THE WELL-PREPARED

family

J.P.Morgan
One family’s story shows how we might all face the many challenges and transitions that come with the end of a life.
All of us have a great opportunity.

It’s an opportunity that is often overlooked, partly because it takes discipline and fortitude to seize, and also because it requires us to reckon with an unpleasant truth.

Planning for our own death isn’t something we look forward to, but it is essential for us all and offers a chance none of us should miss: to be there during a critical time to offer guidance, comfort and care to our families.

In these next pages you will read a story about someone who took that opportunity. While the people depicted aren’t real, we think of it as a true story. It’s true in the sense that it presents scenarios and challenges commonly encountered in estate planning. For example, some of us are well prepared and diligent about updating our wills. But not nearly enough of us take even this basic, yet crucial, step.

To help you, A Better Way shares “Pete’s Story.” This account illustrates how one man and his wife crafted their estate and financial plans, and it shows the actions taken by their trusted advisors. You’ll find our insights into the couple’s choices and some pitfalls to avoid.

Be sure to ask your team at J.P. Morgan Private Bank for a copy of Your Life Details. By completing this document, sharing it with your professional advisors and keeping it up to date, you can create a valuable resource that will help your family significantly.

We have a long history of helping clients address even the most complex and daunting planning needs. It is our responsibility—and honor—to be with you and your family every step of the way.

Most sincerely,

Kelly C. Coffey
All too often, an untimely death sets off a series of confusing and unfortunate events. Disputes over assets can spill into the courts, and even become headlines.

**There is a better way:** We can leave our families well prepared and, in this way at least, help ease their burdens during a difficult time.

This is a story about a person who died unexpectedly and too young. But, because of his thoughtful planning, he left no legal puzzles and generated no unwanted publicity. His story is worth telling, as it demonstrates many of the best practices we all should consider emulating, each in line with our particular circumstances and needs.*

* Names and identifying details have been changed to preserve privacy.
In September 2015, Peterson Mills died suddenly in Rye, New York. He was just 64 years old. Known to friends and colleagues as “Pete,” he was a senior manager and member of the executive committee at a large manufacturing firm, a publicly traded company he joined soon after graduating from Colgate University in 1974.

Pete was survived by his wife, Karen, and their three children, ages 30, 28 and 25. Two of the children were married at the time. Pete and Karen also had three grandchildren, ages 10, 3 and 1. All lived in the metropolitan New York area.

When Pete died, his net worth was roughly $200 million. It consisted principally of:

- Treasury bonds—$49 million
- Deferred compensation—$3 million
- 401(k) plan—$2 million (of which $500,000 was invested in company stock)
- Pension—$4 million
- Supplemental pension—$6 million
- Fully vested shares in his company—$54 million
- Unvested restricted company stock units that vested upon his death—$13 million
- Unvested nonqualified stock options—$12 million
- Online trading account—$2 million
- His principal residence in Rye, N.Y.—$20 million
- Vacation home in East Hampton, N.Y.—$10 million
- Vacation home in Palm Beach, Fla.—$20 million
- Joint checking account with his wife—$500,000
- Sports memorabilia—$500,000
Pete owned the Rye home in a limited liability company, the Palm Beach home in his own name, and the East Hampton home with Karen as joint tenants with right of survivorship.

Seven months before he died, Pete had signed an updated version of his last will and testament. Prepared by a senior partner at a New York law firm, this was the fifth version of the will that Pete had signed since his marriage to Karen in 1976.

Pete reviewed his estate and financial plans every three years with the couple’s estate planning lawyer, accountant and team at J.P. Morgan Private Bank.

In 2011, at their lawyer’s recommendation, Pete created a revocable trust. He intended to transfer most of his assets into that trust, which would allow the assets to escape the probate process. But, thinking he had plenty of time to take care of this detail, he left the trust unfunded.

Pete had named Karen and J.P. Morgan as co-executors of his will. He also named them to succeed him as trustees of his revocable trust.

In his will, he left some money to charity, and some to his children. The bulk of his estate was left in a marital trust for Karen’s benefit.

