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ISABELLA BANK

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Women and money

Are the sexes different when it comes to financial management?

One enduring theme of the last half-century is that stereotypes about "women's work" and "men's work" generally are unproductive. The sexes have equal intellectual capacities, and associating gender with occupation is particularly unhelpful, both for individuals seeking to make the most of their talents and for society at large.

One naturally might assume that today's financial and investment guides would be addressed to both sexes on equal terms. That assumption, though generally correct, has its exceptions. A visit to the local library or the personal finance section of any bookstore will reveal a variety of titles aimed specifically at women. This is mostly savvy marketing, but there may be a grain of truth to the idea that men and women approach money management issues differently.

Special roadblocks

A recurring theme of these books is that a great many successful, professional women are, almost inexplicably, not doing a very good job with their personal finances. They seem to have some hidden factor that prevents them from taking control of this key element of their lives. It could be fear of the unknown. Others could be rebelling against being stretched too thin, asked to fulfill too many disparate roles in the home and workplace. Then there is the phenomenon of letting things get so far out of hand that one is embarrassed to ask for help and reveal just how much one doesn't know. That can be particularly painful for one who is otherwise successful.

The hardest part of financial planning is *getting started*. Financial self-help books offer readers (men as well as women) an engaging way to get over that first hurdle. They are a starting point, not a solution.

Investing

According to serious academic research, women *do* make better investors than men. This empirical obser-

vation was made by two finance professors, Brad M. Barber and Terrance Odean, in their article, "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investments."

The professors were granted access to the trading records of a large discount brokerage firm. Over a six-year period in the mid-1990s, they discovered that:

- Men trade 45% more than women do.

- Excessive trading leads to excessive costs, which are not offset by higher returns. Trading reduced net return for the men by 2.65 percentage points, and their lesser trading volume reduced women's net returns by only 1.72 percentage points.

- Single men trade 67% more than single women do, reducing their returns by 1.44 percentage points more than the returns of the ladies.

What accounts for the relatively poorer showing of the men? Overconfidence is the most likely culprit, the professors theorize. Overconfidence leads to both excessive trading volume and poor stock selection. A second fact may be fear of regret, which causes investors to hold on to their losers longer than they should. Both sexes were guilty of trading more than necessary, in the professors' opinion, and both sexes were guilty of being underdiversified.

Although the men may have had their deficiencies, there were many more men in the study than women. Among singles, men outnumber women by three to one, and in the married couples, the men handled the investing by over four to one.

Get trusted professional help

How does one choose a financial or investment advisor? First, find someone who listens. You don't want to be herded into a pre-packaged investment "solution." You need a plan tailored to your individual resources and requirements.

Experience is important, as are credentials and training. We recommend employing a team approach, as occurs with our trust department. When you turn to an institution such as ours, you have continuous availability and supervision of your account.

The compensation plan is also important. We are compensated on a fee basis for our investment advice and management, based upon the size of the client portfolio in our care. We do not get commissions from trading; we have no hidden sales agendas. Our compensation puts us on the same side as the client; our fees don't go up unless the client prospers.

If you would like to learn more about our services for affluent women (and men), please make an appointment to meet with one of our officers at your convenience. ☐

Three "must-have" documents

Whether she is married or single, every woman needs to have three legal documents that direct the disposition of her property and provide for the possibility of incapacity. These documents are:

- a will;

- an advance directive and durable power of attorney for health care; and

- a revocable living trust.

The will disposes of your property at death. The advance directive for health care will be important if you develop an illness that prevents you from communicating your wishes. What about the living trust?

Of all the must-have documents, a revocable living trust is the most powerful, for, if set up correctly, it can take care of everything for you, both while you are alive and after your death,. The most important benefit is having someone with the legal authority to manage financial affairs upon the trustor's incapacity. Next most important: avoiding the costs and delays of probate. These can dwarf the costs associated with setting up a living trust.

Another thing to consider for affluent women: The living trust creates a zone of financial privacy. The terms of the trust are not normally made public, the way that the terms of a will necessarily are. Therefore, the size of the estate, the composition of the assets and, most importantly, the identity of the beneficiaries may be hidden from public view.

Who will be your trustee? We advocate using a corporate fiduciary, such as ourselves, for the very important job of trusteeship. That way having a living trust will provide yet another valuable benefit: freedom from investment management worries.

We bring to the important job of trusteeship experience, impartiality, availability and accountability. We'd be pleased to tell you more about why these attributes are so important for a trustee. Just ask to speak with one of our trust officers!

Q&A What women need to know about estate planning

Because they live longer than men, women are more likely during their lives to have the experience of being an estate beneficiary. They also need estate plans of their own.

Who needs to have an estate plan?

Everyone who owns property needs to make arrangements for its disposition. Those who fail to take action have delegated their choices to the government, because the law of intestacy will take over for them.

How is property passed at death?

