OPUS
FINANCIAL ADVISORS

Maximizing the impact
of your capital

How Investors Win With 10 Key Planning Strategies

The coronavirus pandemic affected every facet of society in 2020, creating uncertainty and challenges. It will continue to impact markets, consumer sentiment, commerce, and everyday life.

That, coupled with changes in the U.S. political landscape following the November election and two run-off Senate elections in Georgia are timely incentives for high-net-worth individuals and families, philanthropists, and business owners to evaluate their tax and estate plans so they are best positioned for the long-term outlook. With that in mind, consider reviewing the following strategies to help meet your financial and wealth-transfer goals.

1. Reassess Near- and Long-Term Goals
2. Review Current Estate Plan
3. Consider Using Historically High Lifetime Tax Exemption
4. Plan Annual Gifting
5. Evaluate Wealth Strategies in a Low Interest Rate Environment
6. Assess Roth IRA Conversion
7. Evaluate Asset Allocation and Location
8. Review Milestone Retirement Ages
9. Determine Year-End Charitable Planning
10. Effect Change Through Philanthropy

Reassess Near- and Long-Term Goals, and Review Current Estate Plan

1. Reassess Near- and Long-Term Goals

Living through a pandemic has made people take a step back and assess what is really important to them, looking at both near- and long-term goals. Saving for your children's college education. Lowering debt exposure. Increasing retirement savings. Funding trusts for heirs. Expanding philanthropic donations. These are just a few of the goals we hear most often from investors. Which means most to you?

Planning Helps Articulate Your Needs, Wants, Wishes

"Core" Capital

What do you need to **live**?

- Personal reserves
- Lifestyle spending

"Excess" Capital

What are your **wants** and **wishes**?

- Charity
- Future generations
- Children
- Discretionary spending

2. Review Current Estate Plan

Given today's environment it is particularly important that your estate documents are up to date. This means reviewing wills, trusts, and beneficiary designations to confirm they reflect your current wishes. It means double-checking to make sure your medical directives and powers of attorney for health and property are up to date in case of extended illness or incapacity. Ownership titles on all property and assets should be reviewed. When assets are not titled correctly, property may not pass to the intended heirs or testamentary trusts (which go into effect at death) may not be funded according to your estate plan.

3. Consider Using Historically High Lifetime Tax Exemption

The lifetime gift and estate tax exemption is at a record high of $11.7 million per individual for 2021. This means that you can gift up to $11.7 million during your lifetime or at death without ever having to pay gift or estate taxes on this amount. For married couples, both spouses each qualify for the $11.7 million exemption, creating an opportunity to pass up to $23.4 million free of transfer taxes.

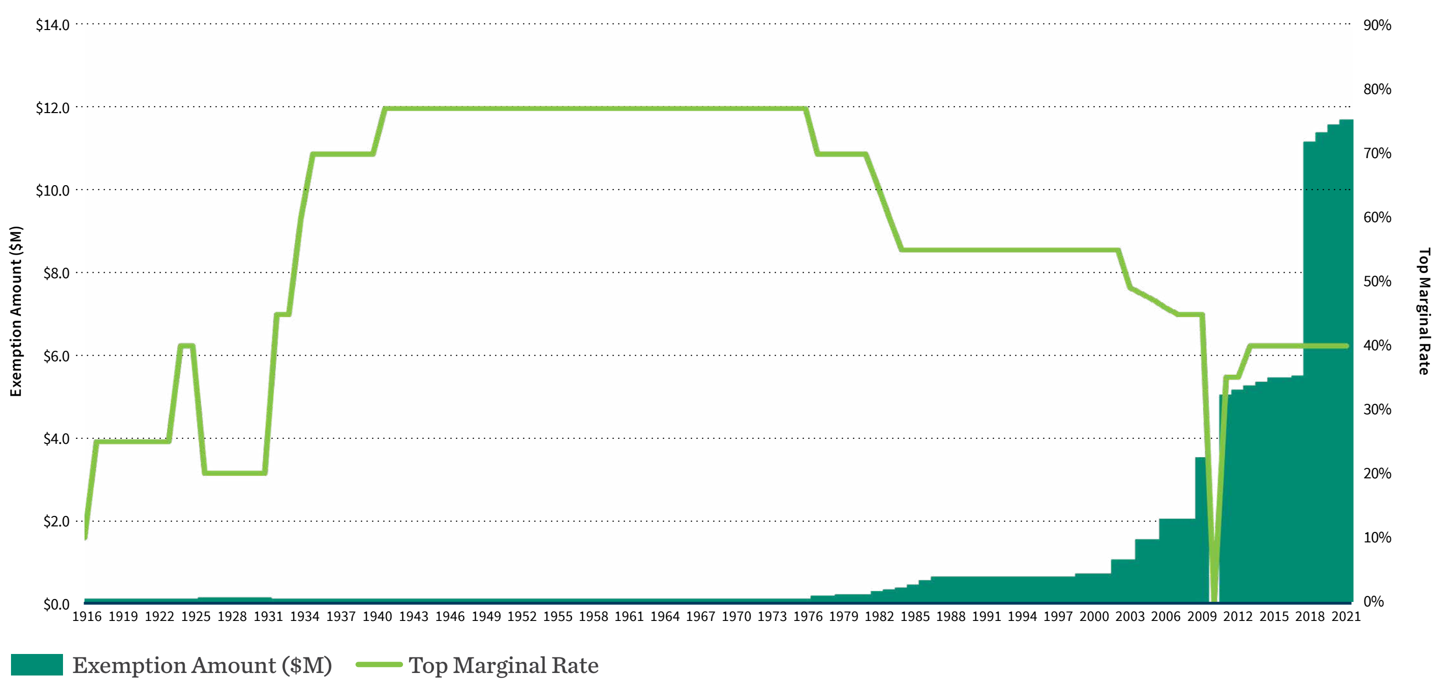
This historically high exemption is scheduled to expire at the end of 2025—reverting to the previous level of $5 million, adjusted for inflation. Given the new Congress and the possibility of tax legislation that could accelerate the timeline back to the sunset exemption of $5 million or lower, you may want to consider taking advantage of the current high exemption now.

