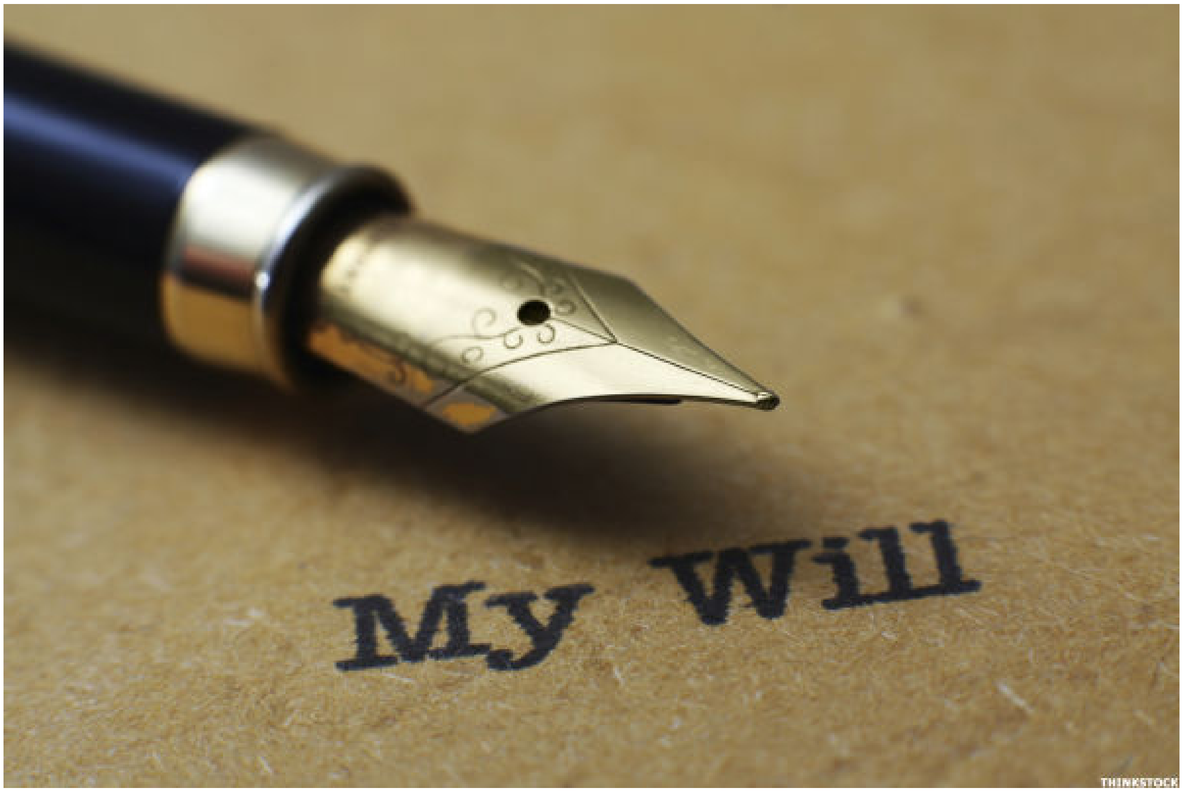
Retirement Daily

Your Money

Estate Planning Amid the Coronavirus Chaos



Retirement Daily Guest Contributor | May 5, 2020

By Michael Roberts

It feels like chaos is all around us. An unprecedented pandemic, historic volatility in the stock market, and the uncertainty of upcoming November elections. In times like these, it's important to take charge of those things within your control, such as planning for your estate and family.

Here are some things you can (and should) be doing to build a strategy for your assets and your loved ones:

Review your documents

The basic purpose of estate planning is to make sure that our plans reflect our wishes. Do your existing documents accurately reflect your desired outcomes?

