Put Your Own Mask on First!

Why Taking Care of Yourself First is Like Estate Planning?

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The Metaphor

Anyone who has flown a commercial airliner - and who pays attention to the pre-flight announcements,- will recall that the flight attendant instructs us to do something kind of odd in case of an emergency:

"Should a drop in cabin pressure occur
put your own oxygen mask on first."

Hidden in these instructions each time we fly, we are reminded of this valuable lesson in stewardship. It is our view - and history repeatedly proves - to better serve our families, businesses and the people who rely on us, we may need to take care of ourselves first. What works on airplanes in safety rules also works in business and estate planning.

As leaders, in most areas of our lives, we decide where we are going and then how to get there in the most effective manner. Along the way, we ask for advice, explore our options and opportunities, and adapt to changes as they unfold. And rest assured, change will always unfold.

As With All Else - It is Our Choice

Choices are critical. What is more critical is we make them - and then act on them. In this case - a choice of destination. Today, with the latest tax law adjustments, couples with estates exceeding $22 million and individuals with estates over $11 million have both good news and bad news to review.

On the good side of the ledger - the unified credit has doubled. This means that those estates under $22 million have no estate tax.

There is a flip-side of course, the bad news.

Individual estates over $11 million and couples with estates over $22 million are going to be taxed in a manner which will make up the difference. You see, there really is no free lunch - even in death.

Destination #1: Maximum Taxes

While a likely rarity, some may agree with the way tax dollars are consistently spent by the federal government. If you fall into that category, we would recommend you position your estate such that your heirs will pay as much in taxes as they possibly can, leaving them with the smallest remaining shares possible.

Destination #2: Maximum Estate

On the other side of the ledger, we have found those who have successfully created an estate that is substantial enough to pay taxes, usually feel somewhat differently about the interest of the heirs. They prefer to arrange their estate to maximize what passes to their heirs - along with what can be passed to their favorite charities and non-profits.

Why did we write this article for you and yours?

You may feel some of my comments about paying taxes are a bit tongue-in-cheek. As comical as it may seem - the two choices above are real - but often overlooked, or worse, not acted upon.

Read along and allow me to explain.

If everyone had a choice, wouldn't you agree that most would choose to position themselves to leave a Maximum Estate as noted in #2 above?

This is not a hypothetical.

Everyone does have a choice.

We have found this is most often the case when we meet potential clients who have not been made aware of the vast number of tools available to help them arrive at the better destination. In reality, people don't know what they don't know. And when you don't know what to do, you do what you know.

That's why I feel so strongly about these elements for our clients, typically falling in the very high net worth category. We design comprehensive plans for entrepreneurs, heads of multi-generational families, C-Suite Executives and grandparents. Like me, they come to see themselves as servant-leaders.

Just as the attendant reminds us before each flight, we believe servant-leadership is essential on planes, in business, and for estate and philanthropic planning. When we plan effectively with a trusted team, we are leading with the intention to serve others. At Hoffman & Associates, we feel strongly everyone should have this leading-edge guidance and all the information to decide their best destination.

First Things First

Whether you are passenger or a pilot, I see my role as your estate planning navigator. I am going to keep you on course and my message brief.

1) Make sure your estate plan is agreed to by both you and your spouse.

2) Make sure it's in your and your children's best interest.

Do this before it is too late.

What does it mean, "Too Late" At this point, most people chuckle like the grim reaper and say, "When I'm dead?" But that is not the answer.

It's too late when you or your spouse no longer have the energy and presence of mind to complete the Estate Planning Process. The whole process can take seven to ten weeks, plus time for valuations of real estate, businesses and other assets.

Life has no guarantees. At any moment, you or your spouse could suffer a stoke and - it would be too late. I've seen it happen and it's the saddest thing I know. Don't let it happen to you. Best to play now when the odds are to your advantage.

Now is the best time to complete your estate plan. The good news, you only have ten things you need to do. And I've laid them out for you in the next section.

So now that we have reached the proper altitude in our minds - above the clouds and confusion - let's explore your choices from 40,000 feet.

In preparation for a safe arrival for you and yours, we share below our "Top 10 Touchstones" of Estate Planning.

Top Ten Touchstones

Let's stick to basics.

If you choose the Maximum Estate destination, and what matters most for you, and your family's wealth and well-being, then you will find my Top Ten Touchstones for Family Estate Planning essential.