How the gift tax exclusion works. You can give up to $11.7 million of assets, free of gift and estate taxes, during your lifetime or when you pass. Any amount above your available exemption left in your estate is taxed at 40% at death. Keep in mind the exemption applies to gifts and estate taxes combined—often referred to as a "unified" exemption. So any exemption used for lifetime gifting reduces the amount that can used be used to offset the estate tax at death. Couples can currently combine exemptions to reach a total of over $23 million.

There are three "transfer" taxes included in the unified federal exemption system: gift tax, federal estate tax, and generation-skipping tax (GST).

Gift tax applies to the transfer of property made while a person is living.

Historical Estate Tax Rates (1916-2021)



Federal estate tax applies to the transfer of property at death.

Generation-skipping tax (GST) is a tax on the transfer of property that skips a generation and transfers during lifetime or at death.

Gifting assets in trust. Allows you to specify provisions for beneficiaries, including: how much they can access; when distributions can occur; and what the funds can be used for.

Dynasty trusts. To maximize the legacy passed on to heirs, you can create a dynasty trust—any trust that lasts longer than one generation below that of the grantor—using the generation-skipping tax exemption to avoid inclusion of the trust and shelter it from estate tax over multiple generations.

Spousal lifetime access trust. A SLAT—an irrevocable trust set up by one spouse for the other to be used during his or her lifetime—has become a popular estate planning strategy used by married couples to take advantage of the lifetime exemption. A big drawback of a dynasty trust is that you are making a sizeable irrevocable gift. So, if you get into financial straits at some later date, those funds are out of your reach.

The appeal of SLATs is that one spouse can create the trust using his or her exemption and makes the other spouse the primary beneficiary. This way you reduce your taxable estate but retain indirect access to the assets as long as your spouse, the primary beneficiary of the SLAT, is alive. Both spouses can each create a SLAT for the other spouse and use their respective exemptions.

Given the high exemption rate and current ultra-low interest rates, individuals and families are re-evaluating their wealth-transfer strategies with trusts to take advantage of this unusual environment.

4. Plan Annual Gifting

If you're not in the financial position or are uncomfortable using all or a portion of your lifetime exemption at this point, you can still give loved ones tax-exempt gifts throughout your lifetime.

Currently, the IRS allows you to gift up to $15,000 gift tax-free to an individual in one year. There is no limit to the number of recipients you can make an annual exclusion gift to and it does not tap into the $11.7 million lifetime exemption. Establishing gift trusts for one's children, funded with annual exclusion gifts, is also a strategy to consider.

In addition to the annual exclusion gifts, you can also pay for tuition or medical bills for individuals directly to the institutions gift tax-free. There is no cap to such payments and you can still make annual exclusion gifts of up to the $15,000 tax-free gift made to the same beneficiary.

