The Kelemen, Way & Hanslits

FINANCIAL PERSPECTIVE

Creators of The Planning Vision Process®

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CREATING CLARITY & CONFIDENCE IN A COMPLEX WORLD

Preparing to Receive an Inheritance

As a whole, baby boomers are expected to receive an estimated $8.4 trillion in inheritances; they've received $2.4 trillion already with $6 trillion more on the way, according to the Center for Retirement Research at Boston College. That works out to a median amount of $64,000, but an average of nearly $300,000 per inheriting household. The wealthiest 10% of households will receive a median of $335,000 per household and an average of nearly $1.5 million.

Not everyone will inherit large sums--or anything at all. In fact, some boomers are now supporting or will end up supporting their own aging parents. But if you do get an inheritance, what should you do next?

We have worked with a good number of inheritors over the years. They were relatives of deceased clients, or they sought us out as a result of an inheritance. Thus, we've seen a lot of inherited money, but sadly, much of it didn't last long.

As reported in the December 9, 2011 issue of *Forbes,* a study by the Williams Group found that a stunning 70% of intergenerational wealth transfers of 3,250 families failed. And it wasn't for the lack of a will or other estate planning. In fact, the study eliminated those without proper estate planning documents. Our percentages are similar. So what about the 30% that worked? What did they do right?

The most consistent three things we've observed from the successful inheritors was that 1) they knew about it in advance, 2) they were already living within their means, and 3) they had put it into the proper context of their lives and financial planning once they received it. This implies that their benefactors gave them advance knowledge with reasonably specific dollar amounts—and not on their deathbeds. So, with those concepts in mind, here are suggestions to prepare for an inheritance or a windfall, and to help your benefactors who might leave you one.

1. Have an open discussion with your parents.

For some families this is easy, but for many it is not. Talking about money is one of the last taboos, especially for members of the Greatest Generation. They may be unwilling to talk because they worry that their children will develop an entitlement attitude or not understand just how quickly the parental assets can be consumed for living expenses and health care costs.

Your objectives should be to allay their concerns, ascertain their expectations, and to encourage them to update their estate planning. And of course, learning an approximate amount would be extremely helpful. If you take the initiative, it might be easier for them. The conversation could open with something like this:

"Mom and Dad, Bob and I are working on our retirement and estate planning with our advisors. We want to be responsible and do the right thing. But how we structure things for ourselves and our children may depend upon how you have structured things for us. What guidance can we give our advisors?"

Or, *"Mom and Dad, if we receive an inheritance from you, what are your expectations for how we should handle it? What would you want the assets to do? What do you want your legacy to be?"*

2. Whether this leads to a productive discussion or not, your next step should be to get your own financial planning in order.

Have your advisor run projections with and without incorporating any inheritance. If you're like some of our clients, you'll find that receiving a modest inheritance in the future can make or break a comfortable retirement. And when the inheritance arrives, the responsible decision to put it to work for retirement income is so much easier to make.

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Overcoming Procrastination and Its Guilt

For many of us, procrastination—and its guilt—is the 800-pound gorilla in the room. Understanding why we do it and how to get around it is the first step to getting things done.

Over the years we have noticed that client procrastination seems to start about late May, peak in July, and then tapers off by September. **It doesn't happen with the fun stuff like planning a vacation or getting the garden going. It just seems to be the projects that connote "should" or "ought." The important, but not the urgent.**

Ironically, most of us have more free time in these coming months than we do from November through April. So with that in mind, let's take a look at procrastination and some things that might best be done in the more relaxed spring and summer months than in the late autumn and winter.

