TRUST ARTICLES

Country Club Trust COMPANY

Ask a Trust Officer – Retirement Readiness

DEAR TRUST OFFICER:

I'm old enough to retire, but I'm not sure I'm ready yet. I think I have strong financial resources, but I don't know if they are enough to make me financially independent for the rest of my life. Retirement seems so terribly uncertain to me. When should I make the jump? -STANDING ON THE CUSP

DEAR STANDING:

First off, your situation is quite common, your hesitation quite understandable. Many people are working well into their retirement years, longer than they expected to when they began their careers. In some cases, financial necessity is the driver, but in other cases, a few more years of work may result in a retirement that is substantially more comfortable, making luxuries affordable.

Do you get personal satisfaction from your job? Are the daily job stresses outweighed by your sense of accomplishment? If not, do you expect that to change?

Keep in mind that for most retirees, tax obligations go down, sometimes dramatically. So the financial resources that you've accumulated may go farther than you realize.

Finally, how is your health? How long did your parents live? That information may help you to estimate your own longevity. What are the things that you hope to do with the rest of your life? How much time might that take?

Sorting through questions such as these may help you to determine the optimal date for beginning your retirement.

Do you have a question concerning wealth management or trusts? Send your inquiry to Trust@countryclubtrust.com

ESG Investing Controversy

In the 1990s the idea of "socially responsible investing" took shape. The initial idea was to use negative screening to avoid companies that traded in "sin" or "vice," such as tobacco companies, gun manufacturers, casinos, and liquor companies. Some people added oil companies to the forbidden category.

Although screening out disfavored firms may have made investors feel virtuous, it didn't affect the fortunes of those firms in a material way. In fact, the "vice stocks" generally outperformed the market as a whole, because those companies tended to be rather profitable, paying generous dividends to their shareholders.

A less constricting version of socially responsible investing has emerged in recent years, one that employs positive screens or themes as well as exclusions. Three categories of factors are involved: environmental, social, and governance (ESG). An environmental focus may look at carbon emissions, water stress, renewable energy, or pollution. Social factors might be diversity, inclusion, labor, employee welfare, or data security. Governance issues might touch upon independent directors, audit standards, women in leadership, and executive compensation Companies may be scored for their ESG performance. They may self-report, or data may be gathered by third parties who then sell the data. These scores may be combined with traditional financial analysis tools in determining which companies are likely to have the desired impact while still providing strong returns to shareholders.

ESG and retirement plans

There is no shortage of opportunity to invest in mutual funds that have ESG aspects to them. However, such funds are not yet widely available in the nation's 401(k) plans. The Department of Labor recently proposed a ruling that could slow the addition of such funds to retirement plans.

In general, investments must pursue maximum economic benefit for plan participants. Under the DOL rule, fiduciaries will have to justify offering any particular mutual fund, including ESG funds, based only upon pecuniary factors, not social ones. Additionally, the DOL rule prohibits making any ESG fund the default option for plan participants, which would require them to opt out instead of opting in.

The new rule generated a record of more than 1,500 comments, the most the agency has ever had for any proposal. ESG proponents argue that their criteria are likely to lead to lower downside risk for the investments, as companies with higher ESG scores may be able to avoid scandals or other reversals of fortune. The evidence for such a belief is not yet entirely clear. The proponents of ESG investing are worried that the DOL casts a large enough shadow over the strategy that plan fiduciaries will choose to avoid controversy by simply not offering the option.

Drop the Stereotypes!

A Harris survey commissioned by the Empower Institute last January discovered that people don't strongly identify with "their generation" when it comes to making investment and saving decisions. Some 80% reported that their views were shaped by experiences and personal characteristics — not by the generation in which they were born. 53% said their ideas and feelings about money varied greatly as they passed through each stage of life.

The top financial concerns among survey respondents were paying off debts and providing for a secure retirement. Yet 25% said their daily expenses were too large to permit them to focus on retirement at this time.

People are looking for financial advice, but canned suggestions based upon generation membership are not helpful. 56% reported that their goals, resources and challenges are so unique that the common planning tools available to them are too difficult to use to achieve any real benefit.

The use of digital financial wellness tools has grown, while static education material usage has dropped, the survey found. The number one action taken by participants after using a financial wellness program was to arrange a one-on-one session with a financial planner for fully customized advice.

Are you satisfied with the state of your portfolio or financial planning? Would you like to have a professional take a look at your situation and offer some suggestions? Our expertise in investments and financial management is available to you should you want it. Why not make an appointment to see us today?

An Unusual Clause in Warren Buffett's Will

Warren Buffett's annual shareholder's letter always garners much attention in the press, given his exceptional track record at the helm of Berkshire Hathaway. This year's letter included the revelation of an element of Mr. Buffett's estate plan:

"Today, my will specifically directs its executors — as well as the trustees who will succeed them in administering my estate after the will is closed — not to sell any Berkshire shares. My will also absolves both the executors and the trustees from liability for maintaining what obviously will be an extreme concentration of assets." It has been speculated that 90% of Buffett's wealth is in that stock.

Such a clause in a will is unusual, though not unprecedented. Trustees of trusts have a duty to diversify trust holdings, so that a setback for one asset doesn't compromise the trust as a whole. Having a concentrated position is great so long as that holding goes up in value, but should it go down the beneficiaries may complain that trustees failed to fulfill their duty. Therefore a trustee will typically ask for specific instructions about any concentrated holding.

Even with specific instructions to maintain a concentrated holding, lawsuits have been brought over the failure by the trustee to recognize that a change in circumstances should overrule what the trust creator thought years earlier, when the trust was funded. Accordingly, the protection for the fiduciary will need to be detailed and specific.

As a rule, one should give one's trustee the broadest possible latitude to use investment skill and expertise to provide financial protection for the trust beneficiaries. The exception to this rule typically comes into play when there are unique assets, such as a family business or unique real estate to be maintained.

Buffett is bullish on Berkshire Hathaway's future without him, but it is expected that the process of distributing his estate to charity may take 15 years after his death. A lot can happen in that span of time.

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1 Ward Parkway, Kansas City, MO 64112 | www.CountryClubTrust.com