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Institutional trustee as an iron clad back up

Mid-quarter we ran an abbreviated blog post on street-cents.com with the intention of completing this more detailed article, here in the newsletter. We were happily greeted with several questions and ideas from the original post, encouraging us and giving us more directions and depth.

John A. Kvale, CFA, CFP ®

Before we get into the main point of our article, a bit of trust briefing will be helpful and likely a reminder/refresher for many.

What is a trust?

Think of a trust as a corporate (not estate law) law contract that creates an entity with specific directives. The biggest advantage of trusts is their ease of use due to corporate

(see **Many,** Page 2)

Capital markets

Schizophrenic? Sometimes it may seem so

At the end of 2018 we were all reminded of just how volatile capital markets can be. After a quick 20% drop, fear was rampant and many were crying the sky is falling in Chicken Little fashion.

So what happened?

In our blog post at Street-cents.com, we wrote multiple articles while capital markets were throwing their hissy fit. Oddly enough, the most likely scenario was an un-seemingly post called "amateur hour" which was one of our most read and commented on.

There is an unwritten code to do no harm or maybe said another way, do nothing and take the time off near year's end, especially late December -leaving markets on auto pilot and in youthful hands while

(see **Capital,** Page 5)

INSIDE:

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Revocable, irrevocable trusts

Many do not need a trust at all

Trusts, trustee, the institutional trustee

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law rather than estate law.

Corporate law reads easy, is straight forward and can be changed with a few taps on the keyboard and an informal signing. Estate law has strict wording, is often complicated due to the nature of estate law precedent and in many cases must be worded exact to effectively do what you want it to.

Even if you have a trust(s) you will still have a Will and other ancillary documents such as Powers of Attorney's (POA's) just to be safe.

There are tons of different types of Trusts but for most practical sakes they all are very similar with only two basic differences:

Revocable – This trust is completely changeable at any time and does not carry complete creditor protection due to this fact.

Irrevocable- This is the most iron clad type of trust and carries tons of credit benefits as well as massive protections due to the irrevocability nature as stated in the title. Once funded, an irrevocable trust becomes its own entity, files its own tax return and again carries, in most cases, iron clad guarding against bad guys. As the name implies, an irrevocable trust cannot be undone unless by the exact nature of the trust itself.

Do I need a trust?

It might surprise you to hear us say, not in most cases are trust(s) needed. With the recent appeal of the estate tax limits, many just do not need a trust at all.

TRUSTS

It might surprise you to hear us say, not in most cases are trust(s) needed. With the recent appeal of the estate tax limits, many just do not need a trust at all.

Here are a few ideas of slam dunk trust needs:

Adults with minor children absolutely need a trust embedded in their Wills to direct the minors, if needed.

Certain states such as Florida and California are trust needed states due to the complicated and expensive probate systems- up to 5-10% of the value of the estate in certain cases and an extremely lengthy probate period.

Complicated estates with many differing assets in many places are likely a trust needed situation. This may be agnostic to size as complicated can come in any value.

Gifts of size that are desired to be controlled for an extended period with creditor or preditor protection are a slam dunk for an irrevocable trust.

The trustee – the driver of the trust

So you are the proud owner of a trust or may possibly have a trust embedded in your estate documents, calling a trust to power in certain situations.

Now to the meat of our discussion.

The main person that controls a trust is called the trustee. As mentioned above, the trust spells out the duties of the trustee in

(see **When,** Page 3)

When triggering event occurs, institutional trustee steps in

(continued from Page 2)
easier to read corporate law format and directs what the trustee's duties are, in many cases, in great detail.

A General Order of Trustee frequently looks like this:

Spouse
Sibling
CLOSE friend
Similar aged relative
Grown children
NOT an aging parent and NOT a minor child!

Frequently, it is easy to run through all of these people and either not have a long list or maybe only one of the above is available and you need an iron clad backup.

The institutional trustee as iron clad backup

Once upon a time, bank trust departments controlled this area completely due to high mandated hurdles of solvency and legacy thinking.

In part the great bank purge and merge of multiple decades kicked off the separation of bank trust departments, in part a rolling up of the trust cost sleeves occurred, and many found out that they were in a not so win-win client situation but no matter the reasoning, institutional trustees are now a standard part of most investment managers' quiver of arrows including ourselves.

An institutional trustee is named in the trust document, vetted by the institution before authorized and its done, that easy!

Here is how it works:

When a triggering event (usually death) occurs, the institutional trustee steps in as demanded in the trust documents and begins care taking as mandated by the trust document.