We call them touchstones because in ancient times, people would use soft materials like jasper to test the quality of gold coins by the color of the mark it made on the surface.

Today we use touchstones to set the standard or benchmark of something or to judge its value or performance. You can use them to take better care of yourself and your family. They provide guideposts along the way to adjust the navigation when necessary.

Our clients have found great value in using them to take better care of themselves and their families.

We are confident you will as well.

Top 10 Touchstones

Touchstone #1

Update Legal Documents

Make sure your wills, living trust, durable power of attorney, and Advance Health Care Directives are in place AND recently reviewed.

Several years ago, a husband and wife came to see me to sign investment documents. I came to find out the wife had lost much of her vision and could not see where she was to sign. The need for her husband to sign on her behalf became very apparent. I asked if they had durable powers of attorney for one another and they affirmed that they did.

So far so good, until we called their attorney's office to secure the signed document. The attorney's assistant looked up the document and told us it had expired, and they would have to come in to have it updated.

In short, the husband could not do anything on behalf of his wife without a current document. We were able to easily correct the situation, but in other circumstances, this detail could have caused serious problems. Like taking care of your car, regular maintenance to your legal documents can make a big difference in your life.

Touchstone #2

Design a Master Plan

Develop a written master plan for your business and personal wealth to maximize value during your lifetime, prepare a desired legacy, and minimize income and estate taxes. Imagine what would happen if you suddenly died or became totally disabled?

Back to our airplane metaphor above.

Well, this happened to one family I knew who owned a business and rented out most of their land. "Mom" and "Dad" had numerous pieces of property and nine adult children when Dad died in 1998. This left Mom to run the ranch and make decisions that the two of them should have made when he was alive.

Not all nine children wanted to work the ranch, nor could it have supported all nine families. You can see the dilemma. How do you divide the land so some of the children could continue farming, and others could sell their share and get on with their lives?

To further complicate matters, Mom died in 2017 at age 84 of a major heart attack while shopping in a supermarket. She had standard estate planning documents in place such as a living trust, pour-over will, durable power of attorney, and her Advance Health Care Directive.

Unfortunately, they did not address the problems of paying a $6 million-dollar estate tax, valuing the property and dividing the ranch as described above.

One of Mom's goals had been to create harmony among her children.

Instead, having never completed a written master plan, the family was left doing the best it could under far less than ideal conditions while mourning the loss of the parents.

Particularly when complex inheritance issues exist, it's well worth taking the time now when everyone is healthy and happy to prepare for the future with a comprehensive, integrated written plan.

Touchstone #3

Know, Understand and Sign Your IPS

Like the US Constitution, an Investment Policy Statement (IPS) will be your guiding document to make sure you and your investment advisor are on the same page and mutually accountable.

Most people do not have an IPS. They only have their risk tolerance profile and fee agreement from their broker. As noted earlier, servant-leaders seek different perspectives to solve their issues.

The better perspective is to know, understand and sign your IPS.

As a wealth management advisory firm, we believe the best investment decisions are made in coordination with a fiduciary advisor connected to you through a comprehensive written plan to guide your strategy (which we'll turn to next).

An IPS helps you focus on matters you can expect to control, such as how you plan to:

1) Capture expected market returns to fit your goals and risk tolerances,

2) Stay on course with your personalized plans, and

3) Minimize fees and taxes.

A well-written IPS can guide your quest to make more informed investment decisions.

Touchstone #4

Avoid Active Management – Apply the Science of Evidence-based Investing

My best advice and lesson learned in my career is simple to remember. Don't try to play the market by picking individual stocks. Instead, use the science of evidence-based investing to participate in the market.

Nearly everyone I have met has wanted to make smart decisions with their money. Most often those "smart decisions" usually translated to believing that they (or their hired guru) have what it takes to dodge the stock market dogs and to pick the darlings.

Unfortunately, it is impossible for you, your broker or anyone else to consistently forecast and predict the future, and then overcome the trading costs involved when you try.

Truly smart decisions come from becoming an informed investor and heeding the evidence on how to build personal wealth tax-efficiently in volatile markets. You may know a lot about real estate, running your own business, acquiring a collectible of interest and more.

But do you know (or can your advisor tell you) what you hold in your accounts, how it has performed over the years, what costs you've incurred, and where gaps or overlaps may exist in your exposure to expected market returns?

