Add 'Estate Planner' to Your Toolbox

BY CLARK KENDALL

As a client ages and amasses wealth, estate planning becomes an increasingly important element of his or her overall wealth management strategy.

In today's rapidly changing retirement planning marketplace, 403(b) and 457 advisors should strongly consider adding the Accredited Estate Planner (AEP) designation to their list of credentials. In several key ways, becoming an AEP can add value to the services you provide to retirement plan participants at charitable institutions, school districts, and higher education institutions.

Before we get into the professional advantages of becoming an AEP, let's take a look at the two most significant new realities of retirement in the 403(b) and 457 marketplaces.

Greater Longevity

Increased longevity is by far the most significant new retirement reality. In our grandparents' generation, life expectancy was in the 70s. Now, for a married couple age 65, there is a 50% chance that one spouse will live past his or her 90th birthday. This stretches the time horizon for clients who are thinking about when to retire.

The Economy

The other new retirement reality is the fallout from the recent recession and sluggish economic recovery. Charitable organizations have been hurt disproportionately by the economic downturn, due to a sharp drop-off in charitable donations. Meanwhile, K-12 school districts and higher education institutions haven't been immune from economic hardship. University of Maryland professors, for example, haven't received a raise in three years.

An Added Skill

What does it take to become an Accredited Estate Planner? To obtain this designation from the National Association of Estate Planners and Counsels (NAEPC), you must be a Certified Public Accountant (CPA), Certified Financial Planner (CFP), Certified Life Underwriter (CLU) or an attorney. You also have to demonstrate at least five years of experience in estate planning. In addition, you must complete additional courses offered by NAEPC and take a cumulative exam administered by the association.

Why should a 403(b) or 457 advisor invest the time and money needed to become an Accredited Estate Planner? Because there is a critical intersection between estate planning and retirement planning. Estate planning isn't just about what happens after we die; it's also about what happens during our lifetime, especially if we have substantial wealth.

From a tax perspective, there are income, capital gains and estate taxes to consider. From a nonfinancial perspective, there could be many factors involved. For example, with today's increasing number of blended families resulting from divorces and second marriages, a client may have issues related to financial treatment of children from a second marriage.

Within a retirement plan, beneficiaries are separate from the ones listed in the client's will. Let's say that when your client fills out your 403(b) application, he or she lists children X and Y from a second marriage. But his or her will leaves the estate to children A and B from the first marriage. Guess which legal instrument takes precedence? The retirement plan.

But that's just the beginning. The relationship between retirement planning and estate planning can get even more complicated in blended families. For example, if your client dies and names his wife as the beneficiary of his 403(b), she can roll those assets into her IRA account that may name only her children. When she dies, all of your wealth goes to the beneficiaries she's listed — which may not include your client's children.

One of the key estate planning questions that ties into retirement planning is, "To Roth or not to Roth?" In other words, should a client be putting assets into a tax-deferred Roth IRA or not? What are the short- and long-term financial implications of deferring taxes on these assets?

Let's look at a specific example. I advise a husband and wife who are 80 years old and have accumulated a $2 million estate. They have $500,000 in an IRA account. For them, it made sense to convert the $500,000 IRA to a Roth IRA. Of course, they had to pay income tax on the $500,000, roughly $140,000, as if it were income. But once the money is in the Roth account, they no longer have to take the required minimum distribution that they would have had to take each year from the IRA (3.5% per year beginning at age 70).

As a client ages and amasses wealth, estate management becomes an increasingly important element of his or her overall wealth management strategy. By becoming an Accredited Estate Planner, you will better understand the retirement planning advantages of Roth IRAs and the estate planning implications of naming beneficiaries in retirement plans. Before your client checks any boxes, you can make sure that they fully understand the ramifications of those choices. ■

Clark Kendall, founder of Kendall Capital Management in Rockville, MD, has more than 20 years of experience in investment management and wealth management strategies. He is one of a select few professionals in the world who has earned the triple designations of Chartered Financial Analyst, Chartered Financial Planner and Accredited Estate Planner.

> **"There is a critical intersection between estate planning and retirement planning."**

Accredited Estate Planner® Designation

The Accredited Estate Planner® designation is awarded by the National Association of Estate Planners & Councils to recognized estate planning professionals who meet special requirements of education, experience, knowledge, professional reputation, and character.

The AEP® designation is available to attorneys, Chartered Life Underwriters, Certified Public Accountants, Certified Trust and Financial Advisors, Chartered Financial Consultants, and Certified Financial Planners®. More information is available at http://www.naepc.org/designations/estate-planners.