

# CURRENT COMMENT

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Peter Komsiski, JD - Advanced Markets Online Senior Legal Editor

Evan Garrapy, JD - Advanced Markets Online Legal Editor

## The Big Bang Theory

*"While physics and mathematics may tell us how the universe began, they are not much use in predicting human behavior because there are far too many equations to solve..."*  
- Stephen Hawking<sup>1</sup>

Today, when someone mentions the Big Bang Theory, chances are they're talking about the popular sitcom. The show's title, of course, refers to a theory of how the universe began—a subject of long-running debate among scientists. Throughout the years, many cosmologists, astronomers, and theoretical physicists believed that our universe was unchanging—until Edwin Hubble discovered that the universe is expanding.

The Steady State theory held that despite expansion, the universe didn't have a beginning. Stephen Hawking thought otherwise. Hawking, together with Roger Penrose, used Einstein's General Theory of Relativity to confirm the idea that the universe had a single point of origin (a "singularity")—a very dense beginning state that then expanded.<sup>2</sup> Each new theory forced people to rethink long-held beliefs on the subject.

In the planning universe, our world is governed not by theory but by societal changes that circumscribe wealth creation and preservation, and of course by Congress. Congress passes laws to raise revenue that will pay for programs our legislature theorizes are in the country's best interests. And our culture continues to evolve—traditional families have joined blended families, digital files turn out to be assets we need to protect, and happily, most of us are living longer. As the world changes, though, it becomes necessary to take a fresh look at planning tools and techniques.

In this issue of *Current Comment*, we take a fresh look at some common planning issues and discuss how you can help clients and prospects meet new challenges by adapting conventional practices to novel situations.

- **Estate Planning: Modern Family**—Planning for the "New Traditional"
- **Estate Planning: CSI Cyber**—Protecting Digital Assets
- **Retirement: Forever**—Understanding Longevity

### Modern Family—Planning for the "New Traditional"

Fifty years ago, *Leave it to Beaver* epitomized the nuclear family—a husband and wife, 2.5 kids and a mortgage. Today, we're closer to *Modern Family*, the story of a family in California that includes stepparents, adoption, a gay marriage, and a May-December interracial couple.

Today the family structure has expanded into what were once unimaginable arrangements—those from the show, as well as unmarried couples (with or without children), blended families, married couples without children, single parents, and more. As they increase in numbers and acceptance, nontraditional families are asking the courts to grant them the same legal legitimacy enjoyed by their "traditional family" counterparts.

Consequently, there is plenty of opportunity for the planning community to engage with all types of families, and to think through traditional planning ideas as they apply to nontraditional families. Let's look at a few examples.

Everyone needs a will. For blended families, updating wills and changing beneficiaries can be a complicated but pressing concern. Couples may procrastinate because they can't agree on how to fairly divide assets among children from prior marriages while still providing for a surviving spouse. If a husband leaves everything to his wife, or a wife leaves everything to her husband, as is common in traditional families, each spouse knows the surviving spouse will be provided for, but they can't be certain how assets will be passed to surviving children from a previous marriage when they die.

Life insurance can play an important role in balancing inheritances in blended families. Buying life insurance to create an inheritance that will provide for the surviving spouse and/or balance the assets other children will inherit can provide parity. More important, life insurance can provide peace of mind, because both spouses will know their surviving children will not be disinherited.

Unmarried parents, whether heterosexual or same-sex couples, do not have the planning advantages accorded to married parents. Unmarried couples must take care in titling assets and in undertaking big purchases (it's easy to inadvertently trigger the gift tax). Health care directives take on greater importance because medical decisions will often fall to a blood relative in the absence of a legally valid marriage. For the same reason, wills are crucial in ensuring that assets go to the desired recipient rather than defaulting to the state intestacy rules, where assets are passed by law to designated relatives. Also, because the estate tax marital deduction is not available to unmarried couples, life insurance plays a key role as an effective way to create estate liquidity and ensure an inheritance for a surviving partner. An irrevocable life insurance trust (ILIT) may help.

Single parents have an even greater need for protection since they are especially vulnerable without a plan in place to provide for their children in the event of death. A will is a necessity, and life insurance protection can ensure that children will be provided for in the case of an unexpected death.

