



2023 FINANCIAL  
PLANNING GUIDE

## Disclosure

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**Fi3 Advisors:  
Firm at a Glance**



## KEY FIGURES

YEAR FOUNDED

**2013**

CLIENT TO EMPLOYEE  
RATIO

**7 : 1**

FA MAGAZINE

**9<sup>TH</sup> FASTEST  
GROWING RIA<sup>1</sup>**

FA MAGAZINE

**TOP 400 RIA<sup>2</sup>**

STATES SERVICED

**15**

AVG. FAMILY NET WORTH

**\$12 MILLION**

FAMILIES WE SERVE

**110**

CHARITIES SUPPORTED  
(2022)

**16**

ASSETS UNDER  
MANAGEMENT

**\$654 MILLION<sup>3</sup>**

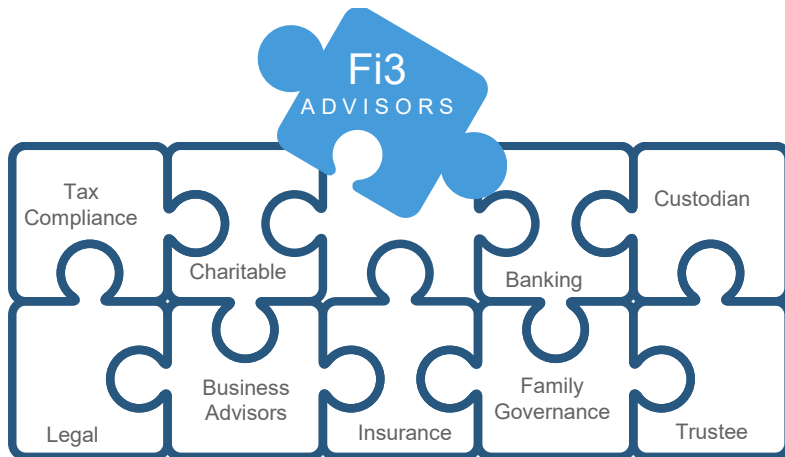
<sup>1</sup> Financial Advisors Magazine Ranking of Fastest Growing RIAs in 2021. See disclosures for specifics regarding methodology of rankings.

<sup>2</sup> Financial Advisors Magazine Ranking of RIAs in the United States as of December 31, 2021. See disclosures for specifics regarding methodology of rankings.

<sup>3</sup> All values are approximate as of 12/31/2022

## Integrated Wealth Management

We have clients who created their wealth from many industries, from technology to construction, manufacturing to logistics, health care, business & legal services and more. The common thread across these clients is their entrepreneurial spirit, their drive to succeed and their ability to leverage the right team to create and accomplish their goals.



Entrepreneurs



Corporate Execs



High-Income Earners



Multiple Homes



Decision-Makers



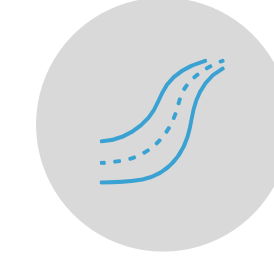
Community Leaders



Wealth Generators



World Travelers



Path to \$5MM+ Portfolio



## FAMILY OFFICE EXPERIENCE

We serve as a single point of contact for all areas of your financial affairs, connecting you to and coordinating with other professionals such as attorneys and accountants. We go above and beyond a traditional advisor to deliver tailored advice and personalized service. Importantly, this is done through a multi-generational lens, helping you create a legacy, while educating your family to become prudent stewards.



## FINANCIAL PLANNING

*Dashboard Driven*

Wealthy families must protect their assets from the ravages of excessive taxation, inflation and unwarranted risks. We bring a disciplined, “planning- first” approach centered on routine updates to your key performance indicators, while maintaining a sharp eye on potential planning gaps.



## OUR PROCESS

1

### We listen.

Since we tailor our advice and solutions to you, we start by listening carefully to your goals and values.

2

### We learn.

We are students of financial planning and capital markets. We are continually looking to grow and learn, and we pass this knowledge to you.

3

### We execute.

Think of us as your family’s financial partners. We help you define your game plan and then execute on it. We are here for you.



## PUBLIC & PRIVATE MARKETS

*Institutional Investment Capability*

Fi3 designs and constructs portfolios based on a “total return” approach to investing, which incorporates both income and capital appreciation. We allocate across a global range of traditional investment strategies and use third-party money managers, rather than proprietary strategies managed in-house. Fi3 leverages its own relationships, along with the extensive research of a nationally ranked investment consultant, to source and evaluate private investments, including private equity, hedge funds and private real estate.

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# Financial Wellness: A Holistic View



A thoughtfully constructed financial plan takes a holistic view of wealth management and understands how each piece interacts with the others.





# ASSESSING YOUR FINANCIAL WELLNESS

The New Year provides a great opportunity to evaluate where updates may be needed. As you go through this guide, we encourage you to use the scorecard below to assess your ‘financial wellness.’

	<u>Up-to-Date</u> <i>No Action Needed</i>	<u>Review</u> <i>Action May Be Needed</i>	<u>Update</u> <i>Action Needed</i>	<u>Not Applicable</u>
Tax Planning				
Charitable Planning				
Investment Planning / Allocation				
Retirement Planning				
Social Security & Medicare				
Estate Planning				
Beneficiary Designations *				
Insurance Planning <i>(Life, Property &amp; Casualty)</i>				

\* Be sure to review upon major life events such as marriage, divorce, birth/adoption of a child, etc.

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# Key Updates for 2023

## The Return of...Bond Yields?!?

- An extended period of historically low interest rates gave rise to the acronym TINA ('there is no alternative' [to stocks])...though the investment landscape has changed markedly, with bonds now providing considerably more yield than in years past.
- The 10-year U.S. Treasury yield, for instance, surged from 1.51% (12/31/21) to 3.88% (12/31/22); in late October, the 10-year yield reached 4.25%, which marked its highest yield since 2008.<sup>1</sup>
- Investors who had become disillusioned with paltry bond income in recent years will find more substantial income going forward, given current interest rates.

## "A Year to Forget" ...Perhaps, but Still to Reflect Upon

- 2022 was a challenging year for investors, with very few places to hide.
- By some measures, it was the worst year for a diversified 60% Stock / 40% Bond portfolio since at least 2008 (the Global Financial Crisis).<sup>2</sup>
- The Bloomberg U.S. Aggregate Bond Index fell 13% in 2022, which marked its worst calendar year return since its 1976 inception<sup>2</sup>, while the S&P 500 Index dropped 18% – its worst performance since 2008.<sup>3</sup>
- Investors should caution against concluding "diversification is dead" and should instead use the New Year as an opportunity to revisit portfolio allocations to ensure alignment with risk tolerance and longer-term objectives.

For additional information, please see our website: ["2023 Outlook: Goodbye, TINA"](#)

<sup>1</sup> Source: Treasury.gov – Interest Rate Statistics; CNBC, "10-Year Treasury Yield Tops 4.2% for First Time since 2008."

<sup>2</sup> Source: Yahoo Finance: "Why Ordinary Investors Got Hit So Hard in 2022" (December 2022).

