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Family MATTERS

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My Family Matters *newsletter is designed to help you make the best personal and financial decisions for you and your family.*

Please call or email me if you have any questions that you would like me to address either privately or in the next newsletter. I'd love to hear from you!

Best,

Tali

CURRENT EVENTS

Estate Planning in The News

Wife and Mother Battle Over Deceased Soldier's Sperm

The widow of a soldier killed in Iraq in April 2008 is trying to harvest her husband's sperm so she can have a child through artificial insemination. Her mother-in-law has other plans. Only weeks before he was scheduled to come home, twenty-six year-old combat engineer Army Sgt. Dayne Darren Dhanoolal was killed by a roadside bomb that tore through the mine-detecting vehicle he was driving in Iraq. Upon his return, he and his wife, Kynesha Dhanoolal, planned to start a family.

The family feud is the result of poor planning. Darren had no will, and he designated his mother as the person authorized to handle his remains upon his death. But as Darren's wife, Kynesha was named by the court as the

FOOD FOR THOUGHT

GETTING THE MOST FDIC COVERAGE IN YOUR BANK ACCOUNT

In the aftermath of the IndyMac Bank failure, I have had several people ask me how the FDIC insurance coverage for bank accounts works. Here's a brief guide about how deposit insurance rules work and tips on where to go for more information.

The Federal Deposit Insurance Corporation, with its $53-billion reserve and the full backing of the U.S. Treasury, stands behind deposits of as much as $100,000 per person, per bank. If a bank fails, the FDIC will give anyone with a bank account of less than $100,000 a check for the entire amount.

There are five different types of legal ownership of a bank account: (1) accounts owned individually, (2) jointly, (3) as a business, (4) as a retirement plan, or (5) as a trust. Accounts set up under each ownership category are insured separately.

That is, one can have an individual account, a joint account, a retirement account, and several trust accounts, and each will get up to $100,000 in coverage. Business accounts may be entitled to more coverage if the business is a corporation, partnership, or unincorporated association "engaged in an independent activity" – *i.e.*, it was not set up for the sole purpose of getting increased FDIC insurance coverage. (Sole proprietorships do not get additional coverage.) Many types of retirement accounts – IRAs, 457 plans, self-directed

temporary administrator of his estate. Although Kynesha wants to use Darren's sperm to have a child through artificial insemination, Darren's mother wants his body embalmed – which would cause Darren's sperm to be lost. Kynesha had to get a federal court order restraining Darren's mother from embalming the body until she could collect the sperm. Kynesha also wants her husband to have a full military burial at Fort Benning near her home, so she can visit his grave. Darren's mother wants him to be buried in Texas and has arranged for his remains to be sent there. More court proceedings between Darren's wife and mother are sure to follow, which is probably the last thing Darren would have wanted.

Moral of the Story:

Have a coherent estate plan. Make sure the people you designate to be your agents after you die get along and will respect your wishes. Most importantly, make sure your wishes are clearly spelled out. While Darren's wife and mother are feuding, his own values and post-death preferences have been lost because he never wrote them down.

401(k)s and Keoghs – may be entitled to coverage of as much as $250,000 per owner. Accounts under the same ownership category are added together to determine coverage. So if you own two individual accounts at the same bank, those two accounts would only be insured for up to $100,000.

If the owner of a bank account is a trustee of a Trust – such as a Revocable Living Trust – the FDIC will insure up to $100,000 per qualifying beneficiary as long as the Trust is documented and designates particular beneficiaries. The owner's spouse, child, grandchild, parent, and sibling all qualify as beneficiaries for purposes of FDIC coverage. (In-laws, cousins, nieces, nephews, and friends do not qualify.) The FDIC will assume that all named beneficiaries have equal interests in the trust account unless the Trust instrument indicates otherwise.

So how much can one individual have in a single bank and be fully insured? If an individual has $100,000 in her own account; $100,000 in a joint account with her husband; $100,000 in an account owned by her incorporated business; $1 million in trust assets payable to 10 children and grandchildren; and $250,000 in her IRA, then the FDIC should cover the entire $1.55 million.

If you want to estimate how much you can deposit with full coverage, use the FDIC's electronic deposit insurance calculator at www.fdic.gov/edie. The FDIC also has a booklet called "Your Insured Deposit" on its website, which explains the rules in detail.

Remember to keep all records of each of your accounts handy, so you have an easier time proving your insurance coverage in the event your bank fails.

