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Ahead

Life, Family, Wealth and Business After 55

SECOND EDITION

Contents

Acknowledgments	**vii**
Chapter One: Looking Ahead When Youth Is Behind Us	**1**
Chapter Two: Relationships With Adult Children	**12**
Chapter Three: Planning For Incapacity	**25**
Chapter Four: The Family Business	**36**
Chapter Five: Estate Planning	**56**
Chapter Six: Transfer Taxes	**74**
Chapter Seven: Grandchildren	**89**
Chapter Eight: Education Funding	**104**
Chapter Nine: Life Insurance	**127**
Chapter Ten: Financing Long-Term Care	**146**
Chapter Eleven: Social Security And Medicare	**165**
Chapter Twelve: Retirement Plans	**178**
Chapter Thirteen: Federal Income Tax	**191**
Chapter Fourteen: State Income Taxes	**215**
Chapter Fifteen: Investment Approaches And Philosophy	**234**
Chapter Sixteen: Investment Psychology	**253**
Chapter Seventeen: Retiring Abroad	**271**
Chapter Eighteen: Philanthropy	**288**
Chapter Nineteen: A Second Act: Starting A New Venture	**304**
Index	**323**
About the Authors	**344**
About the Company	**350**

1

LOOKING AHEAD WHEN YOUTH IS BEHIND US

Larry M. Elkin, CPA, CFP®

Nobody plans for the past.

Like all planning, financial planning is about the future. We plan our financial affairs because we want to enjoy more secure, more productive, more comfortable and more harmonious lives if things work out as we hope. We plan because we want to be prepared for whatever happens otherwise. Most of us want to be free to change our plans, and that sort of flexibility requires good planning.

Not many people pay attention to financial planning when they first enter adulthood. This is not to say that most young people don't need financial planning; they do, from the moment they become independent of their parents, and sometimes sooner. But most pay little heed to personal finances, beyond day-to-day bill-paying and the financing of education and cars, as young adults. It is the things that come with time and maturity, such as building a career, starting a family, buying a home and devoting ourselves to important endeavors or causes, that gradually direct our attention toward the future rather than the present.

I have been a financial planner for over 30 years. In my experience, the people who are most diligent, but also the most anxious, about planning tend to be about 55 years old or older. I crossed that threshold myself some time ago.

This later-in-life focus on financial planning is counterintuitive. At 55 or older, the future is like the flexibility in your joints and (for men, at least) the hair on your head: You find less of it every time you check, but what remains is all the more precious. This may be why so many people focus more intently on planning as they get older.

I am not talking just about estate planning, which is one area where older people understandably are highly engaged. And I am not talking just about planning for incapacity and the potential need for long-term care, which is also a preoccupation of older people.

People near and in retirement tend to pay very close attention to saving and investing. This attention is deserved, although young people – who have longer time horizons over which to accumulate assets – have even more reason to focus on thrift and wealth building.

If you are older, there is a good chance you are more careful about how you use credit, how you budget and spend money, and how you keep records than you were when you were younger. Together with thrift, these are the basic tools of financial management. Use them well and you will most likely be happy with the results. Use them poorly, or not at all, and your chances of a good outcome are much less. You can borrow and spend recklessly and still end up with a small fortune, but you will need to start with a large fortune.

Don't overlook taxes. From the moment we engage in economic activity, whether by spending money or earning it or saving it, taxes are a big part of our financial lives. Yet there may be nobody, not even someone like me who is a CPA and an experienced financial planner, who really knows how much we pay in total taxes.

For people of modest or average means, income taxes are typically quite low and might even be zero. But various other payroll taxes, mainly for Social Security and Medicare in the United States, can take a significant chunk from earned income. Then there are general sales taxes, often structured as value-added taxes in countries outside the U.S., which can tack on 5 percent to 20 percent of every dollar you spend on taxable goods and services. Property taxes are a significant expense for homeowners and other holders of real estate. In some jurisdictions there are personal property taxes on items such as cars and boats, too.

On top of these well-known items, there is a raft of hidden taxes that affect most of us but are designed to escape our notice. If you stay in a hotel or rent a car, you will discover that the easiest people to tax are the ones who live and vote somewhere else. Special taxes get added in many locations to utility bills, because few consumers read or understand them. Taxes are slapped on every airline ticket and every gallon of gasoline you buy. Many of the imported products you purchase were subject to import duties. One purpose of such duties is to protect domestic producers, but another is to raise money for the government in a way that consumers do not see.

These are just the taxes that affect our daily quest to acquire and spend money. What happens to the wealth we accumulate through our savings and investments? As you might expect, there are taxes on that, too, in the form of gift, estate and inheritance taxes. But there are special breaks for assets that we bequeath to charities, or wealth held in certain forms, such as family farms or closely held businesses. Also, to avoid antagonizing too many voters, such taxes exempt a considerable amount of accrued wealth.

This is not a diatribe against taxes. We need government, and government costs money. The appropriate type and level of taxes, and the proper reach and cost of government, are political questions that lie beyond the scope of a book on financial planning. Yet no book on this topic would be complete without addressing the way taxes affect how much we keep of the money we earn, how much things cost us when we spend it, how much we can pass to our heirs or other beneficiaries, and how we might be affected by future changes in the law. We will consider these topics, among many others, in later chapters.