<sup>3</sup> Source: CNBC – "Stocks fall to end Wall Street's worst year since 2008, S&P 500 finishes 2022 down nearly 20%" (December 30, 2022)

## Build Back Better Act (BBBA) Becomes the Inflation Reduction Act (IRA)

- The Biden administration was unable to advance the \$1.75T Build Back Better Act (“BBBA”) through both houses of Congress, in large part due to objections from Senators Manchin of West Virginia and Sinema of Arizona. The larger climate and healthcare legislative package was ultimately scaled back to the Inflation Reduction Act (\$430 billion) and was signed into law by President Biden in August.<sup>1,3</sup>
- While BBBA had initially targeted raising income tax rates for high earners and lowering the estate exemption, such tax proposals were left out of the Inflation Reduction Act, aside from the IRA incorporating an additional \$80 billion of funding to the IRS.

## SECURE Act 2.0

- Building on retirement enhancements made under SECURE Act 1.0 (which became law in 2020), Congress passed SECURE Act 2.0 on December 23, 2022 as part of the \$1.7 trillion omnibus spending bill.<sup>2</sup>
- Among the many changes, the Required Minimum Distribution (RMD) age will increase to age 73 and eventually to age 75, and individuals will have expanded opportunities to save for retirement including potentially utilizing Roth accounts.
- Changes from SECURE 2.0 will be phased in between 2023, 2024 and future years (see the following slides titled “SECURE Act 2.0” for further details)

<sup>1</sup> Source: Thomson Reuters & Congressional Research Service (CRS). “Understanding the Inflation Reduction Act of 2022. (November 12, 2021)

<sup>2</sup> Source: Morgan Lewis – “SECURE Act 2.0: Congress Delivers Retirement Plan Legislation and Holiday Cheer” (December 27, 2022).

<sup>3</sup> Source: CNBC – “House Passes Massive Climate, Tax, and Health Bill” (August 2022).

## Additional Gifting Opportunities

- The estate and lifetime gift tax exemption increased substantially to \$12.92 million per person<sup>1</sup> (from \$12.06 million as of 2022); given the notable increase, high net worth individuals who may have previously exhausted the lifetime gift tax exemption may now have flexibility to gift additional assets out of an otherwise taxable estate.
- The annual gift tax exclusion also increased to \$17,000 (from \$16,000 as of 2022).<sup>1</sup>

## Retirees Get a Raise

- The Social Security Administration (SSA) announced the 2022 cost of living adjustment (COLA) of 8.7%.<sup>2</sup>
- The adjustment for 2023 represents the fourth largest since automatic adjustments began in 1975 and marks the largest annual increase since 1981.<sup>2</sup>

<sup>1</sup> Source: Wall Street Journal – “IRS Raises Estate-Tax Threshold to \$12.92 Million for 2023” (October 18, 2022).

<sup>2</sup> Source: CNBC – “Social Security cost-of-living adjustment will be 8.7% in 2023, highest increase in 40 years” (October 13, 2022).

*President Biden signed the Inflation Reduction Act into law on August 16, 2022. The \$430 billion bill aims to combat climate change, lower healthcare care costs, and reduce the deficit.*

Provision	Notes
<b>15% Minimum Tax Rate for Corporations</b>	<ul style="list-style-type: none"> <li>Corporations with at least \$1 billion in income will be subject to a new minimum tax rate of 15%</li> </ul>
<b>1% Excise Tax on Corporate Stock Buybacks</b> <sup>1</sup>	<ul style="list-style-type: none"> <li>New excise tax will apply to repurchased stock, less the fair market value of any stock issued in that same year</li> <li>Certain exceptions apply</li> </ul>
<b>IRS Funding</b>	<ul style="list-style-type: none"> <li>\$80 billion of additional funding over the next 10 years is provided to the IRS for greater tax enforcement<sup>1</sup></li> <li>The Congressional Budget Office (CBO) estimates this additional funding will yield \$180 billion in additional tax revenue<sup>2</sup></li> </ul>
<b>Lower the Cost of Prescription Drugs</b> <sup>1</sup>	<ul style="list-style-type: none"> <li>Beginning in 2023, Medicare will be able to negotiate the price for certain prescription drugs (targeting approximately 100 drugs over the next decade)</li> <li>Starting in 2025, Medicare recipients will have a \$2,000 annual cap on out-of-pocket prescription drug costs</li> </ul>
<b>Extend Subsidies for Affordable Care Act (ACA)</b> <sup>1</sup>	<ul style="list-style-type: none"> <li>Federal government subsidies for ACA medical insurance premiums, which were set to expire at the end of 2022, are extended through 2025</li> </ul>
<b>Funding to Address Climate Change</b>	<ul style="list-style-type: none"> <li>Nearly \$369 billion will be directed towards clean energy, with the targeted aim of significantly lowering carbon emissions by the end of the decade<sup>3</sup></li> </ul>
<b>Reduce the Deficit</b>	<ul style="list-style-type: none"> <li>Based on scoring by the Congressional Budget Office (CBO), the IRA would reduce deficits by \$238 billion over a decade<sup>2</sup></li> </ul>

<sup>1</sup> Source: Forbes: “The Inflation Reduction Act is Now Law – Here’s What It Means for You” (August 2022).

<sup>2</sup> Source: CFRB: “CBO Scores IRA with \$238 Billion of Deficit Reduction” (September 2022).

<sup>3</sup> Source: CNBC – “The U.S. passed a historic climate deal this year — here’s a recap of what’s in the bill” (December 2022).

## Changes effective for 2023

Proposal	Notes
<b>Increase in Age for Required Minimum Distributions (RMDs)</b>	<p>Effective January 1, 2023, the required minimum distribution (RMD) age will increase from age 72 to age 73 and will increase further over the next decade.</p> <ul style="list-style-type: none"> <li>• RMD age = 72 ...for individuals born in 1950 or earlier</li> <li>• RMD age = 73 ...for individuals born between 1951-1959</li> <li>• RMD age = 75 ...for individuals born in 1960 or later</li> </ul>
<b>Reduced RMD Penalties</b>	<p>The penalty for failing to take a full RMD decreases from 50% to 25%; the penalty is further reduced to 10% if the taxpayer corrects the error promptly.</p>
<b>“Rothification” of Employer-Matching Contributions and Non-Elective Contributions</b>	<p>Retirement plans may allow participants to elect some or all of matching and/or non-elective contributions to be deposited to the participant’s designated Roth account.</p> <p>If the participant makes this election, the contribution amount is includable in the employee’s income. If elected, such a contribution must be non-forfeitable.</p>
<b>SIMPLE Roth IRAs, SEP Roth IRAs</b>	<p>Individuals will now have the ability to fund a SIMPLE Roth IRA or a SEP Roth IRA.</p> <p>Practically speaking, however, it may take some time for custodians to make this an available option, as well as for the IRS to provide further procedural clarifications/updates.<sup>2</sup></p>
<b>Increased Purchase Limit for Qualified Longevity Annuity Contracts (QLACs)</b>	<p>QLACs begin payment at or near the end of a participant’s life expectancy. Under SECURE Act 2.0, the previous 25% limit on a retirement account balance to fund a QLAC is repealed and the available purchase amount is increased to \$200,000 (from \$145,000 previously).<sup>1</sup></p>

For additional information, please see our website for our summary of [SECURE Act 2.0](#)

<sup>1</sup> Source: Morgan Lewis – “SECURE Act 2.0: Congress Delivers Retirement Plan Legislation and Holiday Cheer” (December 27, 2022)

<sup>2</sup> Source: SECURE 2.0 Act Paves the Way for Big Changes as of January 2023



