The LynnLeigh Journal

Life. Investing. And Everything in Between

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Get Your Ducks in a Row: Because You Can't Take it With You (But You Can Decide Where it Goes)

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Let's face it. No one likes to talk about dying, let alone think about it. Personally, it took me months and months to get my parents to actually finalize their trust and estate documents.

I agree. While many find it anxiety-provoking to think about, creating a legally binding plan to distribute your assets after your death ultimately provides you with peace of mind. Trust me, once you get your estate in order you will rest more easily knowing that your wishes will be carried out as you have requested.

Our financial planning process includes assisting clients in accomplishing essential tasks to finalize their trust and estate documents. This month's newsletter is focused on helping you understand the trust and estate landscape.

> **What if you die without a will?**
>
> When you kick the bucket without a will, the state probate court becomes the boss of divvying up your stuff. Talk about losing control from beyond the grave.

I know that some folks prefer a DIY, or do-it-yourself approach, but this may not be the best option for everyone. One reason is because each state has its own set of laws and requirements. You can find various templates online, but some of the documents may fall short of their claim to meet your state's requirements. Trust me, if you live in New York, you want professional advice. And, I don't mean having your friend who is a real estate attorney help you draft a will. You want someone who is a trust and estate practitioner.

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One question that I often hear – Isn't having a will created expensive? No. Not having a will can be terribly expensive.

It is crucial that your estate plan meets your state's legal requirements to ensure your final wishes are honored, so expert help is recommended. Consult with an estate planning attorney to ensure that documents are correctly prepared, avoiding costly and time-consuming missteps.

While we encourage you to sit down with a legal professional, we also want to provide some general guidelines you can think through independently. Estate planning is a complex field, but a general outline can clear up some of the mysteries.

Estate planning 101

1. **What do you want to accomplish?** Will you be providing for children under 18? Or are your beneficiaries young adults, older adults, relatives, or charities? Exactly how might you provide for your children?

   Options you may consider include a trust and/or a will.

   What is a trust? Trusts provide control over the distribution of assets, privacy, and potential tax advantages. A trust is a fiduciary arrangement that allows a trustee to hold assets on behalf of a beneficiary or beneficiaries. Trusts can be arranged in many ways, specifying exactly how and when the assets pass to the heirs.

   For example, are you concerned that a young adult might fritter away his or her inheritance?

   A **spendthrift trust** might be the answer. Instead of an account that allows immediate access to the assets, the trustee of a spendthrift trust dispenses the assets over time.

   Additionally, a spendthrift trust typically protects assets from creditors, bankruptcy, divorce, and lawsuits.

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Concerned about taxes on your assets after you pass on?

While estate and inheritance taxes can be a real threat, in truth, most estates are too small to qualify for federal estate tax. In fact, only those with assets worth over $12.06 million in 2022 and $12.92 million in 2023 are subject to this tax. What's more, most states do not have an estate or inheritance tax, meaning you can rest easy knowing your loved ones will inherit your assets in full.

Now, if you do have an estate tax issue, you may ask is there a way to minimize taxes? An irrevocable trust might fit into your plan. By placing assets into an **irrevocable trust**, the estate's value is reduced regarding estate taxes. Besides tax considerations, irrevocable trusts also help protect assets in lawsuits.

You may also decide to create a **living trust**, which transfers your assets to your beneficiaries and avoids probate.

What does probate mean?

Probate – sounds like a fancy word, right? It's actually the legal way of saying "let's get official" when it comes to recognizing a will and choosing someone to be in charge of doling out the goodies to beneficiaries. So, if you want to make sure your final wishes are carried out properly, don't be afraid to go through the probate process!

Other trusts that you may find advantageous include charitable trusts, special needs trusts, generation-skipping trusts, and bypass trusts. The latter two offer ways to reduce the estate tax.

2. **You may also consider a will.** A will is a legal document that takes effect upon your death. It outlines your wishes, including provisions for guardianship of your minor children.

As we already mentioned, complexities abound. We would be delighted to answer any inquiries you may have. Again, consulting with an estate planning attorney can help you decide if a trust, a will, or both are best for securing your assets for your heirs.

Don't wait until it's too late to secure the future of your loved ones. Take action today.

