Winter 2016

EPIC CAPITAL

Where Experienced Advice Meets Actionable Ideas INSIGHTS

Comprehensive Financial Planning: What It Is, Why It Matters

Your approach to building wealth should be built around your goals & values

Just what is "comprehensive financial planning?" As you invest and save for retirement, you will no doubt hear or read about it – but what does that phrase really mean? Just what does comprehensive financial planning entail, and why do knowledgeable investors request this kind of approach?

While the phrase may seem ambiguous to some, it can be simply defined.

Comprehensive financial planning is about building wealth through a process, not a product. Financial products are everywhere, and simply putting money into an investment is not a gateway to getting rich, nor a solution to your financial issues.

Inside this Issue

FEATURES

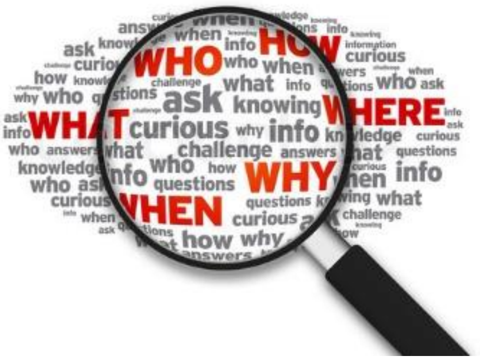
Comprehensive financial planning is holistic. It is about more than "money". A comprehensive financial plan is not only built around your goals, but also around your core values. What matters most to you in life? How does your wealth relate to that? What should your wealth help you accomplish? What could it accomplish for others?

Comprehensive financial planning considers the entirety of your financial life. Your assets, your liabilities, your taxes, your income, your business – these aspects of your financial life are never isolated from each other. Occasionally or frequently, they interrelate. Comprehensive financial planning recognizes this interrelation and takes a systematic, integrated approach toward improving your financial situation.

Comprehensive financial planning is long-range. It presents a strategy for the accumulation, maintenance and eventual distribution of your wealth, in a written plan to be implemented and fine-tuned over time.

What makes this kind of planning so necessary? If you aim to build and preserve wealth, you must play "defense" as well as "offense." Too many people see building wealth only in terms of investing – you invest, you "make money," and that is how you become rich.

That is only a small part of the story. The rich carefully plan to minimize their taxes and debts, and adjust their wealth accumulation and wealth preservation tactics in accordance with their personal risk tolerance and changing market climates.



Basing decisions on a plan prevents destructive behaviors when markets turn unstable. Impulsive decision-making is what leads many investors to buy high and sell low. Buying and selling in reaction to short-term volatility is a day trading mentality. On the whole, investors lose ground by buying and selling too actively. The Boston-based investment research firm Dalbar found that from 1994-2013, the average retail investor earned 5% a year compared to the 9% average return for U.S. equities – and chasing the return would be a major reason for that difference. A comprehensive financial plan – and its long-range vision – helps to discourage this sort of behavior. At the same time, the plan – and the financial professional(s) who helped create it – can encourage the investor to stay the course.[1]

A comprehensive financial plan is a collaboration & results in an ongoing relationship. Since the plan is goal-based and values-rooted, both the investor and the financial professional involved have spent considerable time on its articulation. There are shared responsibilities between them. Trust strengthens as they live up to and follow through on those responsibilities. That continuing engagement promotes commitment and a view of success.

Think of a comprehensive financial plan as your compass. Accordingly, the financial professional who works with you to craft and refine the plan can serve as your navigator on the journey toward your goals.

The plan provides not only direction, but also an integrated strategy to try and better your overall financial life over time. As the years go by, this approach may do more than "make money" for you – it may help you to build and retain lifelong wealth.

"On the whole, investors lose ground by buying and selling too actively."

