

4 Pillars Newsletter



BLENDED FAMILIES

Approximately 50% of first marriages end in divorce. Of those, over half remarry, which results in a “blended family”, which means one or both members of a couple have children from prior relationships, as well as perhaps a joint child of the new marriage.

One difficult issue faced by blended families is figuring out how assets should pass at their death. The most common goals include making sure the surviving spouse will be taken care of and that the remaining assets after the death of both will benefit your children. A couple of things to keep in mind:

- o It is not uncommon in blended families for one parent to have a blind spot when it comes to their children. Sometimes the bond to the child may be stronger than the bond to a spouse, and it can cloud judgment.
- o Is there a significant age difference you and your spouse, so that any children are as old, or older than, their stepparent? The children may not live to receive the inheritance of the older parent, or the younger spouse may simply choose to leave it all to his/her own children or to a new(er) spouse, thus completely eliminating the children of the older spouse.

Needless to say, planning for a blended family is not “cookie cutter” planning. You need an estate plan that fits you and your situation. Without one, you have no way of making sure that what you want to happen will actually happen. We know from experience that relying on your new spouse and children to “work it out” is not a plan because your new spouse and the children from your first marriage may look at things differently.

That being said, we understand that talking through various scenarios and spelling things out in legal documents may be difficult and strike some as unloving — but on the contrary, it is extremely important for you and your respective children. The good news is that there are plenty of tools available for blended families.

BASIC INITIAL (NO BRAINER) STEPS

- o Close/re-title joint accounts held with your ex-spouse. You may think this goes without saying, because, after all, there was a divorce decree. But you'd be amazed at how many people have an ex-spouse as a beneficiary/joint owner on an account.
- o Revoke previous powers of attorney naming ex-spouse. If you haven't revoked or updated your power of attorney documents since the divorce, the ex-spouse may be called on to make medical or financial decisions at your disability.

THINKING THROUGH A PLAN

- o Decide how your estate should be distributed at your death, whether you are the first or second to die. Include assets you brought to the marriage and perhaps have kept separate, and/or accounts acquired during the marriage.
- o Will you be financially taking care of your new spouse at death? If yes, what income will be available for your spouse?
- o Are you living in his/her/our house? What happens with the house when the first of you passes away? Do you allow the survivor the option to stay in the home, but upon his/her death, remarriage, cohabitation, then ownership of the house passes to the intended beneficiaries; or perhaps the surviving spouse "buys out" other beneficiaries.
- o At the death of both of you, are the joint assets split between all the children (his/her/ours) or divvied up another way?
- o Are there tangible items you want to leave your own children (i.e., jewelry family heirlooms, etc.)? Do they pass to your children at your death or at the death of both of you?

FORMULATING A PLAN

Pre-marital or Post-marital Agreement:

Depending on your State, a pre-marital/post-marital agreement may be an effective way to work out details. If approached with a positive attitude, it can be used to address important issues that are of concern to both spouses, reduce anxiety and confusion, and hopefully help build a strong marital foundation.

Revocable Living Trust:

We strongly encourage couples with blended families to consider using a fully funded, revocable living trusts ("RLTs") as their primary estate planning document instead of a standalone Will. Some benefits include:

- o Reminds you not to own assets jointly except where those assets are really intended to pass by rights of survivorship.

- o Helps reduce the possibility of a challenge by the surviving spouse against the first person's estate plan, or by the first person's pre-relationship children. The anti-challenge effects of a fully funded RLT arise since it is more difficult to challenge a trust than a Will.
- o RLTs can also protect assets from a surviving spouse's potential problems, such as creditors and predators. This protection can also be a good thing from the perspective of the children, as it can help ensure that the assets remain available for the children even if the child ends up divorced or with creditor problems such as large uninsured medical costs after an injury or illness.

Various details of setting up an RLT need to be considered, including the choice of a Trustee. Do you appoint non-family members, a professional Trustee, a trusted professional (i.e., attorney), co-Trustees (i.e., one person from each side of the family, etc.)? We can help you walk through these decisions

ADDITIONAL TOOLS

In addition to the estate planning described above, a couple of tools to avoid accidentally disinheriting someone include:

Life insurance a policy on your life will provide a known amount to your beneficiaries upon your death. For instance, the payout can be used to "cash out" children who are of similar age to a younger surviving spouse. Or the payout can be used to provide for the surviving spouse.

Second-to-die insurance For May-December couples who have young children, a second-to-die policy might be best.

SUMMARY

There is no such thing as an "off the shelf" estate plan for a blended family. The personal and economic aspects of the family must be reviewed to devise a plan that works for both of you. Contact our office if you have any questions or need assistance.

Carlson Advisors, LLC does not provide tax or legal advice. Estate planning can involve a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional before implementing any strategy.



The Patient Protection and Affordable Care Act (ACA), often referred to as Obamacare, has brought many changes to the economic landscape. Many of these changes, such as requirements for qualified medical expense deductions and new taxes for high earners, could affect your taxes. By learning about these changes, you can make necessary adjustments now as you plan for your taxes.

What is the ACA?

