



STRAIGHTEN UP



“You cannot teach a crab to walk straight.”

—Aristophanes

The natural state of things is probably just a bit crooked - picture leaning palm trees on a beach or a rose bush reaching for sunlight. Plants, trees, and rivers are seldom, if ever, perfectly straight. My son's teeth as a little boy also come to mind.

But to protect your loved ones, getting asset titling and beneficiary designations straight and balanced is financially and emotionally rewarding.

Improper asset titling is more common than you think. We often see a parent name one adult child - typically the one who lives closest - as a joint tenant on the parent's brokerage account. The unintended consequence of such a seemingly innocent titling decision is that the child may well inherit the entire brokerage account at the passing of the parent.

An almost frightening occurrence is to discover investment real estate - commercial or residential - owned in a client's individual name. This is akin to playing Russian roulette with your entire balance sheet.

Why? Because one accident or fire can lead to catastrophic damages and liability infecting the property owner's other assets. (My "favorite" case involved a landlord found liable for a fire caused by a tenant who passed out on her futon couch while smoking a cigarette.)

Similarly, tremendous tax savings can be achieved if low tax-basis assets are owned by the spouse with the shorter life expectancy. Correspondingly, it may be wise to title high tax-basis assets in the name of the spouse with the longer life expectancy. This is important as there can actually be a step down in tax basis (a bad thing!) if a person passes away owning assets that are worth less than the person's tax basis in those assets.

Retirement accounts and life insurance policies are common culprits. In fairness, it is easy to confuse who should be the beneficiary and contingent beneficiary on these assets. The rules vary depending on age, health,

the ages of beneficiaries, wealth, personal liability concerns, and charitable intent. Beneficiary designations become especially relevant following a divorce. If a former spouse remains the named beneficiary of a life insurance policy or retirement account, the designation may be enforceable, even if unintended.

Aside from the financial detriments, misaligned asset titling and beneficiary designations cause unnecessary emotional angst among family members. There can be hardship, and even litigation, when assets transfer in a haphazard way and tax liabilities are paid unfairly.

These designations are not just "set-it-and-forget-it." A review of how your assets are titled and your beneficiaries are designated is important. Once done, it should be re-examined periodically.

Like orthodontic braces, the effort to straighten your asset titling and beneficiary designations may be momentarily inconvenient. However, the long-term benefits are worth the effort and will make you smile.

Before



After

