McRae
Capital Management, Inc.
Investment Counsel

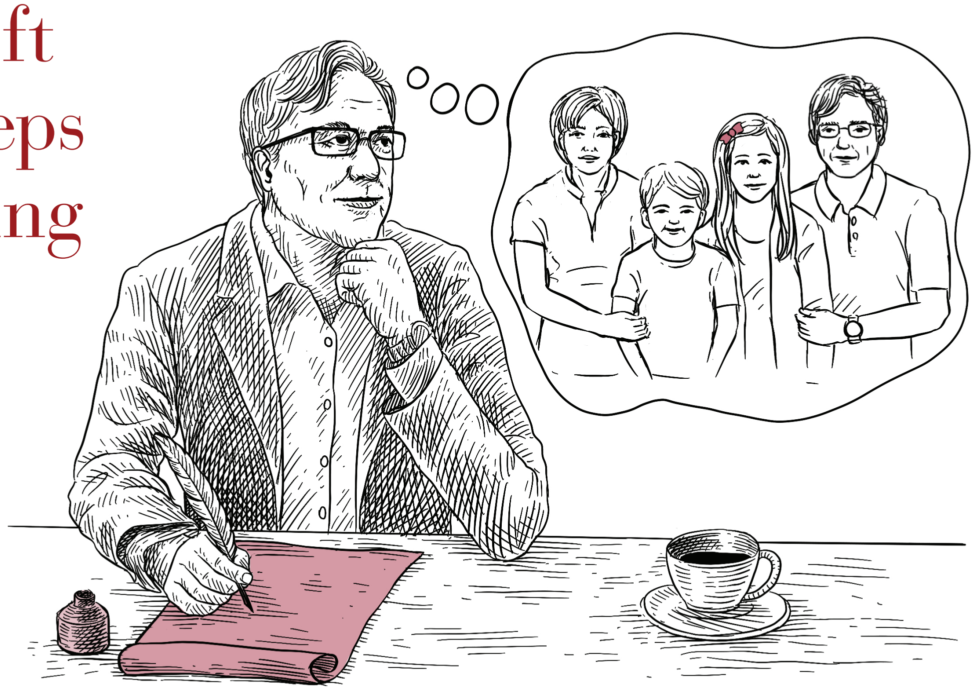
COMMENTARY

TIMELESS MARKET WISDOM THAT MATTERS NOW

Number 61 / November 2019

ESTATE PLANNING

The Gift that Keeps On Giving



When you're young and in your prime earning years, your financial strategy tends to be focused on growth: building and preserving wealth as best you can. Through short-term goals like saving money for a wedding or a house, and long-term goals like setting aside funds for higher education for the kids or for your own retirement, we all follow the same overall pattern: Earn what you can, spend what you have to, invest the difference well, and see what you can build over the course of a lifetime.

As you move toward your retirement years, however, that familiar pattern gets turned on its head. Your earning power diminishes, you can see the outlines of what your wealth will look like in retirement, and the focus starts to shift from growth to distribution. You need to take care of yourself, and make sure you're enjoying your retirement, and not stress TOO much about your kids and grandchildren. But if you're as thoughtful now as you've been along the way, it's time to make some decisions around exactly what you want to happen after you're gone. This is Estate Planning, and it's a whole new ballgame.

You've worked hard to create wealth all your life. Estate Planning is all about carefully documenting your wishes so that the fruits of your labor go exactly where you want them to go, even after you're gone. It's about transferring wealth without incurring any more taxes than you have to, and with safeguards that help ensure it'll be spent responsibly. It's about managing end-of-life healthcare costs and decisions, so your family understands what you want and has a clear path to making the right decisions should you become incapacitated. And it's about making careful allocation and empowerment choices so your wealth can benefit your family, possibly for multiple generations.

There are a world of options at your disposal—as well as state and federal laws, tax implications, and other complicating factors. It can be helpful to have an experienced team help you through the process, and McRae Capital stands ready to help you plan your financial legacy, whenever you're ready. Here are some of the basics, to get your thought process rolling.