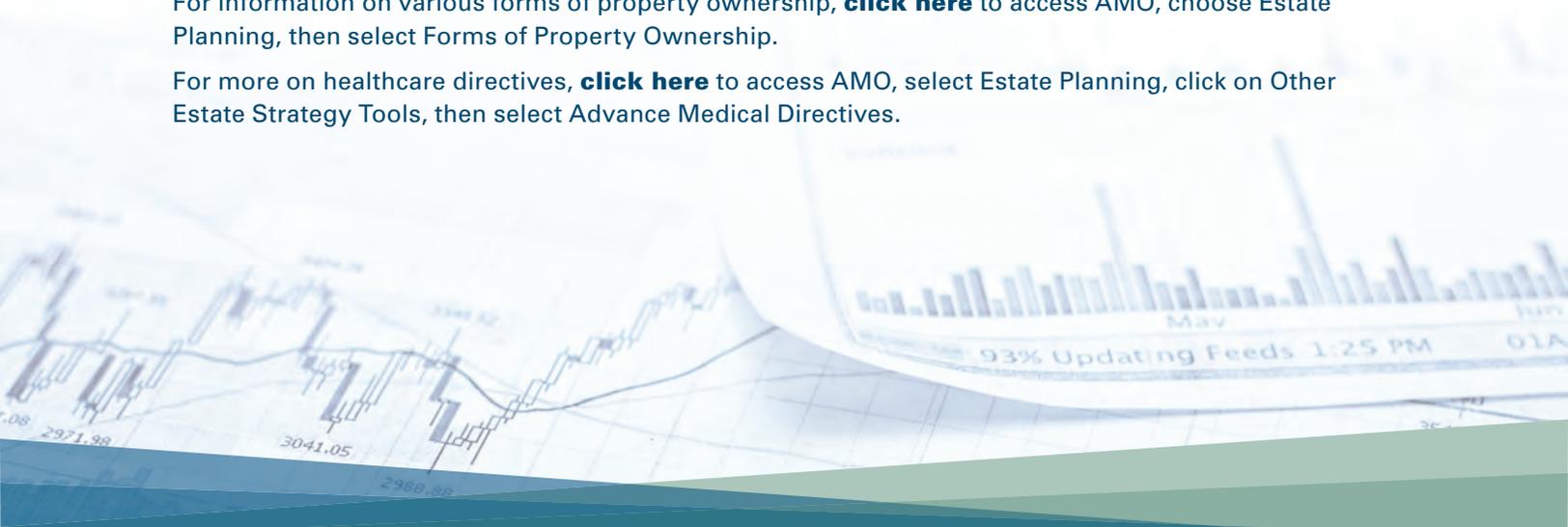
**WHAT TO DO:** As the idea of what comprises a "traditional" family evolves to reflect societal changes, producers can take this opportunity to address unique client needs using a number of planning options. In addition to tried-and-true planning tools and techniques, life insurance provides an effective solution for realizing the planning goals of nontraditional families. Clients can tailor policies to ensure the protection of a partner or child, and give both partners the kind of peace of mind that comes from knowing survivors have been provided for. Balancing inheritances using life insurance can minimize or even eliminate disagreements over dividing and/or managing estate assets in blended families.

**WHERE TO LOOK:** For more on planning for same-sex couples, [click here](#) to access AMO, select Retirement Planning, click on Retirement Plans, then choose Supreme Court Decision in *United States v. Windsor*—Effects on Retirement Planning.

For more on ILITs, [click here](#) to access AMO, select Estate Planning, click on Trusts, then choose Irrevocable Life Insurance Trusts.

For information on various forms of property ownership, [click here](#) to access AMO, choose Estate Planning, then select Forms of Property Ownership.

For more on healthcare directives, [click here](#) to access AMO, select Estate Planning, click on Other Estate Strategy Tools, then select Advance Medical Directives.



## CSI Cyber—Protecting Digital Assets

Yes, there is yet another version of TV's CSI series—*CSI: Cyber*. The emergence of *CSI: Cyber* is one more indication that digital files have become valuable assets, and so far-reaching that they attract plenty of mischief and numerous criminals... from hackers to cyber-thieves to blackmailers and more. Digital assets are vast. They include email accounts and social media profiles...digital images and videos...online bank accounts and personal blogs, and on and on. Some people even hold digital currency.

Former JP Morgan Executive Blythe Masters made headlines recently when she joined Digital Asset Holdings LLC, a start-up whose goal is to facilitate the settlement between traditional and digital currencies by building a software platform for sophisticated financial institutions to settle trades.<sup>3</sup> Digital Asset Holdings is the latest in a growing movement to bridge the gap between the world of Wall Street and crypto-currency.

Bitcoin, the most common form of digital currency, is a complex peer-to-peer computer network wherein users trade bitcoins in exchange for goods and services. There is no physical manifestation of Bitcoin: you can't hold one like a twenty dollar bill, and there is no bank or central clearing authority. The "currency" is largely shunned by mainstream financiers since it can lead to fraudulent transactions, money laundering, tax evasion, and black market purchases. Despite a somewhat illicit aura, the fact that a JP Morgan executive now heads a company specializing in trading digital assets is testimony to a new and growing trend.

We don't have to travel very far back in time to remember a world without digital assets. In the last couple of decades, people had digital assets but gave little or no thought to including them in an estate plan. Even today, very few states have laws that relate to digital assets after death, but this situation is likely to change rapidly in coming years as the line between digital assets and physical assets becomes increasingly blurred.