Since this is a book about financial planning, and the primary audience is a reader who is around 55 years old or older, we probably should begin by defining the term "financial planning." My colleagues and I consider ourselves financial planners, but we view our field in a way that is different from many members of the public, and even from other financial planners.

Many people use the terms "financial planning" and "investment management" interchangeably. We do not. Investment management, albeit important, is just one element among many that must be part of any thoughtful and effective financial plan for an individual or family. In fact, "investment management" by itself is almost meaningless in the context of an individual's portfolio.

If you run a mutual fund whose mission is to invest aggressively in

stocks, your goal is pretty simple: Generate the highest return you can possibly achieve, because you want people to invest in your fund, and people are more likely to invest if you have a stellar performance record. Chances are, you will take considerable risk in pursuit of this goal, because high returns invariably are accompanied by high risk. But the risk is someone else's problem. Your prospective investors have to decide how much of your risky fund they really want to buy; you hope your performance record will be good enough to attract and keep investors despite the risk. You just want maximum results, meaning maximum returns for your investors, maximum assets in your fund and maximum compensation for you.

Individuals and families don't usually operate this way. I have yet to meet anyone whose most important financial goal in life is to die with the maximum possible net worth. If this were your goal you would never give anything to charity and never give anything to relatives. You would send your children to the cheapest possible colleges, or tell them to pay for college themselves. You would never take a vacation, at least not one that required you to spend money on travel or other leisure pursuits. Come to think of it, you probably wouldn't have leisure pursuits. You would just work as long as you are physically able, and then you would stay home and watch whatever happens to be available on basic cable TV.

We have a variety of personal goals, often interrelated, sometimes conflicting, and frequently not very clearly defined. We hold jobs or pursue careers not only because they pay adequately but because we find the work interesting, fun or personally rewarding. We want to be financially comfortable in old age, but we want to have active and engaging leisure pursuits while we are young and healthy enough to enjoy them. We want to raise our children to be healthy, well-rounded adults. We want to see them get good educations. We want to support charities and other causes that are important to us. We want to travel. And many of us want to be able to retire, at least from our primary careers, while we are still vigorous enough to pursue other activities that seem appealing.

So, for individuals, investment planning does not exist in a performance-driven, risk-taking vacuum. We invest to achieve specific short- and long-term goals. We must balance our desire to achieve good investment returns with our preparedness to tolerate risk, and with our potential need (if there is any) to convert the investments to cash sooner than planned. Managing an investment portfolio without

first deciding on financial goals is like driving a car without first deciding on a destination.

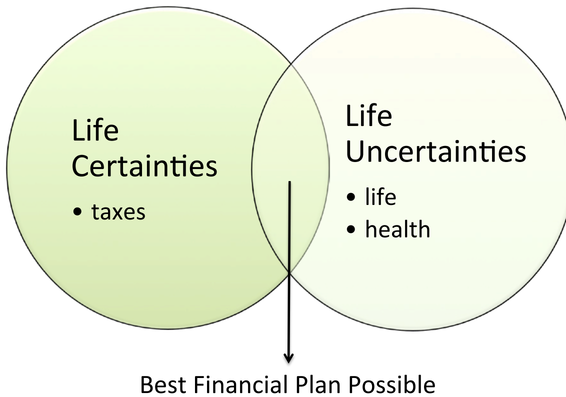
To my colleagues and me, investment management is part of an interrelated set of planning activities that focus on setting goals and deciding how to achieve them. If a client asks us to help manage investments that will be used in retirement, we offer to help determine how much he or she will want to have in the portfolio when retirement commences. Then we look at how much is in the portfolio today and we try to estimate how much the client will be able to add to the portfolio, through savings, during the rest of his or her preretirement career. We estimate how rapidly the portfolio might grow, based on how aggressive the client is prepared to be with the investments. We determine whether the target amount is realistic. If not, we'll talk to the client about changing the parameters, such as planning to retire later, spend less in retirement, save more before retirement, or invest more aggressively.

We have a lot of tools at our disposal: computer-based cash flow and investment projections, the client's earning history, and decades of statistical information about how investments perform under various market and economic conditions. One tool we do not have is a crystal ball. The future never plays out exactly as we expect. So we typically produce more than one projection, using a range of scenarios and assumptions, to try to offer a realistic range of possible outcomes. That is the best we can do without being clairvoyant.

This is why I often tell people that financial planning is a process, not an event. You have to revisit it regularly so you can adjust your plans or your behavior when, inevitably, things fail to go precisely according to plan. I would not simply write a five-year budget for my business and then go away on a round-the-world trip and expect to return home, five years later, to find that everything has happened the way I expected. I can't do that for my personal financial plans, either.

But financial planning is much broader than just setting goals and devising the budgets and investment plans to reach them. Everybody's life includes one great certainty, which is taxes, and one great uncertainty, which is life and health. You can't draw up a well-rounded financial plan without considering these elements.

Quick Tip:
Always consider life's certainties as well as its uncertainties when planning your finances.