Why We Procrastinate and How to Deal With It

OBSTACLE	STRATEGY
1. We haven't sold ourselves on the task or project	Sell yourself on the project. Ask yourself, "What would it take to sell myself? How will I feel if I get this done? How will this benefit my family and me?"
2. We don't truly understand the positive consequences of doing the project or the fear and negative results if we don't.	Ask yourself, "What is the best possible outcome if I do this? What is the most likely outcome? What will happen if I don't do it?"
3. The project seems so overwhelming that we don't know where to start.	Apply the "One and 80 Rule." Ask yourself, "What is the one step I need to take to at least get started?" (Sometimes it is as easy is picking up the phone and making an appointment.) "What additional steps are needed to get me to 80% of completion?" This 80% is often enough momentum to carry you through to the end, or sometimes it's "just good enough."
4. There is no measurement of success. How will we know if we've done it right?	Define your goals and objectives. This is the essence of financial planning and investment management, and something we routinely help our clients do. This loops back into obstacle and strategy #1.

Sometimes procrastination is a valid strategy when other factors are not in place. It can make sense on really complex things that require a lot of thought or when there is too much ambiguity. If so, admit it instead of letting it hang over your head, giving you guilt and sapping you of energy. Sleep on it, but set a date when you will deal with it.

So besides refinishing the deck, painting the house, organizing the closet, or cleaning the garage, here are some suggestions for the coming months and beyond. Committing to completing just two or three of them can be quite liberating. **And remember, when it comes to financial and life planning, it's all about progress, not perfection.**

Quick and Easy

- ❑ Make a list of what you think it will take to make this a good year for you personally, professionally, and financially.
- ❑ Get your 401-k or other retirement plan payroll deduction on track to max out by the end of the year.
- ❑ Plan some special fun events with family and friends for the summer months.
- ❑ Set up a 529 College Savings Plan for children, grandchildren, and others.
- ❑ Review your beneficiary designations for retirement accounts, insurance policies, and annuities. (Are they consistent with your wishes and your overall estate plan?)

Easy but Takes More Time

- ❑ Roll over a retirement plan from a former employer to an existing IRA, or
- ❑ Roll over a small IRA into your active retirement plan.
- ❑ Shred unneeded financial records.
- ❑ Fill out a document locator form so that if something happened to you, your survivors could easily locate important documents, passwords, safe deposit box keys, etc. (Contact us to request our version.)
- ❑ Meet with your tax professional for some mid-year tax planning.
- ❑ Schedule an update meeting with us to review your progress toward key goals.
- ❑ Review the asset allocation and your comfort level with the risk of your portfolio (harder to do on your own, but easier with a financial professional).
- ❑ Meet with your property and casualty insurance agent to review potential gaps in your coverage.
- ❑ Review with your insurance agent your life and disability income policies for adequacy and sustainability.
- ❑ Plan a vacation six-twelve months from now.

Takes More Thought and Time

- ❑ Engage our services to learn what your (financial independence) "number" is and what it will take to achieve it.
- ❑ Simplify your financial life by consolidating accounts.
- ❑ Review and update your estate plan—or get one created!
- ❑ Set up qualified retirement plan for your professional practice or business.
- ❑ Meet with an independent agent to review your options for long-term care.
- ❑ Think about what it will take over the next 10 years for you to feel happy about your personal, professional, and financial progress. Then develop some benchmarks between now and then.

Make it a fun—but productive—summer!

Preparing to Receive an Inheritance...*Continued from page 1*

3. Get your own estate plan updated with a qualified estate planning attorney.

If you are already financially comfortable, you may want to be prepared to disclaim your share in favor of whoever is next in line with your parents' beneficiaries, such as child, grandchild, or charity. Trying to gift large sums after you have already received them can result in making gifts unnecessarily taxable. And you may want to avoid co-mingling an inheritance with your other assets. This could be helpful down the road in the event of a divorce or a lawsuit.

4. Plan for the tax implications.

For 2012, estates of over $5,120,000 are subject to Federal Estate Taxes. That number could drop considerably if Congress takes no action this year. Estates over $1 million in Oregon are also subject to Oregon estate taxes.