Property distribution is supervised by a probate court, which is charged with implementing the plan outlined in a decedent's last will and testament. However, property also passes outside the control of the probate court. The example most people think of is life insurance proceeds, as they typically are paid directly to the named beneficiary. Retirement accounts, such as IRAs and 401(k)s, also normally will have a survivor named to receive the balance left when an account owner dies.

Finally, property that is owned jointly will pass automatically to the surviving owner.

Do married couples need to worry about death taxes?

Many couples do need to plan for death taxes, although some very basic planning will excuse the vast majority of estates from taxation.

In 2009, only estates larger than $3.5 million are hit by the federal estate tax. The law for 2010 and later years is unsettled as of this writing, but the leading proposal is to freeze that exemption for future years.

For larger estates, everything that passes to a surviving spouse gets the benefit of an unlimited marital deduction from the federal estate tax. (The main exception occurs when the surviving spouse is not a U.S. citizen, in which case the marital deduction is unlimited only for property passing to a Qualified Domestic Trust.) Thus, estate tax can be avoided completely when there is a surviving spouse, no matter how large the estate.

However, the couple probably should give consideration to death taxes when the survivor dies. The exempt amount of $3.5 million may be doubled, to $7.0 million, for a married couple with some very basic trust planning.

One more caveat is necessary. Some states have "decoupled" their estate or inheritance taxes from the federal rules—for example, some allow only the first $1 million to be exempt from death tax. Planning for married couples in these states is especially complicated, because taking the full marital deduction when the first spouse dies may not be the best approach for long-term protection of the family fortune. See your tax advisor to learn more.

Is a trust needed to get the marital deduction?

No, the marital deduction is allowed for property that a spouse receives outright, as well as for a marital deduction trust.

Then why have a trust?

Trusts offer a wide range of benefits, from professional asset management to financial protection in the event of incapacity.

To be qualified for the marital deduction, a trust must pay all of its income to the surviving spouse at least annually. In many cases, the surviving spouse also may control the ultimate disposition of trust assets through provisions in his or her will.

What is a QTIP trust?

A Qualified Terminable Interest Property (QTIP) trust is a type of marital trust in which the survivor does not control final distribution of trust assets. In a second marriage situation, for example, a husband may want to provide for his second wife for her life, but he may want the remainder interest in the trust to go to the children of his first marriage at her death. A marital deduction is available for a QTIP trust on an elective basis.

Who should settle my estate?

We encourage you to consider employing a corporate fiduciary, such as us, for settling your estate. We are well-versed in all the procedures and requirements, and we are fully staffed to manage the process. What's more, our compensation is no greater than that to which an amateur executor is entitled. To learn more about our capabilities in this area, please arrange to meet with one of our officers at your convenience. ☐

The IRS' "Dirty Dozen"

No one likes paying taxes, and no one wants to pay more than is legally required. However, in their quest for do-it-yourself tax relief, some taxpayers have been taken in by criminals. The Internal Revenue Service now has highlighted the 12 most notorious of these scams. IRS Commissioner Doug Shulman says: "There is no secret trick that can eliminate a person's tax obligations. People should be wary of anyone peddling any of these scams."

Phishing. Internet-based scam artists trick unsuspecting victims into revealing personal or financial information. Bank impersonation is one common tactic, but pretending to be from the IRS now has become popular. Taxpayers should know that the IRS *never* initiates unsolicited e-mail contact with taxpayers about their tax issues. Taxpayers who receive unsolicited e-mails that claim to be from the IRS can forward the message to phishing@irs.gov. To date, taxpayers have forwarded scam e-mails reflecting thousands of confirmed IRS phishing sites.

Hiding Income Offshore. The IRS is stepping up efforts to find offshore accounts. Even Swiss bank accounts may no longer be secret.

Abuse of Charitable Organizations and Deductions. There is nothing wrong with tax-conscious philanthropy. However, only bona fide charitable gifts are entitled to favorable tax treatment. IRS is focusing on schemes involving the donation of non-cash assets, including easements on property, closely held corporate stock and real property. Often, the donations are highly overvalued, or the organization receiving the donation promises that the donor can purchase the items back at a later date at a price the donor sets. That's not going to work.

Frivolous Arguments. The IRS has a list of frivolous legal positions that taxpayers should stay away from. Taxpayers who file a tax return or make a submission based on one of the positions on the list are subject to a $5,000 penalty.

Abusive Retirement Plans. These may involve strategies to get around the contribution limits or to avoid proper taxation of premature distributions.

Misuse of Trusts. This one troubles us the most, as it is also an assault on our business. There are many legitimate, valid uses of trusts in tax and estate planning. Big income tax savings are not normally one of the benefits, however. The IRS has seen a spike in private annuity trusts and foreign trusts, and will deal with these. Rounding out the IRS' list are: filing false or misleading forms; return preparer fraud; false claims for refunds and requests for abatement; disguised corporate ownership; zero wages; and fuel tax credit scams.

Suspected tax fraud should be reported to the IRS using Form 3949-A, Information Referral. ☐