Summer 2017

THE ADVISOR

When Wine is More than Something to be Savored

By Darren Zagarola, CFP®, CPA, PFS

Many people take a great deal of pleasure in sitting out on their deck or at a favorite restaurant savoring a bottle of wine with family or friends. Some even tout themselves as wine connoisseurs, or at least oenophiles, inhaling the aromas and tasting the flavors, longing for a chilled Chardonnay to accompany a seafood feast or a perfectly balanced Zinfandel to sip with a leg of lamb.

Yet, more and more view wine as not simply a beverage to enjoy with a fine meal or a group of good friends. Instead, they see it as a potential investment, with their collection of wine having the same capacity to appreciate in value over time as art or rare coins.

We have several clients who have combined their love of wine with their goal of turning this passion into a meaningful investment. Our advice to them is that once they've started a collection, the next step must be to protect it. That's why we strongly recommend to our wine collectors that they purchase wine insurance. This is particularly important for those who store their investment in a wine cellar, as many do, as opposed to a professionally run storage facility.

Homeowners' policies will not cover those unforeseen issues that can wreak havoc with a wine collection. A rider to a homeowners' insurance, however, is an option for those with smaller wine collections (keeping in mind that insuring a $1,000 wine collection makes no sense with a $1,000 deductible).

You don't need to think of your wine as a resale investment in order to benefit from an insurance policy. The rule of thumb is that wine insurance is a good idea even for collectors who plan on drinking every bottle themselves.

What can go wrong with your wine collection? Imagine returning from vacation and finding that because the cooling system in your temperature-controlled wine cellar broke and started emitting hot air, the corks are sticking out (or have popped out), and wine is lying all over the floor.

Or a pipe bursts in your house causing water to seep through the ceiling into your wine cellar, soaking your wine bottles. While the wine itself may not be affected, damage to the labels can diminish the value of your investment.

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Access Wealth Planning, LLC has been advising clients on planning and investment strategies for more than 30 years. If you would like to make an appointment with a member of our team — all of whom are practicing CFPs (Certified Financial Planners) and/or CPAs — call us at 973-740-2400.

THE ADVISOR

Making the Most of your Social Security Benefits: A Strategy for Widows

By Robert Epstein, ChFC®

Elizabeth (name changed) contacted her financial advisor after her husband passed away earlier this year. One of the important issues discussed was the proper strategy to use in order to maximize her Social Security benefits. Elizabeth is 64 years old and earning $150,000 per year, with plans to retire at age 66. Her late spouse had previously retired and was already collecting Social Security.

To understand the situation, we first need to step back from this case and review changes that were made to Social Security regulations back in 2014 regarding the so-called "restricted Social Security application." Prior to this time, a spouse at Full Retirement Age (FRA) – which is age 66 for people born through 1954 – could file an application for benefits, but specify that he/she would receive only spousal benefits at that time; that is, collect a benefit based on their spouse's work record. Then, for four years until age 70 one could collect the spousal benefit while the potential monthly benefit based on their own work record increased by 32% (8% per year). Then, at age 70, the individual could switch from the spousal benefit to their own benefit at the increased amount. This proved to be a great strategy for couples where both spouses had substantial work histories.

However, under the new regulations, the restricted application has been phased out for any person born after January 1, 1954. Those born before that date who have not yet filed for benefits can still explore the possibility of using this strategy. The restricted application also remains available for widows, which applies perfectly to Elizabeth's case.

The rules for widows' benefits are rather complex. Factors that affect the calculation include:

- Whether the deceased spouse had already filed for benefits.
- If the deceased spouse had already applied, whether it was before or after their FRA.
- If the surviving spouse applies for benefits before their own FRA.

In addition, the FRA for a widow is slightly different, and widows may apply for benefits as early as age 60, although they will receive a reduced amount.

Given the above, it will be important for Elizabeth to get all the necessary information regarding both her and her spouse's Social Security records from the Social Security Administration (SSA) in order for her advisor to develop the best strategy for her to use (as SSA employees are not trained to do this).

Based on available information, Elizabeth's advisor recommended that she immediately file a restricted application for widow's benefits. This would be done even though, because of the "earnings test," she would not receive the benefits now. According to the earnings test, a worker prior to FRA, like Elizabeth, earning over a specified amount per month, will have her benefits withheld. They are not ultimately lost because upon reaching age 66, Social Security will recalculate her monthly amount, giving her credit for any payments that were withheld during the time when she earned more than the annual earnings limit. She won't get a lump sum restoring the lost payments, but her monthly payment will rise with the aim of making her whole over time. By filing early, Elizabeth will be set up to receive benefits at the earlier of retirement or FRA. In her case, Elizabeth will receive a widow's benefit from age 66 to age 70, and then file for her own retirement benefits, which will have been enhanced by the 32% delayed retirement credit.

When comparing this strategy to the situation in which Elizabeth would simply file for her own benefits at age 66, the suggested strategy will result in an *increase* in expected lifetime benefits of $242,000, assuming a life expectancy of 90. The benefits are lower under the suggested strategy for the first four years and then higher every year thereafter.