Different parts of an inheritance are taxed differently and provide planning opportunities. Assets owned directly by the deceased parent (or in his or her revocable living trust) receive a step-up in basis. This means there would be no capital gains taxes. That's a nice perk, and perhaps a very good reason why a parent in poor health with low-basis assets should just hold on to them. But older assets owned by an irrevocable trust—typically after the first spouse dies—don't get that step-up.

IRAs and retirement plans have a huge tax liability attached to them, because the entire amount is considered taxable income. But the law provides opportunities for stretching out withdrawals from them over your life expectancy if you follow the proper steps. With an inherited Roth IRA it's even better because the distributions are tax-free.

So you have received your inheritance. Now what?

1. Don't rush or make impulsive decisions.

All too often, we see beneficiaries rush out to buy expensive cars, boats, extensive home remodels, vacation property, or take lavish vacations. That's well and good if those expenditures don't hurt your long-term financial security and you don't have a lot of outstanding consumer debt. So far, you've waited most of your life for this windfall; what's wrong with taking six months or so to let the idea sink in?

2. Ask yourself, *"What would Mom and Dad want me to do with this?"*

Hopefully they've already given you some indications through their estate planning, letters, or conversations. What were their aspirations? What were their charitable causes? How would they want to be remembered? Perhaps you could use part of your inheritance to address this

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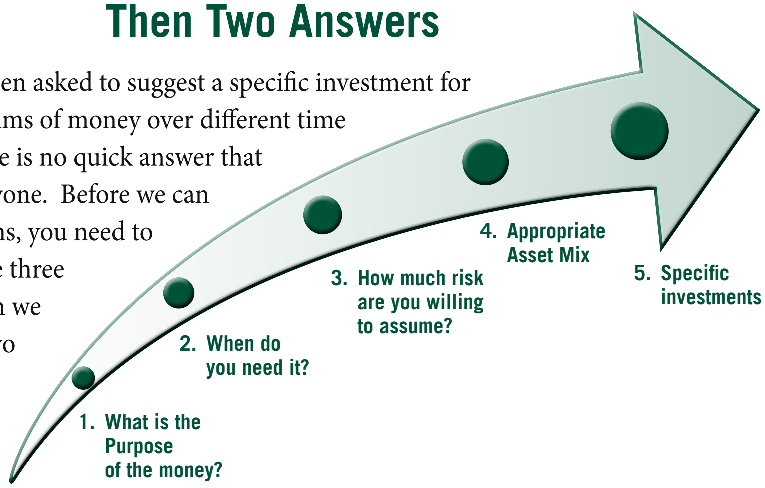
Next issue: Strategies for Repaying Student Loans

Three Questions to a Question, Then Two Answers

We are often asked to suggest a specific investment for lump sums of money over different time horizons. There is no quick answer that applies to everyone. Before we can offer suggestions, you need to ask yourself the three questions. Then we can give you two answers.



The Team Advantage™

Ron Kelemen, Mary Way, and Larry Hanslits are independent Certified Financial Planner™ certificants. They jointly serve their clients as a team with over 72 years of combined experience. They are members of The National Association of Personal Financial Advisors (NAPFA), and as such work on a fee-only basis and do not accept any third party compensation or finders fees. Their practice focuses on wealth planning and management for professionals, business owners, and retirees. They are advisory associates of The H Group, Inc., one of the largest independent fee-only registered investment advisory firms in the Northwest with 18 professionals and over $550 million under active management.

About Ron Kelemen, CFP®

In practice since 1981, Ron is a contributing author of three financial planning reference books and is frequently quoted in the national press and professional journals. *Medical Economics* lists him as one of the 150 best financial advisors for doctors. He is active in Rotary and several non-profit organizations.

About Mary Way, CPA, CFP®

Mary joined the practice in 1995. She is also a non-practicing CPA with 16 years experience in banking, business, and finance. She is a board member of the Salem Rotary Foundation, and like Ron, a past president of the Willamette Valley Estate Planning Council.

