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# 6 Common Estate Planning Myths: Here's The Reality

Some people avoid estate planning at all costs. But putting aside the inevitable emotions involved in looking ahead to your own demise, it's crucial to understand the process. A good place to start is by debunking these six common but potentially damaging myths:

Myth #1: My estate is too small to need an estate plan.

Reality: You don't need a small fortune for your heirs to benefit from estate planning. For instance, what if you decide to divide your assets among several beneficiaries, instead of designating just your spouse or another person? That could be very important if you're in a second or third marriage and have children from a previous marriage. In addition, you might want to leave some of your estate to charity. Wanting to help your family avoid the delays of probate, seeking to reduce estate taxes, and choosing who will administer your estate also call for estate planning.

Myth #2: I don't need an estate plan because my spouse will inherit everything.

Reality: This is closely related to the first myth. Just because you have left everything to your spouse under your will—and your spouse has returned the favor—doesn't mean you won't benefit from estate planning. What happens if your spouse dies first at a relatively early age, or if you die together in an accident? What then? There might be complications because of how assets are titled, who are named as beneficiaries of your life insurance policies and your retirement plans, or the estate laws of your state.

Myth #3: If you're wealthy, there's no way to avoid estate taxes.

Reality: That's simply not true. On the federal level, your estate can benefit from a generous $5.43 million exemption for those dying in 2015 (and that amount is indexed for inflation and will rise in future years). What's more, because you or your spouse can use the other's leftover exemption, the effective amount the two of you can shield from estate taxes is almost $11 million. Trusts and other tax-saving vehicles can further reduce estate tax exposure. Although state inheritance tax rules aren't always as generous, professional guidance may help there, too.

Myth #4: Everything is covered in my will so estate planning isn't necessary.

Reality: While a will is a good starting place for an estate plan, it's not likely to be enough on its own. There may be numerous other loose ends to tie up. In addition, depending on your state's laws, your heirs may have to go through a lengthy probate process that can be even more drawn out if you owned property in several states. A revocable living trust can help you pass

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## *A Focus On Client Service*

In March of 2015, we welcomed Gwen Streitmatter to our growing team. With years of client service experience at a Fortune 100 Best Companies to Work for brokerage firm, Gwen comes to PWM with her Series 7: FINRA General Securities Representative and Series 66: FINRA Uniform Combined Securities Agent and Investment Advisor State Law Exam licenses and a unique skill set. Before beginning her career in the financial industry, Gwen was a teacher in the Chicago Public Schools. Her time in a fast-paced classroom taught her prioritization, efficiency, patience, and the ability to work with a variety of people. Gwen takes her methodology of seeing each student as a unique individual and applies this to the clients she works with daily.

Gwen will be working alongside our advisors and clients to ensure a streamlined process. Her goal at PWM is to take client service to the next level, creating a personalized and uncomplicated experience.

A graduate of Illinois State University with a BS in Education, Gwen's diverse background gives her a distinct perspective. She is eager to get to know our clients and provide individualized attention tailored to their needs.

John

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# When To Start Social Security?

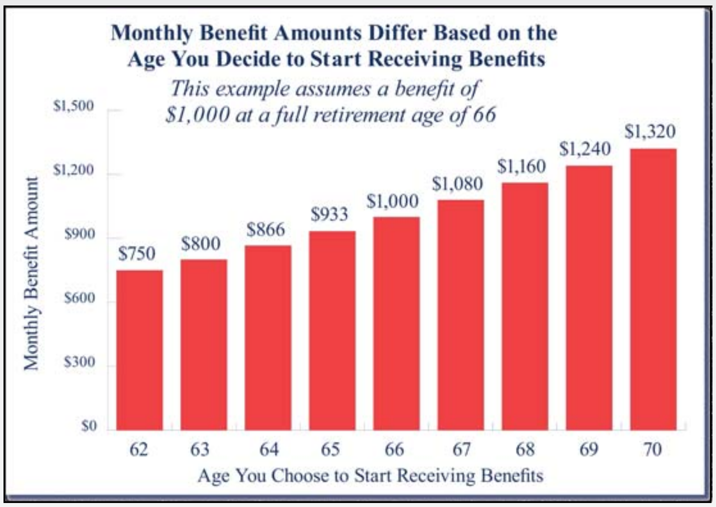
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement 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. ●

# Bull Or Bear Market? Plan Both Ways

After another good year on Wall Street in 2014, some stock market prognosticators are predicting a reversal of fortunes for 2015, while others expect another good year for investors. But no one knows what actually will happen next, and the best thing you can do is to plan for all possibilities. You also can learn from stock market history, while recognizing that past performance is not a guarantee of future results.

The stock market is known as a leading economic indicator—that is, it tends to rise or fall in advance of economic gains or losses. That's what happened when the most recent bear market bottomed out in March 2009. Finally, several months later, the U.S. economy, too, moved into positive territory, although the recovery has been painfully slow by historical standards. But during most bull markets, the economy is strong and unemployment low. Consumers feel relatively confident, and their outlays help fuel economic growth. And because times are good, people usually are more than willing to take the risk of owning stocks.

