

Often times, some individuals become ultra-conservative with their investments as they approach their mortality, thereby potentially missing out on opportunities. Traditionally, they shorten the maturities of their fixed income investments (Bonds and CDs) to their anticipated life expectancies so their heirs might not be tied into lengthy maturity periods, should they pass on.

Did you know there is a potentially worthwhile alternative? Some of these fixed income instruments permit beneficiaries to sell them back to the issuer at par value. This “survivor’s option” is also commonly referred to as an Estate Feature or a Death Put because it gives the survivor the option to “put” the investment back with the issuer. For simplicity, we will refer to it as the Estate Feature throughout the remainder of this document.

Currently, the estate feature is only available with Certificates of Deposit (CDs) and Corporate Bonds. For simplicity, we will refer to both of these investments as “Bonds” throughout the remainder of this document.

The estate feature is designed to help protect estate assets by allowing for the full redemption of principal and accrued interest due in the event of the death or, in some instances, the legal declaration of incapacitation of the beneficial owner of the security.

From my experience, the feature is under-utilized, overlooked or misunderstood.

One of the primary benefits of investing in these instruments is for estate planning purposes. The existence of the estate feature allows the investor to own bonds of longer maturity (than their expected mortality) while reducing the market risk to their survivors and removing the interest rate risk to their survivors.

In the event of death or legal incapacitation, the par value is available to the beneficiaries through the estate feature, even if the market value of the bond is below the par value. On the other hand, if the bond is worth more than par value, then, it could be sold at a premium in the open market.

Restrictions to the estate feature

Please keep in mind there could be limitations such as a threshold that issuers will take back in a given year, a possible per-estate limit, and potentially a minimum holding period before the estate feature can be used. As a result, it is important to review a prospectus or offering circular prior to investing.

Account type will impact the eligibility for repayment.

- Joint tenants with rights of survivorship (JTWROS) — Full redemption is available, subject to individual security limits;
- Tenants in common — With the exception of husband and wife, only the beneficial percentage interest in the account is redeemable;

- Revocable trusts — It depends on how the trust is organized; contingencies include the role of the trustee and the beneficial owner if the trust is not set up under the Social Security number of the grantor.

(Source: Advisors Asset Management, Inc)

In conclusion; by placing the estate feature in the holder's control, the heirs have better flexibility in managing this portion of the inheritance.

For further information on the estate feature please contact Clifford Robison, Financial Architects, Inc. at 248-482-3639.

The information discussed is educational in nature and is not and should not be construed to be investment advice.

Any fixed income security sold or redeemed prior to maturity may be subject to loss.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. No investment strategy can guarantee success.

High-yield/non-investment grade bonds involve greater price volatility and risk of default than investment-grade bonds.

Clifford Robison is a Registered Representative of and offers securities through The O.N. Equity Sales Company, Member FINRA/SIPC (www.FINRA.org & www.SIPC.org.) 3939 West Twelve Mile Road, Suite 102, Farmington Hills, MI 48331. 248-482-3600. Investment Advisory services offered through O.N. Investment Management Company and FAI Advisors, Inc. Financial Architects, Inc. and FAI Advisor's, Inc. are not subsidiaries or affiliates of The O.N. Equity Sales Company or O.N. Investment Management Company. Clifford is registered in the following states: AZ, CA, FL, IL, MA, MI, MO, OR, TN.

Kyle Zwiren is a Registered Representative of and offers securities through The O.N. Equity Sales Company, Member FINRA/SIPC (www.FINRA.org & www.SIPC.org.) 3939 West Twelve Mile Road, Suite 102, Farmington Hills, MI 48331. 248-482-3600. Investment Advisory services offered through O.N. Investment Management Company. Financial Architects, Inc. is not a subsidiary or affiliate of The O.N. Equity Sales Company or O.N. Investment Management Company. Kyle is registered in the following states: MI, NY