## Changes effective for 2024

Proposal	Notes
<b>IRA Catch-Up Limit, Indexed for Inflation</b>	IRA catch-up limits will be indexed for inflation (thus aligning with similar treatment as applies to the annual adjustment for IRA “regular” contribution limits)
<b>“Rothification” of Catch-up Contributions</b>	If participants are taking advantage of catch-up contributions and their wages exceeded \$145,000 in the prior calendar year, such participants will be required to make catch-up contributions on a Roth (after-tax) basis
<b>Removal of RMD Requirement for Employer Roth Accounts</b>	<ul style="list-style-type: none"> <li>• The pre-death distribution requirement for in-plan Roth accounts is eliminated</li> <li>• This change does not apply to distribution amounts prior to the 2024 effective date</li> </ul>
<b>Employer Matching Contributions for Student Loan Repayments</b>	<ul style="list-style-type: none"> <li>• Applies to qualified retirement plans (401(k), 403(b), 457(b) plans and SIMPLE IRAs)</li> <li>• Plan Sponsors may provide matching contributions on qualified student loan payments</li> <li>• Student loan match must be subject to the same vesting schedule as the regular match</li> <li>• Employee must be eligible to receive matching contributions, and all employees eligible for matching contributions must be eligible for a student loan match</li> </ul>
<b>Rollover of Unused 529 Plan Funds</b>	<p>Unused 529 fund assets may be rolled over directly to a Roth IRA, subject to the following conditions:</p> <ul style="list-style-type: none"> <li>• The 529 account must have been maintained for at least 15 years</li> <li>• Any contributions made within the previous five years are ineligible for rollover</li> <li>• The eligible rollover amount is limited to the annual IRA contribution limit, less any other IRA contributions made for that same year</li> <li>• The receiving Roth IRA must be in the same name as the 529 beneficiary</li> <li>• The maximum allowable rollover amount is \$35,000 during an individual’s lifetime</li> </ul>
<b>Qualified Charitable Distributions, Indexed for Inflation</b>	The annual limit for QCDs has remained at \$100,000 since its 2006 inception; beginning in 2024, the annual QCD limit will be indexed for inflation. Also of note, while the RMD age will continue to rise over the coming decade, the eligible age for making a QCD remains at 70½.

Source: SECURE 2.0 Act Paves the Way for Big Changes as of January 2023

## Changes effective for 2024 (continued)

Proposal	Notes
<b>Emergency Expenses &amp; Emergency Savings</b> <sup>1</sup>	<ul style="list-style-type: none"> <li>• Pension-linked emergency savings account (PLESA)</li> <li>• Participants may make Roth (after-tax) contributions until account balance reaches \$2,500 (although Plan Sponsor can set a lower limit)</li> <li>• Employee contributions are match-eligible (not made to PLESA)</li> <li>• Automatic enrollment option available (employer)</li> <li>• Highly compensated employees are not eligible</li> <li>• Participants must be able to take emergency savings distributions at least once per month</li> <li>• Distributions are not subject to early withdrawal penalties and are not taxable</li> </ul>

## Changes effective for 2025 or later

Proposal	Notes
<b>Increased Limit for Catch-up Contributions</b> <sup>1</sup>	<ul style="list-style-type: none"> <li>• Effective for taxable years after December 31, 2024, individuals aged 60-63 will be able to make additional catch-up contributions – the greater of:               <ul style="list-style-type: none"> <li>○ \$10,000 for eligible plans (\$5,000 for SIMPLE plans), or</li> <li>○ 150% of the current year catch-up contribution limit (indexed for inflation)</li> </ul> </li> </ul>
<b>Automatic Enrollment, Automatic Escalation</b> <sup>2</sup>	<ul style="list-style-type: none"> <li>• For new 401(k)/403(b) plans established after SECURE Act 2.0 enactment, for plan years after December 31, 2024:               <ul style="list-style-type: none"> <li>○ The plan must contain an automatic enrollment provision for employees (unless the employee opts out)</li> <li>○ The plan must contain an automatic escalation provision which begins at least at 3% (but not more than 10%) and the contribution percentage must automatically increase by 1% each year, until the contribution percentage is at least 10% (but not more than 15%)</li> <li>○ Certain exceptions are in place for governmental and church plans and for plans sponsored by new and small businesses</li> </ul> </li> </ul>

<sup>1</sup> Source: SECURE 2.0 Act Paves the Way for Big Changes as of January 2023

<sup>2</sup> Source: Morgan Lewis – “SECURE Act 2.0: Congress Delivers Retirement Plan Legislation and Holiday Cheer as Part of Year-End Spending Bill” (December 27, 2022)

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# Tax Planning

## Federal Income Tax Brackets<sup>1</sup>

Marginal Tax Rate	Single Filers	Head of Household	Married Filing Jointly	Trusts and Estates <sup>2</sup>
10%	0 – 11,000	0 – 15,700	0 – 22,000	0 – 2,900
12%	11,000 – 44,725	15,700 – 59,850	22,000 – 89,450	
22%	44,725 – 95,375	59,850 – 95,350	89,450 – 190,750	
24%	95,375 – 182,100	95,350 – 182,100	190,750 – 364,200	2,900 – 10,550
32%	182,100 – 231,250	182,100 – 231,250	364,200 – 462,500	
35%	231,250 – 578,125	231,250 – 578,100	462,500 – 693,750	10,550 – 14,450
37%	578,125 +	578,100 +	693,750 +	14,450 +

Source: Tax Foundation, as of October 2022

## Alternative Minimum Tax (AMT)<sup>1</sup>

	AMT Exemption	AMT Exemption Phaseout
Single and Head of Household	81,300	578,150
Married Filing Jointly	126,500	1,156,300

The AMT exemption is reduced by \$0.25 for each dollar that a taxpayer's Alternative Minimum Taxable Income (AMTI) exceeds the phase-out threshold

## Long-Term Capital Gains Tax Rates<sup>1</sup>

### Taxable Income:

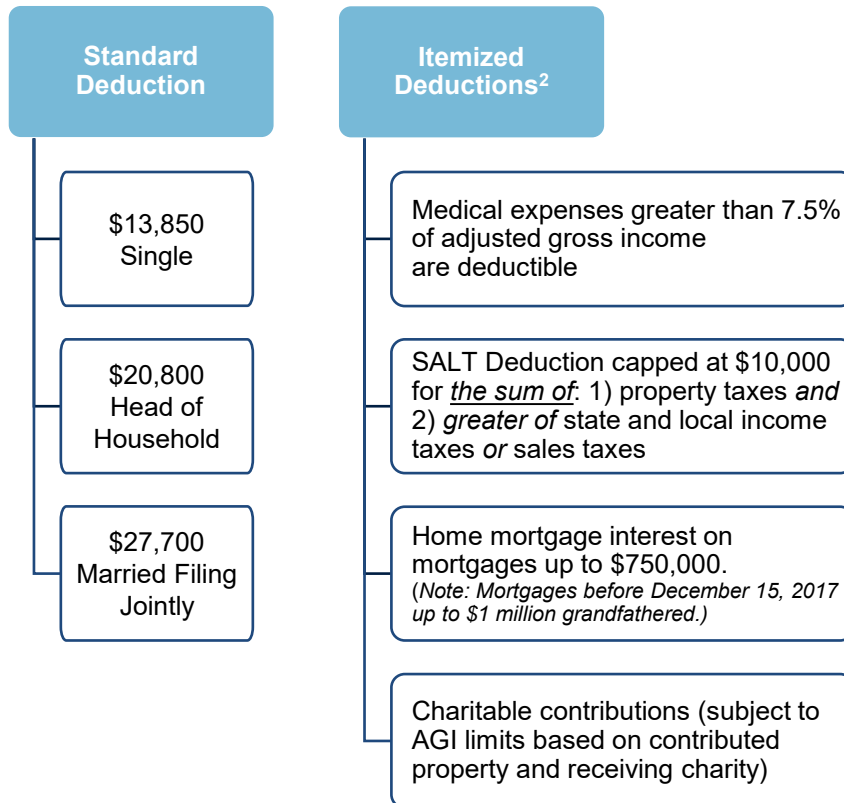
<b>0%</b>	<	44,625 Single 59,750 Head of Household 89,250 Married Filing Jointly
<b>15%</b>	between	44,625 – 492,300 Single 59,750 – 523,050 Head of Household 89,250 – 553,850 Married Filing Jointly
<b>20%</b>	>	492,300 Single 523,050 Head of Household 553,850 Married Filing Jointly

