |
| Sector Ranking | 6 | 5 | 10 | 4 | 2 | 7 | 3 | 8 | 9 | 1 |
| 2014 Return[3] | ↑8% | ↑13% | ↓10% | ↑13% | ↑23% | ↑8% | ↑18% | ↑5% | ↓2% | ↑24% |
| Results | Neutral | Miss | Neutral | Good call | Miss | Bad call | Good call | Neutral | Good call | Huge miss |

Source: Fritz Meyer Economic Research

[1]Published Dec. 16, 2013.
[2]Pharmaceuticals. [3]These are S&P 500 sector returns for calendar 2014. Past performance is not a guarantee of future results. For illustrative purposes only.

invalidated the transfer to IRA #2, causing that second distribution to be taxable. Based on its reading of the law and legislative intent, the court determined that the rule applies to all of a taxpayer's IRA accounts. "Regardless of how many IRAs he or she maintains, a taxpayer may make only one nontaxable rollover contribution within each one-year period," the court concluded.


That interpretation directly conflicts with guidance in IRS Pub. 590, *Individual Retirement Accounts (IRAs)*. On page 25, the IRS provides an example with similar facts in which the once-a-year rule is applied to each IRA separately.

What happens now? As a follow-up, the IRS announced that it intends to follow the Tax Court ruling, effective in 2015. Thus, it will likely pursue actions against other taxpayers who make multiple IRA rollovers in one year. As a result, it makes sense to stick to the strict letter of the law as defined by the court in the new case. ●

# Why Roth IRAs Are Still Red-Hot

What's the next big thing in financial planning? It's actually something that has been around for years: the Roth IRA. This tax-advantaged account offers the promise of future benefits without some of the restrictions that hamper traditional IRAs.

What makes a Roth so special? With a Roth IRA that's at least five years old, most distributions after you've reached age 59½ are completely tax-free, while earlier payouts may be wholly or partially tax-free under the tax law's "ordering rules" that treat the first money out of the account as coming from your contributions, which aren't taxable. Also, you never have to take the "required minimum distributions" (RMDs) that force you to deplete a traditional IRA. Those RMDs and other distributions are taxable at ordinary income rates (except for any portion representing nondeductible contributions) reaching up to 39.6%. RMDs for IRAs become mandatory after age 70 ½.

There are two main ways to establish a Roth and take advantage of its benefits: through annual contributions or with a conversion from a traditional IRA.

**1. Annual contributions.** You can set up a Roth IRA and make contributions each year of as much as $5,500 ($6,500 if you're age 50 or over). But the ability to contribute to a Roth is phased at higher-income levels.

**2. Roth conversion.** Anyone can convert a traditional IRA to a Roth, or use a conversion to add to a Roth you've already established. In either case, you must pay tax at ordinary income tax rates on the taxable portion of the converted funds. Advance planning can help you minimize the tax damage.

One popular technique is to convert just enough to fill up extra "space" in the lower tax brackets while triggering as little tax as possible in the top tax brackets. This can be particularly powerful if you expect to be in a higher tax bracket in retirement than you are in now.

Suppose you're married and file a joint tax return, you have $500,000 in a traditional IRA, and your adjusted gross income in 2015 is $130,000. Using current tax rates, you are in the 25% tax bracket, but you anticipate being in the 35% bracket during retirement. If you fill up the 25% tax bracket (which tops out at $151,200) by converting $21,200 in traditional IRA funds to a Roth, you'll save 10% in tax (the difference in the current 25% rate and the future 35% rate). Assuming you repeat this strategy over several years, the savings could be as high as $50,000 (10% of $500,000).

This assumes you can pay the conversion tax with funds from outside the IRA, which might be a problem. Other factors also may come into play. So be sure that converting to a Roth IRA in this way makes sense for your situation before you take the plunge. Roth IRAs are hot, but you don't want to get burned. ●

## A Living Trust

*(Continued from page 1)*

you'll need to examine your current assets to determine what to transfer to the trust. Sorting through your files can provide a snapshot of your financial picture that should have other benefits, too.

**Minuses of a Living Trust**

• It costs money. You'll need to use an experienced professional to set up a living trust, and in addition to that initial cost, you'll also pay annual fees if you use the professional as your trustee. (But you can be the sole trustee during your lifetime.) Generally, it costs more to create a living trust than to establish a will, but the living trust may be less expensive over the long run.

• It can be time-consuming. You're not done when you put your John Hancock on the living trust documents. You'll still need to contact financial institutions and transfer agents to change ownership of accounts; issue new stock certificates; revise business interests; sign and record real estate deeds; and re-title cars and other property.

• It isn't a panacea. Don't expect a living trust to address all of your estate-planning issues. Having an up-to-date will often is still central to an estate plan. Also, if you devise a "pour-over will" to catch the assets that don't go into the trust when you die, that will still has to be probated. For some people, these issues cancel out the benefits of using a living trust in the first place.

• It can be contested just as a will can. In fact, state laws generally allow a longer time to challenge a living trust than they do for a will. And creditors still can make claims against the assets included in a living trust.

Finally, whatever you may have heard, there are no estate tax benefits for transferring assets to a living trust.

In the end, the decision whether to a use a living trust is a purely personal one. Obtain all the information and guidance you need. ●