About Larry Hanslits, CFP®

In practice since 1985, Larry merged his practice with Ron's and Mary's in 2011. He sits on the investment policy committee of The H Group, Inc., provides advanced estate planning case writing services to attorneys nationwide, and is a teacher and a judge for the financial planning scholarship competition at Oregon State University.

TEAM UPDATE

Our big improvement since our last update was our website. We now have a blog section and we try to post on a weekly basis. If you want to find our quarterly letters, that's the place to go. You can find our blog at PlanningVisionProcess.com under the "Our Blog" tab.

We sponsor several major community fundraisers during the year, and it seems like most of them happen in the spring. They include the Liberty House Child Abuse Center, the Medical Foundation's MedAssist and Project Access, the Oregon Symphony Association in Salem, the Rotary Club of Salem's H2º project for Habitat for Humanity; The Salem Chamber Orchestra, Willamette Academy and more. Those events were not only fun, but fattening!

Lani had two trips to Utah. The first was for a conference and reunion. Her second was a week of getting her aging mother financially organized. She realizes now just how much she has learned on this job in the area of personal financial planning and organizing.

Debbie and husband Bob took a well-deserved trip to Sisters after April 15. She is now busy getting caught up on new business and an estate settlement.

Larry judged the Oregon State University Financial Planning competition. He said this was the best class ever, and the future of our profession looks good with such talent in the wings. He met clients and attended Strategic Coach in Chicago and had a home "vacation" which he spent sprucing up the house for this summer's selling season.

Mary has been very involved with the investment committee of the Salem Rotary Foundation and with some new planning cases for new and existing clients. While the rest of us endured a cold and rainy couple of weeks in March, she and husband Steve had a dream vacation in warm and sunny Costa Rica. Be sure to ask to see her zip line photos the next time you are in the office.

Ron was quoted in *Smart Money* magazine about approaching parents who might have the onset of dementia. You can find the link by going to our blog. In April he and Kathy attended their first weekend Airstream rally of the season in Canyonville. In mid-May they traveled with it to California to meet their daughters who were in a wedding. Afterward, all four of them camped four nights at Yosemite National Park.

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through a memorial fund or a scholarship. Maybe they would want their grandchildren (your children) to graduate from college. Maybe they would want the family to gather regularly for vacations at a jointly-owned family recreation property.

The one thing <u>any</u> parent would want is that the inheritance should <u>not</u> become a source of stress, friction or a divisive factor among your siblings. We have heard several "war stories" from area attorneys about how disputes over Mom and Dad's estate are tearing up the family. Is that what Mom and Dad wanted? Some of that might have been prevented by Mom, Dad, and their attorneys. But often it's the fault of the beneficiaries. **We like to say that you never know a sibling well until you have to share an inheritance with one.** Maybe Mom and Dad had their reason for dividing this the way they did. **Treating everyone equally isn't always fair, and treating everyone fair isn't always treating them equally.**

3. Ask yourself: *"What do I want this inheritance to do for me?"*

Help me retire sooner? Pursue my passion instead of a stressful job? Start a business? Pre-fund the kid's college costs? Make me more financially secure by paying down debt and investing for retirement? Upgrade to a nicer car or home? Become more philanthropic with my own family foundation or donor-advised fund? Travel? Not change my lifestyle?

Over the years, we've seen the whole range of possibilities. Some were not for the better. We've see instances where an inheritance has been a source of worry about money and the management of it, marital strife, and quite often guilt that it wasn't earned. Long lost "friends" and relatives suddenly materialize, as they often do for lottery winners. Upgrading to a higher lifestyle sometimes creates an artificial distance between longtime friends.

On the other hand, we've seen situations where an inheritance has been a very positive force in the inheritor's lives, their loved ones, and their causes. **But thinking through those successful cases—the 30% or so—their parents communicated openly and planned. The inheritors also made plans and gave serious thought to the above three questions.** The choice was theirs. And the choice is yours if you are fortunate enough to potentially receive an inheritance.