The best news of all

In our institutional trust relationship, very little changes and luckily as a firm we are looked at as the driver of the relationship and continue just as normal.

TRUSTS

When a triggering event (usually death) occurs, the institutional trustee steps in as demanded in the trust documents and begins care taking as mandated by the trust document.

When the inevitable problem occurs – overzealous expense is desired - we casually refer the decision to our institutional partners for the official "NO" and are back on our way with things. This keeps everyone on good footing and speaking terms.

Of course, bank trust departments are still around and gladly welcome future business but in the spirit of less disruption and lower cost, now and in the foreseeable future it's easy and likely much more streamlined than just a few decades ago by using a partnered institutional trustee as an iron clad backup.

JK

Why you should carefully designate your beneficiaries

While completing the institutional trust article (also in this newsletter), a reminder of how important beneficiary decisions occurred and we thought if fit well into this newsletter.

Over the years we find a newsletter develops a theme frequently as subject matters often compliment one another.

Feather in a street-cents.com brief article with interest from you guys in the trenches and we are on our way.

What types of accounts carry a beneficiary?

All qualified or IRA type of funds, TOD or transfer on death account titles and any trust or directive type of documents carry direct beneficiary documentation.

The TOD (transfer on death) title is available in most U.S. states and essentially adds a beneficiary designation to your AFTER tax type of accounts.

If it has a spot for a beneficiary or it is in the title, you have made a decision.

Why you need to be careful in naming?

They do not listen to your will. Said another way, you can say whatever you want in your will but if you have a different beneficiary named directly in your IRA or other account documentation, it does not matter.

You can easily imagine the situations that occur and here are some that we have experienced.

Currently married - maybe for a while but a parent is still your beneficiary (Easy fix, frequent occurrence.)

Minor child is the beneficiary - will not work as courts will end up deciding

Ex spouse - yikes, there are some relief with divorce decrees but sloppy

Sibling that for whatever reason you no longer desire to be a beneficiary

Two of your three grown children - by accident, forgetting the third

Ways to designate

The most common and what are mostly shown on documentation are primary and secondary beneficiciaries with percentages.

Just as it sounds, the primary is the first and secondary latter but it is possible to name multiples of each in differing percentages. The most important item to remember is primary (s) are first and secondary (s) after.

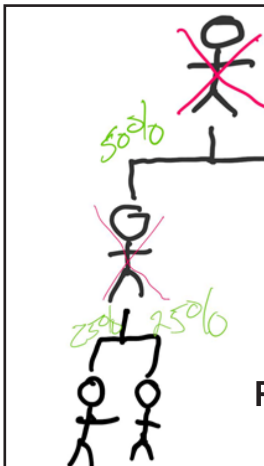
Successful specific beneficiary naming can be completed in most cases as long as it is kept, what we call, bi-nominal. Our meaning in this term is one event or another, not multiple events.

As an example, if all of these people are alive then each gets this percentage and if one is not alive, the beneficiary is the estate. Beneficiary documents are not trusts or wills and in order for the wording to work, it MUST be very straight forward.

Common but confusing

In most documents there are checkboxes that are called per stirpes or pro rata.

We think this is most easily explained by our hand written graphs. Think of per stirpes as going on down to the next generation no matter who is living at the time.



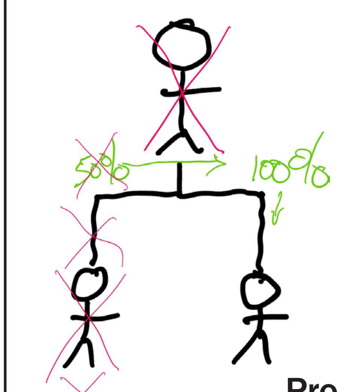
Per stirpes graph

The opposite is true for pro rata, which looks to see if the beneficiary is living and IF NOT, all beneficiary proceeds reallocate to the remaining living beneficiary(s).

There is one slight adjustment to the per stirpes beneficiary called per capita which reallocates the final proceeds equally among the living third generation beneficiaries; however, we see this used much less frequently.

Foresight thought and occasional reviews of your beneficiary designations will keep your estate running smoothly and send proceeds the way and direction you desire.

JK



Pro rata graph

Capital markets:

Earnings, economy still good but not red hot

(continued from Page 1)
the elder statesman spends time with family. There were multiple headlines about the worst December ever, possibly due to the violation of this unwritten code.