As mentioned earlier, couples in which at least one individual was born prior to January 2, 1954 are still entitled to use the restricted application strategy, and may get the same boost to their lifetime Social Security benefits that Elizabeth will receive as a widow. In the couple's case, one person may collect benefits on his/her own record while the second person collects the 50% spousal benefit. Then,

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The Importance of Keeping Your Will Current

By Howard Hook, CFP®, CPA

If you are like many people who have a will, chances are it's been quite a while since you last looked at it. The birth of your first child or the first time the entire family flew on a plane together are some of the more common events that trigger the preparation of a will, which for some could have been years ago.

The problem with not reviewing your will is that not only do tax laws change, but so do individual circumstances which can make your will outdated. In addition, since it's a legal document, the language can cause unintended consequences.

A simple example is the creation of a trust to hold money for the benefit of a spouse or child. With recent changes in the Federal, New York and New Jersey estate tax laws, some wills may either mandatorily create a trust when one is no longer desired, or may not create one when a trust is still preferred – even if it may no longer be needed to save estate taxes. Tying up money in trust can be time consuming and costly for a beneficiary; meanwhile, eliminating the trust gives the beneficiary complete control over the money, where the risk of spending it all too soon becomes a possibility.

Another example is having named someone to be a trustee or executor of your estate who may no longer be a part of your life. People tend to name their contemporaries. This is fine when you are 35 years old, but as you age they may not be the best people to name, especially for a trust which can last more than one generation. However, not naming successor trustees or executors is not good either and can result in the court appointing someone.

In the worst case scenario, should your chosen trustee or executor be unable to represent you, it can lead to assets being left directly to a minor and being managed by the state until the minor reaches the age of majority.

A review of your will should begin with reviewing the people you have named as executors, trustees, and guardians for your minor children. Be sure they are still appropriate to assume these roles. Even better, notify these people and let them know of your desire to name them. This will give them a chance to decline, should they choose, allowing you to name a replacement.

Next, review how the will disposes of your assets upon your death. This may not be so simple, as language in the will can be difficult to interpret. If it is not clear, don't assume the disposition will go a certain way. Reach out to your estate planning attorney to help you understand the details. A financial planner may be able to help as well.

You may be tempted, based on current estate tax law, to remove any trusts your existing will creates to help reduce estate taxes. While under current tax law you may not owe any estate tax, laws can and do change – so give the executor of your will the ability to create a trust if need be, rather than revising the will every time tax laws change. The more flexibility you can put in the will the more likely it can adapt to changing tax laws without a complete revision.

You should review your will every few years, or as laws and circumstances change. Most of the time there will be nothing to change. However, if you do come across something that needs to be altered, you'll be glad you took the time.

This is an excerpt from an article that appeared in the *New York Daily News.*

Social Security Benefits

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at age 70, the second person switches to his/her own benefit (with the 32% credit added) and receives the increased amount for the balance of his/her lifetime. Further, whichever spouse is the first to die, the highest amount will continue to be paid to the surviving spouse.

Developing the proper strategy for collecting Social Security benefits is important for those approaching retirement age, whether couples or single, divorced or widowed individuals. Your advisor can help you decide on the best strategy by examining the options in the context of your overall financial picture.

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Wine insurance routinely protects against:

- Damages due to fire, theft or accidental breakage;
- Mechanical breakdowns in the climate control unit;
- Label damage in a fire, flood or other natural disaster;
- Problems caused by vendors who ship, buy and sell wine; including those who store wine in another location.

An insurance agent can help you select the best coverage for your collection based on answers to such questions as: How large is the collection? Is wine stored in more than one location? Has the collection been appraised (and, if so, what is the collection's value)? Is the collection covered by an existing policy?

Blanket vs. Stand-alone Policy

If you are starting a collection, we recommend blanket coverage. This also makes sense for collections that are worth less than $10,000. An appraiser will determine the true market value of your wine, and an insurance actuary will decide how much your insurance policy will cover, based on the wine's market value. You negotiate what you want covered, and pay a flat fee every month. Should anything happen to any bottle in your collection, the insurance will cover the damage up to the maximum specified on the policy. A typical stand-alone wine policy is estimated to cost between 50 and 80 cents for every hundred dollars of wine. Therefore, if your wine collection is worth $100,000, your annual premium would likely run between $500 and $800.

If you have specific jewels in your collection – i.e. individual high-value bottles – we suggest you insure each bottle separately. This type of coverage will protect your high-valued wines. When you have hundreds, or even thousands of bottles of wine, you can spend far less by insuring the more valuable bottles in your collection. This type of coverage takes into consideration not just the basic market worth of your bottle, but the possible projected loss should you lose that bottle.

You don't need to think of your wine as a resale investment in order to benefit from an insurance policy.

Here are some other things to consider, according to Nationwide Insurance:

- Keep the original purchase receipt, the original auction catalog, and the contact information from the seller.
- Keep a detailed description of the bottles, including any marks that make it unique, where bottles are stored and the quantity.
- Photograph bottle labels to document your collection.
- Regularly update your inventory list to ensure you have the most accurate picture of your collection.
- Have your collection appraised regularly and keep a record of its value over time.
- Work closely with your insurance agent to ensure you are protected based on current market value.
- Be alert to scams, such as re-labeling.

Wine collecting can be as enjoyable a hobby as drinking the wine itself. However, once you start to collect, the best advice is to educate yourself and, like with other types of collections, decide how best to protect the value of your investment.

How and when you begin receiving Social Security benefits is critical to maximizing your retirement dollars and can be complicated. We encourage you to consult with our advisors. Call us at 973-740-2400.