Funding 529 education plans is another option to help children and grandchildren through tax-exempt gifting. And you can front-load five years' worth of exclusion gifts in one tax year for such plans, funding it up to $75,000, or $150,000 if you are married. However, if you take advantage of this strategy you are not allowed to make annual exclusion gifts to the beneficiary over the next four years.

Contributing to Roth IRA accounts for children is yet another gifting option for children who have earned income. You can match their earnings up to $6,000 for such Roths. These are great savings vehicles since they are funded with after-tax dollars and future distributions will be income tax-free.

5. Evaluate Wealth Strategies in a Low Interest Rate Environment

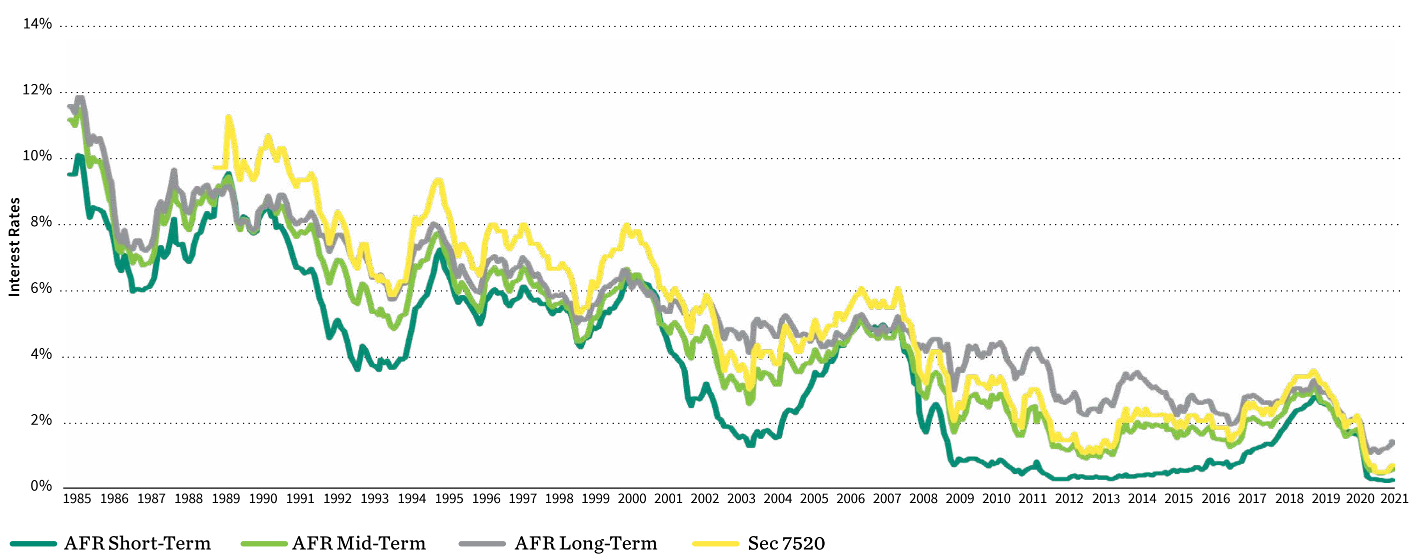
Interest rates have been trending lower for the past three decades. This has had a huge impact on the value of some gifts, especially those given to charities and certain trusts used for wealth transfers. If you are considering transferring some of your wealth, here are a few strategies to consider in a low interest rate environment:

Grantor retained annuity trust. A GRAT is often referred to as an estate freeze strategy as it allows you to gift future asset appreciation to heirs without paying gift tax. When establishing a GRAT, the grantor contributes assets in trust but retains a right to receive the initial value of the assets over the life of the GRAT. They can be structured as zeroed-out GRATs which would not use any of your gift tax exemption, making GRATs an effective wealth transfer tool for those who have already fully utilized their lifetime exemption. GRATs have also risen in popularity since the hurdle rate, or the IRS Section 7520 rate, is historically low.

Intra-family loans. Intra-family lending is also common during the current low interest rate environment. Family members can offer more flexible lending terms than going through a commercial process and it provides a way for family members to keep wealth within the family. The loans can be part of your overall legacy plans, including transferring a family business or helping family members finance major purchases. The Internal Revenue Service requires a minimum loan rate be based on its applicable federal rate (AFR). If you have existing family loans, now is also a good time to consider re-financing.