Conversely, worries about the economy may make investors sell their stocks, and that drop in demand can lead to a bear market. Usually, prices will begin rising again after a fall of 40% or so. But in a particularly bad bear market, such as during the Great Depression, that percentage can be significantly higher. As the economy sputters and unemployment rises, investors shy away from taking risks in the market.

The best strategy to use in a bull market is to try to gauge sector and broad market trends and invest wisely. Just don't be tempted into thinking you can time the market better than anyone else.

It's a little trickier during a bear market, but there are some options. For instance, you might consider "selling

# 7 Steps To Take After A Spouse's Sudden Death

The funeral is over, the mourners are gone, and now you're left with the rest of your life after the unexpected death of your beloved spouse. What's a devastated widow or widower to do? For starters, DON'T do anything rash, such as selling the homestead or cashing in all of your stock holdings right away. It may be difficult, especially from an emotional standpoint, but you can pick up the pieces slowly and get your finances in order. Here are seven steps for moving forward:

**1. Meet with your professional advisors.** One of the first steps – if not the absolute first – should be to contact your attorney, accountant, and financial advisor. These professionals can provide guidance for handling all of the legal, tax, and financial matters relating to you and your deceased spouse. Their counsel will be valuable as you work your way through the remaining six steps on this list.

**2. Get the will probated.** Assuming your spouse had a valid will and you're the executor—typically the case with married couples—you must begin to probate the will by filing a petition with the appropriate county office. Depending on the particulars, it can take as little as a few weeks or as long as a few years for the process to be completed. Keep your attorney in the loop the entire way.

**3. Apply for benefits.** Normally, you'll be entitled to Social Security benefits, including a one-time death benefit, plus Veteran's Administration (VA) benefits if your spouse was a military veteran. A surviving spouse over age 60 at the time of the other spouse's death may claim survivor benefits from Social Security. But don't continue to cash Social Security checks for a deceased spouse; you'll likely have to pay those back. It may be necessary to visit the local Social Security office and to contact the VA when appropriate. Also, don't forget to inquire about benefits from your spouse's employer if your spouse was still working.

**4. Collect life insurance proceeds.** Once reality sets in, you have to go about the regular business of making payments on the mortgage, the car loan, and other debts. Life insurance proceeds could be needed sooner rather than later. Examine your records to determine what you're entitled to receive through any private and employment-based policies. Your insurance agent can help, and your financial advisor can consult with you on how best to deploy any insurance benefit.

**5. Review the books.** Once you've had a chance to catch your breath, make a comprehensive review of your financial affairs. Go over your checkbooks, files, and online ledgers covering living expenses, loans, and other financial obligations. Separate accounts according to whether they're in your spouse's name, your name, or were held jointly. Then let banks, insurance companies, and other entities know about your spouse's death. And keep copies of these communications and verifications.

**6. Change account titles.** Begin the tedious process of re-titling accounts at banks, brokerage houses, and the like. Generally, you automatically will be granted a change on accounts owned as joint tenants with rights of survivorship (JTWROS), but the financial institution may require documentation. Contact each institution and comply with its procedures. Make sure you have enough death certificates to meet all of the obligations.

**7. Start planning for the long term.** Last, but not least, after you've addressed all of the issues requiring prompt attention, look to the future. It's time to circle back to the advisors who helped you at the outset. Reevaluate your investment portfolio, taking your evolving circumstances into account. Update your estate plan with an emphasis on passing wealth to your heirs, such as children and grandchildren, with minimum tax erosion. An estate tax return generally has to be filed within nine months of death. Finally, make those lifestyle choices – perhaps selling a home, heading off on extended travel, or both – that suit your changing needs.

Also make cancellation notices. Your review may reveal gym and club memberships and magazine and journal subscriptions that you can cancel right away. Re-titling your financial accounts will take precedence over this type of bookkeeping, but try not to let this linger, either. Usually, a phone call or a quick note will be enough to take care of things. ●

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short"— borrowing stock you don't own, selling it, and waiting for the price to drop. Then if you're able to buy back the stock at a lower price, you'll profit. U.S. Treasury Bonds also may be a sound investment when stock prices fall, in part because of demand by U.S. and foreign investors looking for a safer place to put their money. You also may decide to invest in defensive stocks, such as those of utilities, which usually don't fluctuate much in times of uncertainty.

But the main thing to learn from stock market history is that you have a better chance of succeeding by maintaining a long-term approach. Over time, the stock market bounces back from bear markets, and it's advisable to not buy or sell stock just because the market is bullish or bearish. Being informed and methodical will serve you better than selling stocks in a panic or trying to jump on a bandwagon. ●

# Raiding A Roth Early? No Woes

What happens if you take funds out of a Roth IRA well before retirement? The tax ramifications might not be particularly dire. Early payouts are frequently tax-free, or mostly tax-free, even if you don't meet the requirements for "qualified" distributions.

