

THE FAMILY WEALTH PLANNING SOURCE

JUNE 2018 NEWSLETTER

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This June . . .

June is the unofficial start of summer. It is that glorious time of year when the children are out of school, family vacations are taken, and stay-at-home mothers go crazy. With that in mind, I thought a list of things to do in June might be beneficial for us all.

The following ideas are fun for both parents and children: 1) run through the sprinklers; 2) have a picnic at a local park; 3) go to a drive-in movie; 4) have ice cream for dinner; 5) melt and make crayons; 6) go bowling; 7) tour local historic sites; 8) make popsicles; 9) have a water balloon fight; 10) plant a garden of herbs and veggies; 11) visit a local museum; 12) play mini-golf; 13) have a LEGO building contest; 14) tour a factory; 15) make tie-dye t-shirts; 16) go fly a kite; 17) make a bird feeder; 18) visit an amusement park or water park; 19) go roller skating; 20) batter up at the batting cage.

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All of these ideas are cost-effective ways to have fun with the kids while they are out of the house. We tend to get wrapped up in having the newest toy or the most advanced gadget, all of which cost big bucks.

I am going to attempt to do half of the things on that list this summer. That way I will ensure that the kids are entertained while my wife maintains her sanity. Hope you will try some of these things with your family and see the joy in the eyes of your children, grandchildren, and each other.

What's New With Me - Registered Agent

My firm now has the capability of serving as registered agent for business entities filed and authorized under the laws of the State of Texas. For a low annual fee, our firm can save you the embarrassment of being served a lawsuit at your place of business or the annoyance of having a

sheriff or constable banging on your door at your home at 6:00 in the morning.

State law requires that every business entity maintain a registered agent with a **physical** address. You cannot use a PO Box or a PMB address as registered agent. This

means that, if you serve as your own registered agent, your business address or home address is listed in the public records. Moreover, your business cannot serve as its own registered agent. So that necessarily means that your name will be listed in the public records as well. From an asset protection standpoint, all of these are bad ideas!!

Make a good decision and hire a third-party to serve as your registered agent. If you are interested in us serving, simply give us a call at (806) 548-2953. If you would like to explore other third party companies, we would be happy to provide names to you (or you can do a quick Google search).

Tip of the Month

The Importance of Designating Retirement Plan Beneficiaries

Many of us are familiar with life insurance and retirement plans. Most employees have access to a 401(k) or other similar mechanism through their employers for saving for retirement. Most of us also have life insurance policies that will pay our loved ones a tax-free death benefit to be used to pay debt, taxes, or other needs. Most of us are also aware that a beneficiary must be named on these same retirement plans/life insurance policies. If we know all of these things, why are so many beneficiary designations missing or out-of-date?

I am currently working on a case in which a gentleman passed away with a \$1.7 million 401(k) plan through his employer. The gentleman failed to name a beneficiary for the plan rendering the proceeds payable to his "estate."

Normally, we would move the funds to an IRA for the **NAMED** beneficiaries for their use over their lifetimes. In this case, the beneficiaries of his estate are his three children. Each child would then be

allowed to, pursuant to IRS rules, roll the funds over into their own individual retirement accounts (IRAs). The funds could then be distributed over the life expectancy of the oldest child. The benefit is that the children could then defer the taxes that are owed as they would be required to take much smaller distributions each year. In our case, this would have allowed for distributions to be taken over a 40 to 50 year period. Each distribution would be subject to ordinary income tax but the tax burden would be significantly lessened as the required distribution would be calculated over a much longer time period.

By failing to name a beneficiary, the proceeds of the client's 401(k) are instead going to be paid to his "estate." Under this scenario, the children have two options: 1) take a lump-sum distribution of the entire \$1.7 million or 2) distribute the entire amount over a five year period. Option 1 will cause taxes to be due on the entire amount immediately (about \$600,000). Obviously this is not a desirable outcome.

