DISPATCHES

State Law May Protect Inherited IRA Assets From Creditors

Whether an inherited IRA is protected from creditors may depend on the state it is held in. A U.S. bankruptcy court ruled that Idaho state law is broad enough to exempt such accounts from being seized for the purpose of paying debts.

The ruling is notable because in 2014, the U.S. Supreme Court ruled in Clark et ux v. Rameker, Trustee, et al that inherited IRAs are not protected from creditors. In writing for the court, Justice Sonia Sotomayor found that funds held in inherited IRAs are not set aside for retirement. Her rationale was based on three reasons: additional funds can never be contributed, beneficiaries are required to take withdrawals (either the full balance within five years or minimum withdrawals every year), and withdrawals from an inherited IRA can be taken at any time without penalty regardless of the beneficiary's age. (See "Supreme Court: No Bankruptcy Protection for Inherited IRAs" in the July 2014 *AAII Journal* Dispatches for more about the ruling.)

In a January 2019 ruling, U.S. Bankruptcy Judge Terry L. Myers did not contradict or disagree with Justice Sotomayor's opinion. Rather, he noted the way Idaho state law was written and highlighted case law as the reason why the inherited IRA at issue in Frederick Michael Arehart and Paula Jean Aerhart should be exempted from creditor claims.

Idaho Code 11-604A "protects a citizen's right in any employee benefit plan," according to Myers' opinion.

The case cited by Myers was Gregory Allen McClelland and Debra Jean McClelland. In 2008, U.S. Bankruptcy Court Judge Jim D. Pappas opined that "in drafting this exemption, the Idaho legislature painted with a broad brush." As such, Myers described the Idaho statute as not requiring "a finding that the funds in the account or plan be 'retirement funds.'" He then further wrote, "in the 10 years since McClelland was issued, the legislature has done nothing to suggest that Idaho's broad language was unintentional or to alter the language or narrow the exemption found in Idaho Code 11-604A."

The key factor in this case is Idaho state law. Whether or not an inherited IRA in another state can be protected against creditors in a bankruptcy case may depend on the laws of the specific state. Those concerned about protecting such assets should discuss their concerns with an estate attorney familiar with the state's laws.

Sources: "In RE: Frederick Michael Arehart and Paula Jean Arehart," U.S. Bankruptcy Court, District of Idaho, January 10, 2019; and In RE: Gregory Allen McClelland and Debra Jean McClelland, U.S. Bankruptcy Court, District of Idaho, January 7, 2008.

Retirees' Happiness Correlates With Participation in Active Versus Passive Activities

A study looked at how retirees are spending their time in retirement and their reported levels of happiness. Using data from the Health and Retirement Study (HRS), which surveyed Americans age 51 and older, it was found that retirees are happier when they engage in "active activities"—including being social, walking or another form of exercise—over passive activities like being at home or watching TV. Even though retirees find themselves to be happier when being active, they tend to spend more of their time participating in the designated passive activities.

Prior research has discovered that retirees who spend most of their time in "social isolation" exhibit signs of worse health in the long run. One study even found that being isolated increases the risk of early death. In addition to a decrease in cognitive ability, high blood pressure and lack of immunity were also cited as issues that can arise from primarily staying at home in retirement.

Those who were surveyed, on average, were retirees age 71 who reported two medical conditions. The average annual household income was $80,501 and the average household wealth of those who responded was $630,304. No correlation was found between household wealth and how retirees chose to spend their time.

Average Time Spent and Happiness Ratings for Various Activities by Current Retirees

Activity	Avg Time Spent (in hours)	Avg Happiness (scale of 6)
Watch Television	3.05	3.26
Work/Volunteer	1.39	3.74
Walk/Exercise	0.66	3.88
Health Activities	0.29	2.65
Travel/Commute	0.74	3.60
Socializing	1.68	4.56
Stay at Home Alone	2.81	3.71
Run Errands	0.61	3.75
Total	**11.23**	**29.16**

The average retiree spent three hours a day watching TV in addition to three hours staying at home. These yielded some of the lowest measures of happiness, as did health-related activities like doctor visits. On the active side, retirees spent less than two hours a day socializing and less than an hour exercising. They reported much higher levels of happiness for these activities even though less time was spent on them than passive activities.