Installment sales to grantor trusts. Selling assets to an intentionally defective grantor trust (IDGT) can be an effective estate planning strategy to remove appreciating assets from your estate while maintaining an income stream. As the grantor, you can seed the trust with a gift then sell additional assets to the trust in exchange for an interest-bearing note—typically a rate equal to the applicable federal rates. You pay income taxes during the term of the IDGT, allowing the trust to grow income tax free. (Interest payments on the note are not considered income.) But all appreciation of the assets goes to your beneficiary when the trust is distributed.

Interest Rates at 35-Year Lows



Source: https://www.irs.gov/businesses/small-businesses-self-employed/section-7520-interest-rates

Assess Roth IRA Conversion

6. Assess Roth IRA Conversion
Converting a traditional IRA (retirement account funded with tax-deferred dollars) to a Roth IRA (retirement account funded with after-tax dollars) has been popular recently with the Secure Act of 2020 and the potential for changes in tax legislation given the results of the election. It's ideal for individuals who expect higher taxes in the future and/or want to accelerate income in a year with lower tax rates.

Keeping in mind that under current legislation income tax brackets revert to higher tax brackets in 2026 or the possibility of new tax laws before then, you may want to consider doing a full or partial conversion now.

You may also want to consider a Roth conversion if you have a long investment time frame for the tax-free earnings to grow and can pay the tax cost of the conversion with non-retirement funds.

One of the provisions of the Secure Act requires any non-spouse beneficiary to deplete an inherited account within 10 years of receipt, limiting the prior "stretch" IRA advantage over the beneficiary's lifetime. Doing a Roth conversion now could minimize the impact of the new rule since tax-free withdrawals from an inherited Roth IRA will also extend to your children.

Note: While required minimum distributions (RMDs) were waived in 2020 as part of the Cares Act, leading to tax savings during the conversion, RMDs resume for 2021.

Roth IRA Conversion Analysis

	Yes	No
Can you afford to leave the IRA untouched throughout retirement, funding your expenses through other sources of income instead? **Will you be in the same or a higher tax bracket in the future?** **Can you pay the tax on the conversion by using funds from outside the IRA?** **Can you convert without negatively affecting your current income tax planning?** **Can you continue to fulfill your other financial planning objectives (e.g., charitable giving)?**	Your wealth-transfer plan will likely benefit from a Roth conversion	You may still benefit from a Roth IRA conversion, but it is advisable to run a personalized cost-benefit analysis

Evaluate Asset Allocation
Review Milestone Retirement Ages

7. Evaluate Asset Allocation and Location
The overall uncertainty created by the coronavirus pandemic has prompted many clients to re-evaluate their asset allocation and review how their assets are distributed across different vehicles—non-qualified accounts, retirement accounts, trusts, insurance, foundations, and other investments.

Honing in on the purpose and future intention of your funds is critical in re-assessing your finances. Is an asset used to fund your family's lifestyle, or should it be a future gift for your children or charity?

If you have a trust with a charitable beneficiary, for example, it may make sense to fund it with assets that have a potentially higher tax liability given the possibility of increased income taxes in the future. Or if you have a gift trust for heirs with a long-term investment goal, funding it with growth-oriented investments could be your best option.

8. Review Milestone Retirement Ages
The Secure Act, enacted in December of 2019, changed retirement rules to strengthen your retirement security. Among the key changes is required minimum distributions begin at age 72 versus 70 ½. Note: The House Ways and Means Committee introduced a Secure Act 2.0 in October and among the possible changes to the law is increasing the RMD beginning at age 75 and allowing a higher catch-up contribution limit starting at age 60.

Milestone Retirement Ages

50½	Begin making catch-up contributions, an extra amount that those over 50 can add to 401(k) and other retirement accounts.
59½	No more tax penalties on early withdrawals from employer-provided retirement savings plans such as 401(k) plans and other individual retirement accounts.
62	Earliest age to collect Social Security retirement benefits; however claiming early reduces monthly benefits.
65	Sign up for Medicare and Medicare Part D.
66-67	Receive Social Security full benefits, depending on your birth year.
66-70	Earn Social Security delayed retirement credits.
70½	Eligible to make qualified charitable contributions from individual retirement accounts.
72	Start taking required minimum distributions from most retirement accounts by this age.

