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Trust UPDATE

CITIZENS BANK
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October 2022

Ready for retirement?

Expectations versus reality

What are the risks to be managed during retirement? In a recent paper published by the Center for Retirement Research at Boston College, researcher Wenliang Hou identified five areas of concern:

Market risk, the chance that one's investments will be hurt by financial market volatility;

Longevity risk, the possibility of outliving one's resources;

Health risk, the medical emergencies that accompany aging;

Family risk, such as divorce, death of a spouse, or adult children becoming ill or unemployed; and

Policy risk, the possibility that Social Security will run out of money and benefits will have to be reduced.

Mr. Hou developed a methodology to quantify these risks, both subjectively and objectively.

Expectations

Retiree expectations were derived from the University of Michigan's *Health and Retirement Study*, a longitudinal survey of about 20,000 households over age 50, with questions asked every two years. For example, respondents who were ages 65-69 were asked to estimate the chance that they would live to age 80. They were unduly pessimistic, as shown in Table One.

TABLE ONE

Probability of living to age 80

	Average expectation	Actual likelihood from actuarial tables at age 65	Actual likelihood from actuarial tables at age 69
Men	58%	66%	70%
Women	64%	74%	78%

Source: https://crr.bc.edu/wp-content/uploads /2022/06/IB_22-10.pdf

If retirees are living longer than they expect to, there is a much greater chance that they will outlive their financial resources. Similar analysis was done for each of the risks.

Ranking the risks

Under the author's methodology, the subjective weights for the different risks are given in Table Two. Men are most worried about market risk, and least worried about Social Security.

TABLE TWO

Subjective risk ranking for single men

1	Market risk	31.0%
2	Longevity risk	14.6%
3	Health risk	9.6%
4	Family risk	1.1%
5	Policy risk	0.3%

Source: https://crr.bc.edu/wp-content/uploads/2022/06/IB_22-10.pdf

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Actual risks can be objectively measured, as shown in Table Three.

TABLE THREE

Objective risk ranking for single men		
1	Longevity risk	27.2%
2	Health risk	14.0%
3	Market risk	10.8%
4	Family risk	3.2%
5	Policy risk	0.1%

Source: https://crr.bc.edu/wp-content/uploads/2022/06/IB_22-10.pdf

Men are overestimating the importance of market risk, while they are underestimating the health costs in retirement as well as the chance of running out of funds. Ironically, one reason that market risk is relatively low is the longer time horizon that comes with greater longevity.

Mr. Hou concludes, "Retirees do not have an accurate understanding of their true retirement risks. This finding highlights the importance of educating the public on the most significant sources of risk."

Our flexible tool for retirement security

We have services for retirees that address some of those risks. By means of an arrangement called a revocable living trust, retired men and women draw upon our knowledge in investments without tying up their money or locking themselves into a program that cannot be changed as the years go by.

With this highly flexible arrangement, we supply full investment management supervision, or submit recommendations for approval, as the client prefers. As trustee, we also provide safekeeping for securities, maintain the records needed for tax and investment purposes, redeem called or matured bonds and take care of other routine portfolio chores.

Our customers can revise or expand the directions that they give us whenever they wish. They can add money to the trust for investment, make withdrawals or cancel the entire arrangement.

With all this flexibility, a revocable trust can offer significant additional advantages, including financial protection in the event of incapacity (no guardianship required) and probate avoidance. The trust can be the cornerstone of a fully developed estate plan. If you have not already investigated the advantages of a revocable living trust, put it high on your list of retirement options worth exploring.