<sup>1</sup> Source: The Tax Foundation – “2023 Tax Brackets” (October 18, 2022)

<sup>2</sup> Source: Putnam Investments – “2023 tax rates, schedules, and contribution limits”

## Standard Deduction vs. Itemized Deductions<sup>1</sup>

Taxpayers may take the greater of the standard deduction or total itemized deductions



<sup>1</sup>Source: The Tax Foundation – “2023 Tax Brackets” (October 18, 2022)

<sup>2</sup>Source: Putnam Investments – “2023 tax rates, schedules, and contribution limits”



## “Must Know” Healthcare Taxes<sup>2</sup>

### Net Investment Income Tax (NIIT):

3.8%

On the *lesser of* net investment income or Modified AGI above threshold:  
 \$ 200,000 for Single/Head of Household  
 \$ 250,000 for Married Filing Jointly  
 \$ 125,000 for Married Filing Separately

*Note: These threshold amounts are not indexed for inflation.*

Investment income includes, but is not limited to:

- Interest
- Dividends
- Capital Gains
- Rental/Royalty Income
- Taxable Portion of Non-Qualified Annuity Payments
- Business Income from Financial Trading
- Passive Activities

### Medicare Surtax:

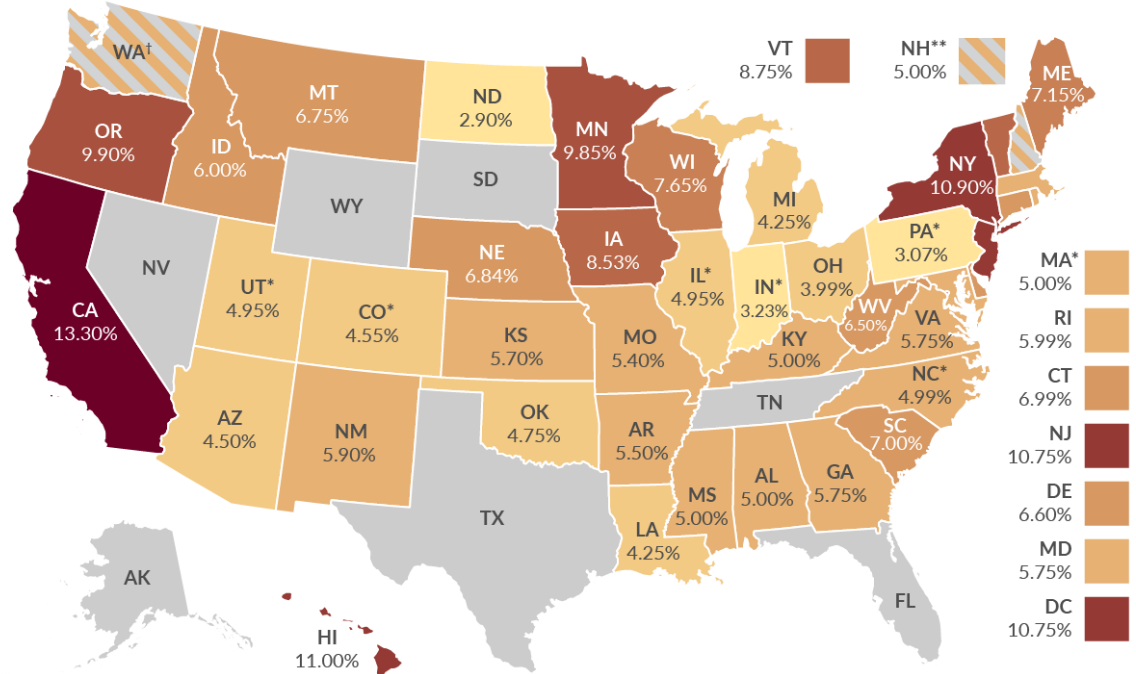
0.9%

On *earned* income above:  
 \$ 200,000 for Single  
 \$ 250,000 for Married Filing Jointly  
 \$ 125,000 for Married Filing Separately

*Note: These threshold amounts are not indexed for inflation.*

## How High Are Individual Income Tax Rates in Your State?

Top Marginal State Individual Income Tax Rates (as of January 1, 2022)



Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Missouri's top marginal rate will be reduced to 5.3% if certain revenue triggers are met.

(\*) State has a flat income tax.

(\*\*) State only taxes interest and dividends income.

(†) State only taxes capital gains income.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax.

Top State Marginal Individual Income Tax Rates



41

States with individual income taxes

1

States which only tax dividends and interest (New Hampshire)

1

States which only tax capital gains (Washington)



7

States with no individual income tax (Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Wyoming)



## Planning Tip

- The taxation of portfolio income varies by asset class. Taxable bond and REIT income is taxed unfavorably at ordinary income rates, while equity dividends are typically taxed favorably at lower qualified dividend rates.
- An investor who has a combination of taxable accounts, Traditional 401(k)/403(b)/IRAs and Roth 401(k)/403(b)/IRAs can optimize a portfolio's allocation to minimize tax drag, thereby enhancing long-term after-tax returns.

<div style="background-color: #002060; color: white; padding: 5px; text-align: center; font-weight: bold;">More Tax-Efficient</div> <div style="text-align: center; margin: 10px 0;">     </div> <div style="background-color: #666; color: white; padding: 5px; text-align: center; font-weight: bold;">Less Tax-Efficient</div>	<b>Municipal Bonds</b>	Income is federally tax-exempt and may be state tax-exempt
	<b>Equities, Low-Turnover</b>	Qualified dividends with limited capital gains
	<b>Equities, High-Turnover</b>	Qualified dividends but may produce higher capital gains
	<b>Taxable Bonds, Low Yields</b> <i>(TIPS, Global Bonds, Core US Bonds)</i>	Lower yields but taxed as ordinary income
	<b>REITs</b>	Non-qualified dividends with capital gains
	<b>Taxable Bonds, High Yields</b> <i>(High Yield &amp; EM Bonds)</i>	Higher yields and taxed as ordinary income

*Asset classes/investments such as broad real assets, hedge funds, etc. may be harder to quantify for tax efficiency.*