Pete had no life insurance because he felt that he did not need any. His estate had sufficient liquid assets to pay any estate taxes that would be due at his death.
INSIGHTS

Updating estate plans

Even though Pete died unexpectedly, his affairs were in good order because he had reviewed his last will and testament regularly. The single most important action you can take in estate planning is to update your will or (depending on the laws of your state) your revocable trust. We recommend reviewing your estate plan at least every five years and each time you experience an important life event in your family, such as a birth, death, marriage, divorce or change in significant partner, primary residence or wealth.

Avoiding concentration

Pete’s personal wealth was concentrated in his company’s stock and Treasury bonds. The couple’s private banker, Christopher Appleton, had urged Pete to diversify his portfolio to reduce risk. However, like many executives and business owners, Pete saw his concentration as a testament to his faith in his firm, a positive signal to investors, and good politics in the C-suite. He saw his heavy investment in Treasuries as the portfolio’s ballast.

Transferring wealth

Gifting during one’s lifetime is almost always more tax-efficient than leaving assets to children and grandchildren by bequest.

- **Annual gift tax exclusion**—At the urging of their estate planning lawyer, Pete and Karen every year gave the maximum amount they could to each child without gift tax consequence. In this way, they transferred a total of about $800,000 to the children.

- **Lifetime gift tax exclusion**—In 2011, at the suggestion of their J.P. Morgan wealth advisor, Pete and Karen set up generation-skipping trusts for their children and grandchildren, naming J.P. Morgan as trustee with investment discretion. Immediately upon establishing the trusts, the couple transferred to them their total combined lifetime gift tax exclusion amount, which in 2011 was $10 million. Doing so removed this amount from Pete’s and Karen’s estates and gave the assets an opportunity to grow free of transfer taxes. Later, upon the death of their children, the trusts would continue for the benefit of each of the grandchildren, still free of transfer taxes.

Community property states

The laws of “community property” states, such as California and Texas, treat property owned by married couples differently than the laws of “separate property” states, such as New York. Be sure to consult with your estate planning lawyer and your J.P. Morgan wealth advisor to understand the distinctions.

The lifetime gift tax exclusion amount is adjusted for inflation annually. So even if you have used your full amount, each year you may give more free of transfer taxes. By the time Pete died, he and Karen could have each transferred an additional $430,000 free of gift taxes (which would have amounted to a total of $860,000 out of their estates free of transfer taxes).
How He Crafted a Legacy

When Pete and Karen established generation-skipping trusts, they also wrote a “letter of wishes” and gave it to the trustee of each of the trusts. A letter of wishes is a non-binding document that guides a trustee in making distributions to beneficiaries.

Although meant for the trustee, Pete and Karen addressed their letter to their children and shared it with them before Pete died. The letter advised the children to distribute the trust assets “productively: to buy a home, start a business, pay for healthcare expenses and/or fund education.” Trust money should not, the letter said, be used to support a “lavish lifestyle” or for “frivolous expenses” such as “fancy sports cars.”

Pete and Karen made regular contributions to Catholic Charities and to their alma maters. They wanted their children to engage in philanthropy but did not want to dictate priorities or force collaboration.

So, in 2009, they established three J.P. Morgan Charitable Giving Fund (CGF)* accounts with $25,000 each, naming one child as the sole advisor on each of those separate donor-advised fund accounts. Toward the end of every year, they made tax-deductible contributions of roughly $100,000 to each account, which reduced their income taxes.

Pete’s will directed that $5 million be added to each of the three CGF accounts. These bequests were not subject to estate taxes (either federal or New York).

* The Charitable Giving Fund (CGF) is a donor-advised fund offered by J.P. Morgan in partnership with the public charity National Philanthropic Trust (NPT). Assets put into a CGF account are, in fact, donations to NPT, which makes distributions from those accounts to recipient organizations under the advisement of the donor.

INSIGHTS

Writing a letter of wishes
We recommend speaking with your legal advisors about whether a letter of wishes is appropriate for your circumstances. Your J.P. Morgan representative can share the best practices we, as a trustee, have seen with such letters.