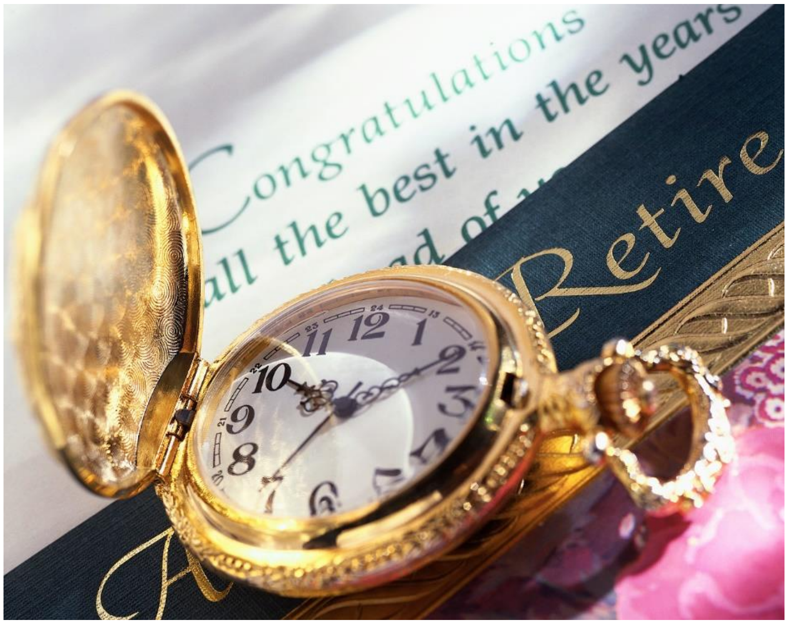
Tax Efficiency in Retirement

How much attention do you pay to this factor?

Will you pay higher taxes in retirement? Do you have a lot of money in a 401(k) or a traditional IRA? If so, you may receive significant retirement income. Those income distributions, however, will be taxed at the usual rate. If you have saved and invested well, you may end up retiring at your current marginal tax rate or even a higher one. The jump in income alone resulting from a Required Minimum Distribution could push you into a higher tax bracket.

While retirees with lower incomes may rely on Social Security as their prime income source, they may pay comparatively less income tax than you will in retirement – because up to half of their Social Security benefits won't be counted as taxable income.[1]

Given these possibilities, affluent investors would do well to study the tax efficiency of their portfolios as some investments are not particularly tax-efficient. Both pre-tax and after-tax investments have potential advantages.



What's a pre-tax investment? Traditional IRAs and 401(k)s are classic examples of pre-tax investments. You can put off paying taxes on the contributions you make to these accounts and the earnings these accounts generate. When you take money out of these accounts come retirement, you will pay taxes on the withdrawal.[2]

Pre-tax investments are also called tax-deferred investments, as the invested assets can benefit from tax-deferred growth.

What's an after-tax investment? A Roth IRA is a classic example. When you put money into a Roth IRA during the accumulation phase, contributions aren't tax-deductible. As a trade-off, you don't pay taxes on the withdrawals from that Roth IRA (as long as the withdrawals are considered qualified). Thanks to these tax-free withdrawals, your total taxable retirement income is not as high as it would be otherwise.[2]

As everyone would like to pay less income tax in retirement, the tax-free withdrawals from Roth IRAs are very appealing. Given the huge federal deficit, the pressure is on to raise tax rates in the coming years – and in that light, after-tax investments look even more attractive.

It is also possible to convert a traditional IRA to a Roth IRA, so many investors are considering paying taxes on a Roth conversion today in order to get tax-free growth tomorrow.

"... many investors are considering paying taxes on a Roth conversion today in order to get tax-free growth tomorrow."

Certain tax years can prove optimal for a Roth conversion. If a high-income taxpayer is laid off for most of a year, closes down a business or suffers net operating losses, sells rental property at a loss or claims major deductions and exemptions associated with charitable contributions, casualty losses or medical costs ... he or she might end up in the lowest bracket, or even with a negative taxable income. In circumstances like these, a Roth conversion may be a good idea.

Should you have both a traditional IRA and a Roth IRA? It may seem redundant, but it could actually help you manage your marginal tax rate. It gives you an option to vary the amount and source of your IRA distributions in light of whether tax rates have increased or decreased.

Smart moves can help you reduce your taxable income & taxable estate. An emphasis on long-term capital gains may help, as they aren't taxed as severely as short-term capital gains (which are taxed at the same rate as ordinary income). Tax loss harvesting (selling the "losers" in your portfolio to offset the "winners") can bring immediate tax savings and possibly help to position you for better long-term after-tax returns.

If you're making a charitable gift, giving appreciated securities you have held for at least a year may be better than giving cash. In addition to a potential tax deduction for the fair market value of the asset, the charity can sell the stock without triggering capital gains. If you're reluctant to donate shares of your portfolio's biggest winner, consider this: you could donate the shares, then buy more of that stock and get a step-up in cost basis as a consequence.[3]

The annual gift tax exclusion gives you a way to remove assets from your taxable estate. In 2016, you can gift up to $14,000 to as many individuals as you wish without paying federal gift tax. If you have 11 grandkids, you could give them $14,000 each – that's $154,000 out of your estate. The drawback is that you relinquish control over those dollars or assets.[4]

Are you striving for greater tax efficiency? In retirement, it is especially important – and worth a discussion. A few financial adjustments could help you lessen your tax liabilities.

Life Insurance with Long Term Care Riders

As conventional LTC policies grow costlier, alternatives have emerged.

