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TROVENA newsletter

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The Sandwich Generation: A Slice Of Estate Planning

For the millions of baby boomers in the "sandwich generation," these are worrisome times. Sandwiched between the financial needs of parents and children, they often end up having to contribute to both, and there may be particular urgency when elderly parents need to get their estate plans in order. Often, parents have put off making vital decisions, and face a future of uncertain means, declining control over their own lives, and increasing dependence on younger family members.

One way to address these issues is to view estate planning as a family affair. You could start by setting aside time for everyone involved—yourself, your spouse, and any siblings—to discuss the main aspects. But be prepared for a frank, often awkward discussion of sensitive concerns. Your parents or in-laws may regard this as an intrusion into their personal affairs, and emotions are likely to run high.

You probably won't solve everything in one meeting. Rather, it's likely to be the beginning of a long process. At some point, too, you may want to begin talking with your children, to let them know what's happening and to keep them up to date on your own estate planning.

Here are several things to discuss with your parents:

Do they have an up-to-date will? Most estate plans start with a will, and even if your parents have one (many don't), it may need to be updated to reflect changes in family circumstances, your parents' desires about how assets will be distributed, and frequent recent shifts in tax and estate laws. There could be new grandchildren to account for, or a divorce. You'll need the help of an experienced estate planning attorney, but first you'll have to persuade your parents to share this very personal document with you. Emphasize that your only goal is to make sure their wishes are successfully carried out.

Where's the money? A parent or in-law could have assets in many different accounts, and account information and statements may not be neatly filed in one easily accessible location. To make sure nothing is lost, you may want to take an inventory of all of the key documents. This will likely include bank account records, life and disability insurance policies, retirement plan and IRA statements, and the like. It's a good idea to assemble all of the pertinent information, including account and policy numbers and contact names, in one document and make copies for you and your parents or in-laws. Also note whether any accounts are in joint name or designated as "transfer on death" accounts, which will not pass under the terms of a will but rather to the designated person on the account.

How are assets being managed? Pulling together account documents also provides a good opportunity to

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Your Referrals Are Appreciated Now More Than Ever

It's relatively easy to succeed as an investor—or as a financial advisor—when the stock market is humming and all is right with the world. But during times like these, when the economy goes into a tailspin, the value of smart decisions and good advice really makes itself felt.

We appreciate the trust you've placed in our firm by remaining committed to a long-term investment plan. Savvy investors realize that the stock market often rises and falls with prevailing economic conditions, and that keeping the faith in basic investment principles is likely to provide favorable results. Your investment plan is designed to have staying power, to take advantage of trends that, over time, have favored investors who don't waver in the face of adversity.

Not long ago, much financial "advice" consisted of "hot" tips that were supposed to lead to a quick killing but could just as easily mean big losses. Today, many investors want a different kind of help, based on proven wealth management techniques that can help reach retirement goals without excessive risk. That approach, along with clear and constant communication, is the cornerstone of our partnership with you.

We are heartened and energized by your referrals to our firm. Now, more than ever, it's important to do things the right way, and we're committed to helping all of our clients, old and new, achieve their financial objectives.

Cordially,

Trovena

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Caveat Emptor: Long-Term Care Policies

Most long-term care (LTC) insurance policies today are much better than those offered in previous decades. Still, there remain potential drawbacks, and would-be buyers need to make sure they know what they're getting and that it suits their needs.

Many early LTC policies paid benefits only for "skilled nursing home care" for a limited period of time. Moreover, there were often stringent requirements to qualify for benefits, such as having to spend three days in a hospital before going into a nursing home.

Most states now require LTC policies to provide benefits for all levels of care, and competition among insurers has led to innovations that make LTC insurance a significantly better value. Yet these policies remain complex and expensive, and getting the right mix of benefits means understanding the LTC landscape. Consider these factors:

Range of coverage. Most policies offer benefits for care in a variety of settings, including at home, in an assisted living facility, and adult day care as well as in a nursing home. Payment may vary with the setting, so make sure the specified amounts cover the cost of care in your area. And beware of hospitalization requirements, because only about half of nursing home admissions follow a hospital stay.

Benefit triggers. Usually, LTC benefits are available once the insured needs assistance performing a specified minimum number of activities of daily living (ADLs) — commonly including eating, bathing, dressing, "toileting," continence, and mobility. Better policies kick in when someone requires help with just two or three ADLs. Some policies also begin coverage when there is "cognitive impairment."

Waiting period. Most policies specify a 90-day waiting period between the time need is demonstrated and the beginning of benefit payments. However, it is important to check the policy's definition of a "waiting period," as it could refer to either calendar days or service days.

Premiums. The younger you are when you begin coverage, the lower the premium, which will also be affected by the range of policy benefits you choose, including type of policy (reimbursement, indemnity, or cash); health status; waiting period; and inflation factor chosen (simple, compound, or none).