The inverted yield curve or not so inverted

After writing at length last year about the inverted yield curve (the unusual event of short term rates being higher than long-term rates) as we headed into the Federal Reserve rate increases – the main reason of an inverted yield curve. (The important reason to monitor this fact is that an inverted yield curve has a very unusual characteristic of predicting a recession.) As the Federal Reserve began raising rates, unusual portions of the yield curve (the three and five year rates) did invert but the traditional yield curve did not.

As a side note, and a just by chance crossing during the final quarter of the year with former Federal Reserve Chairman Alan Greenspan and current Federal Reserve Chair, Jerome Powell - both made public comments that they were not afraid to invert the yield curve if necessary to slow the economy – with full knowledge this would put the economy into recession. Current Federal Reserve Chairman Jerome Powell indicated to capital market participants and the public that he was dead set on raising rates multiple times near the end of the year and heading into the new year.

Much to our surprise, and many others, this may have led to part of capital markets hissy fit reactions. Soon after the hissy fits, Jerome Powell and the rest of the Federal Reserve retracted their intent to raise rates and by chance, or coincidence, capital markets began getting their feet under them.

The reason that Federal Reserve would not be afraid to throw the economy into a recession (invert the yield curve) would be an overheating or inflationary rise of the economy.

Inflation and earnings growth – not overheated economy

After the recent tax adjustments that were put into law, the global economy turned red hot and began hitting on all cylinders. This occurred through 2017 and into early 2018.

It now appears that just like a sugar rush, this has worked its way through the system and earnings and the economy are still good but not red hot. While not a Cinderella perfect scenario, just slowing but continued growth may have been in part what allowed Jerome Powell and the FOMC to ease off rate increases. For the record, earnings continue to grow but not at the red hot case they did just after the tax act passed.

Just what is a recession?

This might be a good time to remind ourselves of what exactly a recession is, as defined by the books. A recession is two consecutive quarters of negative GDP - Gross Domestic Production, the broadest measure of economic growth reports. With an economy coming off of a very red hot tax stimulus economy it may be possible to actually print two negative GDP reports, much like the runner who started too fast and has to slow down just to get his feet under him but still maintaining adequate speed to avoid a nosedive type of slow down.

Given all of these facts, it is likely that interest rates may only be moved up in very small increments, if at all unless much of this economic situation changes.

Bottom line, no one really knows for sure why markets throw a hissy fit but they do, and sometimes unexpectedly and unexplained.

JK

Something we have long suspected,

Cerulli Report confirms they don't want your 401K money once you leave the company - wow!

Over the years we have noticed once an employee leaves a company, certainly the status goes down but often times the former employee seems to have trouble getting answers, controlling the old plans and in particular, working with the old 401k provider.

From our perspective, as you may imagine a latest Cerulli report not only clarifies why these experiences occur but also confirms our suspicions.

CERULLI REPORT CONFIRMS "THEY DON'T WANT YOUR OLD 401K MONEY!"

We have requested a copy of the report that will certainly make a full appearance at Street-cents and likely in our newsletter.

A financial advisor article caught our attention and in disbelief we read the abbreviated story on the Cerulli Report.

This from the article:

Overall, plan sponsors don't seem especially interested in keeping their retired workers' assets, according to Cerulli. A recent survey by the firm of 800 plan sponsors found that 59 percent preferred that workers take their assets and leave. About 27 percent of respondents said they preferred keeping such assets in their plan.

The problem with this is that workers were forced (or feeling forced/neglected) to take their funds, without direction, frequently tended to cash out their plans, sacrificing their future!

We look forward to expanding on this story as we receive more details. We will also give you the real life experiences we have come across along with the limitations many providers have.

For now, if you have left your company and are not feeling the love, so to speak… you know why.

Update: We actually reached out to Cerulli for the report but being way out of our price range, we wanted to give you real-life examples we have seen of post employment 401k servicing.

Frequently, a short wait time turns into a long wait time with a different and much more general help line.

Forms may be much more difficult to acquire.

Paper work is received, saying take it or we will distribute it and you will have taxes and penalties.

It has been rolled over into an account that is TERRIBLY hard to get out and has hurdles to jump through, high monthly service charges as well as limited investments, if any.