## What we are doing to help clients

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- Tax-Aware Investing/Asset Placement
- Tax-Efficient Securities and Active Management Considerations
- Tax Loss Harvesting/Thoughtful Rebalancing
- Tax-Aware Recognition of Capital Gains
- Capital Gain Dividend Distribution Analysis

## How your tax advisor can help

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- Recognition and Timing of Income
- Timing and Target Amount for Charitable Gifts
- Evaluating the Potential Benefits of a Roth Conversion
- Review Estimated Tax Withholding
- AMT Considerations
- Manage State and Local Income Tax Deductions
- Review Property Tax Deductions
- Additional State Tax Considerations

## Areas where we can offer perspective

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- **Evaluating and Minimizing Capital Gain Implications** amid a portfolio repositioning, considering factors such as potential step-ups in cost basis, asset placement, etc.
- **Evaluating Family Gifting Strategies** according to desired gifting goals and, once determined, coordinating the gifting transfers.
- **Gifting Long-Term Appreciated Securities** rather than cash for charitable contributions, which avoids capital gains taxes on the appreciated securities.
- **Charitably Gifting the Required Minimum Distribution of an IRA**, which avoids the IRA distribution being treated as taxable income.
- **Weighing the Differences between a Lump Sum Option or Annuity** income stream for Defined Benefit Plans or Cash Balance Pensions.
- **Evaluating Tax Bracket Breakpoints and Stock Volatility** when minimizing single stock concentrations.
- **Reviewing Social Security** income options.



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# Charitable Planning

## Planning Tip

The charitable giving landscape changed substantially in 2018, as the Tax Cut and Jobs Act nearly doubled the standard deduction but capped the state and local tax (SALT) deduction at \$10,000 and eliminated “miscellaneous two percent itemized deductions.” Due to the new changes, taxpayers should evaluate whether or not a portion of charitable giving would produce a tax benefit..

Taxpayers might benefit from **accelerating (“bunching”) charitable gifts** to maximize itemized deductions in a single tax year while taking the standard deduction in other years. This planning strategy can be particularly effective for charitably-inclined taxpayers without deductible medical expenses (> 7.5% of Adjusted Gross Income) and with no/minimal mortgage interest.

### Scenario #1: Married Filing Jointly, Level Annual Charitable Giving

	2023–2026 (Each Year)	2023–2026 TOTAL
Mortgage Interest	\$9,000	<b>\$36,000</b>
State & Local Tax (SALT)	\$10,000	<b>\$40,000</b>
Charitable Gifts	\$30,000	<b>\$120,000</b>
<b>Itemized Deduction Total</b>	<b>\$49,000</b>	<b>\$196,000</b>

**Greater of: Itemized Deductions  
or \$27,700 Standard Deduction**

**\$49,000      \$196,000**

### Scenario #2: Married Filing Jointly, Accelerated Charitable Giving

	2023	2024–2026 (Each Year)	2023–2026 TOTAL
Mortgage Interest	\$9,000	\$9,000	<b>\$36,000</b>
State & Local Tax (SALT)	\$10,000	\$10,000	<b>\$40,000</b>
Charitable Gifts	<b>\$120,000</b>	\$0	<b>\$120,000</b>
<b>Itemized Deduction Total</b>	<b>\$139,000</b>	<b>\$19,000</b>	<b>\$196,000</b>

**Greater of: Itemized Deductions  
or \$27,700 Standard Deduction**

**\$139,000      \$27,700      \$222,100**

In the example above, the couple’s itemized deductions before charitable gifts total \$19,000 (mortgage interest + SALT). Since the married filing jointly (MFJ) standard deduction is \$27,700, the first \$8,700 of charitables will not produce a tax benefit.

In Scenario #2, the couple accelerates charitable giving into a single year (2022) to maximize itemized deductions and takes the standard deduction in subsequent years (2024-2026). **The composition of itemized deductions is the same under both scenarios, yet Scenario #2 produces a greater cumulative tax deduction of \$26,100 over the four-year period.**

*Several legislative proposals have aimed to increase the current \$10,000 cap for the state and local tax (‘SALT’) deduction, though these proposals have yet to draw enough bipartisan support to pass both houses of Congress.*



## Donor-Advised Funds vs. Private Foundations

There are numerous considerations to evaluate whether a donor-advised fund or a private foundation (or a combination) might be an effective charitable giving vehicle. The table below provides an abbreviated comparison.


	Donor-Advised Fund	Private Foundation
<b>Start-up Time</b>	Immediate	May take several weeks or months
<b>Start-up Costs</b>	None	Legal and other fees
<b>Initial Contribution/ Minimum</b>	Varies by sponsor, but often as low as \$5,000 - \$10,000	No minimum, though due to start-up and ongoing administrative expenses, a larger starting balance (several million dollars) is generally advisable
<b>Minimum Grant to Charity</b>	Varies by sponsor, but often as low as \$50-\$100	No minimum
<b>Ability to Give Anonymously</b>	Yes, donors can choose whether to give publicly or anonymously	No, IRS Form 990 must report gifts
<b>Ongoing Administrative Expenses</b>	Varies by sponsor, but typically starts around 0.60%	Various tax and other expenses
<b>Underlying Investment Expenses</b>	Varies by sponsor, with some investment options as low as 0.03%	Varies based on investments chosen & advisor
<b>Tax Deduction for Gifts</b>	Up to 60% of AGI for cash gifts Up to 30% of AGI for long-term securities	Up to 30% of AGI for cash gifts Up to 20% of AGI for long-term securities
<b>Annual Distribution Requirement</b>	None	IRS requires minimum 5% annual distribution based on prior year's net average assets
<b>Tax Reporting</b>	Handled by the sponsor; donors do not report charitable grant activity	Responsible for tax filings and must annually file IRS Form 990
<b>Excise Taxes</b>	None	1.39% of net investment income

## ADDITIONAL CHARITABLE GIVING STRATEGIES

	Charitable Lead Trusts (CLT)	Charitable Remainder Trust (CRT)	Charitable Gift Annuity (CGA)
<b>What is it?</b>	<p>An irrevocable trust established for charitable purposes.</p> <p>During the trust term, income passes to the designated charity/charities.</p> <p>At the end of the trust term, the remaining assets transfer back to the donor or to specified beneficiaries.</p>	<p>An irrevocable trust established for charitable purposes.</p> <p>During the trust term, income passes to the donor or designated beneficiary (per the IRS, the annual annuity must be at least 5% but not more than 50% of the trust's assets).</p> <p>At the end of the trust term, the remaining assets transfer to the designated charity/charities.</p>	<p>A lifelong contract between a nonprofit and a donor or couple.</p> <p>The donor makes an irrevocable gift to 501(c)(3) qualified public charity, and, in return, the charity agrees to pay the annuitant(s) lifetime income.</p> <p>The maximum number of annuitants is two.</p> <p>Not all charities provide charitable gift annuities.</p>
<b>Benefits</b>	<p>Under a <i>non-grantor CLT</i>, depending on the amount of trust growth, remainder assets may pass to beneficiaries free of estate or gift tax.</p> <p>Under a <i>grantor CLT</i>, the grantor receives an immediate tax deduction for the present value of the future payments to be made to charity.</p>	<p>Donor receives a partial income tax deduction depending on trust type and term, projected income payments and IRS interest rates.</p> <p>Can convert appreciated assets into current income, without triggering capital gains taxes.</p>	<p>Donor receives a charitable tax deduction for the value of the original gift, less the present value of future annuity payments.</p> <p>Potential for a portion of annuity payments to be treated as tax-free income.</p>
<b>Taxation</b>	<p>Under a non-grantor CLT, the trust is considered the owner and pays tax on undistributed net income; the trust can claim an unlimited charitable deduction for charitable distributions.</p> <p>Under a grantor CLT, the grantor pays the tax on trust income.</p>	<p>The CRT's investment income is exempt from tax, which provides an opportunity to sell appreciated securities without generating capital gains tax.</p> <p>However, the named income beneficiary will pay income tax on the type of income received.</p>	<p>For gifts of cash, annuity payments will be treated as a split among ordinary income and tax-free income.</p> <p>For gifts of appreciated securities, annuity payments will be treated as a split among ordinary income, capital gains and tax-free income.</p>
<b>Who might benefit from this strategy?</b>	Charitably inclined individuals who want to provide current support to charity but also want any remaining assets to pass to beneficiaries.	Charitably inclined individuals who want an immediate charitable tax deduction and who also have a need/desire for current income.	Charitably inclined individuals who want an immediate charitable tax deduction and current income but may have insufficient assets to fund a CRT.