Taxes affect how we accumulate wealth, how we deploy it and how we ultimately dispose of it. Every advanced economy has a tax system that is complicated, because modern life is complicated. An income tax must define "income" so it does not become a tax on gross revenue or receipts, and it usually must contain some mechanism to ensure that the same income is not taxed more than once. This is why the U.S. government allows Americans who work abroad to exclude some foreign-earned wages from tax, and it allows U.S. taxpayers to claim a credit for some foreign taxes that are applied to income from sources outside the country. But income earned by large American corporations is, in fact, taxed twice – deliberately – through the corporate income tax, and then through the personal income tax that applies to dividends the corporation pays to its shareholders. This is a policy choice. It also is a planning opportunity, since most privately held businesses can be structured to avoid this double taxation. But under the new tax law that took effect in 2018, avoiding double taxation is not always the best option. As I said, it's complicated.

Similarly, at the state level, a taxpayer's state of residence may allow a credit for taxes paid to another state, to avoid taxing the same income twice. But the credit is limited to the amount of tax that would be owed to the individual's home state. If you live in a low-tax state like Georgia but derive income from a high-tax state like California, you will pay tax at California's higher rate on income you obtain from that state. There may be opportunities to shift income away from California's ag-

gressive taxes back to Georgia – or even to avoid Georgia's tax if the taxpayer's domicile can be shifted to an even less taxing jurisdiction, such as Georgia's neighboring states of Florida and Tennessee.

Over the course of many years, diligent tax planning can add up to a significant difference in the wealth a family accumulates. Such planning can also have a major impact in just a single year, especially if the year includes a major transaction such as the sale of a business. It is critical to plan carefully before a transaction is structured or consummated. The best approach is to build tax planning into a regular review of an individual or family's financial plan, and to update tax strategies periodically, especially if there is a significant change in the law or if a major financial event is on the horizon.

As we noted earlier, income taxes are just one of many taxes we pay as we go about our financial lives. For wealthy Americans, another major consideration is the potential impact of gift and estate taxes on the assets we hope to eventually transfer to children and other heirs. There is even a special tax, the generation skipping transfer tax, which applies to some transfers that we make to grandchildren, great-grandchildren and other beneficiaries who are much younger than ourselves. The sole purpose of the generation-skipping tax is to prevent us from planning around the estate tax by giving money directly to grandchildren, thus skipping potential taxes at our children's generation.

There are many ways to plan to minimize these taxes, too. We just need to plan properly.

We cannot plan around the fact that we are all human and mortal, but we can plan for the risks that this entails. Sickness, disability and premature death can happen to any of us. So can property loss due to theft or disaster, or liability because of an accident, or financial harm due to a failed relationship. We cannot make these risks disappear, but we can manage them by taking preventive steps – such as installing sprinkler systems and burglar alarms, or getting a prenuptial agreement – and by buying suitable and adequate insurance.

We cannot insure against everything, however. Life insurance does not protect us financially against death, because everyone dies eventually. There is no place for the insurance company to spread the risk of death. Not everyone dies prematurely, however. In fact, highly premature death is so rare that the cost of insuring against a death of a healthy 20- or 30-something is quite low. On the other hand, life insurance for a 90-year-old who is in marvelous condition would be extremely expensive, if you could buy it at all.

The Financial Planning Process

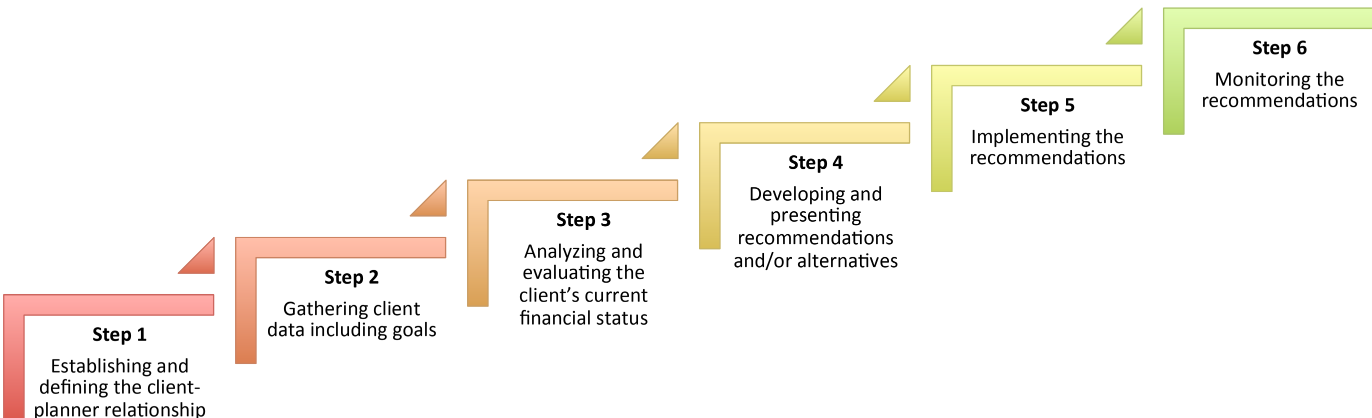


Figure 1

Source: CFP Board (www.cfp.net) — used by permission.

We also cannot insure against old age. If we don't die prematurely, we all get old, and most of us don't die prematurely. So, once again, there is no place for an insurance company to spread risk. How, then, does long-term care insurance work? Such insurance is marketed as being something we all need when we get old, because most of us are going to need care at some point in our lives. The answer to my question, how does it work, is simple: not very well. My colleagues and I do not sell long-term care insurance (or any other insurance product), and we don't recommend it, either. This upsets a lot of people. Most of the people it upsets are in the business of selling long-term care insurance.