The price of long term care insurance is really going up. If you are a baby boomer and you have kept your eye on it for a few years, chances are you have noticed much costlier premiums for LTC coverage today compared to several years ago. For example, in 2015 the American Association for Long-Term Care Insurance found that married 60-year-olds would pay $2,170 annually to get a total of $328,000 of coverage.[1]

As CNBC notes, about three-quarters of the insurers that sold LTC policies ten years ago have stopped doing so. Demand for LTC coverage will only grow as more baby boomers retire – and in light of that, insurance providers have introduced new options for those who want to LTC coverage.[1]

Hybrid LTC products have emerged. Some insurers are structuring "cash rich" whole life insurance policies so you can tap part of the death benefit while living to pay for long term care. You can use up to $330 a day of the death benefit under such policies, with no reduction to the cash value. Other insurance products are being marketed featuring similar potential benefits.[2]

This option often costs a few hundred dollars more per year – not bad given that level annual premiums on a whole life policy with a half-million or million-dollar payout often come to several thousand dollars. The policyholder becomes eligible for the LTC coverage when he or she is judged to require assistance with two or more of six daily living activities (dressing, bathing, eating, etc.) or is diagnosed with Alzheimer's disease or some other kind of cognitive deficiency.[2]

This way, you can get what you want from one insurance policy rather than having to pay for two. Contrast that with a situation in which you buy a discrete LTC policy but die without requiring any long term care, with the premiums on that policy paid for nothing.

The basics of securing LTC coverage applies to these policies. As with a standard LTC policy, the earlier you start paying premiums for one of these hybrid insurance products, the lower the premiums will likely be. You must pass medical underwriting to qualify for coverage. The encouraging news here is that some people who are not healthy enough to qualify for a standalone LTC insurance policy may qualify for a hybrid policy.[3]

Are these hybrid policies just mediocre compromises? They have detractors as well as fans, and the detractors cite the fact that a standalone LTC policy generally offers greater LTC coverage per premium dollar paid than a hybrid policy. They also cite their two sets of fees, per their two forms of insurance coverage. While it is possible to deduct the cost of premiums paid on a conventional LTC policy, hybrid policies allow no such opportunity.[3]

"The earlier you start paying premiums for one of these … the lower the premiums will likely be."

Paying a lump sum premium at the inauguration of the policy has both an upside and a downside. You will not contend with potential premium increases over time, as owners of stock LTC policies often do; on the other hand, the return on the insurance product may be locked into today's (minimal) interest rates.

Another reality is that many middle-class seniors have little or no need to go out and buy a life insurance policy. Their heirs will not face inheritance taxes, because their estates aren't large enough to exceed the federal estate tax exemption. Moreover, their children may be adults and financially stable themselves; a large death benefit for these heirs is nice, but the opportunity cost of paying the life insurance premiums may be significant.[4]

Cash value life insurance can be a crucial element in estate planning for those with large or complex estates, however – and if some of its death benefit can be directed toward long term care for the policyholder, it may prove even more useful than commonly assumed.

Charitable Lead Trusts

How they work, how they may help you reduce taxes.

Are you concerned about the inheritance taxes your heirs may have to pay? Then you may want to consider creating a charitable lead trust.

A charitable lead trust is the inverse of a charitable remainder trust. While a CRT is structured to provide income to the trust beneficiaries and an eventual charitable donation, a CLT provides a charitable gift at its implementation plus the possibility of eventual income to your heirs.[1]

A CLT may provide an estate tax solution for a highly appreciated asset. As a hypothetical example, a multi-millionaire named Scott owns $1 million of greatly appreciated blue-chip stock. He wants to reduce the value of his taxable estate; he does not want to burden his heirs with death taxes. He would also like to make a major gift to a local charity. So Scott collaborates with an estate planning attorney to draw up and implement a CLT.

By gifting the highly appreciated stock to the charity using a CLT with a term of 20 years, Scott creates an income stream for the charity with significant tax benefits as a byproduct. Income payments to the charity will be made in 20 yearly installments of $50,000 from the trust principal. After either 20 years or Scott's death, his heirs will receive the interest off of the initial CLT principal (i.e., the appreciation on those shares across 20 years) while the actual shares will go to the charity.[1]

In donating the stock through the CLT, Scott is eligible to take an upfront income tax deduction for the full value of the charitable donation. He receives a gift and estate tax break equivalent to what would happen if he simply wrote a $1 million check to the charity, while also offering a potential financial benefit to his heirs.[2]

All CLTs are irrevocable, and there are different varieties of them. Here is a brief breakdown of their variations, and their characteristics.[2]