Determine Year-End Charitable Planning

9. Determine Year-End Charitable Planning

Enhanced charitable deduction. The Cares Act signed into law in March 2020 was created to provide relief to individuals and businesses that were affected most by COVID-19. Included were several tax incentives to encourage individuals and groups to support their charitable goals, which were extended for the 2021 tax year. One was the elimination of the adjusted gross income limitation (previously 60%) on cash charitable donations for those who itemize their taxes. Individuals may deduct cash contributions of up to 100% of their adjusted gross income in 2020 as well as 2021. These contributions must be paid directly to a qualified charity and not through donor-advised funds, private foundations, or other supporting organizations.

Giving appreciated securities to charities. By gifting long-term appreciated securities directly to a qualified public charity, you will effectively increase the amount of your gift—taking advantage of a double income tax benefit. You will get a charitable deduction on the fair market value of the gifted security and avoid paying gains on the security donated.

Qualified charitable distribution (QCD) continues. While the Secure Act raised the RMD age limit to 72, it did not change the age an individual can make a qualified charitable distribution (QCD) from their IRA, which remains at age 70 ½. With the new RMD age limit, the Secure Act creates a new 1 ½ year window when IRA distributions may qualify as charitable contributions and are not recognized as taxable income if the distribution is made directly from the IRA to a qualified public charity. At age 72, QCDs can satisfy RMDs and lower your taxable income by the amount of your donation up to $100,000 per year.

Using donor-advised funds (DAFs). Instead of giving directly to a charity or setting up a foundation, DAFs allow donors to pool donations into one fund, deduct the entire contribution in one year, and advise the fund manager over time on the charities to donate to. DAFs have been growing in popularity in recent years for their tax advantages, simplicity, and convenience. Donations can be done by the donor online, like digital banking, while the recordkeeping is handled by the fund manager.

10. Effect Change Through Philanthropy

Communities across the nation and around the globe are struggling from the health and economic crisis brought on by COVID-19. For individuals and families wanting to help their communities through philanthropy, there are several strategies and best practices to consider to maximize your impact.

Check in and give early. Connect with your cherished nonprofits to see what resources they need. More than likely they were forced to make big changes in their programs due to COVID. They also could be facing revenue declines combined with uncertainty about future funding given the unprecedented disruptions and change seen since the pandemic.

Consider giving more or differently. As a result of the Cares Act of 2020 and a legislative extension for 2021, you can make a cash charitable deduction of up to 100% (previously 60%) of your adjusted gross income and claim it as a charitable deduction if you itemize your taxes. In addition, for taxpayers who contribute more than their annual limit (for 2020 and/or 2021), the excess is not lost but can be carried forward up to five years. Both options require the cash to go directly to a qualified public charity—i.e., not through a foundation or donor-advised fund.

Embrace trust and transparency. With the challenges charities are facing today, your trust and openness will greatly help them. One helpful tool is the National Center for Family Trust-Based Philanthropy Project, an initiative encouraging open conversations between funders and grantees.

Consider converting project-based grants to unrestricted support; accelerating your payment schedules; providing loans to nonprofits; or offering multiyear grants. If you supported an event in the past but the nonprofit was forced to cancel it due to COVID-19, reallocate those funds to a general operating budget.

If you are looking for new organizations to support, conduct some independent research. Charity Navigator, Charity Watch, and GuideStar are great resources to research charity budgets and financials.

Collaborate on grantmaking. Increasingly, individual donors, family and corporate foundations as well as large national foundations are coming together—working collaboratively to make a bigger impact around specific challenges. Environmental, social, governance (ESG) investing—also known as sustainable investing—is among the many ways grant making can make a long-term impact on society while earning positive returns.

Learn what other donors are funding by participating in regional grantmaker associations. Connect with your wealth advisor or local community foundation to find opportunities to collaborate with other funders.

Engage your next generation. Philanthropy can be a powerful way for families to pass on their shared beliefs and values. It can also provide special opportunities for families to spend time together, collaborate, and learn more about one another. Integrating philanthropic conversations and activities into family life, particularly at year-end, is an excellent way to encourage a sense of financial responsibility among younger generations. And giving together can be a bonding experience for family members of all generations.

If you are looking for family volunteer opportunities, reach out to William Blair or community engagement groups such as Volunteer Match or All for Good.

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This content was developed by William Blair. **William Blair is dedicated to helping you meet your financial and philanthropic goals with a focus on your evolving needs. Our team of dedicated wealth planning professionals along with our director of philanthropy are here to serve you** in partnership with Opus Financial Advisors.

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