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Risk of Loss Beyond Market Returns

By Xenia Woltmann

How comfortable would you feel about a 30% loss of your assets? What about 55%? 73%? What if the loss occurred in one day? These losses are staggering, but they can be avoided with proper planning.

The 30% loss referenced above occurred on April 12, 1945, the day that Franklin D Roosevelt passed away. The 55% loss on August 4, 1962, when Marilyn Monroe passed. Elvis Presley died on August 16, 1977, creating a 73% loss to his estate. There is a sizeable list of celebrities that died intestate (without a will) and the settlement process became lengthy, expensive, and public knowledge, because of probate. In case you are considering looking up figures: FDR’s estate was worth $1,941,000 before settlement costs of $575,000; Marilyn Monroe’s estate value was $819,000, with $449,000 in costs; and Elvis’ estate settlement costs were $7,375,000, 73% of his $10,165,000 estate.

These are three examples in which lack of planning can result in significant losses to your estate and to your heirs. It is important that you make your wishes known. While a will does not avoid probate, it does specify your wishes as to how you want your estate distributed. Establishing a trust and/or beneficiary designations not only makes your wishes known, probate and its related costs can be avoided, and information about your estate can be kept out of the public realm. More importantly, emotions are raw when a loved one passes away and disputes over an inheritance may cause a rift between beneficiaries, sometimes beyond repair.

Another costly risk is taxation of your estate. Where a probate estate consists of assets that do not directly pass to your heirs, your taxable estate consists of all of your assets, whether or not they go through probate. Presently, estate taxes are not common. However, the estate tax threshold may change if tax law provisions are amended or allowed to expire. Currently, the exemption for an individual estate is $12.06 million ($24.12 million for married couples). The estate is liable for taxes on any amount over these thresholds. While the existing cap is 40% of the taxable amount over the stated thresholds, that is just the marginal rate; a base tax is also imposed. For example, if a decedent’s estate is valued at $13 million, the amount in excess of $12.06 million ($940,000) is subject to estate tax. Based on the current rate, the estate would owe 39% of $940,000 or $366,600, together with a base tax of $248,300, totaling $614,900. This total tax amount is 4.7% of the entire estate. Fortunately, strategies are available for individuals concerned about estate taxes to ensure their beneficiaries receive as much as possible.

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