Consideration 1: Your Goals

Proper estate planning starts with the creation of three main documents, ideally written by a lawyer: an updated Will, a power of Attorney; and a Medical Directive. Generally speaking:

- **A Will** goes into force when you pass away, and provides instructions for distributing any assets that are personally in your name, and appoints guardians for your children. Before this happens, wills first need to be "probated," a time-consuming process that validates the will, makes its terms enforceable, and becomes a public record. We normally advise each client to have their will written by a lawyer—the issues can be complex.
- **A Power of Attorney** gives a particular person the right to make financial and legal (but not medical) decisions for you while you are still alive. The document is best developed while you're still in good health and sound mind, and have a firm idea of whom you can trust to make key decisions on your behalf. This way, if something unexpected happens, that person can step seamlessly in, with no family members or others challenging what you "would have wanted."
- **A Medical Directive** (it may be called something different in your state of residence) empowers a particular person to make medical decisions for you when you can't make them for yourself. Medical Directives are often confused with DNRs (Do Not Resuscitate orders), which simply state that you wish not to be resuscitated under certain conditions, e.g. when you're unlikely to recover from a coma. The Medical Directive is a broader document that gives a trusted individual the ability to make all kinds of medical decisions on your behalf, including a DNR if that's your wish, when you can't make them yourself.

These three documents themselves may be relatively simple, but the decision-making behind them calls for a lot

It's about making careful allocation and empowerment choices so your wealth can benefit your family for generations.

of careful forethought. Before talking to a lawyer or any other advisor, write down the four or five most important things that matter to you in the estate-planning process. Once you understand the "What am I trying to achieve?" it'll be easier to ask your team, "How do I get these specific things done?"

Choose your team carefully. You're about to shift control of everything you've worked for to a set of documents and newly empowered people, so accuracy is paramount: Make sure you're comfortable with the skillset of those drawing up the documents, even if the cost of the legal work is higher than you might otherwise envision. And don't think of these as one-time decisions. The tax laws covering estates change often (they're often used in negotiations between political parties, and can be revised with every election cycle). Wills, in particular, should be written in a flexible manner, and reviewed at least once every 10 years or with any big change in your life, such as marriage, divorce, the birth of a child, or the purchase or sale of a big financial asset. Your financial team, including a lawyer, can help you determine when it's time to update your will, Power of Attorney and/or medical directive.

Once the documents are drawn up and you have obtained a stamped copy from the attorneys, make sure to share them with the people who will be responsible for making your wishes happen. The beauty of the documents is that they eliminate uncertainty, and ease the burden on loved ones trying to understand your wishes. So even though your inclination may be to protect your privacy, hiding the documents in a proverbial closet will only complicate matters when they're needed.

Consideration 2: Trusts

A trust is a fiduciary arrangement that allows a 3rd party, called a "trustee," to hold assets on behalf of beneficiaries. Many people ask us whether or not they should create one or more trusts to complement their wills, and the answer is that it depends on individual circumstances, because trusts aren't right for everybody.

Trusts can provide several positive things: They can control how wealth is distributed, assist with tax planning, and provide privacy and probate savings. With the federal estate-tax exemption currently at historically high levels, this estate-planning technique may not be as useful as it has been in the past. But trusts can still be valuable, especially in states using a lower estate-tax threshold than the federal government. They allow you to place money in investments that can spin off income for beneficiaries, and to put off the disposition of an asset to a minor child until a later date. And in the case of second marriages, a trust can ensure that children from previous marriages are provided for.

Give some thought as to whom you intend to name as trustee, as they'll have control over the trust's funds and decisions. Make sure you've thoroughly explored and confidently determined the individual you want to name, particularly if you have a family at odds with one another—these things can get amazingly contentious. As with wills, it's best that a trust be written flexibly, by a lawyer, so as not to place too stringent conditions on a particular inheritance.

Consideration 3: Gifting

There are two main reasons why people gift: for tax savings and to benefit others, typically either loved ones or charities. In either case, while you can stipulate your gifts in a will, gifting while you are alive lets you enjoy the gift—see your loved one benefit from your generosity, or watch your favorite charitable organization use your funds in a beneficial way, and help create a legacy for the future.

Let's start with the loved ones. To avoid having their estates shrunk by estate taxes immediately upon their demise, many families protect their family wealth by gifting to family members (and others) each year, within limits set by the government, reducing the size of their taxable estate upon death. You and your spouse, if married, can each give to multiple family members every year, as long as you stay below the annual federal gift tax exclusion for each recipient (currently $15,000 for 2019) as well as the lifetime exclusion (currently $11.18 million per person).

In other words, if you are married with five children, you and your spouse could together gift $30,000 to each child, shielding $150,000 each year. The recipients aren't taxed on the money they receive, and can invest or spend it as they see fit.

