

CASE STUDY:

Mr. & Mrs. Johnson Inheritors of an Estate

I. THE PICTURE

A retired couple, Mr. and Mrs. Johnson, with a combination of inherited assets and assets accumulated through saving and investing, came to RSI through the recommendation of a current RSI client. During the initial meeting, the following information was learned:

- Years earlier, the estate of Mrs. Johnson's mother was slashed by over 50% after all taxes and expenses were paid. They had been led to believe that Mom's estate was "All Set", implying they were protected from estate taxes. They were, in fact, only protected from the probate process. Needless to say, they were devastated over this.
 - » The current value of the inherited assets was approximately \$7.4 million.
- The couple was interested in enjoying financial security and Financial Independence.
- Providing financial security for their children and their grandchildren was also a priority.
- They wished to help fund college educations for their grandchildren.
- The couple was emphatic about legally avoiding having to pay estate taxes again. They felt that their family had paid "their fair share" in taxes.
- The Johnsons were charitably inclined and wanted both their most important charity and their family to benefit from their assets.
- Mr. Johnson had over \$2.7 million in qualified plan assets, and their non-qualified assets totaled approximately \$1.3 million.
- The Johnsons had lingering doubts that their stated responsibility to be good stewards was fully being met and felt that perhaps more could be accomplished.
- The Johnson's homes and other assets were valued at approximately \$2 million.

II. ISSUES AND CONCERNS

After the Johnsons verified the accuracy and priority of their objectives through RSI's Goal Confirmation Summary™, RSI engaged in a complete analysis of their current financial situation, considering and quantifying the side-effects and trade-offs of various strategies. The study revealed the following issues and concerns:

- The current portfolio suffered from a serious lack of diversification by asset class, country, sector, and market capitalization. Only five stocks made up 50% of the entire portfolio, greatly overexposing the portfolio to unsystematic risk. Fortunately, those stocks received a stepped-up basis at Mom's death.

- A high concentration of cash had built up and there was no clear investment strategy.
- Investment objectives and asset class ranges had never been established in an Investment Policy Statement.
- No apparent method had been implemented to systematically manage portfolio risks through re-balancing or re-allocating.
- Our analysis proved the family faced additional millions in estate taxes, yet they had again been led to believe things were “All Set” and that “Portability” would protect them.

III. A CLEAR FUTURE

Through the implementation of the agreed-upon strategies outlined in The RSI Analysis and Recommendations™ and the leadership provided by RSI’s professionals, the Johnson family had achieved a sense of trust, confidence and peace of mind by:

- **Securing** a plan for an orderly and fair distribution of their assets to heirs and charities while minimizing estate shrinkage, including probate fees, legal fees and taxes.
- **Avoiding** federal and state tax on all qualified assets, which would otherwise be the highest taxed assets in their estate. This included establishing a Family Charitable Foundation.
- **Developing and implementing** a plan to receive their desired level of cash flow during retirement years as well as a strategy to put their excess cash to work systematically.
- **Adopting** an *Investment Policy Statement*, setting forth appropriate asset class ranges and a method for evaluating and reporting performance.
- **Helping to implement** a *Strategic Asset Allocation* in their portfolio that participates in the financial markets while protecting the investments from the risk of loss of purchasing power and the risk of lack of diversification.
- **Having input**, full understanding, and belief in the investment process without having to be involved in day-to-day transactions and/or decisions.
- **Establishing a plan** to minimize the phantom income problem associated with their non-qualified portfolio and the corresponding income tax liability.
- **Implementing a plan** to create pools of assets for future generations, protecting assets from estate inclusion and future potential creditors (including divorcing spouses).
- **Tracking future progress** toward goals through the *RSI Goal-Linked Progress and Performance Report™*.