Inflation protection. The cost of all health care, including long-term care, is rising much faster than the overall cost of living. So it's essential that a policy increase benefits as costs rise—particularly if it could be years or even decades before care is needed.

Desirable policies are guaranteed renewable for life and cover pre-existing medical conditions. Additional riders and options may be worthwhile, but it's important to weigh the costs of extra benefits. We can help you make sense of this complicated insurance market and help you determine if long term care insurance makes sense for you. ●

Take Out Umbrella Insurance For A Rainy Day

Into each life some rain must fall. That's why it makes sense to acquire "umbrella" insurance.

Homeowner's insurance covers a multitude of ills involving your principal residence. Similarly, auto insurance will pay to fix a damaged bumper—and the dent in the car you ran into—after you've kicked in a deductible. But each of these policies is usually limited to no more than $500,000 in coverage for losses that you suffer or cause.

An umbrella insurance policy, also known as excess liability coverage, extends your personal liability coverage beyond normal policy limits. It's really protection against worst-case scenarios, unlikely but possible events that could wipe you out financially. Here are answers to common questions about this insurance.

Who needs excess liability coverage? An umbrella policy is a good idea for most affluent individuals, especially those who own a home, frequently drive a vehicle or have teenage children who are driving; operate a home-based business or serve on boards of nonprofit organizations; employ domestic staff; or maintain a high public profile.

How much coverage do you need? Though this depends on your personal circumstances, an umbrella policy of at least $1 million is probably a good idea. Consider the following when determining how much coverage you need: 1) physical assets 2) investable assets 3) future earnings 4) potential inheritance 5) the legal environment 6) risk profile and 7) potential for loss.

Most top property and casualty (P&C) insurers will provide coverage of up to $5 million, and if you're particularly worried about personal liability claims, you can get higher policy limits (up to $100 million) from a handful of firms.

What does it cost? Umbrella

Finding An Advisory Firm You Can Trust

These are perilous times for investors looking for a trustworthy financial advisor. Clients of even the best advisors have suffered setbacks as the stock market lost half its value, and those who work with representatives of big investment banks and brokerages have been left to wonder why they're taking advice from firms that erred so badly with their own investments. But the worst blow to the very concept of a trusted financial advisor may have come from the Bernard Madoff scandal. Madoff stole almost $65 billion from 4,800 clients, many of whom had assumed their money was safe largely because of who Madoff was—a pillar of the Jewish community of which so many of those clients are also a part. In a world in which he could betray them so spectacularly, is there really anyone you can trust to handle your money?

That's a question our firm takes very seriously. We have always tried to operate openly and transparently, but in today's uncertain world, no one should take a firm's integrity solely on faith. Just as it's our responsibility to practice "due diligence" before recommending any outside investment manager or custodial firm, it's your job to look closely at any advisory firm you're considering. We will gladly talk with you about our policies and processes and provide any documentation you might require. Here are several criteria to use in evaluating our firm or any other advisor.

Is the firm a fiduciary? A financial advisor who is legally and ethically required to put your interests first is known as a fiduciary. Registered Investment Advisors, or RIAs, operate as fiduciaries, and must disclose to you how they're compensated and any potential conflicts of interest that might arise during your relationship. Other advisors who are not RIAs may also embrace fiduciary responsibilities. But under a recently enacted Securities and Exchange Commission (SEC) rule, non-fiduciaries must now make this disclosure: "Our account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits, and our salespersons' compensation, may vary by product and over time."

Is it independent? The biggest names in financial services have been tarnished by the global financial crisis. Investment banks and brokerages have collapsed under the weight of their own investments in collateralized mortgage obligations and other debt securities. Though the firms' personal financial advisors weren't responsible for the companies' dire miscalculations, they operate in the same corporate culture and often are encouraged to recommend the firms' proprietary investment products. Independent financial advisors, in contrast, aren't subject to a larger firm's foibles. Those who are fiduciaries have only one goal—to help clients achieve their objectives.

Where does it hold your assets? Madoff and other schemers tend to minimize their involvement with outside firms that might notice irregularities in their operations. Madoff's firm, despite its large size, self-custodied assets, which should have been a red flag for investors. Responsible advisors, in contrast, work with custodial firms such as Charles Schwab, Fidelity, Pershing, or TD Ameritrade that hold client assets and provide regular account statements and constant access to account information. Those companies' participation adds an extra layer of security for your holdings.

What kind of relationships does it have with clients? Particularly during these turbulent times, you're bound to have questions about the economy, investment markets, your financial plan, and the safety of your assets. Your advisor should be there to provide answers, to meet with you when you have concerns or problems, and to provide regular communications through a newsletter, email updates, or the firm's website.