How should you deal with the costs of maintaining yourself in old age? Save for it and plan for it.

For some of us, building a closely held business has been a big part of our life's work. Anyone who has successfully nurtured a startup enterprise knows that this can be one of the most rewarding experiences there is, emotionally as well as financially. I know this personally because I have spent over 25 years building a business. I hope to be able to give my business many years more.

But, as I mentioned, we are all human. Eventually we all must leave the scene, voluntarily or otherwise. Planning a successful business transition is one of the most difficult of all financial planning tasks. It is also one of the most important.

Starting a business can also be a rewarding "second act," something constructive to do after retiring from a primary career. Often, financial gain is not the main motivator for someone who starts a business late in life. If your financial position is secure, starting a new enterprise can be a way to do important or enjoyable work and to remain engaged with the world. This can be a fine capstone to a professional life. There are, of course, some issues to consider when starting a business after concluding an earlier career. Even when future financial gain is not the major motivation, planning is important.

No business operates as an island. Even before you take your first order or deposit your first receipts, you are likely find yourself working with people who want very much for you to succeed. Your landlord, for example, has a financial stake in your business, because a successful enterprise is more likely to pay its rent and renew its lease. I have found that the people with whom I do business – landlords, bankers and other vendors – really do root for my success, almost as though my venture is a sports team and they are our fans.

Our clients, too, have been major supporters, not to mention a valuable source of new business, via referrals. I have hired many of our staff straight out of college, in effect "raising" them professionally at our firm. Clients take a strong interest in our staff's development and success. When someone is quoted in a prominent publication or receives some sort of professional recognition, clients often take the trouble to send their congratulations.

The most satisfying part of building the business for me has been the opportunity to watch intelligent, caring young people grow into intelligent, thoughtful, caring professionals. You will get to know many of them through the chapters that follow.

I am not the author of this book. This book does not have a single author in the traditional sense. My colleagues at Palisades Hudson Financial Group collaborated with me to put this volume together. Each chapter was written by one or two of our experienced financial planners, with research and drafting help from members of our staff. Their efforts and those of others who made this book possible are acknowledged elsewhere. We published our first edition of this volume in 2014 and decided to do a new edition in 2018 to reflect major changes in tax law, as well as other recent developments.

We wrote this book collectively for several reasons. The most important is described in the old adage, "Many hands make light work." We wanted to put together a book that captures the art and science of financial planning the way we see it, as a complex tapestry through which many strands are woven to create a picture that is rich, descriptive, useful and as unique as the person or family for which it was intended. This would have been far too much work for any one of us individually to accomplish without taking about a year off from other assignments. But divided among us, and with the help of our staff, it was manageable.

Another reason for collaborating was to allow our readers to get to know us as individuals. This is why we asked our writers to sign each chapter personally, rather than identifying our firm as the book's author. It is also why I am writing this chapter in the first person. You will see "I" and "we" throughout this book.

A really good relationship between a financial adviser and a client is, inevitably, deeply personal – but in a professional way. In my opinion, a client is seldom well-served by an adviser who tries too hard to be a friend or to become "part of the family." So, although all of us are comfortable discussing any of the topics in this book, we chose specific

subject areas where we each feel we have something personal to say to the reader. That is why I chose to write Chapter 4 on business succession planning. It is a topic in which I, as a business owner for whom retirement is creeping closer, have a particular interest.

One of the nicest comments I ever heard from a client came several years ago from a man who retired as the chief executive of an international corporation. "Elkin," he said to me, "your people are all different, but they're all good." Of course I agree, but it was good to hear him say it.

We do not have a homogenized style or personality at Palisades Hudson, even though my colleagues and I share a common approach to financial planning. Confronted with the same set of facts, we would offer similar alternatives and suggestions. But we each have our own way of communicating and our own experiences to share.

You might think personal finance is a dry, often boring, topic. We don't see it that way. Our field is personal financial planning, but for us the dominant word is "personal," not "financial." In business, the bottom line is the bottom line. Life doesn't work that way.

As professionals, we are always trying to prepare our clients for all the things that might possibly go wrong. Our contingency plans have contingency plans, yet that does not stop us from being basically optimistic, hopeful and confident. Financial planning is about trying to create the future that we want to create.

The past is past. We need to understand it, but we don't need to plan for it.

2

RELATIONSHIPS WITH ADULT CHILDREN

Shomari D. Hearn, CFP®, EA
Rebecca Pavese, CPA

Leo Tolstoy famously wrote, "All happy families are alike; each unhappy family is unhappy in its own way." Outside of fiction, though, most families don't fall neatly into the happy or unhappy category. For financial planners, each family is unique no matter how harmonious (or not), but all families are alike in the need for solid and well-communicated financial plans.

When navigating your relationship with your adult child or children, many factors come into play. Even if your child is financially responsible and easy to communicate with, you still face a variety of challenges and decisions. It's important not to let trust in your children lull you into the false sense that you don't need to initiate discussions with them about your financial plans or intentions. Even the children who are closest to their parents can't read minds.

