The Trust Company of Virginia

2017 SPRING NEWSLETTER

# What Your Children In Their 30s And 40s Should Know About Wealth Preservation

### Are you preparing your beneficiaries for wealth?

Trust funds are not always lost to divorce or reckless spending. More often than not, children are simply not educated in wealth preservation. Being a conscientious steward of wealth is a tremendous responsibility. Heirs in their 30s and 40s need to be equipped for making good decisions, but parents are often reluctant to interfere when they see their grown children on the verge of making costly mistakes.

No matter how independent your children are, they can still benefit from your counsel. It is also important for them to understand that trusts are ideal vehicles for preserving wealth and growing assets.

### Teach the Importance of Saving

Are your kids financially savvy enough to manage their funds wisely? They may have a good idea of what their inheritance will amount to, but are they putting it into context? Discussions about future expenses are as important as learning about income and wealth.

The Great Recession taught us that careers come and go. Debt, chronic illness and simply growing old derail even the best-laid financial plans.

If your kids are nonchalant about saving for their golden years, give them a reality check:

- According to a leading U.S. provider of retirement accounts, workers should have eight times their final salary saved when they retire.
- Anyone entering retirement should have enough saved to cover expenses for 25 years.
- It's estimated that 70 percent of seniors in the U.S. will eventually need some form of health assistance. Long-term care is required for three years on average.
- In 2015, in-home health aids cost an average of $46,000 annually. The national median cost of a private room in a nursing facility was upwards of $92,000 per year.

Even seniors who are fortunate enough to stay healthy shell out for insurance, housing, property taxes, food, prescriptions, transportation and personal needs. An inheritance should be viewed in light of all these expenses. Teach your kids to do the math.

### Empower Through Involvement

The more money someone has, the greater his risk for mismanaging it.

Anyone who inherits from you should be involved to some degree in your financial activities. You needn't reveal the exact value of your assets, but keeping your children in the dark doesn't do them any favors. They'll be managing things on their own someday and teaching their children after them.

It's never too late to teach the basic concepts of financial planning, investing, estate planning, tax-efficient asset management and legal agreements.


Help your children draw up rough financial plans that are relevant to their current circumstances. Discuss saving, sticking to a budget and making appropriate adjustments. If your son gets a substantial raise, how should he allocate the extra funds? What sacrifices will your daughter have to make to afford that pricey car she's got her eye on? Encourage them to set realistic short- and long-term goals.

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**Wealth Perservation** ~ *continued*

Make sure that your kids know about the tax benefits of leaving their funds untouched. They should also be schooled in legal actions that impact trusts. By some estimates, around 80 percent of trusts are drafted to protect heirs in the event of a divorce or bankruptcy.

One of the best ways to pave the road for future good stewardship is to have heirs sit in on meetings with TCVA trust administrators. We'll gladly explain how their trusts are structured. A beneficiary who learns out of the blue that they are suddenly a multimillionaire is at a disadvantage. If they know nothing about finances, a large inheritance could either be a burden or an irresistible temptation to live dangerously.

As for investing wisely long term, our TCVA professionals are happy to educate your kids in the basics: stocks, bonds and cash. We'll show them how a standard port-folio is structured. They'll see the value in diversifying and not taking on too much or too little risk.

As we guide them to sound investments long term, they'll understand our approach for growing wealth. They'll see their funds multiply sitting right where they are. Heirs who grasp the concept of wealth preservation and see it pay off year after year are less likely to cash out in a hurry.

We offer a wide variety of estate services as well, so your children can count on our wisdom, experience and expert guidance for years to come.

In short, TCVA is committed to seeing that your wishes for the next generation are perfectly executed.

### Strengthen Relationships and Instill Family Values

Have open discussions about wealth. Talk about frugality, accountability and philanthropy. Discuss the value of living simply and contributing to the community. Don't hesitate to expose financial missteps that you've made. Explain how you corrected them. Offer yourself as a sounding board. Invite feedback on financial decisions that you're mulling over.

### A Trust Is Only as Good as the Trustee

Here at TCVA, we provide what banks cannot: customized service through long-term, meaningful relationships. Our wealth preservation strategies ensure peace of mind for generations to come.

Come by and see us for estate services, asset management, investment advice and retirement planning. Be sure to bring the kids along. ■

## EVENTS AROUND THE COMPANY

As with past years, our offices are hosting spring forum luncheons. Four offices will have our investment group on hand to answer questions and introduce TCVA's newest members. Our McLean office is planning a book author presentation.

In addition to our spring forums, once again we are sponsoring the opening reception for the Annual Advanced Estate Planning and Administration Seminar in Williamsburg. This marks our 23rd year of sponsorship.