The ACA established exchanges where people can buy health insurance from private companies through the Health Insurance Marketplace. The first enrollment period for purchasing insurance through the exchange ended on March 31, 2014. In addition to establishing these exchanges, the ACA also prevents annual and lifetime limits, prohibits exclusion because of preexisting conditions, implements a 90 day maximum waiting period for employees to get coverage, and limits annual out of pocket expenditures. Furthermore, under the ACA, individuals must have minimum required coverage or else face penalties and fines. Minimum coverage must include coverage for: ambulatory patient services, prescription drugs, emergency care, mental health services, hospitalization, rehabilitative and habilitative services, preventive and wellness services, laboratory services, pediatric care, and maternity and newborn care.

There are four plan levels under the ACA: bronze, silver, gold, and platinum. These plans have various levels of premium costs, deductibles, and amounts paid by the insurance company and individuals. For example, with a bronze plan level, insurance pays 60% while you are responsible for 40%. However, this personal responsibility decreases to 10% under a platinum plan. Additionally, there is a catastrophic plan available to those under age 30, which is a high-deductible plan that meets all the minimum coverage requirements.

What tax changes will result from the ACA?

If you do not have the minimum coverage insurance, then in 2014, there is a penalty of the greater of \$95/ adult and \$47.50/child OR 1% of income. These penalties increase to the greater of \$695/adult and \$347.50/ child OR 2.5% income by 2016.

There are also various tax credits and subsidies to assist with costs. If a household earns less than 400% the Federal Poverty Level, they can receive a Premium Tax Credit to assist with insurance premiums purchased through the Marketplace. For example, a family of four with income between \$70,650 and \$94,200 would be

limited to a premium of 9.5% of their income. This limit is even smaller as income decreases. You can choose whether to have these payments sent directly to the insurer throughout the year or wait until the tax return is filed the following year. Furthermore, there will be new limits on annual out-of-pocket costs based on the out-of-pocket limits applicable to High Deductible Health Plans.

There are also changes in the tax code intended to help fund Obamacare. One of these changes is a 0.9% increase in Medicare payroll tax for high earners, defined as over \$200,000 for individuals or \$250,000 for couples. Furthermore, high earners will also be subject to a 3.8% Medicare surtax on the lesser of 3.8% of investment income or the amount of your income over the threshold. However, here the income used to determine eligibility is based on modified adjusted gross income.

Insurance companies will face increasing costs because of Obamacare's requirement that they cover higher risk individuals. In order to help pay insurance companies for these increased costs, there will be an annual \$63 tax placed on all insurance plans. This fee will decrease gradually until 2017.

Additionally, only the first \$2,500 of contributions to flexible spending accounts (FSAs) will be tax free, a decrease to the prior limit of \$5,000. Over-the-counter medications will no longer be a qualified medical expense for FSAs, HSAs, and other medical savings accounts. There will be an increase from 10% to 20% for Health Savings Accounts and from 15% to 20% for MSAs for penalties for spending money on non-qualified expenses. There is also a new tax on medical devices, but this will not be levied on devices such as hearing aids and contacts that individuals usually purchase on their own. There will also be an increase from 7.5% to 10% of AGI for medical expenses to be tax deductible.

Even though the Patient Protection and Affordable Care Act (ACA) addresses health insurance, it also contains many tax implications. It is important to work with your tax advisor to plan for these new taxes.

Carlson Advisors, LLC does not provide tax advice. You should consult with your own tax, legal and accounting advisors before implementing any tax strategies.



Why Purchase Life Insurance?

We've all heard about the importance of having life insurance, but is it really necessary? Usually, the answer is "yes," but it depends on your specific situation. If you have a family who relies on your income, then it is imperative to have life insurance protection. If you're single and have no major assets to protect, then you may not need coverage.

In the event of your untimely death, your beneficiaries can use funds from a life insurance policy for funeral and burial expenses, probate, estate taxes, day care, and any number of everyday expenses. Funds can be used to pay for your children's education and take care of debts or a mortgage that hasn't been paid off. Life insurance funds can also be added to your spouse's retirement savings.

If your dependents will not require the proceeds from a life insurance policy for these types of expenses, you may wish to name a favorite charity as the beneficiary of your policy.

Whole life insurance can also be used as a source of cash in the event that you need to access the funds during your lifetime. Many types of permanent life insurance build cash value that can be borrowed from or withdrawn at the policy owner's request. Of course, withdrawals or loans that are not repaid will reduce the policy's cash value and death benefit.

When considering what type of insurance to purchase and how much you need, ask yourself what would happen to your family without you and what type of legacy you would like to leave behind. Do you want to ensure that your children's college expenses will be taken care of in your absence? Would you like to leave a sizable donation to your favorite charity? Do you want to ensure that the funds will be sufficient to pay off the mortgage as well as achieve other goals? Life insurance may be able to help you meet these objectives and give you the peace of mind that your family will be taken care of financially.