When you take care of yourself first, focus on managing your concerns by building and sticking with an efficient, low-cost portfolio customized for your personal willingness, ability, and need to balance market risks and rewards. Leave the stock picking to those who like to gamble instead of prudently investing their wealth.

Touchstone #5

Protect Yourself and Your Family

In life, there are no "do-overs". I believe we can be better stewards for ourselves and others. There are three keys to the value of this touchstone:

1) Manage the risks,
2) Protect your family, and
3) Review your insurance coverage.

These keys combine to make sure your insurance provides the protection and benefits you intended. The practical advantage of insurance is to be there when you, your family and your business require the liquidity most.

This fact is common sense, and why I am surprised by how often I find families whose coverage is a patchwork of policies accumulated over the years. They also have excessive or excessively priced coverage here, missing coverage there. Seldom does their whole plan harmonize with the family's total and distinct liability exposures.

Effectively implemented, insurance can be a powerful estate-planning tool to address liabilities and risks like survivor income, debt pay-off, disability income, long-term care, buy/sell agreement funding, key man protection, salary continuation, errors and omissions, business succession, automobile, homeowner, and estate taxes.

A big-picture review from an objective wealth manager can bring your insurance needs into tighter focus to take better care of you and your family.

Touchstone #6

Discuss What Matters Most with Your Family

How long has it been (if ever) since you and your spouse, and potentially your adult children had “that conversation”? You know the one I mean: What do you as a family own, where is it and what would be the best thing to do with it should the unexpected occur?

How often do I hear parents say they are leaving their assets to their children, while the children admit they have no idea how to handle them?

Lacking any context, clarity or conversations that matter, they just want to liquidate those assets to cash as fast as they can.

Too often, they are then at the mercy of some stockbroker, insurance agent or a large bank (most likely its private wealth management department) and the hefty fees they extract for the disservice of disassembling a legacy that took a lifetime to build.

Once Mom and Dad, and the IPS, are no longer there to guide the way, what mattered most may be lost forever because those heart to heart conversations never happened.

Touchstone #7

Close the Gap between Your Retirement and Investment Planning

Needless but necessary to say, your retirement planning should go together with your investment planning. Taking care of yourself first means you established your goals and objectives to connect with your investment plan.

Most people randomly buy investments like stocks, mutual funds, limited partnerships, gold, commodities, hedge funds, and rental properties, etc., because each one looked or sounded like a good idea at the time.

I call this the “grocery cart investment plan.” Why?

Have you ever gone to the grocery store without a menu in mind or a list of important ingredients you would need to serve a meal? If you are like me, you walked down the aisles picking things off the shelves that looked or sounded good in the moment with no rhyme or reason. "If I don't eat something right now, I will die," is all based on emotion and instinct.

In fact, emotions and instincts are your enemy when it comes to investing. Taking care of yourself first means you go shopping with both your investment and retirement plans.

Touchstone #8

Always Buy the Right Annuity

Do not buy annuities unless they fit exactly what you are trying to accomplish and there is no other choice such as guaranteed income or guaranteed interest rate.

What have I got against annuities? Mostly, it relates to their tax inefficiencies and other excessive costs. On the tax front, they don't get a step-up in basis on death, and they convert otherwise lower-taxed capital gains to highest-taxed ordinary income. They also produce (taxable) income in respect of a decedent.

Annuities can have high costs and significant back-end fees that can trap you into the product for years. Yes, you can get up to 10% per year without a deferred sales charge from the insurance company, but if you are under age 59½ you will be hit with a 10% penalty tax imposed by the federal government plus inclusion as taxable ordinary income on any growth.

Oh, and by the way, you are required to take out the (taxable) growth first.

What have I got for Annuities? See my article, "Always Buy the Right Annuity for You."

Before signing on for the right annuity for you, recruit a fiduciary advisor who will place your interests ahead of his or her own. Make sure that the advisor is working for you as a fiduciary to put your best interests above their own financial interests.

Touchstone #9

Never, Never, Never Surrender

Winston Churchill inspired my thinking on Touchstone #9. In his 1941 speech, he said, “Never give in…unless to conviction and good sense.”

My suggestion is to never surrender or lapse a life insurance policy if you are over age 65 without first checking the secondary life settlement market to see if the policy could be sold for greater value.