Note: I have attached a very handy document from Fidelity that explains many of the different types of trust if you want more details.

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3. **Have you taken stock of your possessions?** It's important to create an inventory of your assets, such as bank accounts, insurance policies, investment accounts, and personal belongings.

4. **Don't avoid the difficult conversation.** If you were to pass away suddenly, do your loved ones have access to important documents, financial statements, etc.? It is important to inform your loved ones about the location of your will and the legal professionals who will handle the process.

   In other words, it's important to ensure that your heirs won't be forced to embark on an unexpected scavenger hunt in the event of your unexpected passing.

5. **Choose the right executor or trustee.** Select a trustworthy individual or institution to act on your behalf. You need someone dependable, trustworthy, organized, fair, and financially savvy. Identifying the best candidate can be made easier if you focus on these important attributes.

What is an executor?

When you kick the bucket, an executor (aka personal representative) will make sure your money goes where you want it to. These savvy folks protect and handle your assets, which is why you'll want to choose someone close to you (or at least someone with a fancy suit).

6. **Be sure to designate and regularly update your beneficiaries.** It's common to list a beneficiary or beneficiaries for an IRA and life insurance policy.

   However, it's crucial to ensure that your designated beneficiaries align with your will. For instance, if the will you drafted last year names Bob as the recipient of your IRA at ABC Brokerage, but the beneficiary listed 15 years ago is Sally, Sally will be the recipient of the assets.

Minors as beneficiaries?

Sorry kids, you can't handle your own money until you're legally an adult. This means even if you hit the inheritance jackpot, it's gotta go into a trust or custodial account. Looks like you'll have to wait a bit longer to live the high life.

7. **Prepare for medical decisions.** Estate planning isn't complete unless you prepare legal documents such as a durable power of attorney for financial matters and a medical power of attorney for medical decisions. It is crucial in the event you are incapacitated.

   These documents appoint trusted individuals to make decisions on your behalf when you can't.

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8. **Update your estate plan regularly.** Life is full of unexpected turns. Milestone events such as marriage, divorce, births, and deaths can significantly impact your wishes and create gaps in your plan.

   In addition, charities that used to hold significance may not have the same impact anymore. Therefore, it is crucial to periodically review and make necessary adjustments to your plan.

Estate planning is a personalized process, and we want to emphasize that the above-mentioned steps are merely an outline.

Our objective is to initiate a dialogue and assist you in developing a plan or motivate you to revise an existing one. We are always available to address any questions you may have.

Brief Market Update

Recession aversion

A quote we mention in last month's summary is worth repeating:

> "Usually, recessions sneak up on us. CEOs never talk about recessions," said economist Mark Zandi at the end of 2022. "Now it seems CEOs are falling over themselves to say we're falling into a recession. …Every person on TV says recession. Every economist says recession. I've never seen anything like it."

Last August, the highly respected Conference Board, which compiles the Leading Economic Index, believed the U.S. economy would not expand in the third quarter of 2022 and "could tip into a short but mild recession by the end of the year or early 2023."

The Conference Board doubled down last month, forecasting that "a contraction of economic activity" will begin in Q2 and lead to a mild recession by mid-2023.

Nonetheless, the economy expanded at an annualized pace of 3.2% in Q3 2022 and added another 2.6% in Q4 before slowing to 1.3% in Q1 2023, according to the U.S. Bureau of Economic Statistics.

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Since January, the economy has added 1.6 million net new jobs, according to U.S. Bureau of Labor Statistics data, including 339,000 new jobs in May.

Neither metric is consistent with the traditional definition of a recession.

Although the year is not yet over, it serves as a reminder that the brightest minds cannot accurately foretell and time future events.

Still, is the jump in the unemployment rate from 3.4% in April to 3.7% in May a concern?

It's worth pointing out that the unemployment rate is measured by a survey called the household survey. Employment, reported as nonfarm payrolls each month, is calculated via a survey of businesses called the establishment survey.

The U.S. Bureau of Labor Statistics says the household survey includes "self-employed workers whose businesses are unincorporated." ***The establishment survey does not.***

Self-employed workers whose businesses are unincorporated declined by 369,000 in May. It's possible that anomalies in the data accounted for the sharp decline and subsequent rise in the jobless rate. June's unemployment rate should provide additional clarity.