Passing on the gift of giving
There are many ways to inspire children and grandchildren to be philanthropic. One of the most straightforward ways is to create donor-advised funds for them to manage. Other methods include empowering them to make small grants from the family’s foundation. Please speak with your J.P. Morgan representative about these and other approaches.
The day Pete died, Karen had found him unconscious in their home gym, called 911, and traveled with him to the hospital, where he succumbed to heart failure. Karen immediately telephoned her three children and they worked together to notify other close family and friends. Karen then reached out to:

• Craig Sherman, Pete’s friend and his company’s CEO
• The couple’s estate planning lawyer
• Their accountant
• Christopher Appleton, their private banker at J.P. Morgan

Christopher quickly convened the other members of the family’s team at J.P. Morgan:

• Alice Heisman, a senior wealth advisor, who over the years had many conversations with Pete and their estate planning lawyer about Pete’s plans
• John Ryan, head of J.P. Morgan’s National Estates Practice, which would be responsible, with Karen, for administrating Pete’s estate and distributing his assets to the beneficiaries named in his will

Christopher also telephoned the couple’s estate planning lawyer to discuss the probate of Pete’s will.

Knowing the Next Steps

INSIGHTS

Having a call list

Karen knew whom to call and had their telephone numbers handy. These individuals included professionals who all had the most up-to-date copies of key documents.

We recommend that everyone do the same: Have key documents in place, and let loved ones know where they are. Also, be sure to give your family important telephone numbers and email addresses.

For a practical guide to information that we suggest you keep current and share with your family and advisors, please ask your J.P. Morgan representative for a copy of Your Life Details.
Securing Accounts

Once bankers learn about a client’s death, they are obligated by law to freeze all accounts owned in the name of the deceased. This safeguard prevents anyone from conducting transactions until a probate court has authorized executors to act on behalf of the estate.

Naturally, then, as soon as Christopher learned of Pete’s death, he worked to ensure that all of Pete’s accounts at J.P. Morgan were frozen.

There are no exceptions to such a freeze. For example, even though Pete had named Karen as attorney-in-fact over his accounts, she could not act with respect to them at that point. Any authority Pete had granted under the terms of the power of attorney died the moment he did.

By contrast, Karen became sole owner of any accounts Pete owned with her as joint tenants with right of survivorship immediately at his death.

INSIGHTS

Funding revocable trusts

An account freeze would not have applied to assets in the revocable trust that Pete didn’t fund, because authority would have passed to Karen and J.P. Morgan, as the successor co-trustees. This is more than a technicality. Much of Pete’s wealth was concentrated in his company’s stock, markets were volatile, and the freeze meant no action could be taken with those shares he owned in his own name. Therefore, John Ryan, acting on behalf of J.P. Morgan as co-executor with Karen of Pete’s estate, immediately requested that the probate court expedite their appointment so someone could decide whether to hold or sell the shares. John managed to have this authorized in just five days. Normally, probate can take weeks, even months, to complete.

We strongly recommend speaking with your estate planning lawyer and J.P. Morgan wealth advisor about whether a revocable trust is appropriate for you. Equally important is a careful choice of successor trustees or co-trustees.

Keeping individual accounts

Karen had $5 million of her own, so she was able to cover all immediate expenses, including those for Pete’s funeral. Later, when assets were unfrozen, Pete’s estate reimbursed her for all those expenses.

We recommend that your spouse hold assets individually or in a survivorship account to cover expenses (both personal and funeral-related) before probate of the will is completed.
Prefering Key Documents

Pete had in place certain documents that everyone should have, such as a power of attorney and a living will. They would have been extremely important had he been incapacitated.

Pete’s company had immediate access to all of his company records. But Pete wasn’t very organized with some of his personal online accounts. For example, no one had passwords to his online trading account or the combination to the expensive safe in his home office. John contacted the online broker’s legal department, which, as a new company in a new field, did not have procedures to respond to requests from executors of a decedent’s estate. Getting Pete’s assets from that company took a lot of back and forth.

As for the safe, John was forced to call a locksmith and prove his authority as co-executor to gain access to the safe. The safe had to be destroyed so Karen could retrieve Pete’s sports memorabilia: baseball cards that proved to be worth $500,000.

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Sharing important information
Everyone should keep logins and passwords where people they trust will know to look, also taking care to apply cybersafety measures: using strong passwords, changing them every few months, and varying passwords for multiple accounts.