3 Things to Consider when Choosing a 529 Plan

A 529 Plan is a "college savings plan" offered by virtually every state. In the last issue, I wrote about the benefits of establishing a 529 Plan for your children's post-high school education. Here are some tips to help you decide which 529 Plan to choose:

1 COST.

529 Plans vary widely in the administrative expenses they charge, and those differences can have a significant impact on your investment returns. The more expensive the 529 Plan, the less money you get to keep of your investment earnings. For example, California's plan charges annual administrative expenses between .50% and 1.09% of the assets in an account. By contrast, other plans, such as Illinois or Utah, charge annual administrative expenses as low as .20%. Because many 529 Plans offer similar investment options, the differences in administrative expenses can be the biggest single factor that separates the good plans from the bad ones. Choosing a plan with lower administrative expenses means more money stays in the account for the benefit of your children.

Estate Planning Tip:

Designate Temporary Guardians

If you have already created an estate plan, you are way ahead of the many people who leave it up to state law to take care of their family after they are gone. Make sure, however, that your estate plan includes protection for your children from foster care in case your designated guardian lives out of state, is traveling, or is unable for some other reason to care for your children right away. If no relative or other legally authorized person is able to care for your children until the arrival of your designated guardian, the authorities may have no choice but to place your children in foster care for 24–48 hours. Even a temporary stay in foster care can be traumatic at a time when your children are already grieving over their loss. To avoid this scenario, ask your estate planning attorney to help you designate temporary guardians.

2 INVESTMENT OPTIONS.

529 Plans offer a wide range of mutual funds, usually run by well-known fund companies such as Vanguard or American. Because the quality of the investment offerings can vary greatly among the 529 Plans, you should look carefully at the performance and investment strategies of the mutual funds offered by any 529 Plan you are considering. One good resource is Morningstar (www.morningstar.com), which provides detailed information about each state's 529 Plan. Morningstar also offers an annual review of 529 Plans, entitled, "The Best and Worst 529 College Savings Plans," which can be accessed for free after registering with the Morningstar website.

3 STATE TAX BENEFITS.

All 529 Plans offer the same basic tax benefit: tax-free distributions for qualified educational expenses such as tuition, fees, books, room and board. Some states, however, offer *additional* tax benefits only for residents who invest in the state's 529 Plan – usually, in the form of a state income tax deduction for 529 contributions. California does not offer its residents a state-income tax deduction for 529 Plan contributions. But if you live in a state that does, it may be in your best financial interest to invest in your state's 529 Plan, even if is more expensive than other plans and has imperfect investment options.

Question of the Day

"Life insurance: Why do I need it and what are the different types?"

People buy life insurance for a variety of reasons. The most common is to cushion the financial loss that comes with the death of a loved one. When a spouse dies, the family loses the financial contributions of the spouse. Life insurance can help replace that income and ease the financial burdens caused by the loss. Another common reason to buy life insurance is to provide money that the surviving family members can use to pay an anticipated obligation, such as paying for estate taxes or purchasing the deceased's interest in a small business. Finally, some people use life insurance to transfer money to loved ones without paying income taxes or estate taxes, which can be accomplished by placing the life insurance policy in an irrevocable trust and meeting certain legal requirements.

There are two basic types of life insurance: term and whole. With a term policy, the insurance company promises to pay a death benefit if the insured dies within a specified number of years, usually 10, 15, 20, or 30 years. If the insured dies within the term of the policy, the beneficiary will receive the death benefit.

If the insured outlives the term of the policy, the policy expires, and the insured will have to buy a new insurance policy with higher premiums based on his or her age and health at the time. Term insurance is sometimes referred to as "pure insurance" and is usually significantly less expensive for younger individuals than the alternative – whole life insurance.

With a whole life policy, the insurance company promises to pay a death benefit whenever the insured dies, so long as he or she continues paying the premiums. Whole life does not expire after a certain number of years and cannot be canceled if the insured's health changes. Whole life also builds a "cash value" within the policy, which can be invested or withdrawn if the insured decides to cancel the policy.

Whether to buy term or whole life can be a complicated decision that depends upon a wide range of factors, such as the insured's age, health, investment habits, etc. It is best discussed with an insurance agent, who can explain the features and pricing of the competing products.

Stay Tuned …

In the next newsletter, I will discuss:

- **Planning for incapacity: Avoiding a Terry Schiavo-type disaster**
- **How to choose guardians for your children**
- **Leaving money to charities**
- **Plus more current events, tidbits, and reminders**

ABOUT THE AUTHOR:

Tali Klapach grew up in Los Angeles and graduated from Princeton University and Yale Law School. Following law school, Tali clerked for a federal judge on the Court of Appeals in New York and then moved back to California to be closer to family and pursue her legal career. Tali now has her own practice providing estate planning services. As the mother of two, Tali knows firsthand the kinds of concerns a family has and the importance of caring for one's children in the most responsible and loving way. Her goal is to help each client make the best personal and financial decisions for their family and to find peace of mind - now and in the years to come.

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