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The Mosaic Financial Group LLC
Your Wealth Management Partner

6 Common Estate Planning Myths: Here's The Reality

Some people avoid estate planning at all costs. But putting aside the inevitable emotions involved in looking ahead to your own demise, it's crucial to understand the process. A good place to start is by debunking these six common but potentially damaging myths:

Myth #1: My estate is too small to need an estate plan.

Reality: You don't need a small fortune for your heirs to benefit from estate planning. For instance, what if you decide to divide your assets among several beneficiaries, instead of designating just your spouse or another person? That could be very important if you're in a second or third marriage and have children from a previous marriage. In addition, you might want to leave some of your estate to charity. Wanting to help your family avoid the delays of probate, seeking to reduce estate taxes, and choosing who will administer your estate also call for estate planning.

Myth #2: I don't need an estate plan because my spouse will inherit everything.

Reality: This is closely related to the first myth. Just because you have left everything to your spouse under your will—and your spouse has returned the favor—doesn't mean you won't benefit from estate planning. What happens if your spouse dies first at a relatively early age, or if you die together in an accident? What then? There might be complications because of how assets are titled, who are named as beneficiaries of your life insurance policies and your retirement plans, or the estate laws of your state.

Myth #3: If you're wealthy, there's no way to avoid estate taxes.

Reality: That's simply not true. On the federal level, your estate can benefit from a generous $5.43 million exemption for those dying in 2015 (and that amount is indexed for inflation and will rise in future years). What's more, because you or your spouse can use the other's leftover exemption, the effective amount the two of you can shield from estate taxes is almost $11 million. Trusts and other tax-saving vehicles can further reduce estate tax exposure. Although state inheritance tax rules aren't always as generous, professional guidance may help there, too.

Myth #4: Everything is covered in my will so estate planning isn't necessary.

Reality: While a will is a good starting place for an estate plan, it's not likely to be enough on its own. There may be numerous other loose ends to tie up. In addition, depending on your state's laws, your heirs may have to go through a lengthy probate process that can be even more drawn out if you owned property in several states. A revocable living trust can help you pass

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Spotlight On... Joe Hetland

Greetings! My name is Joe Hetland, and I'm a member of Mosaic's investment advisory team. I have been with Mosaic since January of 2012 and my responsibilities include account servicing, portfolio administration, data management, and report generation.

I grew up in Lincoln Square on the north side of the city along with my four older siblings, one of whom is my twin sister. After graduating from high school, I enrolled at Loras College in Dubuque, Iowa where I was a member of the cross country and track team, and the Financial Management Association.

After graduating with a degree in Finance, I moved back to Chicago and became a high school cross country and track coach. I also worked as an Office Coordinator at March of Dimes before joining Mosaic and having an opportunity to pursue my real interest in finance.

Away from the office, I keep myself pretty busy. I enjoy volunteering and attending fundraisers benefiting the refugee resettlement, emergency assistance, and children's development programs as part of The Catholic Charities of Chicago. On the weekends you can usually find me running along the lake and enjoying time with friends.

What Are Latest Trends In Prenups?

Not so long ago, prenuptial agreements were only for the very rich. But more recently, they've become much more common, especially for spouses in same-sex marriages.

A prenuptial agreement—sometimes also known as an antenuptial or premarital agreement—is a contract that a couple signs prior to marriage. Details may vary, but a "prenup" generally addresses division of assets, including those that each spouse brings into the marriage and those that are earned during the union, as well as spousal support, if the parties dissolve the marriage. But other issues also may be touched upon—for example, that a spouse will have to forfeit assets because of adultery, or provisions relating to children from the union.

Even today, prenups often are viewed warily, because they anticipate a breakup of a marriage before the parties even say, "I do." But financial realities can supersede such concerns. It may not be romantic to mention it, yet it remains true that more than half of U.S. marriages end in divorce. Some proponents of prenups argue that such arrangements actually can reduce stress in a marriage, because both spouses know exactly what to expect if they do call it quits.

Much like a will, a prenup ensures that assets will be distributed in an agreed-upon manner. So it's important for both spouses to be up-front about their net worth. As part of the process, prospective spouses need to list all of their ownership interests and decide on an equitable distribution that suits their particular situation. Frequently, there's some give and take before the parties sign off, especially if one spouse has accumulated significantly more wealth than the other.

Note also that state law may have a major impact on such negotiations. "Community property" states may pose particular hurdles.