We can help you

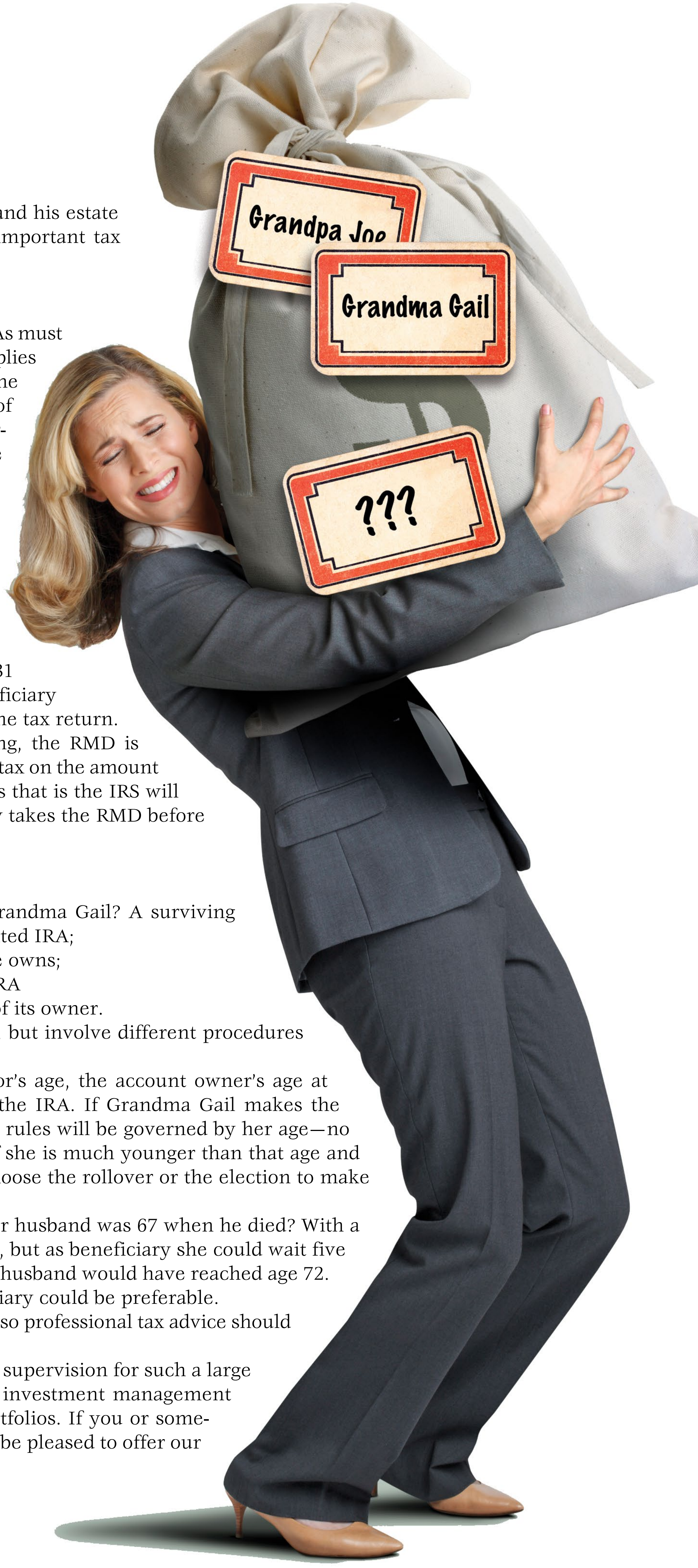
We've worked with a broad spectrum of business owners, executives and professionals to solve the problems—and maximize the opportunities—associated with retirement. Our experience is yours to draw upon. Whether you are retiring early, retiring late or regrouping to start a new career, we stand ready to propose realistic strategies, geared to your personal requirements. ☐

Our services for retirees

You don't have to be retired to benefit from these financial services, but if you have started your retirement (or plan to soon), you should give them some careful consideration. At your request, we'd be happy to tell you more.

- **IRA rollovers.** When you receive a plan payout, you may preserve tax advantages for your retirement capital by arranging for an IRA rollover. Do you already have such an account with another firm, but feel lost in the shuffle? We'd be happy to help you move your IRA so that you can begin to benefit from our personalized investment management.
- **Personal investment accounts.** After careful study of your goals and circumstances, resources and risk tolerances, we recommend, implement and monitor a personalized investment program for you. Because we charge annual fees linked to market value, our best interests and the best interests of our clients are linked clearly.
- **Living trusts.** The same personalized investment guidance is available to clients who wish to set up their investment programs as revocable living trusts. A trust-based financial plan doesn't impair the client's control of his or her investments, but it does offer such added benefits as probate avoidance, integration with the estate plan, and financial management in the event of prolonged illness or incapacity.

An IRA is a tricky estate asset



Grandpa Joe, age 80, dies on December 1, 2022, and his estate includes a $500,000 IRA balance. What are the important tax considerations?

RMDs in the year of death.

Required Minimum Distributions (RMDs) from IRAs must begin at age 72 and continue for life, so this rule applies to Grandpa Joe. Let's assume that he has been in the habit of taking that distribution on December 15 of the year. The amount of the distribution is determined by the account value at the beginning of the year. In a good year for Grandpa Joe's investments, his portfolio has earned enough in 11.5 months to completely cover the RMD, so his IRA has not been getting smaller.