Investor's corner

What does this mean for investors? Well, the resilient labor market and the Fed's war on inflation should all but guarantee a rate increase at the Fed's June 14th meeting. Yet, following 10-straight rate hikes, the Fed has hinted that it will take a break in June and forgo a hike in interest rates.

Its gentler approach this year, coupled with talk of a pause this month, has supported the major index this year.

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Please note, however, that the S&P 500 Index has been aided by the outperformance of a few mega-cap tech stocks. The Dow and the Russell 2000 Index, which measure the performance of small stocks, have lagged.

Key Index Returns		
Index	**MTD %**	**YTD %**
Dow Jones Industrial Average	-3.5	-0.7
Nasdaq Composite	5.8	23.6
S&P 500 Index	0.3	8.9
Russell 2000 Index	-1.1	-0.7
MSCI World ex-U.S.A*	-4.9	4.6
MSCI Emerging Markets*	-1.9	0.2
Bloomberg Barclays U.S. Aggregate Bond TR USD	-1.1	2.5

Source: Wall Street Journal, MSCI.com, MarketWatch, Bloomberg
MTD returns: April 28, 2023 –May 31, 2023 YTD returns: December 30, 2022–May 31, 2023
**U.S.D.*

Debt ceiling drama

According to popular belief, if a frog is thrown into boiling water, it will immediately jump out. However, if placed in warm water and the temperature gradually increases, it will eventually perish.

We've never tested the hypothesis (nor do we plan to), but it can be used as a metaphor.

The federal deficit is continuously expanding, i.e., the temperature of the water is slowly rising, without any clear indication of when it may pose a threat to financial stability.

However, a hard cap on the total deficit via a decision not to raise the debt ceiling would have had serious consequences. Market reaction would have been swift and dramatic.

Politicians will always posture, but behind closed doors, they recognized the need to strike a deal, however imperfect such a deal might be, and the debt ceiling was raised. Crisis averted.

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As an impartial advisor, it is not my job to have an opinion on the particulars of the agreement. My role involves evaluating the market through the narrow lens of an investor's perspective. From my perspective, the investor assesses the economic fundamentals over a period of roughly six to nine months. However, I also focus on the long-term goals of our clients and these types of markets are historically short-lived.

If the U.S. were to default on its debt (T-bills set to mature), it would lead to unpaid bills, a credit downgrade, and severe consequences in both U.S. and global financial markets.

Such consequences would likely lead to economic instability, higher borrowing costs for the U.S. Treasury, a weaker dollar, and a loss of confidence in the U.S. government's ability to manage its finances.

Obviously, none of these outcomes are desirable for investors.

REMEMBER!!! Markets don't settle down – They settle up!

Final thoughts

There are always going to be good markets and bad markets. I like to tell our clients that we can only control what we can control. We cannot control what the markets do, but we can control what we own. That is what we focus on.

As always, thank you for taking time out of your busy life to read our newsletter, especially now that Summer is here!

Please let me know if you have any questions or would like to discuss your personal situation. The intent of our newsletter has always been to leave you a little more educated and comfortable with current events and important retirement topics. Also, let me know if there are any topics that you would like us to focus on.

Feedback would be amazing!

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If you are a client, Thank you! I recognize that you have many advisors to choose to work with. That you have chosen our firm, I am honored and humbled for the opportunity to serve as your financial advisor. If you are not one of our clients and would like to chat about our unique client experience, I would be very happy to meet with you!

All the best,

KELLY

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What Is a Trust?

A trust is traditionally used for minimizing estate taxes and can offer other benefits as part of a well-crafted estate plan.

Feedback

A trust is a fiduciary arrangement that allows a third party, or trustee, to hold assets on behalf of a beneficiary or beneficiaries. Trusts can be arranged in many ways and can specify exactly how and when the assets pass to the beneficiaries.

Since trusts usually avoid probate, your beneficiaries may gain access to these assets more quickly than they might to assets that are transferred using a will. Additionally, if it is an irrevocable trust, it may not be considered part of the taxable estate, so fewer taxes may be due upon your death.

Assets in a trust may also be able to pass outside of probate, saving time, court fees, and potentially reducing estate taxes as well.