It used to be that prenuptial agreements applied only to marriage between a man and a woman. However, in the wake of the U.S. Supreme Court case invalidating part of the Defense of Marriage Act (DOMA), prenups for same-sex couples are on the rise. These couples, too, can use a prenup to resolve issues relating to assets accumulated prior to the marriage and during the union.

Another reason for same-sex couples to consider a prenup is the possibility that a marriage might end with one or both partners residing in a state that doesn't recognize same-sex marriages. The prenuptial agreement can provide adjustments based on this scenario.

Of course, having conversations before a marriage about which partner gets what if the union ends are bound to be awkward for both traditional and same-sex couples. But getting such things settled now may be worth the trouble if it helps avoid acrimony later. ●

When To Start Social Security?

Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women,

Avoid Emotional Portfolio Withdrawals

The Standard & Poor's 500 stock index is the benchmark against which most investors measure the performance of their portfolios, but that's not such a good thing. For, although the widely-cited index represents the value of America's 500 largest publicly-held companies, it does not represent the performance you should expect from a retirement portfolio.

Prudence demands diversification of a retirement portfolio far beyond 500 blue-chip stocks into multiple asset classes. Surprisingly, so do history, math, and greed.

It turns out that a multi-asset retirement portfolio historically generates returns almost identical to the S&P 500, but without much of the drama.

Since performance data on a broad range of asset classes first became available 44 years ago, investors in a seven-asset portfolio sidestepped the worst of the terrible dips that befell the S&P 500.

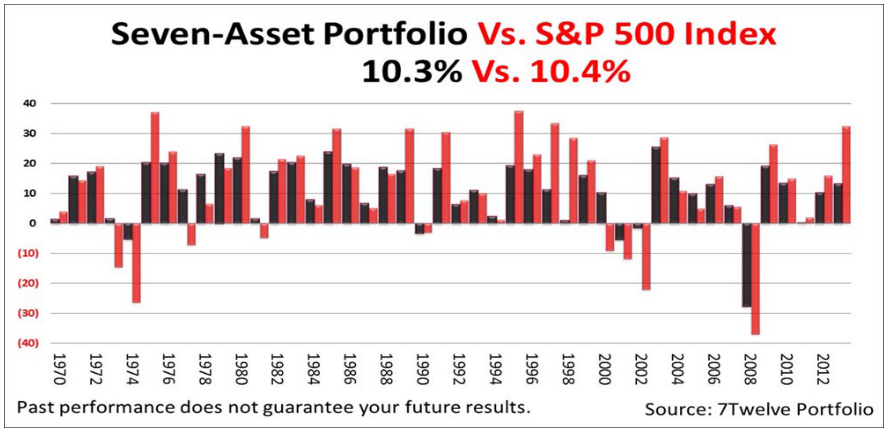
In 2008, for example, when the world financial system teetered on the edge of collapse, the S&P 500 lost as much as 37%. Investors in a multi-asset also suffered

The Math Of Losses In 2008¥

% Portfolio Loss	Portfolios	% Gain Needed To Break Even
-5%		5.3%
-10%		11.1%
-15%		17.6%
-20%		25.0%
-27%	Multi-Asset Portfolio	37.0%
-30%		42.9%
-35%		53.8%
-37%	S&P 500 Index	58.7%
-40%		66.7%
-45%		81.8%
-50%		100.0%
-55%		122.2%
-60%		150.0%
-65%		185.7%
-70%		233.3%
-75%		300.0%

¥Required % Gain = [1 / (1 – % Loss)] – 1
Past performance does not guarantee your future results.
Source: 7Twelve Portfolio

frightening losses, but the 28% pullback they suffered was a mere two-thirds of the loss on the S&P 500.



Past performance does not guarantee your future results.
Source: 7Twelve Portfolio

Put another way: The 10.4% annualized return on the S&P 500 versus the 10.3% multi-asset portfolio over 44 years are nearly identical, but investors in the multi-asset portfolio earned their return without experiencing the extreme lows of the S&P 500—losses so large they are more likely to compel selling stocks at market-lows and then missing the next bull-run.

The "math of losses" makes it hard for a portfolio diminished by losses to become whole again. Losing 20.0% of a portfolio requires a 25.0% gain to break even. And the math becomes more tyrannical with larger losses.

Recovering from the 37% loss in the S&P 500 investors sustained at the market bottom in 2008 required a 58.7% gain. To recuperate from its 28% decline sustained by investors in the multi-asset portfolio required a 37% gain.