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# Retirement Planning

 Focus greater emphasis on what you can influence and evaluate the factors that are either partially or completely outside of your control.

<p>Full ability to control</p>	<p><u>Lifestyle pre-retirement</u> – level of spending and saving today</p>	<p><u>Lifestyle in retirement</u> – your vision of <i>your</i> retirement</p>	<p><u>Asset Allocation &amp; Asset Location</u> – how investment assets are allocated among asset classes and accounts</p>
<p>Some degree of control</p>	<p>Duration of employment and earnings</p>	<p>Longevity – genetics, lifestyle choices that may impact your health in retirement</p>	<p>Non-essential spending</p>
<p>Unable to control</p>	<p>Market returns and inflation</p>	<p>Tax policy and applicable laws</p>	<p>Healthcare costs</p>

70 –  
85%

Approximate income replacement ratio for estimating future retirement expenses\*

15%

Target annual investment savings\*  
(*employee contribution + employer match*)

8%

Americans' average annual savings rate<sup>1</sup>

< 10%

57% of American workers save less than 10% of income<sup>2</sup>

62

Average age Americans hope to stop working<sup>3</sup>

\$300k

The estimated dollar amount needed for an average retired couple aged 65 to pay for medical expenses through retirement (after-tax)<sup>4</sup>

## Common Retirement Planning Mistakes

- Retiring too early / saving too little
- Underestimating lifestyle / retirement expenses
- Spending beyond one's means, particularly early in retirement
- Assuming too little or too much risk pre- and/or post-retirement
- High concentration risk with individual securities or company stock
- Attempting to time the market
- Filing for early (reduced) Social Security benefits despite expected longevity
- Underestimating future healthcare expenses

\* General rule of thumb; target savings rate may be higher or lower depending on age, existing savings, anticipated retirement.

<sup>1</sup> JPMorgan Guide to Retirement (2022), Bureau of Economic Analysis, National Bureau of Economic Research; data for 1960-2021.

<sup>2</sup> IRI Retirement Readiness Research Series: "Retirement Readiness among Older Workers 2021" (August 2021)

<sup>3</sup> CNBC "Here is the age when Many Americans hope to retire" (September 15, 2021)

<sup>4</sup> Fidelity "How to plan for rising healthcare costs" (August 29, 2022)

## Retirement Benefit Limits <sup>1</sup>

	2022	2023
Contribution Limits for 401(k)/403(b) Plans	20,500	22,500
Age 50+ Catch-up	6,500	7,500
Contribution Limits for SIMPLE IRA Plans	14,000	15,500
Age 50+ Catch-up	3,000	3,500
Contribution Limits for IRAs	6,000	6,500
Age 50+ Catch-up	1,000	1,000
Contribution Limits for Defined Benefit Plans	245,000	265,000
Contribution Limits for SEP IRA and Solo 401(k) Plan	61,000	66,000

## Modified Adjusted Gross Income (MAGI) Limitations for IRA Contributions <sup>2</sup>

	2022	2023
<u>Traditional IRA</u>		
Single, Head of Household	68,000 – 78,000	73,000 – 83,000
Married Filing Jointly	109,000 – 129,000	116,000 – 136,000
<u>Roth IRA</u>		
Single, Head of Household	129,000 – 144,000	138,000 – 153,000
Married Filing Jointly	204,000 – 214,000	218,000 – 228,000
Married Filing Separately	0 – 10,000	0 – 10,000
Roth Conversions	None	None

*Beware of the **Five-Year Rule**: Converted Funds must remain in your Roth IRA for at least five years, regardless of an individual's age. Failure to do so may result in a 10% early withdrawal penalty.<sup>3</sup>*

<sup>1</sup> Source: TIAA – “IRS Announces 2023 Plan Contribution and Benefit Limits

<sup>2</sup> Thomson Reuters – “2023 Contribution Limits: 401(k) increases to \$22,500; IRA to \$6,500” (October 2022)

<sup>3</sup> Source: The Motley Fool – “Roth IRA 5-Year Rule” (January 2023)



Saving beyond your 401(k)/403(b) plan is essential for most Americans' retirement needs. Utilizing a Traditional or Roth IRA in addition to 401(k)/403(b) plan savings is a great way to give investors the opportunity for additional tax-free growth for retirement.

## Types of Savings Accounts



Account Examples	Individual/Joint/Trust accounts	Pre-Tax 401(k) Plan, Traditional IRAs (funded with deductible contributions)	Roth 401(k) Plan, Roth IRAs
<b>Taxable Income</b>	Interest, dividends and capital gains	Account withdrawals	Earnings/Withdrawals not taxable
<b>Tax Deductions</b>	Contributions not tax-deductible	Contributions tax-deductible	Contributions not tax-deductible
<b>Contribution Limits</b>	None	Yes, specific to type of account	Yes, specific to type of account

