CURRAN VIEWS

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Why Are We Not All Wealthy?

by Thomas Curran

I remember many years ago when I was in college pondering the question, "Why are we not all wealthy?"

During my freshman and sophomore years I lived at home and commuted to Drexel University where I was enrolled in a hybrid engineering and business studies program. I transferred to Temple University with a full scholarship and a major in Political Science. Upon marrying Peggy the same week we graduated, I was accepted to The Wharton School's graduate program. For five years I worked around my class schedule at a dairy loading their trailers.

It was during my late college years and early working years I realized that becoming wealthy required more than making a lot of money. It became very clear to me that having a big income did not make a person wealthy.

In those days I dreamed of becoming a millionaire. I actually calculated and planned a strategy that would allow me to accomplish the goal at about age 65. Keep in mind when I graduated and got married my first job paid about $7,800 annually, while Peggy earned about $5,400 as a teacher. I always assumed a return of about 5%. It seemed that a million dollars, in my mind, truly made me rich because I was only making $7,800 and 5% of $1,000,000 would be $50,000. $50,000 would have paid for my first home, our two cars (one of which was used) and lots more. That would make me wealthy. Little did I realize that $1,000,000 then would not buy very much when I was 65.

For most of us, building wealth requires a lifetime of commitment and discipline. It is far too easy to assign higher priorities to more pressing daily issues and wants that seem to be more important than financial security in our retirement. After all, we have years to prepare for retirement, so the immediate needs of creating a home and educating the children take precedence.

There lies a distinct difference between earnings and wealth. Can a person make a fortune in earnings and not be wealthy? Of course and many frequently do.

Most people become wealthy over many years. It may seem slow and arduous. It takes large doses of patience and the ability to deal with frequent failures. It requires disciplined investment and controlled spending.

I recently drew an interesting parallel between building wealth and gaining weight. It may seem like an unusual connection to make, but time is a common variable in both weight gain and financial security. For most of us, weight gain is gradual. It is not an overnight occurrence. Much like weight gain, building "financial weight" takes place over many years as well.

For many, like me, weight gain leads to dieting which is trying. While some may experience success through traditional dieting, others create unrealistic expectations for immediate weight loss. Frustration sets in when our desired result is not achieved in the short-term and we easily fall back to our old habits. Then there those of us who have been pleased at the short-term success of losing weight, only to resume our old habits, resulting in regaining those stubborn lost pounds.

I began to wonder what would happen if the gradual approach to weight loss was as acceptable as the gradual weight gain. My guess was it would breed success because healthy eating would naturally result in weight loss over a much longer time span. In short, improved health would have to be its own reward because it sure would not be very much fun all by itself. Similarly, self-earned financial security can only be realistically achieved over many years.

Many short-term surges in saving/investment are like short-term weight loss. The dollars saved and invested are not retained because they are earmarked for cars, clothes and frivolous purchases. Likewise, dieters who lose weight quickly resort to old eating habits.

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Americans are trying to save more?

- 53% of households say they save 5% of their income.
- 28% of households said they save 10% of their income.
- 57% said they weren't saving enough for a retirement with a "desirable standard of living."

(Source: American Savings Education Council study, February 2008)

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The important message is eating healthy doesn't mean not eating, but rather eating wisely. The same is true in spending as in consumption: Do it wisely! The result is obviously healthier bodies and healthier finances.

We choose to maximize feeling good now when it almost always significantly impacts our future and what we may expect. I believe we all recognize how we are influenced to act impulsively with our spending and diet even though we understand it is not best for us. But, at what cost?

The same is true in spending as in consumption: Do it wisely!

If what we desire for ourselves and our families is to be able to carry on financially, what is it that allows us to think we can carry on financially through retirement for as many as 20 to 30 years without making major changes in the way we spend and invest during our working years? Perhaps it is because we are faced with uncertainty in how to prepare given the following:

- The increased likelihood we will live well beyond 65 and the financial issues retirement presents.
- Uncertainty around building significant nest-eggs to last 20 to 30 years.
- Providing retirement income for ourselves without a guaranteed defined benefit retirement plan like those enjoyed by our parents and grandparents.
- Unwillingness to accept risk associated with strategies to make our wealth last over our lifetimes.

All of us agree that retirement income and benefits (Social Security, Medicare, etc.) are not likely to exceed our working salaries and benefits. For those of us who receive retirement income and benefits that equal those we enjoyed while working, I maintain, you are indeed wealthy.

