ROSEMONT
FINANCIAL GROUP

*Quarterly*Newsletter
Gain Through Confidence

Five Documents At The Core Of An Estate Plan

Every estate plan is unique because of a particular family's circumstances. Still, most people share many primary objectives that may be reflected in five documents often found at the core of a plan.

If your current estate plan doesn't include these five items, you might need to fill the gaps. And if you don't yet have a comprehensive estate plan in place, it's probably time to make that a priority. Mortality can sneak up on anyone.

1. Financial power of attorney: A power of attorney is a legal document that authorizes another person to act on your behalf. A financial power of attorney enables the "attorney-in-fact"—the person specified to act for you—to conduct your financial affairs. Many states have a standard form for financial power of attorney.

Usually, the power of attorney is "durable," meaning that it remains in effect in the event you are incapacitated. But you might use a non-durable power of attorney for specific purposes, such as to have someone manage your portfolio temporarily. Keep in mind that a power of attorney is enforceable only when it has been established before its creator becomes incompetent.

2. Health care power of attorney: Like a financial power of attorney, this authorizes a designated person to act on your behalf in the event you're unable to make your own decisions—in this case, about your medical care. This goes further than a living will, which generally applies only if you're terminally ill or on life support, based on the prevailing state law.

Your attorney-in-fact for a health care power of attorney needs to be someone you can trust to act in your best interests. Typically, that would be a spouse, a child, or another close family member. But you'll also need to name contingent and successor agents.

3. Health care directives: Although there are several other kinds of health care directives that you might include in your estate plan, the most common version is a living will. Without it, family members may be left in a quandary about end-of-life decisions involving your care. This can lead to turmoil and questions could even end up being decided in court.

Often a health care power of attorney is coordinated with a living will, or the two may be combined in a single document. Some states have forms combining these elements and reflecting other personal choices such as whether to donate your organs.

4. Will: No matter how sophisticated your estate plan is, you'll likely circle back to the need for a will to tie everything together. A will can be

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Summer Is A Great Time To Plan For Year-End

Hello! Thanks for taking the time to read over our summer newsletter. After a somewhat rainy start to the summer, at least in the Northeast, the weather has improved substantially and everyone at Rosemont has been enjoying it. While there is never a slow season in the financial industry, most of the advisors and support staff have been able to enjoy some family getaways to the Outer Banks, the Jersey Shore, Virginia, and the Adirondacks.

The economy and markets have continued to remain strong, and although wage growth could improve, job numbers and corporate earnings have steadily improved. While volatility could pick up this fall due to the political and global climate, we expect numbers and growth to remain steady.

Although we hate to say it, the year will quickly come to a close, so now is a great time to plan for any tax strategies needed in 2017. Increasing retirement plan contributions, contributing to IRAs, and planning uses for required minimum distributions always seem to be popular year-end goals.

As always, thanks for being a part of the Rosemont family!

Why Turn Down An Inheritance?

Sometimes you just have to say no, even when it might benefit you financially. Suppose you're in line to receive an inheritance—shouldn't you welcome it with open arms? In some cases there can be good reasons to turn down the money, using a "qualified disclaimer."

Why would you ever *not* take an inheritance? The best reason is to save your family money on taxes. By using a qualified disclaimer, the assets bypass your estate and go to the next beneficiary or beneficiaries. This enables you to preserve your personal estate tax exemption to use in other ways. In addition, in many states a disclaimer may be used to avoid claims of creditors.

The combined personal exemption for estate and gift taxes is $5.49 million in 2017, an amount that is indexed to inflation and normally increases every year. That gives most people plenty of wiggle room. But for those whose wealth exceeds that amount or who have already used up part of the exemption, estate and gift taxes may still be a major concern. In addition, most money you might want to transfer to grandchildren will be subject to the generation-skipping transfer tax (GSTT). The GSTT exemption is the same as the estate and gift tax exemption.

If you were going to pass along assets you've inherited to the younger generation at some point anyway, the disclaimer expedites matters. The money ends up with the contingent beneficiaries named by the person who was leaving you the inheritance without ever touching your hands.

To qualify under the strict legal definition of a qualified disclaimer, the document must meet these requirements:

- It must be made in writing and signed by the disclaiming party.
- It must identify the property, or the disclaiming party's interest in the property, that is being disclaimed.
- It must be delivered, in writing, to the person or entity charged with the obligation to transfer the assets (i.e., the executor).
- It must be written less than nine months after the date the property was transferred or the transferor's date of death.

Note that you can't alter who will receive the property you're disclaiming. For instance, if the contingent beneficiaries are your nephews and nieces, you can't redirect the money to your own children. The designations made by the person who made the bequest control where the money goes.