Option 2 will cause less of an immediate tax burden but will require that the \$1.7 million be distributed over no more than 5 years. This means that each year roughly \$340,000 will need to be distributed from the 401(k). Since there are 3 children, each child will get about \$113,000 per year for 5 years. The \$113,000 is considered to be ordinary income taxed at the rate of 25% for married couples and 28% for single filers.

Keep in mind that the \$113,000 distribution will be added to the children's income from their jobs, investments, and other taxable income. In our case, each child is single and the distribution is going to push them into the 33% tax bracket. This is an undesirable outcome as well, but more palatable than taking a lump-sum distribution of the entire amount and paying all the taxes immediately.

If the client had simply named the children as beneficiaries, the distributions could then be made over a 40–50 year period. This means a much lower amount would have to be distributed each year to the children. Moreover, the tax burden would be significantly less than what they are facing. Additionally, the power of compounding could have worked much more favorably for the children. Instead of distributing the money outright and paying the taxes, the children could have had the money placed into an IRA for their benefits. The money that would otherwise be used for taxes could instead remain in the account and continue to grow tax-deferred.

To make a long story short, YOU MUST PROPERLY NAME A BENEFICIARY ON YOUR RETIREMENT PLANS!!! Don't make this mistake and cost your loved ones dearly!

Favorite Feel Good Moment

Estate Planning for a New Texan

This month I had the privilege and opportunity to meet with a woman that has recently moved to Texas. I asked her where she previously lived to which her response was "The People's Republic of California". I had to laugh when she said it...

In all seriousness, she has quite a bit of money. Her husband recently passed away and she dealt with the probate court system in California. A real nightmare as she put it! Her goals were to establish a plan that would make things easy on her children in the event of her death. She also wanted to ensure that documents were in place to allow her children to make medical and

financial decisions should she become incapacitated.

After meeting with her and reviewing her assets and goals, we were able to construct a plan that will accomplish all of her desires. In fact, the bulk of her estate will not have to go through probate court at all upon her death. It will simply be a matter of her children filing death certificates with the appropriate entities in order to transfer title to her home, disburse her checking/savings accounts, and distribute her retirement plans. We also reviewed her beneficiary designations on her life insurance and annuities to ensure that the money would

go to the correct child, in the correct amount, and without the unnecessary costs/delays of probate court proceedings.

When we completed her work, I went to shake her hand and thank her for business. She didn't take my hand... instead she hugged me with tears in her eyes. Her experience in California with her husband's death had been such a headache for her. She is eternally grateful that we have a plan

in place that will make things seamless upon her death. In fact, she was so happy that she sent her daughters to me to work on their own estate plans.

If you have been wanting to set up an estate plan, have an old or outdated plan, or simply want a review of your current plan, call Green Law, PLLC today at (806) 548-2953. We can put together a plan that makes sense for you and your family.

Calendar of Events

June 2018 – July 2018

July 4 – America's Birthday! Happy Independence Day

July 9–10 – Dallas Meeting Days

July 17 – Seminar Presentation

Administrative Announcements

Client Meeting Locations

Green Law, PLLC would like to remind you that we now have the capacity to handle a variety of personal injury cases. Since the office move to the new location, I am working closely with another lawyer that has been practicing personal injury for more than 28 years.

The first 10 years of his practice was devoted to defending insurance companies in relation to personal injury claims. He is well-versed in the tricks and traps that insurance companies will use to avoid paying you the compensation that you deserve and need.

If you have been involved in a car wreck or truck wreck, sustained a slip-and-fall injury, been attacked by a dog, been injured on the job, or suffered other personal injuries, give Green Law, PLLC a call at (806) 548-2953.

We will work with you to ensure that you recover all that you are entitled to and prevent the insurance companies from giving you the run around and making low-ball offers. Statistics continue to show that having an experienced lawyer on your side will increase your potential for recovery exponentially.

Contact

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