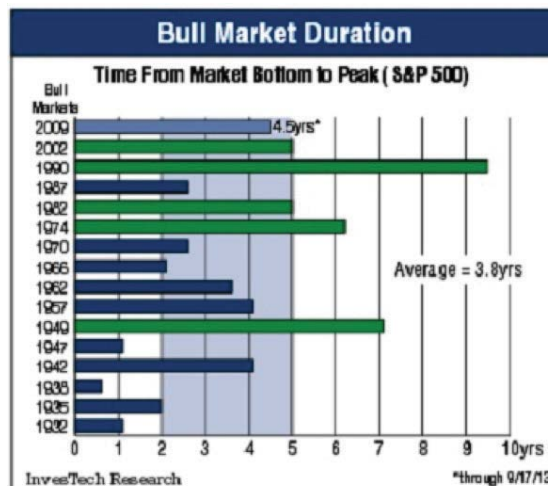
The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees are contingent on the claims-paying ability of the issuing insurance company.

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First Quarter Market Review

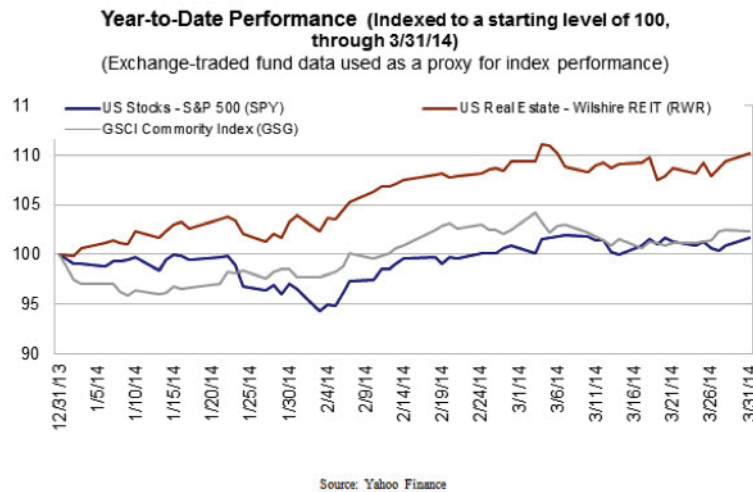
The first quarter of 2014 has come to an end and once again we find ourselves reflecting on the last three months and speculating on what the next three months might hold. The one thing that can be said is that similar to our weather patterns this year the markets have taken a similar tone. Volatile and a severe winter has many economists blaming the 1st quarter slowdown on a brutal winter. Although we do believe that weather did play a certain role in the economic activity it has investors wondering if this recent rally can continue on. There is no doubt that the equity markets did extremely well last year and there was a lot of chatter about investors seeking more equity like returns. That said the first quarter is once again a great example of why diversification plays such an important role for investors.

We've been in this virtuous cycle for the last 5 years with some small breaks in the trend along the way. It's been a fine time to be bullish about the prospects for economic growth and recovery and a bullish time to be an investor in the great companies of the world. Looking forward is always a bit tricky and we're reminded when doing so that this market cycle, from a historical perspective, is getting a bit long in the tooth. As illustrated below, the average bull market during periods of economic recovery is 3.8 years and the longest on record was right around 9.5 years. Nonetheless there has been a lot written about the propensity for economic recoveries from the sort of extreme financial crisis we had taking from 5 to 10 years to move toward normalcy. Those studies and the continued slow pace of the current recovery dovetail nicely and would lead us to believe that we have some time to go before this current recovery runs out of steam.



Source: Forbes

In a nod to the wonderful ameliorating effects of diversification it's useful to note that some of the best performing asset classes this year so far were some of last year's worst performers. Real Estate securities (REITS) and commodity positions, both wonderful diversifiers, had a rough go last year with essentially flat performance from REITS and a resounding drop in the broader commodity indexes. The rubber band of market sentiment has changed that metric however with both areas snapping into the lead year to date.



Source: Yahoo Finance

While it's fun to think about the various markets and their prospects and performance the rubber really meets the road when we consider how that performance and variability affect our retirement income or overall financial plan. After a number of years with markets moving in the right direction now is an excellent time to review the risk posture in your portfolios.

While there is no reason to believe that we're at the brink of the next recession we know after all that the business cycle, the up and down swings in the economy, are still very much a fact of life. The question is never about "if" there will be another market decline but "when". Forewarned is certainly forearmed when it comes to the way we perceive our overall strengths and vulnerabilities. If you're clear about your planning and feel comfortable with the ability of your financial strategy to withstand a market shock, great! But if you're a bit fuzzy on the details let's discuss this a bit further and make sure you are comfortable and well positioned with the plan you have in place.

We hope that the spring brings good things to you and to your family.

Investing involves risk, including the potential for loss of principal. Indices are indirect measures of market performance. You cannot invest directly in an index. Past performance does not indicate future results. Diversification helps you spread risk throughout your portfolio, so investments that do poorly may be balanced by others that do relatively better. Diversification cannot endure profit or protect against loss.

Investments in commodities may be affected by the overall market movements, changes in interest rates and other factors such as weather, disease, embargoes, and international and economic and political developments. Commodities are volatile investments and should form only a small part of a diversified portfolio. The use of derivative instruments may add additional risk. An investment in commodities may not be suitable for all investors.

This material contains forward-looking statements including, but not limited to, predictions or indications of future events, trends, plans or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties.



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