Other benefits of trusts include:

Control of your wealth. You can specify the terms of a trust precisely, controlling when and to whom distributions may be made. You may also, for example, set up a revocable trust so that the trust assets remain accessible to you during your lifetime while designating to whom the remaining assets will pass thereafter, even when there are complex situations such as children from more than one marriage.

Protection of your legacy. A properly constructed trust can help protect your estate from your heirs' creditors or from beneficiaries who may not be adept at money management.

Privacy and probate savings. Probate is a matter of public record; a trust may allow assets to pass outside of probate and remain private, in addition to possibly reducing the amount lost to court fees and taxes in the process.

Basic types of trusts

Marital or "A" trust	Designed to provide benefits to a surviving spouse; generally included in the taxable estate of the surviving spouse
Bypass or "B" trust	Also known as **credit shelter trust**, established to bypass the surviving spouse's estate in order to make full use of any federal

	estate tax exemption for each spouse
Testamentary trust	Outlined in a will and created through the will after the death, with funds subject to probate and transfer taxes; often continues to be subject to probate court supervision thereafter
Irrevocable life insurance trust (ILIT)	Irrevocable trust designed to exclude life insurance proceeds from the deceased's taxable estate while providing liquidity to the estate and/or the trusts' beneficiaries
Charitable lead trust	Allows certain benefits to go to a charity and the remainder to your beneficiaries
Charitable remainder trust	Allows you to receive an income stream for a defined period of time and stipulate that any remainder go to a charity
Generation-skipping trust	Using the generation-skipping tax exemption, permits trust assets to be distributed to grandchildren or later generations without incurring either a generation-skipping tax or estate taxes on the subsequent death of your children
Qualified Terminable Interest Property (QTIP) trust	Used to provide income for a surviving spouse. Upon the spouse's death, the assets then go to additional beneficiaries named by the deceased. Often used in second marriage situations, as well as to maximize estate and generation-skipping tax or estate tax planning flexibility
Grantor Retained Annuity Trust (GRAT)	Irrevocable trust funded by gifts by its grantor; designed to shift future appreciation on quickly appreciating assets to the next generation during the grantor's lifetime

Feedback

Revocable vs. irrevocable

There are many types of trusts; a major distinction between them is whether they are revocable or irrevocable.

Revocable trust: Also known as a living trust, a revocable trust can help assets pass outside of probate, yet allows you to retain control of the assets during your (the grantor's) lifetime.

It is flexible and can be dissolved at any time, should your circumstances or intentions change. A revocable trust typically becomes irrevocable upon the death of the grantor.

You can name yourself trustee (or co-trustee) and retain ownership and control over the trust, its terms and assets during your lifetime, but make provisions for a successor trustee to manage them in the event of your incapacity or death.

Although a revocable trust may help avoid probate, it is usually still subject to estate taxes. It also means that during your lifetime, it is treated like any other asset you own.

Irrevocable trust: An irrevocable trust typically transfers your assets out of your (the grantor's) estate and potentially out of the reach of estate taxes and probate, but cannot be altered by the grantor after it has been executed. Therefore, once you establish the trust, you will lose control over the assets and you cannot change any terms or decide to dissolve the trust.

An irrevocable trust is generally preferred over a revocable trust if your primary aim is to reduce the amount subject to estate taxes by effectively removing the trust assets from your estate. Also, since the assets have been transferred to the trust, you are relieved of the tax liability on the income generated by the trust assets (although distributions will typically have income tax consequences). It may also be protected in the event of a legal judgment against you.

Deciding on a trust

State laws vary significantly in the area of trusts and should be considered before making any decisions about a trust. Consult your attorney for details.

For more information about trusts, see *Viewpoints* Is a trust right for you?

If you are interested in speaking with a specialist about trust services at Fidelity, see Personal Trust Services or call us at **800-544-1766**.

Choosing and creating a trust can be a complex process; the guidance of an attorney with estate planning expertise is highly recommended.

Next topic

Tips for estate planning conversations
An honest and open dialogue can make a real difference in how your wishes are carried out.

Ready to get started?

Open a trust account

Questions?
800-544-1766

Chat with an investment professional

Feedback

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