PEAK CAPITAL
MANAGEMENT

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THE ADVISOR

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Thinking You 'Have Plenty' Often Leads to the Danger of Complacency

With the stock market still fluctuating wildly after February's 10 percent correction, I wanted to devote this month's newsletter to a somewhat broader topic: complacency. There are all kinds of dangerous ways to become complacent with your money, but one I see often stems from a belief among some successful retirees and near-retirees that they "have plenty" or "more than enough."

This danger really hit home recently when an advisor colleague of mine shared this story. Last year, he was scheduled to take over the financial affairs of an aunt and uncle, as they could no longer manage them on their own. The aunt and uncle had done good job of accumulating a large nest egg; so much so that they owned two homes, took cruises, and traveled abroad throughout most of their retirement.

But as they got older and their health declined, their top priority was simply to stay in their own home for as long as possible and avoid the need for either of them to go into a nursing home — even if that meant paying for full-time healthcare. Eventually, it did mean just that, and they were able to manage it financially for a few years.

But by the time my colleague took over their affairs as power of attorney last year, he was shocked to realize they only had enough savings left to afford a few more months of in-home care. They had no idea of the situation, and he wasn't sure how to tell them. In

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Leaving a Legacy

Many of us want to do our part to leave the world a better place. Fortunately, there are many ways you can ensure you'll have a meaningful impact on the world by leaving a legacy that lasts long after you're gone. Of course, you can also leave a financial legacy using the wealth you've accumulated in your lifetime to do good in the world. Below are five different ways to leave a financial legacy.

1. Give gifts in your lifetime. If you have the financial freedom to do so, making financial gifts while you are still alive is a great way to leave a legacy. Money donated to qualified charitable organizations can be deducted from your taxes, saving you money while also helping support a good cause. If you want to leave a family legacy, consider giving gifts to loved ones while you are living, like helping pay for your grandchild's college education. Just make sure you're aware of annual limits on what you can give to individuals without triggering gift taxes ($15,000 per person in 2018).

2. Make a bequest in a will. Many people use their will to make philanthropic bequests to a favorite charity, their alma mater, or their church. Recognizing an organization in your will is a relatively easy way to leave a legacy. Bequests in a will don't require any additional planning and are exempt from estate tax, provided the recipient is a qualified charitable organization. However, if you plan to make a substantial bequest to a charity, you may want to inform them of your plans in advance. This is particularly important if you plan to donate real property, like real estate or artwork, as not all charities will want or be able to accept such donations.

3. Create a charitable remainder trust. If you would like to make

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Danger of Complacency

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fact, he was actually considering getting a reverse mortgage on their house so he wouldn't have to! As it turned out, they both passed away within a few months, which was very bittersweet for him under the circumstances. While he was sad to lose them, he was also relieved that they never had to face the burden of running out of money with the need for in-home care.

A Common Story

The takeaway lesson in their story is that very often, people who've done a good job of accumulating assets in the growth phase of their lives can be especially prone to complacency in the protection and income phase. While my colleague's aunt and uncle are one example, I see others frequently in my own practice: people who think $1M is a magic number. Or maybe $2M. They hit that goal and become overconfident. They forget that while aiming for and achieving a certain number is important, that's not all there is to successful financial planning.

They may even convince themselves (or be convinced by the wrong financial advisor), that having a large nest egg means they can afford to take more financial risk close to or after retirement because even if they suffer a loss, they'll still "have plenty." The trouble there is they (or that advisor) are probably not considering all the possible contingencies and circumstances that could easily turn "plenty" into "not enough."

Perhaps the most common of those circumstances is the one that almost caught up my colleague's aunt and uncle: healthcare expenses that greatly exceed what you've planned for. Many people — and even some advisors — fail to recognize or consider that healthcare costs increase at a faster and steeper rate than general inflation. Since 1948, the price of medical care has grown at an average annual rate of 5.3 percent compared to 3.5 percent for the consumer price index overall.[1]

So at close to 6 percent, healthcare and medical costs are essentially doubling every 12 years. That means if a couple in their 60s is budgeting $200K for annual full-time in-home health care today, by the time they're in their late 80s or early 90s, those expenses could be four times as high — as much as $800K a year. And even if they're projecting an increase based on the standard inflation rate of 3.5 percent, they're still going to fall short.

Oh and by the way, according to the Centers for Disease Control, for a couple in their 60s today, there is a 50 percent chance that at least one of them ***will*** live into their 90s. Those kinds of longevity rates are becoming increasingly common — which is another issue some people who think they "have plenty" often overlook or try to minimize.

The 'Slippery Slope'

I'm sure my colleague's aunt and uncle probably didn't expect to live into their 90s while they were traveling and enjoying their early years of retirement in their 60s, and yet they ***both*** did. And even if they did foresee it, I'm sure they optimistically saw themselves being independent and in good health right to the end. I doubt they envisioned the need for full-time, in-home care or expected it would cost over $200K a year, when 30 years earlier, it cost less than $50K.