Also, you can't disclaim property once you've accepted it. For example, if you receive money and use a small portion to pay for funeral arrangements for the decedent, you can't disclaim the inheritance afterwards.

Although future changes in the tax code might discourage the use of disclaimers, for now this is still a viable technique. Be sure to consult with your legal and financial advisors about any inheritance you may receive. ●

Trust As IRA Beneficiary: Not Crazy

You may have heard that you can't name a trust as a beneficiary of your IRA—but in fact that is a perfectly legal option for IRA owners. But whether you should do it is a completely different story and requires further analysis.

IRAs can be complicated enough on their own without bringing a trust into the equation. And if you do name a trust as a beneficiary and then make a mistake with your account, the tax consequences could be devastating—so proceed with extreme caution. You'll need to work with an attorney experienced in these matters.

Why would you want to name a trust as your IRA beneficiary? It's not a tax-saving move and indeed could increase your tax bill. Still, there are valid reasons for using this planning technique. The primary benefit is protection against the IRA assets being squandered or attached by creditors. For example, you might want to pass money in an IRA to someone who is under age 21 and may not have much experience handling financial affairs or to a family member who is known to be a spendthrift. Having the account pass into a trust could enable a trustee to control how the money is distributed.

In a similar vein, you might intend to provide IRA funds to your spouse in a second or third marriage, but without shortchanging your children from an earlier marriage. In that case, you might leave the assets to a trust that pays out income to support a surviving spouse for life, with the remainder going to the children.

In any of these cases, naming a trust as your IRA beneficiary could be helpful—though, again, you'll need to work with an attorney with specialized knowledge of trusts and estate planning. Having the proper language in documents for the IRA and the trust is crucial.

10 Common Questions About Social Security

If you're nearing retirement or you recently retired, you probably have plenty of questions about Social Security retirement benefits. Here are answers to 10 common queries posted online by the Social Security Administration (SSA).

Q1. How do I obtain a replacement Social Security card?

A. You can get an original Social Security card or a replacement card if yours is lost or stolen for free. Generally, all you have to do is submit the request to the SSA online. However, in some states, you must show additional documentation. Visit the SSA website for more information.

Q2. How do I change or correct my name on my Social Security number card?

A. If you're legally changing your name because of marriage, divorce, court order, or for any other reason, promptly notify the SSA and obtain a corrected card. This service is also free. Simply follow the procedures for getting a replacement card.

Q3. What are the ramifications if I receive Social Security retirement benefits while I'm still working?

A. If you haven't reached full retirement age (FRA) and you earn more than a specified annual limit, your benefits are reduced under this "earnings test" as follows:

- If you're under FRA for the entire year, you forfeit $1 in benefits for every $2 you earn that exceeds the annual limit. For 2017, that ceiling is $16,920.
- In the year in which you reach FRA, you forfeit $1 in benefits for every $3 earned above a separate limit, but only for what you earn before the month in which you reach FRA. For 2017, this limit is $44,880.

Beginning with the month in which you reach FRA, you can receive benefits that won't be affected by whatever you may earn.

Q4. What is my FRA?

A. It depends on the year in which you were born. The FRA gradually increases from age 65 for those born in 1937 or earlier to age 67 for those born in 1960 and after. The FRA for Baby Boomers born between 1943 and 1954 is age 66.

Q5. Can I collect benefits if I retire before my FRA?

A. Yes. You can retire and apply for benefits as early as age 62, but your monthly benefits will be reduced by as much as 30% in that case.

Q6. Are benefits increased if I wait to apply until after my FRA?

A. Yes. You can receive increased monthly benefits by applying for Social Security after reaching FRA. The benefits may increase by as much as 32% if you wait until age 70. After age 70, there is no further increase. Visit the SSA website to figure out the exact amount of your "early" and "late" benefits.

Q7. How do I apply for Social Security retirement benefits?

A. You should apply for retirement benefits three months before you want your payments to start. The easiest and most convenient way to apply is to use the online application. Note that the SSA may request certain documents to verify your eligibility.

Q8. How do I handle benefits for an incapacitated person?

A. If your elderly parent or someone else who is entitled to receive Social Security benefits needs help in managing those benefits, contact your local Social Security office about becoming that person's representative payee. Then you assume the responsibility for disbursing the funds for that person's benefit.

Q9. Who is entitled to receive Social Security survivors' benefits?

A. A spouse and children, or both, of someone who has died may be in line for benefits based on that person's earnings record. Visit the SSA website for more details. Survivors must apply for this payment within two years of the date of death.

Q10. Are Social Security benefits subject to tax?

