

LEGACY & ESTATE PLANNING

(UNDERSTANDING THE BASICS)



Estate planning is an essential part of retirement planning for many reasons. You've worked hard for your money and want to see your children and grandchildren benefit. You also want to see it passed down in the most efficient way possible.

Unfortunately, costly mistakes are all too easy to make, from forgetting to name a beneficiary on your retirement account to not updating your estate plan over time. It's not just billionaires that need to have solid estate plans. It is anyone who wants their wishes to be honored after their passing.

Since your estate and legacy plan is a part of your overall retirement strategy, it is important to discuss how you plan to transfer your wealth before you pass with your trusted financial professional. However, your legacy is not just about increasing the financial wealth you hope to pass on to future generations. It also involves preparing your family for the wealth they may receive and understanding what wealth means to individual family members and to the family as a whole. Keep reading to learn about the basics of estate planning and what you should consider when creating yours.





MULTIGENERATIONAL ESTATE PLANNING

Baby Boomers have started to pass on the \$84.4 trillion in wealth expected to change in the coming decades. There are over 59.7 million Americans living in multigenerational homes – a 27% increase since 2007. That number is expected to keep rising. Many grown children are moving in with mom and dad in order to make ends meet while paying off student loans.^{1, 2}

In other situations, grandparents may be recruited to provide childcare. And in a growing number of cases, adult children are reworking their housing arrangements to accommodate the needs of aging parents.

Multigenerational legacy planning should involve all those who will be part of your legacy plan. Good planning can be important to the success of these arrangements and to make sure all family members feel respected and included. It also involves a cross-generational understanding of what wealth means to individual family members and to the family as a whole.



Here are three fundamental questions that we believe should be addressed in Multigenerational Legacy Planning: ³



What does my family want to do with the wealth that has been created?

- Whether you have near-term cash flow priorities, long-term wealth transfer plans, or philanthropic goals that will span generations, identifying your objectives is the first step when creating a legacy plan. Generally, families that succeed through generational transitions of their legacy have developed real trust—and that trust is built through compassionate and candid conversation.



How do I combine values and wealth to create a lasting legacy?

- Ask yourself and your family members questions and carefully reflect on the answers before determining what you want your legacy to be. Keep in mind that these can be very sensitive conversations. Discussing your values and aspirations with those important to you can help you develop a detailed wealth plan that aligns with your legacy goals.



Does my legacy plan align with my vision?

- Strategic planning aligns your values and goals with your overall investment strategy and wealth plan. Families who are successful in implementing their desired legacy and transitioning wealth to the next generations typically follow two best practices: developing family wealth goals and discussing planning options with select advisors to determine what strategies will best help meet those goals.





Paying more in taxes could mean passing on less to your loved ones

The Estate Tax is a tax on your right to transfer money or property at your death. For 2023, the estate tax lifetime gift tax exemption is \$12,920,000 for individuals and \$25.84 million for married couples. This means that Americans can exclude this amount of assets from their taxable estate. In other words, if you die and leave \$13,920,000 worth of investments and other assets to your heirs and haven't given any taxable gifts, only \$1,000,000 of this would be subject to estate tax. Note that this exemption limit will revert to \$5 million in 2025 when the Tax Cut and Jobs Act expires, and could go lower depending on what legislation we see in the future.^{4, 5}

The tax rate on estates in excess of the exemption amount ranges from 18% to 40%. The High Net Worth Investor (\$1M) or greater in investable assets) can continue to plan around the estate tax, whittling down their estates with lifetime wealth transfer strategies to keep below the new threshold and avoid the 40% federal estate tax.⁶

The HNWI can make use of the \$16,000 annual exclusion amount. You can give away \$16,000 to as many individuals as you'd like. A husband and wife can each make \$16,000 in gifts. So, a couple could make \$16,000 gifts to each of their four grandchildren, for a total of \$128,000, so long as you never exceed the lifetime giving exemption amount.⁷





Sometimes the estate tax is referred to as a “death” tax where the executor of your estate, or whoever has been charged with distributing your money and property to beneficiaries, has to pay the federal and/or state government when you die.

Currently, there are 15 states that have an estate tax as well, which may kick in at a lower threshold than the federal estate tax does. Here are some estate planning considerations that can be executed with the help of a qualified estate planning attorney.

1. Remove assets from your estate before you die. Make annual, tax-free gifts. This is a simple, no-cost way to save estate taxes by reducing the size of your estate.
2. Transfer life insurance policies to an irrevocable life insurance trust. Here, you remove the death benefits of the existing policy from your estate. However, if you die within three years of the transfer, it will be included in your estate.
3. Use a qualified personal residence trust to remove your home from the estate at a discounted value, while still being able to live there.
4. A grantor-retained annuity trust or grantor retained unitrust is a way to remove income-producing assets from the estate at a discounted value, while still being able to receive income.



5. Transfer assets to your children to reduce your taxable estate by creating a Limited Liability Company or Family Limited Partnership. Here, you're also able to protect your assets from future lawsuits, creditors, or even spouses.
6. Use a Charitable Remainder Trust to convert appreciated assets into lifetime income with no capital gains tax. This saves both estate and income taxes where the charity receives trust assets after you die.
7. Use a Charitable Lead Trust to remove assets from your estate, save estate taxes, and distribute the income to a charity for a set period of time after which the trust assets then go to your loved ones.
8. Buy life insurance to replace assets given to charity and/or pay any remaining estate taxes. This is done through an Irrevocable Life Insurance Trust where death benefits are not included in your estate because you are paying estate taxes and/or replacing charitable gifts with the trust.

In the end, there are many different strategies for HNWI to properly manage and transfer their estate. But, if not planned for carefully, estate taxes could end up diminishing the value of your estate for your beneficiaries.⁸

CONCLUSION:

You've worked your entire life to support your family and deserve the confidence that a comprehensive estate plan can give you. Estate plans need to be designed and executed with a high level of attention to detail to help minimize related taxes for your family and beneficiaries, to allow your assets to pass on outside of probate court, and make sure your final wishes are carried out exactly as planned. Even small mistakes can prove to be very expensive and invalidate legal documents, which is why our team of professionals takes the time to review every aspect of your plan extensively.

The process of building this strategy to help maximize the transfer of your estate can be complex, but our financial advisors are here to help you leave a legacy — one designed to create a true impact on your loved ones, special interests, or charities. We encourage you to contact us for a complimentary estate plan review or to go over estate planning basics.

Our sister company Asset Strategy specializes in helping retirees and pre-retirees plan for a nest egg that is designed to last as long as they do and help minimize the burden placed on their loved ones in any outcome. Take control of your personal wealth and work with a team of retirement planning professionals to devise a custom strategy that seeks to carry you to and through a confident, and enjoyable life in retirement.



Sources:

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Charitable Remainder Trusts (CRT) is irrevocable and typically requires a donation of substantial assets. Legally, individuals no longer have control of the assets in the trust. Distributions from the CRT to the income beneficiaries might be taxable as ordinary income. Depending on the amount of assets donated, individuals may not be able to take the full tax deduction in the same year as the donation, however, it can be spread out over a five-year period.

Unlike a Charitable Remainder Trust, a **Charitable Lead Trust** is not tax-exempt. Trust income is taxed like the income of any other complex or grantor trust. CLT requires legal setup and likely ongoing maintenance costs, requires careful planning to ensure the trust can make its required payments during the trust term, and is irrevocable.

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