Nor does every family, or even every part of every family, exist in such harmony. Interpersonal tensions between you and your children, between siblings and between in-laws can all contribute to the feeling that sitting down to discuss your financial plans is the last thing any-

one in your family wants. While your particular situation may dictate how you proceed, intrafamily strife makes it all the more important to structure your plans to take into account any existing or potential relationship issues. It's also important to make the effort to open communication wherever you can. Surprises in a legacy, an estate or a business transfer are likely to aggravate existing tensions, not ease them.

No matter what the state of your personal relationship with your adult children, setting expectations – yours and theirs – is critical. Sitting down as a family, perhaps in a neutral space with a trusted financial adviser, attorney or other impartial third party, is the best way to ensure everyone is on the same page.

Taking Stock

When approaching the financial aspects of your relationship with your adult children, it may sound obvious to suggest you first thoroughly examine your own financial situation. However, it is important not to neglect this step. Many parents want to be generous with their children and grandchildren in every way they can. While such generosity is admirable, it's imperative to consider other factors too.

For example, who is financially dependent on you and to what extent? Include your spouse or partner's needs and, of course, your own, but also those of any other dependents, possibly including siblings, children or grandchildren with special needs, your own parents or parents-in-law, and any adult children who continue to need your support. It is important to be realistic about what you and your dependents need, both now and in the future.

There are also future expenses and debts to be considered. You may wish to help your children now by helping to fund down payments on their first homes or educational expenses for your grandchildren. Yet you should also consider that the increase in longevity for most seniors means that you will need to allow for not only more years of life post-retirement, but also for medical care or assisted living costs for yourself and your partner. Such costs can be substantial. Avoiding passing them on to your children can be a different, but no less valuable, sort of generosity.

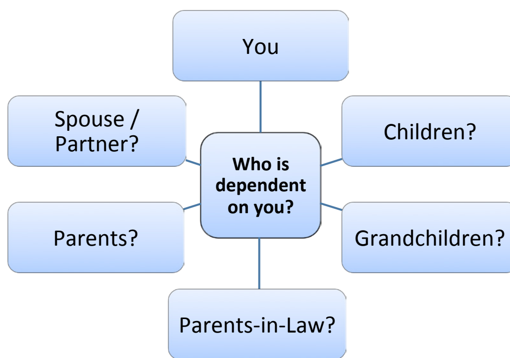
As in any stage of life, it is also important to allow for the unexpected. Financial and estate plans need flexibility for many reasons, but one is to allow you room to maneuver if circumstances change. These changes can be personal, such as marriage or divorce, births, illness,

deaths, or major changes in economic circumstances. Circumstances can also change because of issues that have nothing to do with family members. Changes in tax law, for example, can have a profound impact on estate planning, and even seasoned professionals find them difficult to predict.

Few of us relish considering our own mortality, but it's something we all need to face. An uncertain tax environment, a volatile family situation, or uncertainty about a family member's health can all seem convincing reasons to justify delay. The reality is even a plan that needs revision is worlds better than no plan at all. If you die without a will or suitable trusts, state law will handle your final affairs for you – it's called dying "intestate" – but the state's plan may be very different than what you had mind. If you die intestate, you have also either given up the opportunity to talk with your children about your plans or left your children without the legal standing to honor wishes you did express in the absence of a will. (For more information about planning your estate, see Chapter 5.) Being honest with yourself about the state of your finances and the need for planning is essential before you begin a conversation with your children about these topics.

Quick Tip:

Parents, remember to consider all of your financial commitments when planning financial help for adult children. You may have more obligations than you realize.



Give With A Goal In Mind

Most parents want to help their children, but sometimes it is hard to know the best way to be helpful. It can be tempting to step in and save

the day when your adult children run into money trouble of one kind or another, but it's wise to consider what sort of help you want to give.

Instead of just handing your adult child a lump sum, consider giving specifically to promote his or her independent success. Depending on your child, such a gift could take many forms. You could subsidize educational expenses through tuition or books; you could help underwrite a wardrobe for a young professional just starting up his or her career ladder; or you could help with the purchase of a first home by providing the down payment. Adult children will have many steps on the way to a successful, self-supported adulthood, and by helping them take those steps, you offer a sign of your affection and support while being sure your gift won't become a casualty in your child's next financial fender-bender.

For a child who is currently in financial trouble, you can also help in directed ways, such as paying their electric bill or buying them groceries. If your child makes a good faith effort to manage his or her finances, helping with particular needs is a good way to make them secure without enabling them to continue a pattern of poor decisions. You can also pay for your child to meet with your financial adviser to establish a manageable budget and a financial plan to help them address their current cash flow issues.

Giving your children money directly is not a bad idea in every case. Quite the opposite; giving your child money to manage can help him or her avoid larger financial mistakes down the road by offering hands-on experience under controlled circumstances. By letting your child direct your gift, you can help teach money management skills and responsibility that will be valuable to your child in dealing with money he or she earns, as well as any greater inheritance you may plan to leave.