J.P. Morgan’s Your Life Details itemizes all the information you should consider sharing. Please complete and provide that document to your advisors and key family members.

Speak with your estate planning lawyer to make sure that your will gives your executor explicit authority to recover funds and other assets that are in online accounts.

Putting essential documents in place

Also, it is essential that everyone have an up-to-date copy of the following legal documents and that family members or professional advisors know precisely where those documents may be found:

• Health care proxy—Pete’s health care proxy appointed Karen to make medical decisions for him if he were unable to make them for himself. It named his eldest child, who lived nearby, as Karen’s backup. You will want to make sure that you name at least two people as your health care proxies (or, as it is called in California, an Advance Health Care Directive) in case one is unavailable in an emergency. Indicate the order in which they have authority

• Living will—Pete’s living will directed how he was to be cared for had he been in a “persistent vegetative state,” or permanent coma. Most living wills direct that no heroic measures be taken to keep someone in that condition alive, but some state the opposite. We urge you to speak with your family about your preferences

• HIPAA form—Known simply by its acronym, HIPAA (which stands for Health Insurance Portability and Accountability Act), this form authorizes physicians to disclose information to a designated person. Usually, the designee is a spouse or other family member residing nearby. Without this form, a person’s medical information cannot be shared. Pete’s HIPAA form named Karen

• Power of attorney—The power of attorney Pete had signed naming Karen as his attorney-in-fact to make financial decisions on his behalf became void when he died
Because Karen and Pete had discussed these matters years ago, Karen knew exactly what to do: Pete’s wake was held at the local funeral home. The funeral service was held at the Church of Resurrection in Rye, where the couple attended services.

Pete was buried nearby, at the Gate of Heaven cemetery in Hawthorne, New York, where Karen and he had purchased a family plot years ago. After the funeral, there was dinner for family and friends at Pete’s favorite local Italian restaurant.

The public relations department at Pete’s company notified the media. Obituaries ran in The New York Times, The Wall Street Journal and Barron’s, and on Bloomberg. The company also placed death notices in local newspapers.

The family’s death notice, composed by Karen just before the funeral, asked that donations be made to Catholic Charities.

Pete’s company made a $500,000 lead gift and pledged 50 cents for every dollar that would be donated, up to $3 million, through the end of 2015. The company also organized a memorial service, held in October 2015 on the company’s grounds. CEO Craig Sherman gave a brief and moving eulogy.

Wake, Funeral and Burial
The day after Pete’s funeral, Christopher Appleton and Alice Heisman, the J.P. Morgan private banker and wealth advisor, spoke with the representatives of Pete’s company about the benefits to which Pete was entitled.

- Pete’s estate owned $79 million worth of company stock:
  - $54 million in shares that Pete owned before his death
  - $13 million in restricted stock units that vested and were converted into shares upon his death
  - Nonqualified stock options with an intrinsic value of $12 million that vested on Pete’s death, keeping their original expiration date. These became part of the estate, which couldn’t be fully settled until the options were exercised.

Karen and J.P. Morgan, as co-executors of the estate, had to decide when and how to exercise these options. To do so, they consulted with the investment advisor on Karen’s J.P. Morgan team and the firm’s executive compensation specialist.

**INSIGHTS**

*Estates remain open until stock options are exercised*

Stock options in an estate are assets that may generate an estate tax liability. However, the estate does not have to pay income taxes on those options until they are exercised.

J.P. Morgan can provide an analysis to help determine the optimal time and method for exercising stock options.
Managing Retirement Benefits

As executor of Pete’s estate, J.P. Morgan also oversaw the collection of Pete’s retirement assets, including:

- **Pension worth $4 million**—This was paid out immediately to Karen in a lump sum. She had the option of rolling these funds into her own IRA rollover, which she did, thereby deferring the distributions (and income tax on those distributions) until after she turns 70½.

- **Supplemental pension worth $6 million**—This was paid out in a lump sum immediately to Karen upon Pete’s death. But this pension could not be rolled into an IRA; it was instead subject to immediate ordinary income taxes.

- **401(k) account**—Karen rolled over the assets in Pete’s account into the same account as the $4 million pension plan. The IRA rollover provides flexibility with respect to investing the assets and taking distributions.