A. Yes, but not everyone is liable. You are taxed on Social Security benefits under a complex formula if your provisional income (PI) exceeds the thresholds within a two-tier system. PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income, and (3) one-half of the Social Security benefits you received.

- For a PI between $32,000 and $44,000 ($25,000 and $34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds $32,000 ($25,000 for single filers).
- For a PI exceeding $44,000 ($34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds $44,000 ($34,000 for single filers) plus the lesser of the amount determined under the first tier or $6,000 ($4,500 for single filers).

In many cases, these answers will lead to even more questions. The SSA website is helpful, but you may need additional guidance for your personal situation. Don't hesitate to contact us for assistance. ●

One key aspect of such an arrangement is that the trust you name as IRA beneficiary should have people—and not an institution or your estate—as its beneficiaries. That could enable those beneficiaries to use "stretch IRA" planning techniques to lengthen the amount of time that assets can utilize an IRA's tax advantages. Although required minimum distributions (RMDs) still will have to happen, they'll be based on the life expectancies of the ultimate beneficiaries. The younger they are, the longer the money can be shielded from taxes. If more than one nonspouse beneficiary is named in a trust, the age of the oldest living beneficiary must be used. Consider separate trusts for each nonspouse beneficiary.

A variation on this theme calls for naming your spouse as the primary beneficiary and the trust as the contingent beneficiary. Such a setup provides greater flexibility because the surviving spouse may roll over the inherited IRA assets into his or her own IRA as part of post-mortem estate planning. ●

When To Disclaim An Inherited IRA

Should you ever pass up a chance to get more money? It depends. Suppose you're in line to inherit IRA assets. When it makes sense, you might use a "qualified disclaimer" so that the assets bypass you on the way to someone else.

A disclaimer is a legal document that lets you waive your right to receive money or property from an estate. If you execute a disclaimer, it's as if you never inherited the assets. Instead, they go directly to the next people in line to receive them. In the case of an IRA, the assets typically wind up with the account's contingent beneficiaries.

Why would you do this? There are two main reasons:

1. Assuming you don't need the money, you might prefer that the assets go directly to the younger generation, usually your own kids or grandkids. You were going to give the assets to them eventually anyway, right? A disclaimer shortens the process while lengthening the time over which the beneficiaries must take required minimum distributions (RMDs) from the account. RMDs are based on the life expectancies of the beneficiaries, so the younger they are, the longer the wealth can be preserved.

2. A disclaimer may reduce a family's overall tax liability. The RMDs from IRAs generally are taxed at ordinary income rates, which go as high as 39.6%. Younger children and grandchildren are likely to pay tax at a much lower rate.

For a disclaimer to work, it has to be an irrevocable, unqualified refusal to accept property, and it must meet the following requirements:

- It must be in writing with a declaration and signature of the person who is making the disclaimer.
- It must identify the property (or the partial interest in the property) that is being disclaimed.
- It must be delivered to the party or entity responsible for transferring the assets (for example, an IRA custodian or trustee).
- The disclaimer has to be executed less than nine months after the property was transferred (or within nine months of when the disclaiming person reaches age 21, if that's sooner).
- As a result of the disclaimer, the assets must pass to the new recipients without any direction from the person making the disclaimer. You can't decide to give the money to someone other than the legal beneficiaries next in line.

This process can be technically complicated, so you'll need to work with an attorney to provide the proper language for a disclaimer, which must take into account whatever is required under state law. Also, take great care in completing any beneficiary designation forms furnished by an institution. ●

The Core Of An Estate Plan

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used for a wide range of purposes, including (but not limited to):

- Dividing your assets and allocating them to your beneficiaries;
- Naming guardians for your children;
- Achieving estate tax benefits;
- Arranging gifts to charity;
- Creating trusts for your beneficiaries;
- Excluding certain family members from inheriting your assets;
- Avoiding a lengthy probate process; and
- Thwarting potential legal challenges.

A will may refer to other documents in your estate plan. If you don't have a legally valid will and you die "intestate," your estate will be governed by the laws of the applicable state.

5. Revocable trusts: Finally, your estate plan may include more revocable trusts, which let you change terms based on future events or preferences. Such trusts are commonly called living trusts—or, more technically—inter vivos trusts—because you create them while you are alive.

With a revocable living trust, you can transfer assets to the trust to be managed by a party you designate. The transferred assets aren't subject to probate.

Other kinds of trusts can also be created to complement the rest of your estate plan. These trusts might be designed to minimize potential state or federal estate taxes, as well as to protect assets from creditors or in the event of a divorce.

This list of estate planning basics can be a good starting place for many families. You'll need the help of an experienced attorney and other advisors to create a plan that fits your family's needs. ●