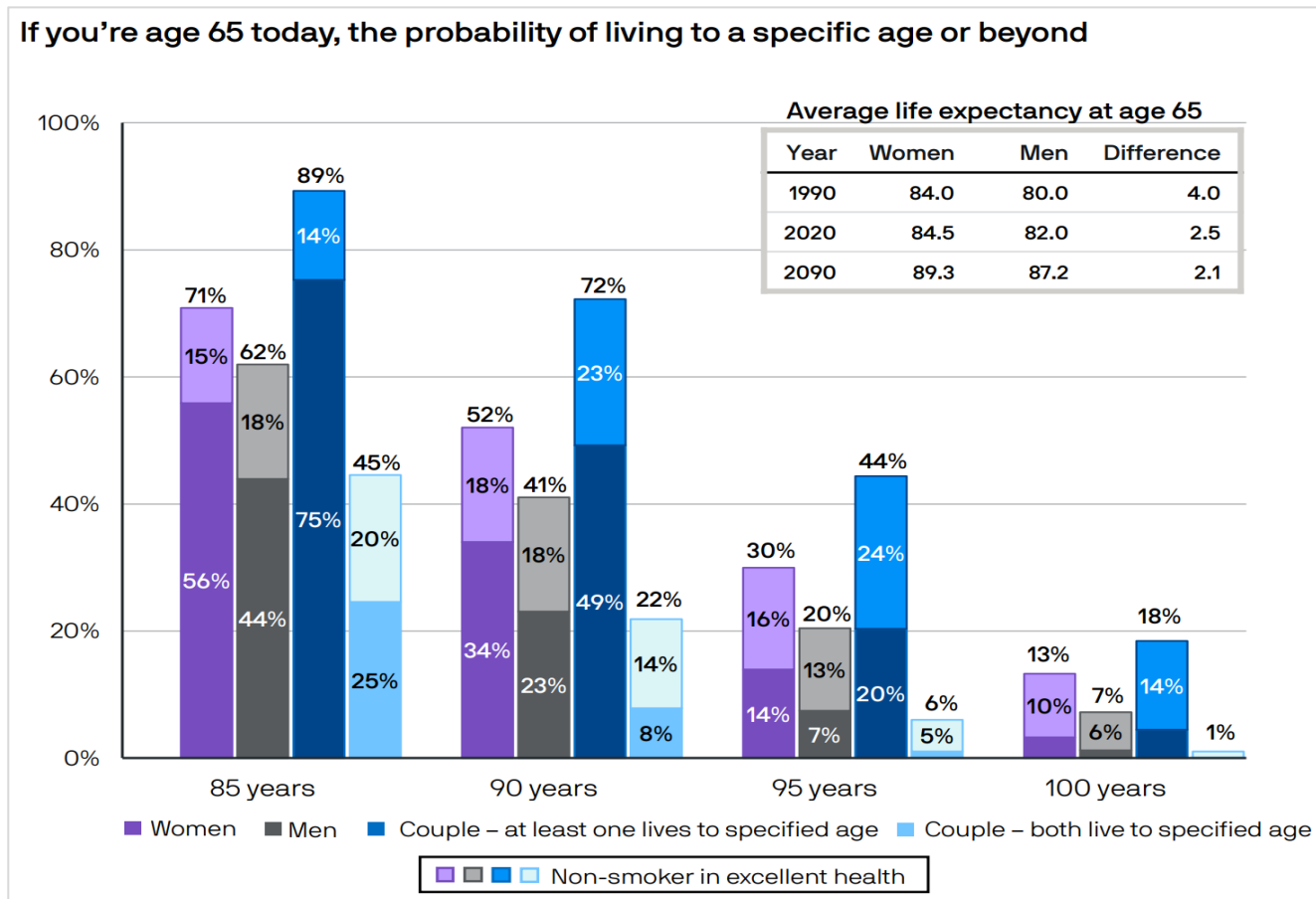


## Ways to maximize retirement savings beyond your 401(k) Plan:

After maximizing contributions to Retirement Plans (401(k), 403(b)) and deferring at least your company's match, investors can look to take advantage of the following:

1. Maximize after-tax assets in your portfolio:
  - Maximize contributions to after-tax accounts
  - Consider Backdoor Roth IRA contributions (if allowable)
  - Consider Roth IRA conversion
2. Consider establishing a Spousal IRA
3. If self-employed, maximize retirement savings by contributing to a Solo 401(k), SEP-IRA or Defined Benefit Plan

- Increasing average life expectancy means retirement could last 30+ years for some individuals
- 75% chance that at least one member of an aged-65 couple will live to age 85, which goes up to 89% if both are non-smokers in excellent health at age 65
- 49% chance that at least one member of an aged-65 couple will live to age 90, which goes up to 72% if both are non-smokers in excellent health at age 65



Source (table): Social Security Administration, Period Life Table, 2018 (published in 2021), JPMorgan Guide to Retirement (2022)



# ON TRACK FOR RETIREMENT?

The analysis below assumes you would like to maintain a lifestyle in retirement equivalent to current lifestyle

- Go to the intersection of your current age and your closest current household income (gross, before tax and savings)
- Compare your current savings to the savings checkpoints below

**Example: For a 40-year-old with gross income of \$200,000, current savings should be approximately \$780,000**

Age	<u>Household Annual Income (Gross)</u>				
	\$100,000	\$150,000	\$200,000	\$250,000	\$300,000
25	10,000	75,000	160,000	250,000	360,000
30	60,000	180,000	320,000	475,000	630,000
35	150,000	330,000	540,000	725,000	960,000
40	250,000	495,000	<b>780,000</b>	1,050,000	1,380,000
45	360,000	705,000	1,080,000	1,450,000	1,860,000
50	500,000	945,000	1,420,000	1,900,000	2,400,000
55	650,000	1,200,000	1,780,000	2,375,000	3,000,000
60	800,000	1,455,000	2,160,000	2,850,000	3,600,000
65	930,000	1,665,000	2,460,000	3,225,000	4,110,000

**Model Assumptions**

10%\* Annual Savings Rate

60/40\*\* Pre-Retirement Diversified Portfolio

40/60\*\* Post-Retirement Diversified Portfolio

2.3% Inflation Rate

Retirement Age:  
Age 65 Primary earner  
Age 63 Spouse

35 Years in Retirement

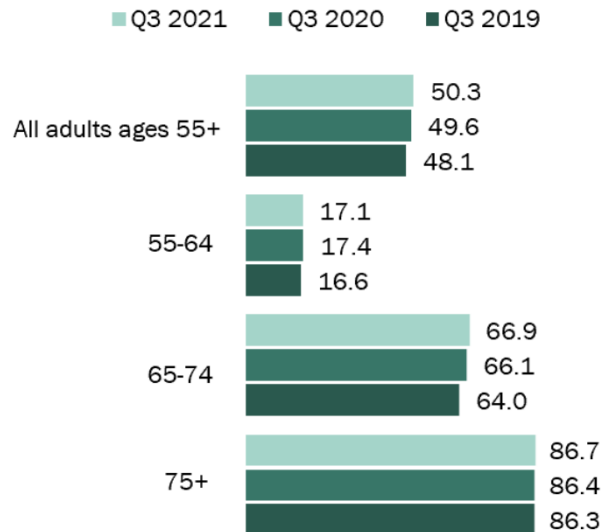
*\*10% is approximately **twice** the U.S. average annual savings rate*  
*\*\*Portfolio described as equity/bond percentages (e.g., a 40/60 portfolio is 40% equities 60% bonds)*

An increasing number of individuals over age 55 have retired since the COVID-19 pandemic, with half of U.S. adults over age 55 now retired.

The significance of the COVID-19 recession on retirement marks a change in long-term historical trends, although the Bureau of Labor Statistics suggest it may be temporary.

## Half of older U.S. adults are now retired

*% of older adults who are retired*



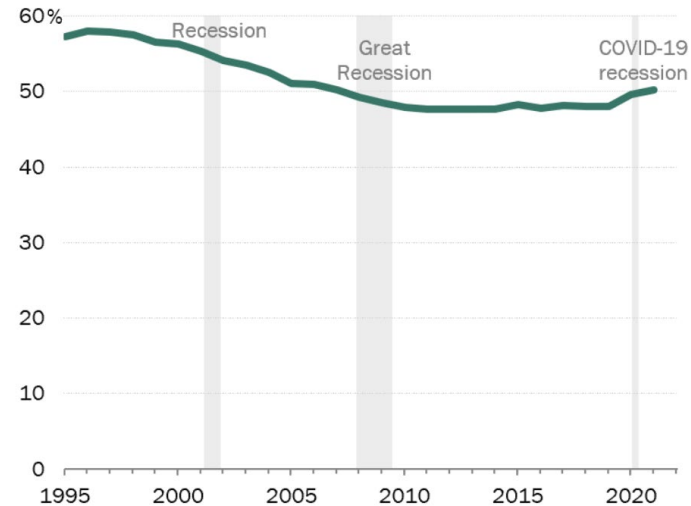
Note: "Retired" refers to those not in the labor force due to retirement.