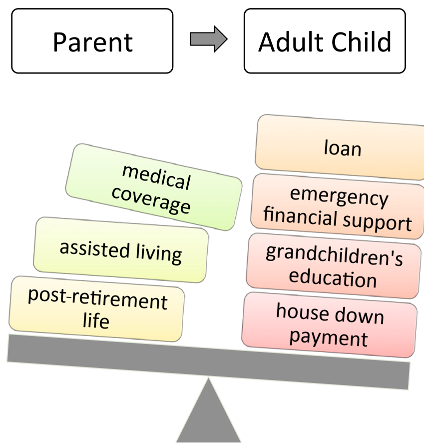
While you may worry that handing a large sum of money to your children could spoil them, the choice to never give your children any money directly may inadvertently hinder their financial growth. Larger distributions will not only allow you to help them with their needs, but will demonstrate your confidence in them as well. A natural way to develop their skills is through trusts. Most trust documents are written to allow flexibility in the amounts distributed. Often a certain amount must be distributed annually, but the trustee has discretion to make additional distributions. These additional, discretionary distributions can be a valuable tool.

For example, if your children are the beneficiaries of a $20 million trust that will be paid to them outright at the death of the surviving

parent, but the trust is currently making annual distributions of only $200,000, that amount may not adequately prepare them for the large inheritance they will eventually receive. It may also lead to unnecessary financial struggles in the meantime. After a family meeting, you may decide to increase the annual distribution to $500,000. Additional distributions during your lifetime will let you see how the children handle the money. Do they seek appropriate advisers, or do they spend the excess money in a fashion that makes you worry the $20 million inheritance will be dissipated within a few years of your death? The answers to these questions will allow the parent to help the child grow financially, as well as leaving time for such growth when the parent can still provide a safety net.

Quick Tip:

Parents, don't let your adult child's needs unbalance your own finances.



Many of these concerns also apply to adult grandchildren. Grandchildren bring an immense amount of joy to their grandparents and, as a result, grandchildren are often easier to spoil. Yet if you want your child to be a productive, responsible adult, you probably want the same for your grandchild. Many of the same concerns about helping without enabling bad behavior apply. Another complication is that, as a grandparent, you may also be in a position to make larger financial contributions than your child can, especially if a large portion of the middle generation's money is still held in trust.

You and your child may be able to meet your goals for your grandchild with a simple agreement. To ensure the grandchild remains pro-

ductive, you may choose to make your gift or any distributions from a trust contingent on certain behavior. For example, you may tell your grandchildren that you will supplement their income with a monthly distribution of $5,000 as long as they are gainfully employed (or productive in some other defined fashion, such as participating in charitable endeavors or parenting a young child full-time). With grandchildren, as with children, tailoring a gift to the situation can make it a useful tool without preventing the recipient from growing as an independent adult.

If your children need help, sometimes it may make more sense to give them a loan than a gift. This is another good way to foster independence and responsibility in a child hoping to take a large personal step, such as the purchase of a car or a home. It also is a wise choice if your own finances won't allow for a large outright gift but can allow you the flexibility of a loan.

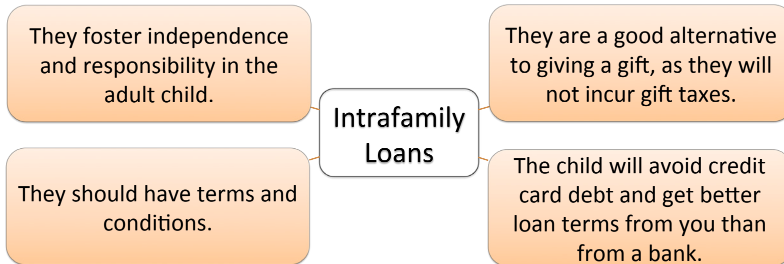
A loan can also be a useful solution for a child trying to escape the burden of credit card debt or the fallout of other poor financial choices. Don't hesitate to make the loan conditional – for example, requiring your child to enroll in a budgeting course or to make another good-faith effort to learn from his or her mistake before you finalize the loan. A loan can also help you to avoid enabling future poor behavior by suggesting that you will always bail your child out – or, worse, giving beyond your means simply because you find it hard to tell your child "no."

When you consider providing a loan, no matter what the circumstances, it is important to set up rules at the beginning. Set a rate of interest, and be aware that, if you want to avoid having the loan or the forgone interest treated as a gift for tax purposes, you can't set the interest rate below the Applicable Federal Rate, a rate the IRS sets each month and which varies based on the length of the loan. You should also set up a repayment schedule and decide in advance the penalty for your child failing to make payments on time. If your child "defaults" on a loan, there should be stated, concrete consequences, such as withholding future gifts or reducing their inheritance. If nothing else, you should be reluctant to lend again unless he or she demonstrates substantial improvement in responsibility.

Such intrafamily loans have distinct advantages: Children pay less than they likely would if they borrowed from a bank, and you can earn a decent return while helping your children help themselves. But be aware that such loans can also cause tension in relationships if your child can't or won't repay the borrowed amount. To avoid later head-

aches, it's essential that all terms be clear and set down in writing before you lend the money. Specifically, the terms of the loan should be documented in a promissory note that is signed by you and your child. Further, if the loan is intended to be a mortgage on your child's primary home, you may want to hire an attorney to draft the note, because the loan must be secured by the home and recorded under state or local law in order for your child to deduct the mortgage interest on his or her tax return.