Practical wealth must be individually defined and varies from person to person and family to family. Financial security begins with a net worth which provides enough income to allow a person or family to live comfortably in a given lifestyle absent from the prospect of running out of money.

On the other hand, statistically, the government defines wealth in macro terms that simply takes the highest percentage of people in terms of income and assumes they are wealthy by reason they have the highest incomes. But practically speaking, wealth is net worth. To make this point clear, ask yourself this question: If you were not able to work another day in your life, do you have the resources to maintain your lifestyle? If the answer is yes, you are wealthy in spite of the fact that you may or may not be statistically among the wealthiest in terms of income.

It is true that income provides many with a wealthy lifestyle, but it is not true wealth. It is income. True wealth is what remains when the income producing profession or occupation ends. Financial security is not a job. For most of us a job is our primary means to create wealth. In retirement, true wealth is financial security.

To make this as simple as possible and yet real in terms of maintaining or achieving financial security through wealth, consider the following:

Cash withdrawals to provide retirement income should not be assumed to be more than 5%. Those younger must expect to withdraw less annually and those older may expect to be able to withdrawal more as life expectancies decrease.

In the early years of retirement generous allowances must be provided to offset inflation. Extraordinary withdrawals for any purpose other than investment must be analyzed for their impact on future income. The negative impact of withdrawals is especially important to consider in the early years of retirement.

For each $50,000 of income for the typical 65 year old retiree, it takes $1,000,000 of wealth to support and maintain net worth throughout retirement. Higher withdrawal rates will negatively impact net worth and significantly increase probabilities for running out of money. With higher withdrawal rates, net worth is diminished and potentially reduced to zero. All strategies requiring higher withdrawal rates must be carefully analyzed to determine their consequences on future income.

Remember if inflation is 4% in the first year of retirement, a dollar is reduced to the equivalent of 96 cents. $1,000,000 is reduced to the equivalent of $960,000. $50,000 income is reduced to $48,000. For the person who can comfortably live within their means on $50,000 in addition to other retirement income to include Social Security, they are indeed wealthy. For someone who can live on less, they are truly wealthy.

However, the high income earning professional needs far more wealth to support a high income lifestyle in retirement. That is why, in my opinion, the definition of wealth is dependent on the individual and not government statistics.

I believe the most important service we can provide to our clients is the knowledge of prudent investing and spending.

I can argue that even those who are truly wealthy go on diets to "trim" their spending. For me it means anything from sending in a $2.50 rebate form, to regularly measuring net worth and expenditures. There is nothing more important than helping our clients be good stewards for their financial well-being. To do so, we must invest wisely for your benefit. We must plan well for the distribution of your wealth over your lifetimes and for the legacy you wish to leave behind.

Understanding Probate

by Esther Palmer-Rathbun

Probate is the court supervised process in which title to property is transferred from a decedent to the decedent's beneficiaries who are identified in the Will, or in the law of intestate succession which governs if an individual dies without a Will.

During a probate proceeding, the Will is proved to the satisfaction of the court to be the Last Will and Testament of the decedent. The person named in the Will as Executor or Personal Representative is appointed to carry out the wishes of the decedent. Jurisdiction is obtained over all interested parties who are given an opportunity to oppose the Will prior to its admission to probate. The court ensures that the debts of the decedent are paid, and in some states requires that notice of probate be given to his or her creditors.

A probate proceeding is filed with the Surrogate's Court in the county where the decedent was domiciled prior to his or her death. Documents which must be filed include the original Will, death certificate and probate petition.

Distributees must execute waivers or be served citations. A distributee is any person entitled to take or share in the property of a decedent under the law governing descent and distribution. For example, in New York State a child or an adopted child is a distributee. Distributees are not necessarily named in a Will. In addition, notice of probate is sent to beneficiaries under a Will who are not distributees.

A complete inventory of the decedent's assets must be filed with the court. The list should summarize all assets including those that pass outside the probate process by operation of law or otherwise. Although a non-probate asset is not collected or administered by the Executor or Personal Representative, it may be subject to estate tax, depending upon the terms of the Will.

An informal or small estate procedure is available in many states. In New York State this can be used when a fiduciary is needed to transfer estate assets of personal property with a value of $20,000 or less. It is not available for the transfer of interests in real property. Unlike the inventory listing subject to a formal proceeding, the value of the total assets does not include assets which may have passed outside of the estate, or non-probate assets.