Another option is gifting to a registered and eligible charity. Gifting to a qualified charity is doubly beneficial, because the charity does not have to pay any taxes on the gift, AND you get a tax deduction when you make the gift. People often donate highly appreciated stock to charities, maximizing the gift by directly gifting the stock instead of

10 Things to Think About for Estate Planning

HERE'S A SHORT LIST HIGHLIGHTING SOME OF THE TOP CONSIDERATIONS AS YOU PLAN YOUR ESTATE AND END-OF-LIFE CARE:

1) Start with your goals. What's important to you, and whom can you trust to act in your interests after you're gone?
2) Seek help from experienced financial advisors and attorneys. The laws and paperwork can be tough to navigate.
3) Create or update your will. Share it with loved ones, keep it accessible, and plan to update it every few years or so.
4) Carefully choose a trustworthy Power of Attorney who can take over should you become incapacitated.
5) Review your investments, as it may be time to shift to a more conservative strategy that lowers risk and provides income.
6) Consider gifting, either to charitable causes or to transfer wealth to your family while avoiding some tax consequences.
7) Consider trusts as a way to securely provide guided long-term financial benefits to family members.
8) Establish a Medical Directive that clearly establishes your intentions around your own healthcare.
9) Name a Medical Power of Attorney you trust to make medical decisions for you when you can't.
10) Discuss plans to pay for long-term care and/or cover funeral costs with your financial advisor.

End-of-Life Decisions

DON'T WAIT UNTIL YOUR HEALTH IS COMPROMISED OR YOUR COMPETENCE IS IN QUESTION.

You're approaching the retirement you've worked and planned for; you're set financially and your estate's in good working order. But there's still one wild card left: late-in-life health care. After all, the last thing you want is to be a burden to your family, with uncovered costs or unclear directives. Thankfully, there are concrete steps you can take to make sure this doesn't happen. This can include a Medical Directive, which is a document that can state your wishes and appoint trusted individuals to make medical decisions on your behalf should you become unable to.

Let's start with the Medical Directive. This document authorizes someone to make medical decisions on your behalf. It can be the same person named in your financial Power of Attorney document, but it doesn't have to be. (Someone who is financially savvy may not be the right person to make tricky medical decisions for you, and vice versa.) This will capture your intentions regarding being kept alive by mechanical means, should you find yourself in a position where you can't communicate your desires.

Depending on your health trajectory, you may ultimately spend months or years living at home with a home health aide, or in an assisted-living facility or nursing home, the costs of which vary widely. Generally speaking, the average nursing-home stay at the end of life is 2.5 years*, but it's difficult to know exactly what you'll need. You'll want to consult with your financial advisor about identifying assets for whatever Medicare doesn't cover, and re-confirm this as the years go on and your situation clarifies.

Finally, many people want to specifically address end-of-life expenses, and specific wishes for their funeral, to relieve their grieving family of the guesswork and stress. These can include whether you wish to be buried or cremated, what kind of service you'd like and where it should be held, and even what kind of music to play for attendees. These wishes can be placed into your will, for convenience.

** From the National Care Planning Council.*

accruing a large taxable gain by selling the stock and donating the cash.

An increasingly popular way to give to charity is to use something called a Donor Advised Fund, or DAF. With a DAF, donors can make a charitable contribution, receive an immediate tax break, and recommend grants that are distributed from those funds over time.

Consideration 4: Investments

Thoughtful estate planning should include a continual review of your investments, and possibly a shift to a more conservative strategy. A younger investor with years ahead of them to weather occasional financial setbacks can often accept a higher level of investment risk in exchange for higher rates of return. But as you get closer to "flipping the switch" and beginning to draw income from your retirement funds, it's natural to place more emphasis on capital preservation—let's be honest, most people become more risk-averse as they get older—to ensure you have enough money when you need it. For many, this is the perfect time to begin shifting assets gradually into a more risk-averse, income-producing portfolio.

Putting It All Together

Estate planning and end-of-life decisions are easy to defer, and can be tricky conversations to have with loved ones. But they're just too important to put off. You've worked your whole life to create wealth for your family—now it's time to make sure your legacy benefits them in all the specific ways you'd like it to. McRae Capital Management can work with you to understand these issues and tackle them at an early stage, to help you create and file the documents, name responsible parties, and generally ensure your wealth goes where it's supposed to and that your wishes are carried out long after you're gone. That way, you can relax and enjoy your retirement, knowing that the fruits of your labor will continue to benefit your family for many years to come.

Estate planning decisions can be tricky conversations to have with loved ones.

McRAE

McRAE CAPITAL MANAGEMENT, INC.

MCRAE CAPITAL MANAGEMENT HAS A WEALTH OF INVESTMENT INFORMATION FOR YOU.

If there's ever anything we can help you with, please don't hesitate to give us a call.

You can find this and other Commentaries on the Web at **www.mcraecapital.com**. Or find us on Facebook or LinkedIn.

For additional copies of this issue of Commentary, please write: McRae Capital Management, Inc., 230 Madison Avenue, Morristown NJ, 07960, or call us at (973) 387-1080, or email us at info@mcraecapital.com. Past issues of Commentary are available upon request.