Financially Speaking
With Trisha Arndt, CFP®

A Little Planning Can Show Your Eternal Love

One of the unfortunate parts of working in a career that fosters close personal relationships is that I do have to face the inevitable loss of a client. It is always difficult but I find myself somewhat comforted by seeing the results of the careful planning that was done come to fruition. Let me tell you about just such a situation.

Several years ago I began working with “Sally”, a spunky 80 year old with an amazing grasp of current events and opinion about every one of them. Sally was widowed with three adult children who she cared for dearly. Sally had, over the years, assembled an interesting collection of investments – she had numerous accounts at different firms but no real plan for her portfolio nor real understanding of what she owned (she literally gave me a box of statements to try and help her sort it out).

While Sally did take a modest amount of income from her investments she anticipated that the bulk of the money would go to her three kids. Part of the reason she reached out for help was to determine if there was anything she should do to help facilitate the passing of those assets when the time came.

Over the first few months of our relationship we did a lot of work to organize her assets. We established two brokerage accounts (an IRA for retirement assets and a non-qualified account for the rest) that would allow her to hold all of the investments she had in one place and we systematically transferred each of her holdings into them.

Once the accounts were consolidated we spent a good deal of time talking about estate planning and how to set things up to accomplish her objectives. Like many people, Sally had a few misconceptions about basic estate planning so I gave her a brief primer.

First, estate planning is not just for “the rich”. Everyone, at every level of net worth, should at least have an understanding of what will happen to their assets and debts when they are gone. Estate planning doesn’t have to mean extensive meetings with attorneys and preparing complex legal documents – it really does start with just understanding what you have and what will happen to it.

Another common misconception is that having a will takes care of everything. While a will can be a very important tool, it comes into play secondary to any other legal designations such as beneficiary designations and account titling. This is extremely important to understand. Generally, the law says that assets are treated as they are titled and/or go to the named beneficiary regardless of what a will might say. That means that making your new girlfriend your beneficiary in your will won’t matter if your life insurance policy still lists your ex as the beneficiary – the ex gets the money.

A common account titling example would be for an elderly parent to add one child jointly to an account so that the child can help them manage it, pay bills, etc. Technically there are several forms of joint ownership that can be used but the most common – and often the default – is known as joint with rights of survivorship (JTWROS). In this example if the parent dies and the account is titled JTWROS with the child then the entire thing will automatically become the asset of that child. This can be a problem if there were multiple individuals that the parent intended the money to go to and it can also potentially interfere with the ability to step up the cost basis of the assets. A better way to accomplish the goal of allowing the child to help manage the account would be to give the child a financial power of attorney (but that is a topic for another day).

After discussing options like a revocable trust or allowing the assets to go through probate and be divided according to instructions in her will, Sally ultimately decided to set up her brokerage account with a Transfer on Death designation. By doing so she was adding her children as beneficiaries of the account directly in the account titling. (Something similar called Payable on Death can be added to bank accounts.) Sally also named her children as beneficiaries of her IRA.

When Sally's children contacted me to share the sad news of her passing I think they expected a long and expensive probate process to get her assets passed on to them. They were shocked and extremely pleased to learn that there would be no need for probate and, in fact, I simply needed them to each sign a couple of forms and the money would be split equally between them. The whole process from start to finish took less than one week. Sally's daughter was so impressed and moved that her mother had the forethought to set her accounts up so well that she was literally moved to tears.

And somewhere, I hope Sally was smiling.

The preceding is a hypothetical case study and is for illustrative purposes only. Actual performance and results will vary. This study does not represent actual clients but a hypothetical composite of various client experiences and issues. Any resemblance to actual people or situations is purely coincidental.

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