- **Deferred compensation**—For years, Pete had elected to defer some compensation: portions of both his base salary and bonus. Upon his death, Karen as designated beneficiary received, in a lump sum, the proceeds, which were subject to ordinary income tax. Pete did have the opportunity to name someone other than Karen (for example, a donor-advised fund) as a beneficiary.

Naming a charity as beneficiary, had he done so, would have eliminated both income and estate tax related to the deferred compensation.

The couple’s accountant helped Karen execute the IRA rollovers and keep track of all the taxes due. Christopher, the J.P. Morgan private banker, helped her invest the assets she received into a balanced portfolio. Karen chose to have J.P. Morgan manage the investments—partly for ease of ongoing oversight, but also to take advantage of the firm’s experience and expertise.

**INSIGHTS**

**Designating beneficiaries**

Pete had been careful to make beneficiary designations, which is crucial to help avoid unintended consequences. Often, if you fail to designate a beneficiary of your retirement plan accounts, the assets will be paid to your estate and could both create a premature income tax liability and subject the assets to probate.

Also be aware: The beneficiaries designated in your plan will supersede those named in your will.

You can designate whomever you like to be the beneficiary of deferred compensation plans and equity awards. However, ERISA plans (such as Pete’s 401(k) account and qualified pension plan) require that a spouse be the designated beneficiary unless the spouse waives those rights.
The first thing John did in administering Pete’s estate was to check that he had Pete’s family tree. He did. The record was necessary for the nominated co-executors (J.P. Morgan and Karen) to begin serving, as they soon would have to demonstrate to the satisfaction of the court in which the will was to be probated:

1. The document presented was Pete’s last will and testament
2. They had contacted those who would inherit from Pete if there had been no will. These people must be notified that Karen and J.P. Morgan were asking the court to name them as co-executors
3. They were not only the named co-executors, but were also competent to serve as such
4. No one objected to either the fact that the document presented was Pete’s will or that they were appointed under it to serve as co-executors of Pete’s estate

Pete had excellent relationships with Karen and his three children, and those four surviving family members all got along. Relationships between Karen and her two sons-in-law were strong, as were those among those in-laws and each of Pete’s three children. He had no prior marriages or other children.

In this case, there was no controversy.
Karen and all three children lived near one another and were ready and willing to ease the administration process.

The second thing John did was to obtain a balance sheet, which he needed to:
  • Estimate the value of Pete’s estate, which would have to be disclosed to the probate court when filing the petition for Letters Testamentary (i.e., the grant by the court of authority for J.P. Morgan and Karen to act as co-executors on behalf of Pete’s estate)
  • Begin compiling information for Pete’s U.S. estate tax return, which would have to be filed within nine months after Pete’s death. The estate tax return would set forth, with as much precision as possible, the exact value of Pete’s estate at the moment of his death

John also called the couple’s accountant to get copies of Pete’s:
  • Individual income tax returns for the last three years
  • Gift tax returns

He followed up with the compensation and benefits department at Pete’s company to confirm details of his benefits and the process to collect and transfer them.

John also made arrangements with the property managers of the couple’s homes in East Hampton and Palm Beach to make sure they knew whom to contact in case of an emergency. He obtained copies of the auto, homeowners, liability and flood insurance policies to make sure coverage was appropriate.

**INSIGHTS**

**Providing a family tree**
Make sure your executor has a copy of this document to avoid your family having to describe, in a moment of distress, who’s related to whom.

**Understanding probate**
Each state has its own requirements for the admission of a will to probate and the appointment of executors. In Pete’s case, this process moved swiftly. But in some states the process can be time-consuming and costly.
Pete’s will was standard for a New York resident. It simply directed that all assets that he owned in his individual name be transferred to his revocable trust, which would serve as the instrument that would dispose of his assets. Commonly referred to as a “will substitute,” it is more flexible than a trust created under a will. As it happened, Pete owned virtually all of his assets jointly with Karen or in his own name. The former passed to Karen immediately on his death. The latter were moved into his revocable trust.

Pete’s will gave each of his children $5 million. Giving to them outside of a trust meant that these sums are exposed to creditors. However, the children were debt-free and interested in managing their own investments.