- Are the named executors (in your will) and trustees (in your trusts) capable, competent, able, and willing to serve?
- Does your current will accurately reflect your legacy plan by passing your property to the individuals and/or institutions you desire to benefit in a manner that reflects your wishes?
- Have there been any significant changes in your life such as marital status, births or deaths in the family, changes in residence, or acquisitions of property located in another state since you last executed your will?
- Are the beneficiary designations on your retirement accounts and life insurance policies up to date?
- Do you know where your original Will and trust documents are located?
- Are your advance directives up to date? Your health care proxy, living will, and power of attorney express your wishes and authorize your appointed agents to make medical and financial decisions for you in the event you are unable to do so. Review these documents to ensure that they reflect your current wishes and name the persons who you trust will be able to tend to those matters on your behalf. Have a conversation with your agents so that, if called upon, they are prepared to make decisions in line with your wishes.

Make gifts

Currently, individuals can transfer $11.58 million, and couples can transfer $23.16 million, free of federal estate taxes. This is a temporary law that will sunset in December 2025 when the exemption is scheduled to drop to only $5.49 million (or $10.98 million for couples) as indexed for inflation.

Federal estate taxes are collected to fund the U.S. Treasury. Estate taxes are tiered with rates of 18% on taxable estates of $10,000 up to 40% on taxable estates over $1 million. Computation, however, is quite a bit more complicated – start with the value of everything you own (gross estate), subtract debts, administrative expenses at your death, transfers to your spouse, and charitable gifts. Subtract your exemption amount to determine your taxable estate and apply the rates.

- Minimize local state estate taxes by gifting up to the full exemption amount as a strategy. New York, for example, currently imposes state taxes on assets over $5,850,000; Illinois, $4 million; Minnesota, $2.7 million; Washington, $2.19 million. Because each state has estate tax regulations that differ from those at the federal level, individuals should discuss these considerations with their estate planning or tax counsel.

- Make gifts of stock up to $15,000 per person ($30,000 per married couple) to the kids or grandkids. With depressed stock values, it's a great time to make gifts of low-value stock since future growth will be in the children's names outside of your estate. Consider making gifts to a trust to protect the assets for children from their creditors and from taxation in the child's estate.
- Make a loan to a trust for a child. Parents can lend their kids cash for everything from buying a house to starting a business at rates far lower than a comparable commercial loan. These loans are also powerful as part of a broader wealth-transfer strategy. The trust makes regular payments on the loan, and then repays the principal in full at the term's end. Any investment gains over the extremely low allowable interest rate stays tax-free in the trust for the next generation.
- Make gifts to a spousal lifetime access trust (SLAT). The fundamental goal is to allocate assets into a trust that can provide financial support to your spouse while sheltering those assets and any future growth from estate and gift tax. Upon your spouse's death, the assets pass in trust for successive generations and beyond. There is the risk that if you get divorced, you would no longer have access to the assets through your spouse, but you can ensure that your divorced spouse no longer has access either.
- Consider funding a grantor retained annuity trust (GRAT). GRATs take advantage of low interest rates and move appreciation to children when taking advantage of depressed value of assets.

Don't procrastinate. Life is unpredictable. You never know when your time will come, so prepare as though you will die tomorrow. Remember: Estate planning is not just for you, but for the people who love you. Focus on completing your plans to the best of your ability now. You can always make changes in the future.

As frightening as the current environment is, we all know from experience how ephemeral the human condition is and the current state, at some point, will be in our rearview mirror. There will undoubtedly be future opportunities to transfer wealth, but there is no time like the present. Current tax laws offer many opportunities to transfer wealth to children and others without the imposition of transfer taxes, but these advantages are scheduled to expire in 2026. Now is the perfect time to act.

About the author: *Michael Roberts is president of* *Arden Trust Company* *which provides industry-leading personal trust services that preserve the advisor/client relationship, overseeing more than 5,000 accounts and more than $7 billion in assets under* *administration. Michael is a veteran in the asset management space with over 40 years of experience including prior positions held at Wachovia Bank and UBS.*

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