Our firm is a fiduciary and we safeguard client assets by holding them at a respected custodial firm. We operate independently and are free to recommend any investments we believe will serve your financial goals. We communicate frequently with all of our clients and are always available to answer questions or concerns. We strive to offer outstanding financial guidance and to relieve any worries you might have about how we invest your money. If you would like to discuss how our firm operates and what it can do to earn your trust, please give us a call. ●

insurance is relatively inexpensive. Typically, you'll pay between $250 and $500 a year for coverage of $1 million. Every extra million may run you about $150. That means, at the high end, you can probably figure on spending around $1,100 a year to maintain a $5 million policy.

What's covered? This differs from policy to policy, but umbrella insurance usually can fill in the cracks around other insurance. For example, your auto policy might not cover you for an accident overseas, but an umbrella insurance policy probably will. The policy might also provide protection against sexual harassment claims and personal injury "torts" such as discrimination, libel, and slander. And if your car skids into a Rockefeller and you're hit with a $5 million judgment? Having this insurance could save your house, your savings, and your financial future.

Why isn't it more prevalent? Unlike homeowner's or auto insurance, umbrella insurance traditionally has been viewed as a luxury, and it's not mandated by law. But it is fast becoming essential in this litigious society. For an annual personal liability review, please call our office. ●

A Welcome Spike In Personal Savings

Are you looking for something good that may have come out of the recession? As a result of the economic downturn, Americans have generally been spending less and saving more. The savings rate in U.S. households in 2009 reached a high point of 6.9% of after-tax personal income in May. Even though the savings rate has slipped slightly since then, the watershed mark was the highest rate since 1992, when savings peaked at 7.7%.

While it's not an exact measure of fiscal health, the savings rate is the percentage of household disposable income that is put into savings rather than consumed. Mortgage payments are not considered savings, but retirement plan allocations (not capital gains) are. Although a sub-7% savings rate isn't much to brag about in most parts of the world—the annual percentage in other countries routinely hits double digits—it marks a dramatic shift in our personal financial habits. During recent years, the percentage of savings actually dipped below 1%, bottoming out at 0.4% in both 2006 and 2007. In 2008, the saving rate was still only 1.8%.

What's behind the trend towards more savings? During the preceding two decades, rising stock market values and home prices had enticed consumers into thinking they had money to burn, and they became less and less inclined to save for retirement and other needs. Even retirees were encouraged to spend like there was no tomorrow.

But the recent precipitous decline in household wealth ended the wild spending spree. Real estate values around the country have dropped by an estimated 35%, and during the past two years, U.S. household wealth has been reduced by a whopping 140% of annual disposable income. That's a total of $14 trillion.

Faced with daunting economic news, people have been forced to rein in spending, while increasing their efforts to prepare for a secure retirement. For instance, instead of buying goods with their checks from the economic stimulus package or taking advantage of other tax incentives, many people have chosen to hold on to the money. And it doesn't look as if things will change radically anytime soon.

How long will the latest trend last? Most economists predict a slow, steady climb back to better times rather than a quick return to another financial boom. But cutbacks in domestic consumption will also slow down the economic recovery. In the meantime, the savings rate is expected to rise gradually until it hits the 10% mark at some point during the next 10 years. Other financial experts believe the recovery period could last even longer.

Of course, an increased savings rate is to be applauded, especially after it had plummeted dangerously close to zero. Americans will have to adjust to a lower standard of living compared with the heyday of 2007. But if forgoing a few luxuries is the price you have to pay for protecting your financial future, that's probably a trade-off you'd be willing to make. ●

The Sandwich Generation

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check on your relatives' investments. Do their holdings seem appropriate given their advancing age, financial needs, and risk tolerance? If there are many similar accounts, you might want to suggest consolidating them to simplify their management.

Are tax records in order? As part of this process, look at tax issues, and determine the tax basis of securities that may have been purchased decades earlier. It's also a good idea to know where your parents' tax records are kept and who their accountant is.

What are their wishes about health care? This can be a particularly touchy subject, so tread carefully, but it's also extremely important. Try to establish guidelines for what will happen if a relative is disabled or suddenly loses a spouse. If extra care is needed, do they prefer to have someone come into their home, or would they rather move into assisted-living or live with a family member? Laying the groundwork now for such major changes could help make a later transition somewhat easier. Also encourage your parents and in-laws to establish a living will and durable power of attorney that sets out their preferences for end-of-life care and specifies someone to handle health-care decisions if they're no longer able to make them. A general power of attorney is also needed for management of assets.

This list hardly covers everything you'll need to discuss, but it may help get you started. For affluent families, intergenerational issues are likely to be much more complex, perhaps including a variety of trust arrangements and sophisticated estate planning strategies. We can work with you and your parents to assess asset allocation plans, tax strategies, and other elements of their financial lives. And, of course, we're also happy to help you take stock of your own estate plan and the provisions you want to