Media Mention: Matt Thompson's 'Insightful Discussion' on Wealth Management with the 'Greater Wilmington Business Journal'

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The saying is hindsight is 20/20. But when it comes to securing your future, you don't want to think about what you could have and should have done. The time to act is now.

Recently, the *Greater Wilmington Business Journal* asked four financial professionals for their advice on investment strategies and long-term planning goals as part of its "Insightful Discussions" panel. Matt Thompson, a NC Board Certified Specialist in Estate Planning and Probate Law, was featured in this written Q&A format. Here's what he had to say about managing and growing your wealth:

What is your outlook for the stock market in 2018?

As an estate planning attorney, my focus is on the transfer of clients' assets to their chosen beneficiaries, whatever those assets might be. I don't provide investment advice.

That said, we always pay close attention to the market, interest rates and other economic factors, because varying conditions make different planning strategies more or less appropriate at the time. We must be nimble and take advantage of circumstances as they change, because some strategies are best employed when the market is down.

So long as the current run continues, we all will be happy when we check our accounts. If there is a temporary dip in the market, however, we'll be prepared to take advantage of it from an estate planning standpoint.

What is the most common mistake people make in financial planning?

Some people just don't have a plan or, if they do, they get bored with it and chase something more exciting that gets them off track.

In my role as an estate planning attorney, it is interesting to see how different clients with very similar backgrounds and incomes can end up in completely different places economically over time, largely because one took their plan seriously and the other ignored it.

How do you advise clients regarding income tax-deferred investments versus other investments?

For many of our clients, much of their wealth is tied up in retirement accounts. Any distribution from a traditional IRA is subject to income tax. Being tax-adverse, a lot of our clients are predisposed to take only the "required minimum distributions" from those accounts.

In some cases, however, we encourage clients to consider drawing on their IRAs more aggressively if they are likely to be in a lower tax bracket than their children, who otherwise will inherit the IRA accounts and eventually be responsible for the tax at their higher rates.

For clients who have charitable objectives as part of their estate plan, we try to source those gifts from the IRAs, because the charities do not pay tax upon receipt of funds from the IRA.

To the extent clients want to have individuals as the beneficiaries on their IRA accounts when they die, we want to make sure those beneficiaries can receive the assets in an income tax-efficient way. When a beneficiary is named outright, she can choose to establish an inherited IRA account and "stretch out" the distributions over a period as long as her life expectancy. This results in smaller amounts of income being realized annually by the beneficiary, as opposed to all of the income being realized at once if the IRA is simply cashed out.

Some clients, however, want to leave assets in trust for their chosen beneficiaries - rather than outright - for asset protection, management, tax or other reasons. Normally, designating an IRA to a trust can cause an accelerated pay-out - and a less-efficient income tax result.

We spend a lot of time incorporating provisions into our trusts so that the stretch-out rules apply as if the trust beneficiary had been named individually. The IRS rules around IRAs are complex, so the trust needs to be properly designed to avoid an inefficient tax result.

How could the federal tax plan impact estate planning, particularly for clients with existing formula gifts?

The new tax law doubles - from $5.5 million to $11 million – the amount an individual can leave in total to beneficiaries other than a spouse or charity without incurring gift or estate taxes. The law remains that transfers to a spouse or charity are not subject to gift or estate tax. Therefore, a married couple can pass about $22 million without transfer taxes if they plan correctly. These larger exemptions likely eliminate the gift and estate tax as a major concern for most people.

Estate planning, however, always has been about much more than minimizing gift and estate taxes. Our clients, regardless of level of wealth, are concerned about many other practical issues.

They want to ensure what they leave is protected against their beneficiaries' creditors. They are worried about making sure a young beneficiary's inheritance doesn't create a disincentive for him to work.

They want to make sure a disabled beneficiary doesn't lose her benefits because of what was left to her. They worry how to benefit a current spouse while ensuring the children of a prior marriage are not disinherited. They are looking for ways to simplify and make private the administration of their estates upon death. These and other issues are universal.

Even with the increased exemptions, I do think clients with a net worth of more than $7 or $8 million should consider keeping in place documents that contemplate and plan for the possibility of estate tax, and for those with very large estates, these documents are a necessity.

There simply is too much risk that the exemption figure will go back to a lower amount if the current law sunsets as scheduled in a few years. In the current environment, there is a premium on the documents being flexible, so various factors can be evaluated and elections made at the time of death to achieve the best tax result.

Regarding “formula gifts,” many older documents were drafted when the estate tax exemption figure was much lower. In those documents, we frequently see a carve-out of the exemption amount to children immediately, with the remainder passing to a surviving spouse. Now that the exemption has increased so dramatically, that sort of plan could result in the surviving spouse being disinherited altogether!

In general, we are suggesting clients brush off and review with us documents that are more than a few years old.

What are the benefits of working with a wealth advisor versus a robo-advisor?

From my experience, a financial advisor can help protect a client from investment decisions based on emotion. They can ask hard questions and make the client deal with issues they would otherwise ignore. They also can recognize issues that are not strictly investment-related and help bring in professionals to ensure those issues are addressed.

As an example, I had an elderly client’s financial advisor call me because she noticed unusual withdrawals from her account. It turned out one of the client’s children was using the account for her own purposes, and we were able to address the situation before it got too out of hand. A robot-advisor would not have called me.

What advice would you give about transferring assets to future generations?

More of our clients are leaving assets in trust for their children and more remote descendants, rather than making outright distributions to them. The reasons for using a trust are compelling. A properly designed trust

will be creditor-protected, be it from a divorcing spouse, a debt collector or otherwise. It also can provide controls and tax efficiencies that otherwise are not available with outright distribution.

For a beneficiary who would not need a trust but for the protections and advantages it provides, that beneficiary can be established as her own trustee. She can be given broad discretion regarding investment and distribution decisions, as well as the right to direct any remaining trust assets upon death. Of course, the trust can be more restrictive if circumstances warrant it.

Another consideration we discuss with clients is making lifetime gifts instead of having all assets pass at death. Smaller gifts made at an earlier point in life often are more helpful to the recipients. Plus, our clients often find a real satisfaction in witnessing the recipient enjoy the gift. Of course, working with a financial advisor to ensure you can afford the gift without impacting your lifestyle is important.

How can clients ensure their assets are used responsibly by their heirs?

In an ideal world, our clients would feel comfortable that their values regarding money and financial responsibility have been imparted on their children and grandchildren before they receive an inheritance.

As a practical matter though, we often use trusts to reinforce those lessons and values. Trusts terms can be flexible and custom-fit the situation.

For example, many clients create terms to provide for education and exploration at young ages and incentivize work through young-adult years, finally allowing partial and full control upon reaching certain ages or milestones. These terms, in essence, allow you to continue the education of the younger.

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