But again, their situation is typical. Longevity and rising healthcare costs can trip up a couple with a large nest egg even if they think they're ***not*** being complacent and planned for every contingency.

Let's take a hypothetical example: A couple in their 60s has about $1M in assets in an IRA specifically earmarked for long-term home healthcare. They believe it's "plenty," thinking they can cover five years of full-time, in-home healthcare expenses and maybe more based on the IRAs future growth. But not necessarily when you factor in Required Minimum Distributions. RMDs start right off at 3.65 percent at age 70½ and hit nearly 9 percent by the time you're 90.

If that couple doesn't have a strategy that allows them to satisfy RMDs from interest and dividends, there's a good chance they'll have to draw down much of the IRA principal to satisfy the RMDs — which is a slippery slope after retirement. So rather than growing, that $1M could be worth $500K or less by the time they reach 90, leaving them less than enough to pay for ***one*** year of full-time, in-home healthcare.

Again, this kind of situation is not uncommon; and it reinforces one of my strongest convictions: to be truly successful at financial planning, you need to approach it (or have an advisor who approaches it) with the skills and mindset of a chess grandmaster. A very good chess player typically sees two to three moves ahead on a chessboard, much as an average investor sees just five to 10 years ahead in financial planning. A chess grandmaster, on the other hand, sees seven moves ahead, much as the right advisor sees 30 years ahead — and, thus, is far less likely to ever fall victim to complacency!

1 "Healthy Inflation? Inflation in the Healthcare Industry vs. General CPI." *FRED Blog®*, Federal Reserve Bank of St. Louis. July 13, 2017. *https://fredblog.stlouisfed.org/2017/07/healthy-inflation*

Leaving a Legacy

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a substantial gift to a charity but also want to provide for your heirs or receive income during your lifetime, a charitable remainder trust (CRT) may be an option. Here's how it works: You transfer assets to the trust (and get a tax deduction at the time of the transfer), and you or your heirs receive income from the trust for a specified period of time. When that period ends, the remaining assets go to the charity of your choice. A word of caution: CRTs are irrevocable, which means you can't reverse them.

4. Set up a donor-advised fund. Know that you want to leave money to a charity, but are not ready to hand it over just yet? Consider setting up a donor-advised fund. This fund allows you to make contributions that are earmarked for charity and claim the associated tax deduction in the year you contribute to the fund. You continue to make contributions, which are invested and grow free of tax. When you are ready, you can choose one or more charities to receive all or some of the accumulated assets.

5. Fund a scholarship. Endowing a scholarship is a great way to make a difference in the life of a talented student. Here's how it typically works: You give a certain amount of money to the school of your choice, which earmarks it to fund scholarships, often for certain types of students (e.g., female math majors, former foster children, or students suffering from a certain disease). Other scholarships may be established through community foundations. A seed gift of $25,000 or $50,000 may be enough to get started. However, while you may be able to have a say in selection criteria for the scholarship, there's a good chance you won't be able to select the recipient yourself. If you want to do that, you'll need to distribute the money in another way, perhaps by setting up your own nonprofit organization.

6. Start a foundation. Starting a family foundation is appealing to many, especially those who like the idea of having greater control over how their money is used, as well as the prestige that comes with running a foundation. Well-managed private foundations can also endure for many generations after you're gone. You'll need substantial assets to make setting up a foundation worth it. Plus foundations are complicated and expensive to set up and administer. But if you are committed to the idea of giving back and especially want to keep the entire family involved in giving (a concern for many wealthy families), a private foundation could be the way to go.

Curious about steps you can take to leave a meaningful legacy? Please call to discuss this topic in more detail.

5 Estate-Planning Tips for Dependents

When you have people who are dependent on you, like children or elderly parents, you want to ensure they will be well taken care of in the event that you can no longer care for them. Here are five tips:

- **Hire an estate planner —** An estate planner will make sure you think of and lay out every aspect of your estate plan. Estate planners stay up-to-date on tax rules and other laws and regulations, so they can help you ensure that your plan is legally and financially sound.
- **Choose a guardian —** Choosing someone to take care of your children in the event that both you and their second parent are deceased is a huge decision to make and deserves great care and time. You want to choose a guardian who loves your children and has the capacity to take care of them into their adulthood. That means a guardian who has the financial capacity to care for your dependents, as well as the physical ability to do so. So even though grandparents may be able to love and care for your children just as you did, they may not be in good enough health to care for a child or children. The goal of choosing a guardian is to make sure your children are loved and taken care of adequately, they receive a good education, their lives remain as stable as possible, and they receive emotional support to cope with your loss. Ask early (and often) if they are comfortable being the guardian of your child or children.
- **Develop a trust —** A trust is often used when people have minor children or dependents who are incapable of taking care of themselves. As the trustor, you put a trustee in charge of the beneficiary's property and/or assets until the beneficiary meets requirements such as reaching a certain age or milestone. Just like choosing a guardian, make sure you take time in choosing a trustee who is trustworthy and capable.
- **Start as soon as possible —** As soon as you have a child or otherwise become responsible for a dependent, it is important to get an estate plan in place to protect them in case of emergency.
- **Reevaluate often —** As time goes on, your situation may change quite a bit from your original plan. Any time major changes happen in your life that impact what you would leave behind and who you'd want to leave it to, revisit your estate plan.