This gap that the study's authors found between "actual time spent" and "optimal time spent," they believe, could "lead to reduced happiness, loneliness, or even depression." They suggest that financial advisers integrate a form of counseling into their client services for retirees, or at least have a referral program in place to ensure that those in retirement can allocate their time to the benefit of their overall health.

Source: "Time Allocations and Self-Reported Happiness of Retirees: An Exploratory Study," by Tao Guo, Ph.D., CFP, Yuanshan Cheng, Ph.D., CFP, Philip Gibson, Ph.D., CFP, and Louis J. Pantuosco, Ph.D.; Journal of Financial Planning, March 2019.

Investors and Advisers Disagree on Most Valuable Attributes

Investors and financial advisers don't see eye to eye when it comes to what investors value in their advisers and what advisers believe is important to investors, according to a recent survey.

Ranking a list of 15 different attributes, 693 individual investors chose the characteristics they perceived as valuable, while 161 advisers ranked what they believed investors wanted out of the client relationship. The researchers found that the biggest gaps between the two groups were on helping clients maximize their returns, helping investors stay in emotional control and understanding investors and their individual needs; the smallest gaps were in communication and explanation of financial concepts, advisers presenting themselves as professional and helping investors reach financial goals.

The survey also concluded that while investors found the technical side of financial advice more valuable than other ancillary or behavioral benefits, advisers believe personalizing portfolios to their client's needs was a top priority. Other research showed that tailoring the client's approach toward individualized strategies resulted in 15% more client wealth, but the findings of this survey suggest that "investors do not see [this personalization's] value."

With the research emphasizing interpersonal interaction as valuable to a portfolio's bottom line, the researchers concluded that perceptions on both sides need to change for overall success, writing that "investors have internalized the industry's past tendency to over-emphasize returns and benchmark relative performance."

Source: "The Value of Advice: What Investors Think, What Advisors Think, and How Everyone Can Get on the Same Page," by Samantha Lamas, Ryan O. Murphy, Ph.D., and Ray Sin, Ph.D.; Morningstar, February 2019.

List of Attributes

1. Helps me stay in control of my emotions
2. Has a good reputation and positive reviews
3. Is knowledgeable on tax consequences of investing
4. Can help me maximize my returns
5. Is approachable and easy to talk to
6. Helps me reach my financial goals
7. Is easy to get a hold of
8. Has a clear fee structure so I know what I'm paying for
9. Understands me and my unique needs
10. Uses up-to-date technology
11. Acts as a coach/mentor to keep me on track
12. Presents themselves in a professional manner
13. Keeps my interests in focus with unbiased advice
14. Communicates and explains financial concepts well
15. Has the relevant skills and knowledge

Source: Morningstar

Correlation Found Between Risk of Alzheimer's and Asset Allocation

The higher the risk of developing Alzheimer's disease, the higher the propensity to invest in lower-risk or higher-liquid assets, according to a recent study.

The researchers primarily used data from the Health and Retirement Study conducted from 1992 to 2014. The study consisted of 8,787 subjects with an average age of 66.44. The study's subjects varied in education, health, employment, income, planning horizon, risk aversion and number of living children. Additionally, the study gathered data on their asset holdings, including stocks, cash and equivalents, IRAs [individual retirement account(s)], certificates of deposit (CDs), bonds and other financial assets.

Initially the researchers identified three hypotheses meant to discover why individuals with different Alzheimer's risk levels save and allocate wealth in different ways. The first hypothesis was that the subjects know their risk of developing Alzheimer's disease or related dementia (ADRD); the second hypothesis was that the subjects "have different levels of cognitive capacity"; and the third hypothesis was that the process used to produce the Alzheimer's risk score doesn't fully account for the aging process. The authors discovered that the first and second hypotheses were inconclusive and did not explain the association between saving and Alzheimer's.

However, the third hypothesis—the fact that people foresee that they "may grow forgetful or incapable of managing their assets"—held up. The results showed that individuals might recognize their risk for developing ADRD with "more precision" as they age. The results also showed that if "doctors would use genetic tests to inform [subjects] whether they face a higher risk of developing ADRD later in life," then the savings behavior may be adjusted.

Source: "Understanding the Correlation Between Alzheimer's Disease Polygenic Risk, Wealth, and the Composition of Wealth Holdings," by Su H. Shin, Dean R. Lillard and Jay Bhattacharya; National Bureau of Economic Research Working Paper, February 2019.