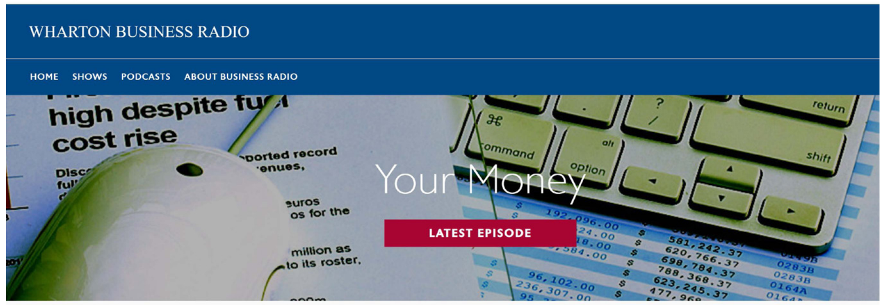
There is a general feel of everything is hard to do, once again explaining the Cerulli study results.

And sometimes there has been limited beneficiary and investment options.

In closing, just like in life, we remember the bad experiences in much greater detail than the good ones. Not all experiences are as mentioned above but we easily remember these challenging experiences, so keep your guard up!

JK

Sirius Satellite Radio show guest speaker



We were once again the co-host of Wharton University's Your Money, a national live Sirius Satellite Radio show broadcast on Dec. 4, 2018.

With a stuffed full of content newsletter in the last quarter, our editor pushed this announcement out to this printing.

Get the heart pumping

If you ever want to get the heart pumping, a live, nation wide radio show that has an opened ended ANY financial planning question you want to ask, will get the ticker going. You don't want to make yourself look silly nationwide on live radio.

Michelle Stucker, the producer, and Kent Smetters, Wharton professor and host of the show, make it a fun and entertaining event.

A few weeks prior to our airing, Kent moved his show from a two hour multiple guest show to a solo guest one hour show, net net, giving a co-host more time on air.

The extra time was felt and made for a more comforting time (hard part is waiting to come on air, once you're added to the line it's game on!) but it goes quickly still in the extended format. Just by chance we nicknamed it the new "Power Hour." Hopefully it will stick as Kent ended the show several times with the funny title.

Always a curve ball

Each show seems to have a curve ball and this one did not let us down.

Right out of the gate a spouse of someone too chicken to call in on a live show kindly asked how to structure a business buyout for her husband.

Peeling the onion a little deeper, the business had one client that made up most of the business with the husband controlling the account.

"No major cash up front!" Paperwork everything and be prepared if that client were to walk.

After a few more questions, near the end of the show, the ultimate curve ball came.

"Can you guys tell me a USA based long term care company that will cover retirees moving to another country?"

Not kidding. Of course, being lead on the call, there was little time to think about an answer. Fortunately one came, out of a factual statistic.

"Over the last few years, the number of companies offering long term care benefits has dropped from the twenties to low single digits."

It's hard to find any type of reasonably priced long term care this day and age, much less one that will cover someone in another country. Your unlikely to find such a benefit but your best option would be to move to a country that had a dense population of USA retirees; otherwise, you will most certainly be out of luck.

Kent agreed 100% and as Michele, the producer, pulled me off the live air phone line, she spoke in a more calm voice than times before, given the show was complete and asked if a regular co-host appearance would be acceptable.

Yes, of course! Get ready heart.

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Parting thoughts for you...

What started out as a reminder/clarity blog post due to frequency of discussion, the institutional iron clad backup trustee turned into a complete lead article. It's not unusual for our newsletters to develop a theme and this one certainly did it.

Just after the writing of the article, a beneficiary discussion led to a backup article, the importance of choosing your beneficiary.

Long time followers and dedicated readers may have noticed an absence of tax talk, usually heavily discussed in this quarter's newsletter. Due to the mountain of changes, we have been cautious with our tax talk as we wanted to get more clarity with a first run through the new tax laws.

Speaking of longtime followers, we are very happy to welcome a larger than normal new group of clients aboard this quarter. Welcome aboard. We know you'll enjoy the journey. The fun has just begun!

We happily welcome Tom Clark, long time Social Security employee and expert speaker to Dallas Athletic Club, Saturday, April 27 at 10 a.m. to speak to us about the changes and updates that have occurred along with a deep dive on all things Social Security related – RSVP Jen@jkfinancialinc.com.

Talk to everyone at the beginning of summer!

Dates:

Easter, April 21

Tom Clark, Social Security speaker, DAC, April 27, 10 a.m.

Mother's Day, May 12

Memorial Day, May 27

Father's Day, June 16

Things to do now:

REVIEW any trusts (see story, Page 1)

CHECK all beneficiaries (Page 4).

WATCH Capital Markets (Page 5)

GUARD UP when dealing with 401K (Page 6).

LISTEN to Sirius Radio (Page 7)