It pushes investors into scarier situations and makes it more difficult to have faith that nothing—no natural disaster or political, financial or religious crisis or war—will bring down the world and bring an end to the progress of humanity. ●

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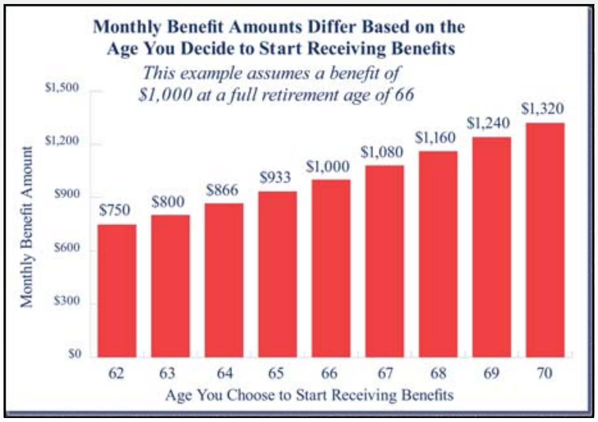
who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●



Source: Social Security Administration

What's The Step-Up In Basis Worth?

When you're developing an estate plan for your family, several elements factor into the equation, including a lot of tax ramifications—which may include both estate taxes and income taxes. They're not mutually exclusive and, in fact, they're often intertwined.

A case in point is the so-called "step-up in basis" on inherited assets. That can be a reason to keep some assets in your estate rather than trying to reduce the estate's value.

Slimming down an estate, particularly by making gifts to family members during your lifetime, is often a good idea. However, there's a marital deduction that normally allows you to leave unlimited assets to your spouse free of estate tax, while transfers to other heirs are sheltered by a generous individual estate tax exemption that's inflation-indexed. Each person can shield $5.43 million from estate and gift taxes in 2015, up from $5.34 million in 2014.

Meanwhile, if you sell real estate or other assets before you die, you'll owe capital gains tax on your profits. The maximum tax rate on a long-term gain (on assets you've held longer than a year) is 15%, or 20% for investors in the top ordinary income tax bracket. In addition, you may be liable for a 3.8% surtax on net investment income (NII), including capital gains, that exceeds an annual threshold. That adds up to a possible effective tax rate of 23.8% on capital gains at the federal level.

But if you bequeath appreciated assets to your heirs, they can largely avoid capital gains taxes. Those taxes are calculated according to how much the price has gone up from your "basis" in the asset—basically what you paid for it, subject to adjustment. When you die, the basis of the assets your heirs receive is "stepped up"—increased to their value on the date of your death. That eliminates tax liability on the appreciation of the assets during the time you owned them. Of course, those assets have to be in your estate to qualify for that benefit, but the generous exemptions for estates will help your heirs avoid estate taxes, too.

Consider this example. Tom, a resident of Florida, bought an apartment building for $900,000 that is currently worth $2.2 million. If Tom sells the building now, he must pay an effective tax rate of 23.8% on a $1.3 million capital gain, or $309,400 (23.8% of $1.3 million). But what if he keeps the property and leaves it to his heirs? The basis of the property is stepped up to the full $2.2 million, and they'll owe capital gains taxes only if it appreciates further before they sell it. What's more, the estate tax exemption means they won't owe estate taxes on their inheritance.

Note that Florida doesn't have a state income tax. If Tom resided in a high tax state, such as California or New York, the savings would be even more pronounced. ●

Estate Planning Myths

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some assets to your heirs without probate, and your will probably also should be accompanied by a durable power of attorney authorizing a family member or a professional to act on your behalf if you're incapacitated.

Myth #5: I don't have to worry about life insurance and retirement plan designations.

Reality: This is overstating the case. Although the beneficiary designations you've made for life insurance and retirement plans, as well as for your IRAs, are a good start, you still need to coordinate those choices with other aspects of your estate plan. You might want to revise your designations, for example if you get divorced or a spouse dies, or you could need to add secondary or contingent beneficiaries. Also, while the proceeds from life insurance generally are excluded from estate tax, there are exceptions that could direct that money back into your taxable estate.

Myth #6: Once my estate plan is complete, I don't have to do anything else.

Reality: Nothing could be further from the truth. Your family and financial circumstances almost certainly will continue to evolve, and your estate plan needs to reflect significant changes. Marriage, divorce, or the birth of children or grandchildren all could have an impact. And the best-laid plans could be affected by a disability or unexpected death of a spouse. Finally, your plan may have to be fine-tuned to take other events into account, especially if the estate tax laws are revised again. So be sure to review your plan periodically and revise it when necessary. ●