Quick Notes:
On Intrafamily Loans



Communication And Preparation

No matter what assets, if any, you plan to pass on to your children, it is crucial that you discuss your plans with them. Of course, as previously mentioned, in order to do this, you must first have plans to discuss. In addition to the information on estate planning in Chapter 5, you might also consider alerting your financial adviser that you intend to discuss your plans with your children. Your adviser may be able to help you make sure you have all the pertinent points in mind before you begin.

There are many reasons to discuss your plans with your children fully and frankly, once those plans are in place. First, it is important that at least one child know where to physically find your will, trust documents, financial and medical powers of attorney, and other important documents. Whether this is the child you've named as your executor, the child who lives closest to you, or simply all your children is up to you. What matters is avoiding a scramble to locate your documents if you are incapacitated – or an even worse scenario, in which no one knows that such documents exist at all. A will is important for many

reasons, including serving as a road map for the orderly distribution of your assets. It does no good if no one can find it.

Rebecca's Advice

How much is *too much* financial support?

When deciding how much support to give your children, consider whether you are helping or hindering them in the long term. If you provide too much financial support, you could dampen their own drive to become financially independent. You want to provide enough to let them grow to their true potential, but not so much that they become lazy. It is reasonable to provide support to allow them to pursue goals and dreams, but not so much that they lose sight of the fact that their goals and dreams should provide them with a livelihood or purpose.

-RP

It's also important to have a conversation with your children about your living will, if you have prepared one, and your health care power of attorney. Sometimes these documents are combined into one. A living will, also sometimes called an advance directive, is a legal document that is used to express your wishes about life-prolonging medical treatment. It differs from a health care power of attorney because it relates only to life-prolonging decisions. If your medical situation is not terminal but you cannot act on your own behalf, a health care power of attorney will enable someone to make all medical decisions on your behalf. (See Chapter 3 for more information about planning for incapacity.) By documenting your wishes regarding medical circumstances that may make it impossible for you to act on your own behalf, you will both increase the chances that your wishes will be honored and relieve your children of the burden of making such difficult choices themselves. This can also help to avoid potential conflict among siblings or other family members by making your wishes about such situations clear and indisputable.

Other important information to communicate to your children includes the location of any safe deposit boxes you own, an inventory of

any trust assets, and any passwords for important online accounts. You don't have to give these to your children outright if you are uncomfortable doing so, but you should make sure that at least one person knows where to find such information in the event anything happens to you unexpectedly.

All your children, but especially any who serve as your executors or who are the beneficiaries of trusts, should know who your family advisers are. At a minimum, you should provide them with the names, email addresses and phone numbers of your lawyers, financial advisers, accountants, and any other professionals you employ. To whatever extent possible, you should ideally introduce your adult children to your advisers in person. Arranging a family meeting can provide an excellent neutral ground for beginning what might otherwise be a delicate conversation about your estate plans, while also allowing your children and your advisers to meet one another.

Even in stable families, inheritance fights can break out unexpectedly. One of the primary factors in such fights is a lack of planning prior to the benefactor's death. You may help your children to avoid disagreements if you take time to make sure they all understand what you are doing and, almost as importantly, why you are doing so.

Not all children will intuitively understand that fair treatment is not always the same as equal treatment. Adult children are likely to have had different opportunities or career paths that vary significantly in terms of compensation. They will almost certainly have different needs, including different numbers of children of their own. For example, if your son receives a modest salary working for a nonprofit organization and your daughter is an investment banker making six or seven figures annually, you may decide that it is fair for your son to receive a larger inheritance than his sister, rather than dividing your wealth equally between the two of them. Ultimately, fairness is a subjective measure that is up to you, but if your children know the logic behind your decisions, they may find those decisions easier to accept.

If siblings do not get along, though, even the calmest and most logical discussions of your planning decisions may not placate them. In some situations, setting up a separate trust or bequest for each child may be a more logical option. This will keep management and decision-making separated and offer each child a measure of privacy. Perhaps more importantly, setting up separate trusts will mean you won't require your children to come to a consensus for the trustee to take action. It is also important to consider your children-in-law – both their relationships

with you and with your children – as you make and discuss inheritance plans. In many cases, adult children count on a certain inheritance that you may or may not intend to give, regardless of whether or not they have siblings. Children who help take care of aging parents often feel entitled to a greater share of the estate than other heirs. The treatment of stepchildren or children from prior marriages can also raise hackles. You may feel that you should leave more to children who needed less help during your lifetime, but what seems fair to you may be baffling and hurtful if it comes as a surprise.

Shomari's Advice

Where should you discuss finances with an adult child?

For such an important discussion, we recommend that you hold the family meeting in a location that provides privacy and is free of any distractions. The information discussed is often sensitive, so you want to conduct the meeting in a place where all participants will be comfortable speaking openly. Another factor to consider is the number of family members attending the meeting. The office of your financial adviser or a meeting room at a hotel typically make for good places to hold a family meeting.

-SH

You should also consider the disposition of illiquid assets. Will it be a burden to liquidate holdings such as real estate or a family business? Illiquid assets may also trigger a fight over memories as well as financial value, as in the case of a vacation home where your children spent their summers growing up. Once again, discussing your decisions with your children lets them avoid nasty surprises and can allow for modification before your plans are set in stone. You may find that one child would like to inherit your vacation home, while the other might see it as a burden. One child may show a keen interest in taking over your family business, while the other finds running an enterprise overwhelming or simply less interesting than pursuing other options. Based on your discussions with your children, you may ultimately decide it would be

better to sell the property, either prior to or upon your death, in order to avoid making it a point of contention among your children.