What happens when the account owner dies before taking the RMD for the year? The RMD must be paid to the beneficiary instead and is taxable to the beneficiary on his or her income tax return. The RMD must be paid by December 31 in the year of death, so for Grandpa Joe's beneficiary the amount will be taxed on his or her 2022 income tax return.

What happens if, during the period of grieving, the RMD is overlooked? There is a potential for a 50% penalty tax on the amount that should have been distributed. The good news that is the IRS will automatically waive the penalty if the beneficiary takes the RMD before the tax filing deadline, including extensions.

Surviving spouse as beneficiary

What if the beneficiary is a surviving spouse, Grandma Gail? A surviving spouse has three options to consider for an inherited IRA;

1. Roll the funds over into an IRA that the spouse owns;
2. Elect to make the inherited IRA the spouse's IRA
3. Proceed as the beneficiary of the IRA instead of its owner.

Options 1 and 2 have a similar practical effect, but involve different procedures and paperwork to make it happen.

The best choice will depend upon the survivor's age, the account owner's age at death, and what the survivor hopes to do with the IRA. If Grandma Gail makes the IRA her own, the required minimum distribution rules will be governed by her age—no distributions required until she reaches age 72. If she is much younger than that age and wants to maximize her deferral, she will likely choose the rollover or the election to make the IRA her own.

But what if Grandma Gail is already 72, and her husband was 67 when he died? With a rollover she would have to start RMDs right away, but as beneficiary she could wait five years for distributions to begin, until the year her husband would have reached age 72. That's a circumstance where remaining a beneficiary could be preferable.

There are time limits for making these choices, so professional tax advice should be sought promptly.

Grandma Gail also may need some investment supervision for such a large portfolio. That's where we come in. We provide investment management services for large IRAs, as well as for taxable portfolios. If you or someone in your family is facing this situation, we will be pleased to offer our counsel. ☐

Intestacies of the rich and famous

Executing a last will and testament is not a job that should be left until one has retired. Admittedly, a will prepared for a 30-year-old may have to be revised as circumstances change, perhaps several times, and that may explain why so many people procrastinate on their estate planning. But dying without a will complicates the estate settlement process, as shown in these two recent cases.

Prince

Pop star Prince died without having made a will or taken any other estate planning steps. What's more, there were tricky questions about who his heirs would be, as he died without children or a surviving spouse. The estate's executor had to attend to those matters at the same time that an inventory of Prince's assets needed to be compiled and valued. Eventually six heirs were identified. Three of them sold substantially all of their expected inheritance to music company Primary Wave.

The executor reported a total value for Prince's estate of some $82 million. The IRS believed that his fortune was worth nearly double that, $163 million, which would have meant additional estate taxes of $32 million and a penalty of $6 million for the substantial understatement of the tax liability on the estate tax return.

After a series of negotiations, the estate and the IRS reached a compromise, valuing Prince's estate at $156 million, some six years after his death. Now that the tax issues are taken care of, the heirs can begin promotions of Prince's music and likeness. Reportedly there are plans for music exhibitions, films, even Broadway shows. Primary Wave's statement: "When we announced our acquisition of the additional expectancy interests in the estate last year, bringing our ownership interest to 50%, our goal was to protect and grow Prince's incomparable legacy. With the distribution of estate assets, we look forward to a strong and productive working relationship."

Chadwick Boseman

The star of *Black Panther*, Chadwick Boseman, died at age 43 after a years-long struggle with colon cancer, something that he had kept completely private. He left an estate of $3.8 million before funeral and administration expenses, and he did not have a will, despite his impending mortality.

Boseman's wife, Simone Ledward-Boseman, handled the settlement of his estate. Expenses included some $51,000 in unpaid taxes and the purchase of two mausoleum crypts for Boseman's parents, as well as lawyer's fees. Simone asked that the remaining balance of the estate, $2.3 million be divided equally between her and Chadwick's parents, about $1.15 million each. Boseman's two brothers did not share in the estate.

One reason that the settlement of the estate was so costly and took two years is the absence of a will. Even if this was exactly the result Chadwick Boseman would have wanted, meeting with a lawyer to get his estate plan in writing would have saved considerable time and money. □