10-Minute Financial Tips

Estate Planning Strategies in a Low-Rate Environment

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With our new surreal reality of closures and social distancing, this is a good opportunity to create or review estate planning documents to ensure they are current and accurately reflect your goals and objectives.

Review Existing Estate Planning Documents

In this unprecedented global coronavirus pandemic, we are overcome with concerns about the well-being of our families and our business, financial and economic future. The race is on to find a treatment and cure for the virus and to salvage our once-booming economy. In this surreal reality, once busy lives have been paused as businesses and schools close and the nation practices social distancing. This is a good opportunity to create or review existing estate planning documents to ensure they are current and accurately reflect your goals and objectives.

In addition to a will and/or a revocable trust, which provides for the disposition of your assets upon your death, everyone should have a power of attorney, health care proxy, and living will, which benefit you during your lifetime in the event of incapacity or medical emergency. The current medical crisis underscores the importance of these documents by which you authorize someone, usually a family member, to make financial and medical decisions when you are not able to make them yourself and to express what life support measures you want, or do not want, in certain circumstances. You should review your living will for language specific to life support, including use of a ventilator or breathing machine, as well as your do not resuscitate (DNRs) order for intubation language. Some existing documents specifically prohibit intubation under certain medical circumstances, and sometimes under any medical situation. Consider whether you want intubation if it could save your life during a respiratory medical crisis such as COVID-19. Ensure that health care proxies are authorized to make decisions and to communicate with health care providers even if they cannot be physically present. Consider authorizing the use of email, FaceTime or Skype as a means of communication. Ensure that an electronic signature can be sufficient for authorizations. Share your documents with a family member so that your wishes are known and readily accessible. Key Wealth Direction® has a client Vault feature that is ideal for securely storing these estate planning-related documents so that they can be selectively accessed by family members in the event of an emergency almost anywhere through mobile capabilities.

Finally, to lighten the burden for your family if something should happen to you, this is a good time to organize your financial and estate planning documents and information, including bank and investment accounts, important contacts, service providers, passwords, insurance information, valuables inventory, and final arrangements.

Planning Strategies When Interest Rates are Low

In mid-March the Federal Reserve cut interest rates to nearly zero in a second attempt to stimulate an economy ravaged by the coronavirus pandemic. With interest rates currently at or near historic lows, businesses and individuals can access nearly interest-free loans to invest, spend or refinance a mortgage. Low rates also enhance the benefits of some estate planning strategies.

Gifting to reduce/eliminate estate tax

Low interest rates and the devaluation of certain assets offer effective and efficient estate planning opportunities for individuals who are financially and psychologically well-positioned to work through strategies at this time. The federal government requires the use of published interest rates to value certain estate planning strategies, which also specify allowed interest rates related to certain installment sales or intra-family loans. For individuals with taxable estates and those who expect to have a taxable estate, now or in the future, this is an ideal opportunity to make gifts to reduce or eliminate estate tax, particularly in light of the currently high gift and estate tax exemption ($11.58 million or $23.16 million for a married couple). Estate taxes could increase, subjecting far more estates to federal gift and estate tax if the current law sunsets in 2025, reducing the exemption. Even if your estate is less than the federal exemption amount, your estate may nevertheless be subject to a significant state estate tax if you live in one of the 17 states or the District of Columbia that levy separate estate and/or inheritance taxes. Planning now could minimize taxes and maximize amounts passing to heirs.

Summary

Low-interest rates and market valuations make this an ideal time for wealth transfer planning. Each of these estate planning strategies must be evaluated based on your individual goals and unique personal, financial and psychological circumstances. Note that a lifetime gift of highly appreciated assets could cost your heirs a step-up in basis at your death, resulting in higher overall taxes. Each estate planning tool should also be considered in light of extraordinary government spending to address the current health and economic crisis and the upcoming election, which could greatly affect the estate tax law as well as income tax rates in the near future.

Your Key Private Bank advisory team of experienced specialists and your legal and tax advisors can help determine if one or more of these wealth transfer tools can benefit you and your heirs.

Your estate planning checklist for today's low-interest-rate environment:

- ✓ Consider maximizing annual exclusion gifts of $15,000 to children, grandchildren and their spouses, leveraging the lower values of certain assets.
- ✓ Tax-exempt gifts to some specially designed trusts can reduce estate tax while still permitting access to the assets if needed, including spousal lifetime access trusts (SLATs) and domestic asset protection trusts (DAPTs).
- ✓ Current conditions also generally favor estate-freeze strategies like grantor retained annuity trusts (GRATs), which provide an annuity to the grantor for a period of time; charitable lead annuity trusts (CLATs) to benefit charity and provide for beneficiaries in the future, with the added benefit of a charitable deduction; and installment sales, all of which allow you to give away the upside of assets tax-free.
- ✓ Consider a low-interest loan to a family member to provide liquidity to avoid selling when the market is down.
- ✓ Implementing a Roth conversion strategy now may allow account owners to shift more tax-free wealth at a lower income tax cost, particularly in view of the possibility that income tax rates may increase. In light of the new distribution regime established by the Secure Act (requiring a 10-year payout from most retirement plans for most beneficiaries), converting traditional IRA assets to Roth IRAs and prepaying the tax liability can ensure that more retirement dollars will go to intended beneficiaries.

For more information, please contact your Key Private Bank Advisor.

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