***CLTs can be created either before one's death or at one's death.** In an *inter vivos* CLT, the grantor (i.e., donor) relinquishes ownership of the asset(s) to the trust while alive. Asset(s) transfer into a *testamentary* CLT only upon the death of the grantor. An executor to a testamentary CLT can fund that CLT with assets equaling any inheritance taxes owed.[1,2]

***Some CLTs are structured to allow further asset contributions during the trust term.** Other CLTs are designed so that no further contributions to the trust are permitted once the trust is active.[1,2]

***Most CLTs are non-grantor trusts.** These CLTs are expressly designed to benefit a charity and the donor's heirs. In a non-grantor CLT (such as the above example), the donor gives away the asset(s) to charity; heirs receive only the interest on the principal at the end of the trust term. You can see the potential downside: if the asset depreciates over the trust term, the heirs receive nothing. In a non-grantor CLT, the donor is able to take an annual income tax deduction on the value of the income that heads to the charity discounted at the federal funds rate.[3,4]

Non-Grantor Trusts:

"These CLTs are expressly designed to benefit a charity and the donor's heirs."

***Other CLTs are grantor trusts.** These CLTs are primarily designed to benefit a charity and the donor. The charity receives income off the trust principal for X years, but the donor will regain ownership of the appreciated asset(s) when the trust term expires. The donor gets to claim an upfront income tax deduction for the gift. In this variation, the donor pays taxes on the income the CLT generates, so it is wise to put tax-exempt investments into a grantor CLT.[3,4]

An IRS formula figures the future value of the donor's gift. The variables here include the annual income the charity will receive, the duration of the CLT and the projected ROI for the trust asset(s). The IRS determines the ROI using an interest rate (the "hurdle" rate) based on Treasury yields. Non-charitable beneficiaries of the CLT are projected to receive the value of the trust assets at the end of the trust term minus the value of the initial gift. This amount will be exposed to estate taxes, but in many cases it will be far less than the generous estate tax exemption.[2]

CLTs allow you to pursue three estate planning objectives. If you want to make a sizable charitable gift, help your heirs and reduce taxes, you may want to explore creating one.

If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us

Citations:

Comprehensive Financial Planning: What It Is, Why It Matters

1 - fool.com/investing/general/2015/03/22/3-common-mistakes-that-cost-investors-dearly.aspx [3/22/15]

Tax Efficiency in Retirement

1 - ssa.gov/planners/taxes.htm [2/23/15]

2 - denverpost.com/business/ci_27383286/ira-vs-401-k-which-is-better [1/25/15]

3 - desmoinesregister.com/story/money/business/2014/11/01/jim-sandager-donate-shares-directly-charities/18304273/ [11/1/14]

4 - accountingweb.com/article/how-make-most-federal-annual-gift-tax-exclusion/224201 [12/18/14]

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59½ may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

Life Insurance with Long Term Care Riders

1 - cnbc.com/2015/08/07/fer-more-products-that-cover-long-term-care-costs.html [8/7/15]

2 - consumerreports.org/cro/news/2015/04/get-long-term-care-from-whole-life-insurance/index.htm [4/16/15]

3 - tinyurl.com/o3ty2j3 [5/4/14]

4 - marketwatch.com/story/hedging-your-bets-on-long-term-care-2013-11-06 [11/6/13]

Riders are additional guarantee options that are available to an annuity or life insurance contract holder. While some riders are part of an existing contract, many others may carry additional fees, charges and restrictions, and the policy holder should review their contract carefully before purchasing. Guarantees are based on the claims paying ability of the issuing insurance company.

Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details.

Charitable Lead Trusts

1 - finance.zacks.com/charitable-lead-trust-work-7556.html [10/8/15]

2 - nolo.com/legal-encyclopedia/charitable-lead-trusts.html [10/8/15]

3 - thinkadvisor.com/2015/09/25/now-is-the-time-for-charitable-lead-trusts [9/25/15]

4 - bbt.com/bbtdotcom/wealth/retirement-and-planning/trusts-and-estates/charitable-lead-trusts.page [10/9/15]

LPL Financial Representatives offer access to Trust Services through The Private Trust Company N.A., an affiliate of LPL Financial

Edward R. Doughty, CFP® of Epic Capital Wealth Management is a Registered Representative with and, securities are offered through, LPL Financial a Registered Investment Advisor, Member FINRA/SIPC. This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates MarketingPro, Inc. is not affiliated with any broker or brokerage firm that may be providing this information to you. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. All indices are unmanaged and are not illustrative of any particular investment.

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice.

Questions, comments, and inquiries are welcome: info@EpicCapital.com

Visit us on the web at www.EpicCapital.com

EPIC CAPITAL
WEALTH MANAGEMENT
6135 Park South Drive – Suite 130
Charlotte, NC 28210