WELCOME

THANK YOU FOR JOINING US

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2020 Year-end Estate Planning

NOVEMBER 13, 2020

11:00 a.m. – 12:00 noon

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Paul K. Rudoy joined H2R CPA in 1983 and is currently the firm’s Managing Partner. Paul specializes in strategic consulting, tax and wealth management for high net worth individuals and closely held businesses.

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Tod R. Arbutina is managing member of Three Cord True Wealth Management Group, LLC. With Big Four experience, and as a Certified Financial Planner™, Tod has spent over thirty years as a CPA and business leader. He has been profiled in Kiplinger's for his financial planning acumen, named by Pittsburgh Magazine a Five Star Wealth Manager and one of the "best personal wealth managers in the Pittsburgh area," and has been included in the Guide to America's Best Financial Planners.* Mr. Arbutina specializes in investment advisory services for manufacturers, professional services, retail and non-profits. He formerly served on a Marcellus Shale committee for the Pennsylvania Institute of Certified Public Accountants to help property owners understand the tax, estate, investment and retirement planning ramifications of windfall revenues they receive. Earlier in his career, he was a manager with Arthur Andersen & Co.

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SECURE Act

The SECURE Act eliminated the Stretch IRA

- This allowed certain non-spousal beneficiaries to stretch IRA withdrawals over their life expectancies
- This made the tax effect much smaller than the then alternative of withdrawal in 5 years
- The Secure Act now requires non-spousal beneficiaries to withdraw the entire account in 10 years

The content provided herein is based on our interpretation of the SECURE Act and is not intended to be legal advice or provide a tax opinion. This document is a summary only and not meant to represent all provisions within the SECURE Act.

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SECURE Act

Example

- Let's say you had two kids and left them a $1M IRA
  - ✓ Assume Kids had 40-year life expectancies
  - ✓ Kids could withdraw $12.5K a year and would pay their Federal income tax bracket
  - ✓ Some states also tax retirement withdrawals
- With the SECURE Act the account needs emptied out in 10 years.
- In this example, this would quadruple the tax
- Also would likely reduce the value since growth will be limited due to earlier tax payments

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Planning Ideas

- If you were planning on leaving money to a charity in your Will, consider eliminating that and making a charity a beneficiary of your retirement account
- You should also look at the likely tax brackets of your children and consider giving more to your lower income children through your retirement accounts and possibly balance this out with non-retirement accounts
- You might also want to look at utilizing life insurance to make up for this inheritance shortfall your kids will receive

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Federal Estate Exemption

Potential Changes

- Exclusion amount is $11.58M per person for 2020
- There has been discussion of dropping this to $3.5M
- If your estate is over $3.5M, or $7M if married, you should look at making gifts by year-end due to this potentially expiring opportunity
  - ✓ Annual gifting amount $15K
  - ✓ Consider gifting appreciated stock to charity
- This increases the needs to consider life insurance especially if you have illiquid assets such as real estate or a business as a large part of your estate

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Life-Annuity Plan

A simple way to get value out of your estate without gifting

- This is a simple concept with two unattractive ideas that together are very attractive
- A Life-Annuity allows you to immediately take value out of your estate
- The down-side to this is if you would pass away before reaching your life expectancy, your heirs would not receive these assets
- Therefore, if you combine this with a life insurance policy, you can protect your heirs' assets

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Life-Annuity Plan

Example

- This is most attractive for those in their 60s and 70s
- This may also be a great alternative to fixed income returns
- You would lose principal liquidity, though, so that needs to be considered

Life-Annuity				
Aug-20				
$1M				
	Life	**Annuity**	**Net**	**Percentage**
Case 1				
Second to Die	14719	45972	31253	3.13%
Case 2				
Second to Die	14719	48647	33928	3.39%
Case 3				
Second to Die	14719	42830	28111	2.81%
Case 4				
Second to Die	14719	47722	33003	3.30%

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Will vs. Beneficiaries

- Your Will does not matter for retirement, annuities, life insurance and any other by-pass assets
- If you are part of a second marriage, do not want to leave assets equally to your children, or any other unique planning situations
- Make sure your beneficiary designations match your Will preferences

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Roth Conversions

Benefits of converting a traditional IRA to a Roth IRA

- Enjoy tax-free withdrawals during retirement
- Watch your money grow tax-free for longer
  - ✓ No RMDs during your lifetime
- Leave a tax-free inheritance to your heirs
  - ✓ Heirs must take RMDs, but they are tax-free if the account has been open for more than five years

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.

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Roth Conversions

Key Considerations

- Holding period of five years
- Will the conversion cause you to move to a higher tax bracket?
  - ✓ Converted money may be considered income
  - ✓ Possibly convert just a portion of your traditional IRA
- Higher tax bracket now or later?
  - ✓ Lower now, then may be beneficial to convert now
  - ✓ Higher now, then may not be beneficial to convert now
- How will you pay the conversion taxes?
  - ✓ Avoid using money from the IRA

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Questions / Discussion

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