Estate taxes were imposed on these distributions, as Karen and Pete had used most of their lifetime transfer tax exclusions.

Pete’s will directed that the estate taxes and expenses be paid from the marital share, reducing the amount that went to Karen.

For her part, Karen had asked that she not have the burden of managing all their assets and investments. The will, therefore, left the balance of his estate in a marital trust for Karen’s benefit. According to the law, no transfer taxes would be due on transfer to her, or in trust for her benefit, as long as she, the surviving spouse, was a U.S. citizen and the trust was properly drafted.

The marital trust that Pete established named J.P. Morgan as co-trustee, and also contained a provision empowering Karen to change her co-trustee for any reason.

Paying estate taxes

At Pete’s death, roughly $30 million of his estate was needed to satisfy the bequests to his children:

- $15 million to the three children
- Almost $15 million to pay the estate taxes due on those bequests

In other words, the combined U.S. and New York transfer tax rate on those bequests was about 50%.

Pete could have made those same gifts at a lower effective transfer tax rate (perhaps as low as 28.6%) if, instead of leaving the children $15 million in his will, he had given those amounts during his lifetime.

Not all states impose a transfer tax at death. Even so, gifting during one’s lifetime generally reduces the transfer tax burden on a family.
Carrying On

With Pete gone, Karen updated her will and reviewed her entire estate plan.

She may sell at least one of the residences to downsize. She plans to become more philanthropically engaged than she has been. She also expects to spend more time with her grandchildren, and is considering setting money aside for their education and other needs.

Shortly after Pete’s U.S. estate tax return was filed in June, Karen asked Christopher Appleton and Alice Heisman at J.P. Morgan to prepare cash flow and estate disposition analyses.

Based on the findings, Karen could then decide whether she was comfortable with the plan as is, or whether changes needed to be made.

INSIGHTS

Modeling

As a service to our clients with complicated estate plans and assets, our advisors offer a variety of reviews, including:

• **Cash flow analysis**: Tells Karen whether her projected income would support her expected spending needs now that she can no longer count on Pete’s salary and bonus

• **Estate disposition analysis**: Summarizes Karen’s assets, where they would pass on her death based on her existing estate planning documents, what the projected estate taxes would be on her death, whether her estate would have sufficient liquidity to pay estate taxes, and who her executors and trustees are
As Karen begins a new life, she will work closely with Christopher and Alice to craft a plan for her shifting situation and needs. She and Pete forged a strong relationship with Christopher and team, so Karen knows that she can rely on them not only during her family’s transition but also throughout the years ahead.

Separately, each of her three children is speaking with Christopher and Alice about their families’ current finances and long-term goals. One of the first items to be addressed will be to make sure that all wills and other key documents are in order.

Planning for one’s own passing is not easy. But it is also one of the best opportunities each of us will ever have to truly take care of our families and loved ones.

Your J.P. Morgan team would be honored to work with you and your other professional advisors to help you make sure that your family is cared for well.
What’s Your Story?

Get started on the right path by making sure you can answer “yes” to these questions

1 Is your estate plan up to date?

We recommend reviewing the wills of you and your spouse, and other estate planning documents, at least every five years, and after major life events or significant changes in net worth.

2 Are your beneficiary designations up to date?

We urge you to regularly review the beneficiaries named in life insurance policies and retirement accounts. We recommend discussing these designations with your estate planning lawyer to ensure they work well with your will and other estate planning documents.

3 Do you have other key documents in place and up to date?

These documents should always reflect your current wishes and circumstances:

• Living will
• Health care proxy
• Power of attorney
• HIPAA (Health Insurance Portability and Accountability Act) form
• Family tree
4 Do you know who has all your key documents, where they can be found, and/or who has access to them?

5 Do you have these important advisors identified?
   • Executor
   • Guardian for minor children
   • Trustee for irrevocable trusts
   • Successor trustee

6 Have you shared the logins and passwords for your accounts so they can be retrieved as necessary?

7 Have you shared your preferences regarding services and burial/cremation with appropriate family members and friends?

For further guidance, please ask for a copy of Your Life Details. Your J.P. Morgan advisors are available to work with you and your other professional advisors to help you with all your wealth planning.
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