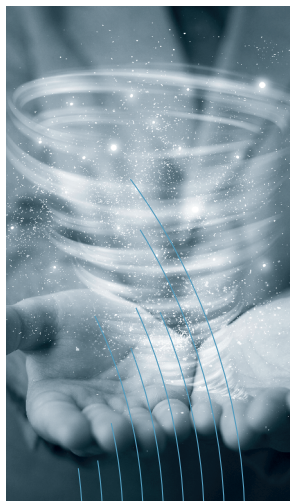


# Perfect Storm Planning



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**MAKING COMPLEX DECISIONS** appear simple during a time of impending uncertainty is an enormous undertaking that comes with tremendous responsibility. Over the past several months, our role of consultant has become even more critical given the ever-changing dynamics of the global economic landscape. As we all attempt to deal with the fallout that has resulted from the COVID pandemic, it is safe to say that no segment of the population has escaped unscathed. Many of our clients are making decisions on how to keep their generations-old business afloat, or how to make payroll and maintain healthcare benefits for longtime employees that they consider to be like family. They are business owners, executives, and other professionals who have been called to action and forced into making some very difficult decisions.

This historical event has reiterated the strategic importance of advanced comprehensive planning. Many folks are aware of the need but are uncertain on how to start the process. Working with a team of trusted advisors and knowledgeable professionals can help alleviate some of that pressure. Our goal is to help you develop a sustainable plan that will provide you with a clear pathway to success based on your desired outcomes and metrics. Most importantly, this conversation sounds different with each client based on the unique facts and circumstances surrounding their respective situation.

Examples of some recent advanced planning conversations include but are not limited to:

**GIFTING DEPRECIATED ASSETS** — No one enjoys seeing account values go down, but with federal estate, gift, and generation skipping transfer exemption amounts at all time highs of \$11.58 million (individual) and \$23.16 (married filing jointly) now could be an opportune time to complete any gifts you've been considering. This essentially allows you lock in the depressed value, and all future growth would not be included in your estate. Those limits are set to expire at the beginning of 2026 and revert to roughly \$5 million per individual.

**OPPORTUNITY FROM LOW INTEREST RATES** — While it doesn't help our savings accounts, some estate planning techniques actually become even more advantageous

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in a low interest rate environment. These strategies don't necessarily need to use the federal gift tax exemption either. One such planning tool that becomes more beneficial during periods of low rates is known as a GRAT.

A grantor retained annuity trust (GRAT) transfers growth on assets to future generations at a reduced gift and estate tax cost. This is an irrevocable trust that holds assets that are expected to appreciate, while also producing an annuity-based payout for a fixed term not to exceed 20 years. At the end of the term the remaining assets are passed to family members or named beneficiaries. The transfer of assets to the trust is considered a gift, but that gift amount is then reduced by the actuarial value of the annuity. If the asset growth outperforms the IRS statutory (Internal Revenue Code Section 7520) rate used to value the remainder interest, the additional growth is transferred free of gift and estate taxes to the trust's remainder beneficiaries. When the interest rates are low and account values fall GRATs can be very effective tools to both reduce potential estate tax and provide future growth to beneficiaries at significantly lower tax rates.

**ROTH IRA CONVERSION** — A Roth IRA can be a very effective planning tool given the looming threat of higher tax rates, especially considering how low the individual rates are currently and that we are in the midst of adding several trillion dollars to the national debt because of the various stimulus packages. Roth IRAs provide the opportunity for growth within an account that can be 100 percent income-tax-free. While assets in a traditional IRA benefit from tax-deferred growth, future distributions are taxed at ordinary income rates. Alternatively, a Roth IRA grows tax-free and distributions can also be entirely income-tax-free. There are no required minimum distributions from Roth accounts unless they are inherited accounts.

Given the long-term benefits of Roth accounts, conversions from traditional IRAs should also be evaluated in conjunction with your household income tax and estate planning. Converting to a Roth IRA is a taxable event that is based on fair market value of the traditional IRA at the time of conversion. Once converted, all growth inside the Roth IRA could then be distributed income-tax-free. A Roth conversion has many variables and a detailed analysis of these factors is highly recommended. This can also have potentially detrimental effects on Medicare and Social Security benefits, so it is critically important to get all the necessary facts prior to making any withdrawals.

**TAX-LOSS HARVESTING** — Challenging market conditions create opportunities to utilize portfolio losses against future gains. This strategy often helps lessen the blow and mitigates the pain some experience when selling a losing investment. Selling at a loss allows you to offset future gains incurred when appreciated securities are also sold. Beware, however, that if you buy back the same or substantially similar holding either 30 days before or 30 days after you will trigger what is known as the "wash sale rule," and your loss will likely be disallowed.

While no one is pleased with the current situation or seemingly endless quarantine, it is very important to remember that we are not entirely powerless. This is the perfect

opportunity to have the gifting discussion you have been putting off, to revisit the long-term care coverage you've been considering, or to finally deal with the difficult estate planning conversation you know needs to happen.

Very rarely would I be caught comparing the art and science of advanced and complex planning to the sports world; however, in this case a quote by former Purdue star and long-time UCLA great head coach John Wooden tells the tale in just a few brief words. "Failing to prepare is preparing to fail."

We stand by ready to help you prepare.

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Craig Slaubaugh is a financial advisor in the Pittsburgh, Pennsylvania, office of HBKS® Wealth Advisors. Craig joined HBKS® in 2018 after working as a relationship manager with Key Investment Services and PNC Investments. Prior to that he spent several years splitting time as an advisor with Lincoln Investment, dealing primarily with defined benefit plans and teaching economics and global affairs courses. Craig specializes in comprehensive financial planning and investment advisory services.

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