A clear succession plan is essential for a business, whether the plan is to keep it in the family or to sell it, but the latter may ultimately be better for both the business and your children. A discussion between you and your children may help guide your decision about the business so that all of your children are treated fairly. For example, you can leave the children not interested in working for the family business an income stream from the business without forcing them to become involved in its operations; alternatively, you can simply leave them other assets of equal value. (For more information about transferring a family business, refer to Chapter 4.)

Your attorney or financial adviser may help resolve disputes between children, should the need arise. It may also be a good idea to make meetings regarding your financial plans a regular occurrence, perhaps annual or biannual, in order to update your family on any changes to your plan.

As uncomfortable as some of these conversations will be, all of them boil down to one major idea: What do you want your legacy to be? Communicating your vision clearly to your children is the best way to ensure they can honor that legacy. Don't hesitate to make your final wishes known. Discuss your children's inheritance with them, especially in the context of any bequests you plan to leave to charity or other institutions outside the family. At its core, estate planning is about what is truly important to you. The better your children understand what you hope to leave behind, the better the chance that they will respect and accept your wishes.

How much specific information you share with your children about your finances and estate plan is ultimately up to you. If you are concerned that providing too much information will result in your children trying to interfere in how you live your daily life, such as trying to curb your spending in order to preserve their inheritance, provide only a broad overview of your intentions instead of sharing every detail. If you establish and fund a trust of which your adult children are beneficiaries, you may be required to provide them with an annual financial accounting for the trust. These accountings must typically include the value of the assets held in the trust and any income, gain or loss activity that occurred within the trust during the year. Such requirements depend on your state law, so if you are concerned about the amount of financial information you share with your children, ask your estate

planning attorney how much detail your trustee will be required to provide when initially considering the trust.

Boomerang Kids

Of course, you need to talk to your children when they are young adults, not only once they are involved in their careers and raising children of their own. It is becoming increasingly common for multiple generations of adults to live together, often for economic reasons, which can trigger a whole new set of conversations.

"Boomerang kid" is a term for an adult child who returns home to live with his or her parents. Frequently, it describes young adults who have just finished their undergraduate education, but it can be adult children of any age who need to return home for a variety of reasons, including job loss, divorce or the end of a significant cohabitation, or economic difficulties of any kind. Your adult child may also move back in with you in cases where you might need extra care.

Depending on your relationship with your child, how long they've been away, and the reason for the move, your child's return to your home may be a more or less bumpy process. You and your child have both gotten used to some level of independence and, as with monetary gifts, you may be torn between feeling supportive and worrying about enabling bad behavior.

It helps to discuss some ground rules with a child who returns to your home when he or she first arrives – or, ideally, during the planning stages of the move back. Discuss your conditions for their living at home. These might include maintaining or actively seeking employment, paying rent, or helping out with a certain amount of house or yard work. Also discuss the timeline over which your child expects to stay. Strongly consider charging your child rent, even if the income is not crucial to you, to help them responsibly manage their money. In the event you don't need it yourself, you can place this money in an account for your child's future needs.

You should also set ground rules, especially with a younger adult child, about alcohol use, smoking and overnight guests. You will need to respect their independence and their choices, but they also need to respect your home. It will be easier for you both to have a conversation upfront, calmly and in the abstract, rather than a heated confrontation later, when competing expectations collide. Your child has changed since he or she moved out, and so have you. It is a relationship you will

both need to actively navigate.

While your children are living with you, you have a unique opportunity to enforce good financial habits. Encourage them to save, especially if you are not charging them rent; this will give them an emergency fund, a nest egg for when they eventually do move out, or a resource for paying down debt. If your child is employed and his or her employer offers a 401(k) plan, talk to your child about why it's a good idea to participate. If his or her employer doesn't offer such a plan, mention and perhaps help your child to set up a traditional or Roth IRA. Even if your children can only save a little, you can help them to establish good saving habits that will serve them well later in life.

Whatever rules you and your child agree on, be sure to treat him or her as an adult. Your adult children's choices are largely their own, and while the home is yours, avoid trying to actively parent the way you did when they were children or teenagers. Don't demand to know where they are at all times or try to make them ask your permission to come and go. Ground rules that are reasonable will be much less likely to cause strife.

Remember to re-evaluate your own finances when an adult child moves back in. How will having an additional person eating groceries, consuming utilities and driving your vehicle impact your cash flow? Don't let yourself get into trouble because you failed to reassess your own budget while helping your child. This holds for all sorts of gifts, but it can be harder to say no when you share a living space and witness your child's struggles firsthand.

Financial discussions can be uncomfortable, even with those we care about most. Yet communication is the best tool for staying close. Talking to your adult children will give you a good sense of their capabilities and needs, and it will give them a good sense of your wishes and resources. Money is a source of tension in many families, and it may seem deceptively easy to just leave your kids in the dark. But no parent wants a bitter, messy inheritance fight for the children left behind, or ever-building resentment over how much or little help you provide during your life. However and whenever you decide to help your children with money, the best thing you can do for them is tell them what's on your mind.

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