Probate assets include assets owned individually by a decedent, a decedent's share of assets owned as a Tenant in Common, life insurance, annuities and retirement assets with the estate as the named beneficiary. Without beneficiary designations or in the case of a deceased beneficiary, the estate becomes the default beneficiary.

Non-probate assets include assets owned jointly with the right of survivorship, life insurance, annuities and retirement assets with valid beneficiary designations, other than the estate. In addition, bank accounts and other assets with Payable On Death (POD), In Trust For (ITF) designations, securities or security accounts to be Transferred On Death (TOD) and assets held in Trust if the document includes a plan for distribution after death, are non-probate assets.

The major disadvantages of probate are the length of time involved and the expenses of the process. Typically, probate can take several months to one year or longer if disputes among heirs arise, minor beneficiaries are involved, or an estate is insolvent or is owed money by a third party. The expenses may include court fees, legal fees, Executor commissions, appraisal fees and accounting fees.

Court fees are fixed or variable and differ from state to state. Commissions are

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usually allowed at a statutory rate unless they are waived by the Executor. In some states legal fees may be a percentage of the estate, in others, they may be limited to flat or hourly rates for the actual services rendered. Complications such as real property located in another state (ancillary probate) and disagreements among beneficiaries usually result in higher legal costs.

Other disadvantages are that matters of probate result in an inherent lack of control by family members and lack privacy, as they are part of the public record. In addition, many estates simply do not need third party oversight, particularly if there is no beneficiary malcontent, or debtor/creditor problems.

Despite the above mentioned disadvantages, the probate process also has many advantages. This should be taken into consideration when contemplating various available estate planning techniques and beneficiary designations. Probate provides the benefits of a neutral third person in the form of a Judge who can protect the heirs and supervise the process according to law, making sure that an orderly and valid transfer of assets occurs. Disputes which may arise among the various parties are settled by the Court under well defined rules. In addition, a decedent's creditors have a fixed period of time dictated by state law in which to present debts and claims to the Court. Creditors who file or attempt to collect a debt from an estate after the specified period can proceed against any estate assets remaining in the hands of the Executor or Personal Representative. However, if the entire estate has been distributed in good faith, the Executor or Personal Representative is released from personal liability.

Good estate planning is more than deciding "who gets what" under a Will. An estate plan should also provide a sense of security that one's wishes will be accomplished in the face of many future contingencies with or without the prospect of Court supervision.

The titling of all property should be reviewed in order to determine how it will pass to the desired beneficiaries. A Will controls the disposition of probate assets only, and should be analyzed carefully along with every other aspect of the plan.

We are committed to working with you and your attorneys on all matters of estate planning in order to help to facilitate the process.

The information herein is considered to be obtained from reference sources deemed reliable. No one connected with CIM, LLC or CIMAS, LLC can ensure tax consequences of any transaction. We are not in the business of providing legal or tax advice. We encourage you to consult with your legal and tax professionals regarding specific legal and/or tax implications. These suggestions are intended for your use in arriving at a reasonable, fully explained investment decision and not as a compilation of the only possible investment vehicles and modes.

CURRAN Welcomes Anne Riley

Curran Investment Management is pleased to welcome **Anne Riley** to our firm as a Relationship Manager. Anne brings over six years of experience in meeting clients' financial needs. Most recently, she was a Financial Advisor with Bank of America where she provided financial solutions and planning advice. She also was a Registered Representative with New York Life Insurance Company where she worked with clients on issues relating to life insurance, estate planning and long-term care.

Anne holds a degree from Syracuse University and is scheduled to receive her Certified Financial Planner (CFP) designation in the Fall of 2008. We are happy to have Anne as part of our team of professionals.

Did You Miss Our Conference Calls?

If you were unable to join us for our 2008 Investment Committee Conference Call on February 7th, or our Estate Planning Conference Call on February 27th, you can still benefit from our recordings.

Go to our website at **www.curranllc.com** and click onto **Media** and you may choose from:

- **"Building A Legacy: Understanding Estate Planning, Wills and Trusts"** a conference call that features Deborah Kearns, Senior Associate Attorney, Lavelle & Finn LLP.
- **Investment Outlook 2008 Conference Call** featuring Thomas Curran and Ernie Ankrim, Chief Investment Strategist, Russell Investment Group.