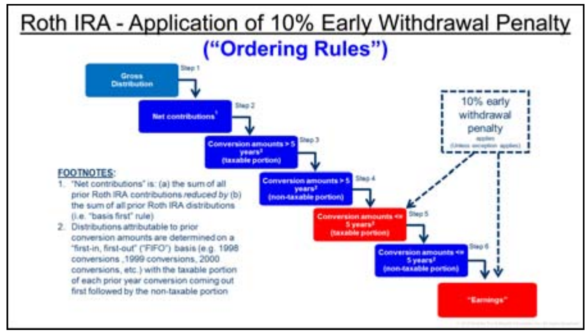
It all has to do with the "ordering rules" for Roth IRAs. It's important to get a firm grasp on these rules so you can plan your withdrawals accordingly.

Contributions to a Roth IRA are never tax-deductible, but qualified distributions are tax-free. For this purpose, "qualified" means withdrawals made from a Roth you've had for at least five years if you've reached age 59½; the payout is because of your death or disability; or you use the funds to pay qualified homebuyer expenses (up to a $10,000 lifetime limit).

But sometimes you just can't wait until age 59½ or for the Roth IRA to hit the five-year mark. In this case, and assuming you don't have another viable alternative, you can raid the Roth for the funds you need. Is it a tax disaster? Not usually. The tax is computed under generous rules that can save you from owing anything. Specifically, distributions from a Roth IRA are treated as if they occurred in the following order:

• Roth IRA contributions. Because you didn't get a tax break when you put in this money, you aren't taxed when you withdraw it.

• Contributions from converting a traditional IRA into a Roth. The same principle applies here. Because you already were taxed on the distribution from the traditional IRA that went into your Roth, you can take out those funds without being taxed again.




• Contributions from converting nontaxable traditional IRA balances into a Roth. These, too, aren't subject to regular tax when you withdraw them from the Roth.

• Roth IRA earnings. These, finally, are taxable when withdrawn unless they meet the definition of qualified distributions.

These ordering rules can work in your favor. For example, suppose you have $100,000 in a Roth you established four years ago—$25,000 in contributions, $50,000 in taxable conversions, $15,000 in nontaxable conversions, and $10,000 in earnings. If you withdraw $35,000, the distribution is treated as having come from the $25,000 in contributions and $10,000 from taxable conversion contributions. So the entire payout is tax-free even though it isn't a qualified distribution.

Note that you'll have to pay tax at ordinary income rates for nonqualified distributions. In addition, there's normally a 10% tax penalty on such withdrawals made before age 59½.

Remember that withdrawing funds early from a Roth IRA isn't optimal, because it reduces the amount you'll have available in the future. However, it's comforting to know that you may be able to pull out cash tax-free if you need to. ●

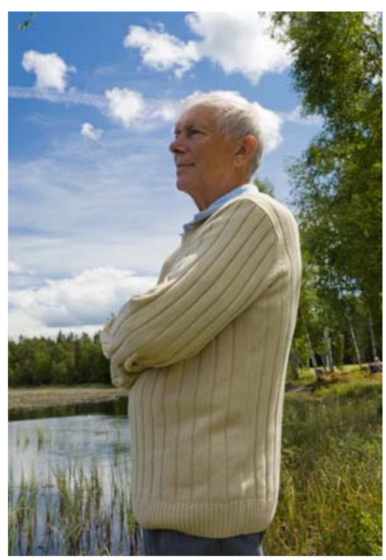
## Estate Planning Myths

*(Continued from page 1)*

some assets to your heirs without probate, and your will probably also should be accompanied by a durable power of attorney authorizing a family member or a professional to act on your behalf if you're incapacitated.

Myth #5: I don't have to worry about life insurance and retirement plan designations.

Reality: This is overstating the case. Although the beneficiary designations you've made for life insurance and retirement plans, as well as for your IRAs, are a good start, you still need to coordinate those choices with other aspects of your estate plan. You might want to revise your designations, for example if you get divorced or a spouse dies, or you could need to add secondary or contingent beneficiaries. Also, proceeds from life insurance are included in the taxable estate of the insured, although the proceeds generally will be excluded if you transfer ownership of the policy to someone else or a trust.



Myth #6: Once my estate plan is complete, I don't have to do anything else.

Reality: Nothing could be further from the truth. Your family and financial circumstances almost certainly will continue to evolve, and your estate plan needs to reflect significant changes. Marriage, divorce, or the birth of children or grandchildren all could have an impact. And the best-laid plans could be affected by a disability or unexpected death of a spouse. Finally, your plan may have to be fine-tuned to take other events into account, especially if the estate tax laws are revised again. So be sure to review your plan periodically and revise it when necessary. ●

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