You may have no control over when or how you will die, but you do have control over what happens to your dependents. To get started with your estate plan, please call.

Business Data

Indicator	Month-end				
	Dec-17	Jan-18	Feb-18	Dec-16	Feb-17
Prime rate	4.50	4.50	4.50	3.75	3.75
3-month T-bill yield	1.45	1.43	1.65	0.56	0.52
10-year T-note yield	2.46	2.59	2.87	2.55	2.46
20-year T-bond yield	2.66	2.74	3.03	2.86	2.80
Dow Jones Corp.	3.13	3.29	3.63	3.17	3.70
GDP (adj. annual rate)#	+3.10	+3.20	+2.60	+2.10	+2.10

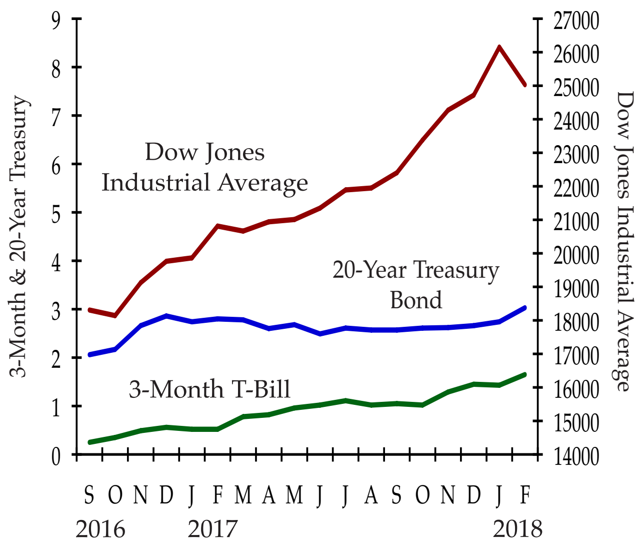
Indicator	Month-end			% Change	
	Dec-17	Jan-18	Feb-18	YTD	12-Mon.
Dow Jones Industrials	24719.22	26149.39	25029.20	1.3%	20.3%
Standard & Poor's 500	2673.61	2823.81	2713.83	1.5%	14.8%
Nasdaq Composite	6903.39	7411.48	7273.01	5.4%	24.8%
Gold	1296.50	1345.05	1317.85	1.6%	5.0%
Unemployment rate@	4.10	4.10	4.10	0.0%	-14.6%
Consumer price index@	246.70	246.50	247.90	0.5%	2.1%
Index of leading ind.@	106.40	107.00	108.10	1.6%	6.2%

— 2nd, 3rd, 4th quarter @ — Nov, Dec, Jan Sources: *Barron's, Wall Street Journal*

Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

September 2016 to February 2018



Don't Forget Digital Assets in Your Estate Plan

When preparing an estate plan, people often forget about their digital assets. But with so many managing their lives online, digital assets are an integral part of your estate plan. There is a myriad of digital assets to think about as part of your plan, including:

- Computers, external hard drives, smart phones, cameras, flash drives, and other electronic devices.
- Online accounts such as bank accounts, investment accounts, utilities, mileage and reward accounts, and/or social media accounts.
- Any important documents you have stored in electronic files, such as tax returns, insurance documents, wills, and trusts.

The first step is to conduct a thorough inventory of all your digital assets. Make a list that includes the type of asset, the location of each, website addresses where applicable, usernames, and passwords. You should provide the written list to the person you are entrusting to take care of these assets or keep a copy with your will that clearly identifies the person in charge of managing them.

Other things to consider for storage of digital assets is an online vault and password manager. The online vault allows you to store all of your important documents in one secure online account. The password manager stores all of your usernames and passwords for all of your online accounts. The person responsible for your digital assets only needs access to one password that will give him/her the information for all of your other accounts.

In your estate plan, you will want to provide clear instructions as to who is responsible for your digital assets and how you want them handled. You will want to select someone you trust, because you may have private details you want kept private. Make sure you indicate if you want accounts closed, documents deleted, and any accounts or documents needing to go to a certain person, especially if there is any associated monetary value.

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