**WHAT TO DO:** Digital asset management is no longer an optional component of estate planning. Financial professionals should strongly urge clients to include their wishes for their digital assets in writing as part of their estate planning documents. Clients should make an inventory of all digital assets, along with usernames and passwords, and specify how they want each asset dealt with upon their death. Although this is a new wrinkle in estate planning, the same basic planning principles apply: carefully consider all assets and thoroughly document their ultimate disposition.

**WHERE TO LOOK:** For more on wills, [click here](#) to access AMO. Select Estate Planning, then click on Wills and Intestacy.

## Forever—Understanding Longevity

*Forever*, a new TV show, features an inexplicably immortal, 200 year-old medical examiner. While none of us will live nearly as long as this fictional character, the assumption that we're likely to die within a few years of retirement, which provided the underpinnings for Social Security, is woefully out of date. Indeed, life expectancy in the U.S. has hit a record high.<sup>4</sup> According to the latest Census, there are more than 53,000 people over age 100 living in the United States.<sup>5</sup>

To underscore just how long we are living, take a moment to think about a recent *National Geographic* article titled "Children of Civil War Veterans Still Walk Among Us, 150 Years After the War."<sup>6</sup> These "children" were born to Civil War veterans mostly in the 1910s and 1920s. Even more remarkable, four siblings from the same family still survive today—the children of Charles Parker Poole, a veteran of the Union's Sixth West Virginia Infantry.

These unique individuals connect us to our history through their longevity, and our generation and future generations are poised to live even longer. Good news for many, but longevity also has its downsides. While mortality has decreased, morbidity has increased. We may not be dying as early, but we're living longer with more and more chronic diseases that can make our extra years difficult and expensive.

We are also delaying marriage and parenthood. Men may, and often do, father children well into their fifties and sixties. The number of women waiting until after age 35 to give birth to their first child is currently more than nine times what the number was in 1970.<sup>7</sup> As such, it will become increasingly common for children to survive many, many years beyond the lives of their parents.

How will this affect retirement and generational planning? Luckily, the immortal medical examiner in *Forever* is still working, or he would have used up his retirement savings a century ago! The need for increased savings beyond that which can be accumulated in qualified plans is obvious. Life insurance is an ideal supplementary source for retirement income for all of its tried-and-true advantages:

- **Tax-Deferred Growth**—Life insurance offers one of the few opportunities outside of qualified plans for clients and prospects to enjoy tax-deferred growth over many years. No current income tax is due on cash value growth.
- **Tax-Free Withdrawals**—With life insurance, income opportunities are available through partial withdrawals, which are generally not taxed until the cash value withdrawn exceeds the total amount of premiums paid. Of course, withdrawals reduce the death benefit and the cash available to pay for the costs of insurance.
- **Tax-Free Loans**—Generally, loans are not taxable. Loans are subject to interest charges and they reduce the death benefit paid to beneficiaries.
- **Flexibility**—Life insurance distributions can be made prior to age 59½.
- **No Required Distributions**—Life insurance is not subject to required minimum distributions at age 70½.

**WHAT TO DO:** While the future longevity of individual prospects and clients is unknown, one thing is certain: clients should plan as if they are going to live well past the age of retirement. Life insurance is a good way to supplement Social Security and qualified retirement savings. Policy owners can access cash values as needed through loans or withdrawals.

**WHERE TO LOOK:** For more on retirement planning in general, **click here** to access AMO, then click on Retirement Planning. From there, you can access more information on IRAs and Qualified Retirement Plans.

While physicists debate differing theories on how the universe began, the planning world grapples with its own changes. Stephen Hawking's observation, however, that human behavior is far too unpredictable to submit to our calculations is unquestionably apt for planners. Still, the role of financial professionals remains twofold: to understand how the world is changing and to provide guidance to clients by helping them choose solutions that will benefit them in the long run. Fortunately, there are many tools that can help clients plan under any circumstances. For more on these reliable planning tools, consult AMO today.



## Endnotes

- 1 Stephen Hawking, "10 Questions for Stephen Hawking," Time Magazine, Monday November 15, 2010. <http://content.time.com/time/magazine/article/0,9171,2029483,00.html>
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- 5 Julie Meyer, "Centenarians: 2010," 2010 Census Special Reports, December 2012. <http://www.census.gov/prod/cen2010/reports/c2010sr-03.pdf>
- 6 David A. Lande, "Children of Civil War Veterans Still Walk Among Us, 150 Years After the War," National Geographic, November 10, 2014. <http://news.nationalgeographic.com/news/special-features/2014/11/141111-veterans-day-150-anniversary-civil-war-memories/>
- 7 Jessica Firger, "More Older Women Becoming First-Time Moms," CBS News, May 9, 2014. <http://www.cbsnews.com/news/first-births-to-older-women-are-on-the-rise-in-us-cdc-reports/>

## Questions? Comments? Feedback?

Please contact:  
Accordia Life Advanced Markets  
855/887-4487, Option 2

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