A Perfect Time for Planning

Today's environment has created a perfect time to organize your finances with after work or school activities limited. If you are suffering from Netflix burnout or boredom from staring at the walls, then we hope this update provides a little inspiration. Below are some highlighted ideas to take advantage of the times we are in.

Organize and Think About Your Path

A crucial part of creating a financial plan is knowing what you are planning for: retirement, new home, family vacations, gifting (family or charitable), or wherever your dreams lead you.

Actionable steps:

- Visualize and write down your goals no matter how small or large. Break them into timeframes & prioritize.
- Take inventory of all your accounts; gather all current statements, create a spreadsheet or utilize other technology.
- Create a budget
  - Write down your regular monthly expenses
  - Track 3-6 months of expenses to get a good idea of your current disposable spending patterns.

If you need more details on how to start, or if you already have this information gathered, then contact us and we can help you analyze and develop a plan that fits your goals and objectives.

Take Control of Your Estate Plan

Times like these have many of us feeling nervous and not in control. One way to exert some control is to update or create a Will and all other necessary estate planning documents. The SECURE act, which was enacted in March, also provides a good reason to revisit your plan especially if you have large IRA accounts as the act made significant distribution changes. The major change is that your non-spouse beneficiaries will need to distribute funds from the inherited IRA over a ten-year period and pay significant taxes. For information on the SECURE act please review the piece we wrote in March (link to article below) covering some of the changes made by this act.

An estate plan is made up of a few important documents including a Will, powers of attorney, and healthcare proxy. Whether you are revisiting your plan or starting from scratch there are a few items to consider.

First, who do you trust to act as your important agents?

- Your Will: The Will requires an executor or executrix to be named. This person is someone you rely upon to execute your wishes as they are laid out in your Will. Your Will may also set up certain trusts which need a trustee or multiple trustees depending on the situation.

- Power of Attorney: Your designated power of attorney selection is a particularly important consideration as this person will take control of your financial affairs in the event you are alive but unable to make decisions.

- Healthcare Proxy: I believe everyone is familiar with a health care agent. The healthcare proxy will grant this person the authority to make health decisions on your behalf if you are unable.

Remember you also need to think through who would serve as contingent agents for each of the above designations.

Second, how do you want to leave your assets?

• Should you leave assets outright or in trust? Do you have any charities you want to leave a legacy with? These decisions can be quite straight-forward or complex depending on your financial and family situation.

• All these decisions play out in the Will or through your beneficiary designations on life insurance, retirement accounts, or transfer on death accounts.

• Beneficiary designations are an extremely important part of estate plan design and they need to be reviewed periodically, preferably on an annual basis. Since assets passing via beneficiary designation pass outside of probate, they need to be reviewed to ensure coordination with your Will.

Having these documents in place and up-to-date can seem like a daunting task now but it will help with making a smooth process for your loved ones, reducing heartaches, headaches and money spent after passing. We are here to help guide you through to ensure your wishes are efficiently and effectively expressed on these documents.

Planning Thoughts For The Current Environment

The current economic and stock market weakness has created an opportunity to accelerate some planning and below we will quickly point out some potential ideas that may make sense depending on your financial situation and goals.

Take advantage of low interest rates:

• Refinancing high interest debt makes a lot of sense with rates at current levels. Variable long-term debt such as home equity loans are also candidates for refinance as you can lock in low rates for longer periods of time. Refinancing can also provide for greater cash-flow which can be utilized for other financial goals.

• Refinance intra-family loans taking advantage of extremely low Applicable Federal Rates (AFRs) For loans greater than 9 years, the minimum rates you can charge without considering the loan a gift is 1.15%. Short-term AFR rates are at 0.25%. Now is a good time to restructure these arrangements.

• Low AFR rates and volatile markets make a suitable environment for some advanced gifting strategies if your goal is wealth transfer. Two strategies that are of interest are Grantor Retained Annuity trusts (GRATs) and Charitable Lead Trusts (CLTS). These techniques allow you to pass the appreciation in the value of assets, exceeding a hurdle rate set by the Internal Revenue Service, to your beneficiaries tax-free. With low interest rates and depressed prices, these strategies are strongly favored by current conditions. If you were to utilize a large GRAT, let us say $1 million for 2 years and the assets appreciate at 5% annually then you can pass over $60,000 to beneficiaries' tax-free. These are worthwhile techniques in the right circumstances, and we can help you determine if they are right for you.

Volatile Markets:

- Roth Conversions: Use weakness in the market to convert Traditional IRAs to a Roth IRA. Since the taxes resulting from a conversion are based on the IRA's balance at the time of conversion, depressed market prices help reduce the tax liability if you decide a ROTH conversion makes sense for you. Because the income tax liability has already been paid with a ROTH, your beneficiaries receive your ROTH free of income taxes upon your death. This has become valuable as the SECURE Act, passed at the end of 2019, removed the ability to stretch distributions from a traditional IRA over a beneficiary's lifetime. All distributions now need to be distributed and taxed over a 10-year period. Roth Assets are tax-free. We wrote about this in our overview of the Secure Act earlier this year.

- Tax loss harvesting: You do not have to wait until end of year to tax loss harvest. Use volatility to take losses and then reinvest or rebalance your portfolio. This is especially useful if you have large gains in concentrated holdings.

- Continue to save in your retirement accounts. If you are able to maintain or increase your contributions into company plans or IRAs then do so. You will be dollar cost averaging into a volatile market and investing for the long-term goals. If you were eligible to receive it, the stimulus funds are a great source of funds for Roth IRA contributions.

Hopefully, this article has provided you with some valuable and useful information. If you have any questions or would like more information the Whitney Planning team is here, so please reach out at (585)232-6200