Short and sweet, here’s a handy tip, often overlooked: There is a special market where you can sometimes sell your life insurance for cash, assuming it is a policy you no longer need, you are over age 70 and your health has changed since the policy was originally issued.

Please note there are some special tax rules, so it is important to work with someone who gives you all the information you will need to make an informed decision as to what is in your best interest. Does this make good sense to you?

Touchstone #10

Trust and Verify

As a business owner, if you offer any type of a retirement plan, consider delegating your investment selection liability to a professional advisor (in writing). As a retirement plan sponsor, you are a trustee and fiduciary under the plan.

You can be held personally liable for a breach of fiduciary responsibility.

While you cannot delegate all your fiduciary obligations, the law governing retirement plans does allow you as the plan sponsor to delegate your investment selection liability to a professional advisor who is willing to accept the duty in writing.

If you are paying someone to manage your plan for you, it seems only reasonable to ensure the firm with whom you are working is taking on that fiduciary obligation as part of the services it is providing.

Concluding Thoughts

So there they are, our Top 10 Touchstones or Takeaways for you to take better care of yourself first, and then your business and family.

Be assured, I could provide you 100 more Touchstones.

But if you knock off this handful — you'll already have an excellent handle on your and your family's wealth and well-being.

And you will more than likely understand why putting your mask on first is like estate planning.

An Invitation to Learn More

Over the years, we've focused on helping families balance their goals for keeping what they have while safeguarding their future. We also helped them manage their investments accordingly.

If you would like to know more, I would be happy to send you any one or all three of my articles:

"Income Allocation Plus Asset Allocation,"

"Investing in The Big Picture," and as mentioned in Touchstone #8,

"Always Buy the Right Annuity for You."

Just email or call me on my direct line below with no obligation of course.

In the meantime, be well and stay well.

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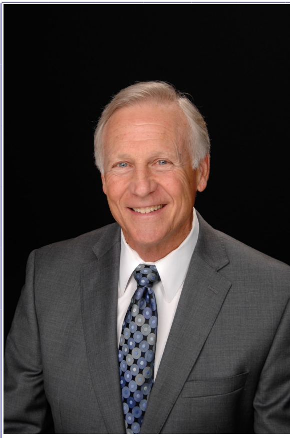

Ross F. Hoffman, President/CEO

Hoffman & Associates, Financial & Estate Advisors, Inc.

Ross F. Hoffman is President and Chief Executive Officer of Hoffman & Associates, Estate & Financial Advisors, Inc. He has over 40 years of professional experience in financial, estate, and investment advising. Ross believes everyone should have the opportunity, the freedom and the best information to decide what estate, retirement, and business transition plans work best for them. He has also written articles on these topics.

Ross has earned the most respected professional designations, including Accredited Wealth Management Advisor (AWMA), Accredited Investment Fiduciary (AIF®), Certified Financial Planner (CFP), Chartered Financial Consultant (ChFC), and Chartered Life Underwriter (CLU). He earned his undergraduate degree from UCLA, attended the U.S. Army School of Finance, and the Center of Fiduciary Studies at the University of Pittsburgh.

Ross is an accomplished speaker. He has lectured on Family Wealth Counseling, Evidence Based Investing, Exit Planning, creative uses of life insurance, charitable estate planning to professional groups including the Ventura County Bar Association and the Santa Barbara CPA/Law Society; and has taught estate and gift tax planning.

He is a former co-host of the weekly internet radio show "Conscious Investing," and was in "Navigating the Fog of Investing," a documentary film on the investment industry.

Ross is a prior member of Vistage (formerly TEC), an organization for CEOs, for over 25 years. They presented him the "Widest Range of Knowledge Award" as a Vistage member.

His community involvement has included Vice Chairman and Cabinet member of the Ventura County United Way, Technical Advisory Committee member for the Ventura County Community Foundation, Deferred Giving Board member for the Ventura County Medical Center, Board member of the American Lung Association, Board member of the Ventura County Planned Giving Council, Deferred Giving Committee member for the Boy Scouts of America and a past member of the Estate Planning Council. Ross was on the Board of Segue, a nonprofit, dedicated to keeping kids in school and helping them develop career paths.

Ross's outside interests include golf, daily workouts and time with his family. He also wrote **Back And Better, 37 Rapid Recovery Exercises I Use When Injured or Bedridden**.