Plans are coming together for special client appreciation evening events happening this spring and fall. Please be on the lookout for invitations to these events. ■

## New Additions To Our TCVA Family

We celebrate the birth of these two beautiful darlings.

**Edie Gayle Apicella**
Born: 11/02/2016
7lbs. 11oz.
Daughter of
Ashton Long Apicella
*(Richmond Office)*
Matthew Apicella

**Elizabeth June Smolen**
Born: 02/18/2017
7lbs. 1oz.
Daughter of
Gregory Smolen
*(McLean Office)*
Amy Smolen

# TAXABLE MUNICIPAL BONDS 101

*Charles J. Finley, CFA*
*Vice President - Fixed Income Portfolio Manager*

### What Are Taxable Municipal Bonds?

Municipal bonds are debt obligations issued by state and local entities that meet certain public purpose or public use tests under IRS requirements to qualify for tax exemption. Examples of financing activities that meet these public benefit criteria include the construction of schools, highways, hospitals and sewer systems. To finance activities that do not meet the public benefit criteria, state and local governments frequently issue taxable municipal debt. Examples of taxable municipal financing activities include industrial development, replenishment of public pension plans, sports facilities, tax-exempt municipal bond refinancing and certain higher education programs. While the interest paid on taxable municipal bonds is not exempt from federal taxes, it is often exempt from state and even local taxes for investors who reside in the state/locality of issuance.

### How Large Is The Taxable Municipal Market?

The taxable municipal market has experienced significant growth over the past 30 years driven primarily by two pieces of legislation, the Tax Reform Act of 1986 and the American Recovery and Reinvestment Act of 2009 (Build America Bonds program). The Tax Reform Act established more rigorous criteria for municipalities to qualify for tax-exempt interest treatment and the Build American Bonds program provided municipalities the incentive to issue taxable bonds and receive a federal reimbursement to cover incremental interest costs. Bolstered by both pieces of legislation, the amount of taxable municipal debt outstanding grew from $3 billion in 1985 to approximately $614 billion in 2016. The five largest states with taxable municipal debt outstanding are CA, TX, NY, IL and OH. Despite impressive growth, the taxable municipal bond market is still much smaller than the tax-exempt municipal bond market ($2.5 trillion) and the corporate bond market ($8.6 trillion).

### Taxable Municipal Bond Advantages

There are certain advantages that taxable municipal bonds may offer over tax-exempt municipal bonds and other taxable fixed income securities, particularly corporate bonds:

- Because taxable municipal bonds are often exempt from state taxes for investors that reside in the state of issuance, the effective yield may be higher than the stated yield. The difference in yield can be material for investors residing in high tax states such as CA, OR, MN, NJ, DC, and NY.
- Taxable municipal bonds provide access to high-quality municipal issuers to investors that may be unable to benefit from the tax-exemption of traditional municipal bonds. Particularly, taxable municipal bonds may be attractive to tax-deferred investors in 401-Ks and IRAs, investors not in the highest income tax brackets and international investors.
- The credit support offered by the issuing states and localities reduces exposure to risks specific to other types of taxable securities. For instance, corporate bonds can be negatively impacted by event risk such as acquisitions, leverage buy-outs and leveraged recapitalizations – risks that do not affect municipalities.
- Low default risk - In a study of defaults since 1970 by Moody's ratings service, just 0.08% of investment grade municipal bonds (both tax-exempt and taxable) defaulted over a cumulative 10 year period compared to 2.81% for investment grade corporate bonds and 32.41% for high yield corporate bonds.
- Taxable municipal bonds often provide higher yields than other similarly rated taxable securities such as government agency and corporate bonds. For instance, 5 year maturity AA-rated taxable municipal bonds yield approximately 2.45% compared to 5 year maturity AA-rated corporate bonds at 2.35% and government agencies at 1.90%.

TCVA **SPOTLIGHT**

## Our Roanoke Office

With the opening of our Roanoke office in 1999, TCVA truly established itself as the trust company of "Virginia." Today, we proudly celebrate TCVA in Roanoke as our second largest office. The staff's dedication continues to strengthen our reputation as the superior trusted choice for asset management and trust services. This distinction does not come easy. It is due to the diligent hard work of our experienced staff and their dedication to guiding clients with their specific wealth management decisions. As Brad Mullins often says, "It's ALL about our client relationships. We earnestly care about our client's well-being and understand the importance of assuring them we will do everything we can to help them achieve their financial goals."

Congratulations Roanoke for helping TCVA be the largest independent trust company in Virginia.


*Left to right:* **Angella Haranzo** -*Associate,* **Donna Lynch** -*Client Administration Officer,* **Brad Mullins** -*Senior Vice President - Client Administration,* **Helen Foster** -*Senior Associate*


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