Source: Pew Research Center analysis of July, August and September Current Population Survey monthly files (IPUMS).

PEW RESEARCH CENTER

## Unlike in other recent recessions, the pandemic has increased retirement among older adults

*% of U.S. adults ages 55 and older who are retired*



Note: "Retired" refers to those not in the labor force due to retirement. The COVID-19 recession began February 2020 and ended April 2020.

Source: Pew Research Center analysis of July, August and September Current Population Survey monthly files (IPUMS).

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## The “Stretch IRA” replaced by 10-year rule

SECURE Act 1.0 largely eliminated the “stretch IRA.” Most non-spouse beneficiaries can no longer ‘stretch’ IRA withdrawals out over their lifetime and are instead required to fully withdraw inherited retirement account assets by December 31 of the tenth calendar year following the account owner’s death.

### Who is still eligible for the longer payout period? <sup>1</sup>

- Heirs of IRAs whose original owners died before 2020
- Eligible Designated Beneficiaries
  - Surviving spouses
  - Chronically ill or disabled heirs
  - Heirs within 10 years of age of the original owner
  - Minor children of the account owner, up to the age of majority (now specified as age 21)

### Who is not eligible for the longer payout period? <sup>1</sup>

- Non-Eligible Designated Beneficiaries (Non-Spouses (aside from exceptions above), Certain Trusts)
  - If the account owner died before the Required Beginning Date, the beneficiary is not subject to annual withdrawals, but must empty the account by the tenth year following account owner’s death
  - If the account owner died after the Required Beginning Date, the beneficiary must take annual withdrawals (Inherited RMDs) for years 1-9 and must empty the account by the tenth year following account owner’s death
- Non-Designated Beneficiaries (Charities, Estate, Certain Trusts)
  - If the account owner died before the Required Beginning Date, the beneficiary must withdraw all funds by the end of the fifth year after the account owner’s death
  - If the account owner died after the Required Beginning Date, the beneficiary must take RMDs based on the account owner’s remaining single life expectancy had he/she lived

<sup>1</sup> Source: Kitces.com – “The (Partial) Death Of The Stretch IRA: How The SECURE Act Impacts Inherited Retirement Accounts” (February 2020)

Additional Source: Lord Abbett – “The Stretch IRA is Not Dead – Yet” (October 2021)

Additional Source: Ed Slott & Company – “Age of Majority and the New SECURE Act Regulations” (March 2022)



## REQUIRED MIN. DISTRIBUTION AND INHERITED IRA

As additional guidance to the preceding slide concerning inherited retirement accounts...

- **Required Beginning Date (RBD)** – April 1 of the year following the calendar year in which an individual first becomes subject to Required Minimum Distributions
  - Example: Jim is currently age 72 and will turn age 73 in 2024; Jim must take his first RMD by April 1, 2025, which is his Required Beginning Date
- **Beginning Age for Required Minimum Distributions (RMDs) from Retirement Accounts**<sup>2</sup>
  - RMD beginning age was previously 72 (and prior to that, was age 70½)
  - Per SECURE Act 2.0:
    - Birth year 1950 or earlier RMD Age = 72
    - Birth year 1951-1959 RMD Age = 73 (beginning as of 2023)
    - Birth year 1960 or later RMD Age = 75 (beginning as of 2033)
- As Roth IRAs do not have RMDs for the original account owner, the beneficiary of an Inherited Roth account is not subject to annual withdrawals during the 10-year withdrawal period but must fully withdraw the account by December 31 of the tenth year following the account owner's death<sup>2</sup>
- Given confusion over previous IRS guidance relating to inherited IRAs, the IRS clarified in October that missed 2021 and 2022 inherited retirement account RMDs would not be subject to a 50% penalty for missed RMDs, much to the relief of potentially impacted beneficiaries<sup>1</sup>
- Per Kitces.com, “the Successor Beneficiary of a post-SECURE Act Non-Eligible Designated Beneficiary simply steps into the original (Non-Eligible Designated) beneficiary’s shoes...which means the best they can do is to fill the original Primary Beneficiary’s 10-Year Rule” (i.e. a new 10-year withdrawal window is not created)<sup>2</sup>
- It is important to review any trust that is a beneficiary of an IRA and understand how the 10-year rule may affect its provisions

<sup>1</sup> Source: Ed Slott & Company – “IRS Waives 50% Penalty for Missed 2021 and 2022 RMDs within the 10-Year Period” (October 10, 2022)

<sup>2</sup> Source: Kitces.com – “SECURE Act 2.0: Later RMDs, 529-To-Roth Rollovers, And Other Tax Planning Opportunities” (December 28, 2022)



Review objectives and marginal income tax bracket to evaluate whether to contribute to a Traditional retirement account, a Roth retirement account or a combination of both.

	Traditional IRA <sup>1</sup>	Traditional 401(k)/403(b) <sup>2</sup>	Roth IRA <sup>1</sup>	Roth 401(k)/403(b) <sup>2</sup>
<b>Tax Benefits</b>	Tax-deferred growth		Tax-free growth and tax-free qualified withdrawals	
<b>Tax Deduction</b>	Contributions may be tax-deductible depending on AGI	Yes, for current year contributions	No, funded with after-tax contributions	
<b>Taxation of Withdrawals</b>	Taxed as ordinary income		Qualified withdrawals are tax-free	
<b>Early Withdrawal Penalties</b>	With limited exceptions, withdrawals prior to age 59½ result in a 10% penalty (in addition to the distribution being treated as ordinary income)		Contributions can be withdrawn penalty-free while earnings are taxable and may be subject to a 10% penalty	The earnings portion of a non-qualified distribution will be taxable and may be subject to a 10% penalty
<b>Income Limits for Contributions</b>	No, but deductibility is subject to income limits	None	Yes	None
<b>Age Limits for Contributions</b>	As of 2022, none	None	As of 2022, none	None
<b>Eligibility to Contribute</b>	Must have earned income	Actively employed	Must have earned income	Actively employed
<b>Deadline to Contribute</b>	April 15 of the following tax year	December 31	April 15 of the following tax year	December 31

**Tax Diversification:** Individuals may consider utilizing a combination of both Traditional and Roth retirement plan accounts as a ‘tax hedge’ given uncertainty over future income tax rates.

<sup>1</sup> Source: Vanguard Investor Resources – “Roth vs. Traditional IRAs: A Comparison”

<sup>2</sup> Source: Nerdwallet – “Roth 401(k) vs. 401(k): Which Is Best for You?” (January 2023)



## Backdoor Roth Contributions

If a taxpayer's income is higher than the noted thresholds for contributing to a Roth IRA, a taxpayer may fund a Traditional IRA with a "non-deductible" contribution. This contribution may, in turn, be converted to a Roth IRA tax-free, provided the taxpayer does ***not*** have any other holdings in a Traditional IRA. If a taxpayer has an outstanding Traditional, SEP or SIMPLE IRA balance, a portion of the conversion will be treated as taxable income.

### Example:

- John is a single taxpayer, age 55, with a modified adjusted gross income of \$450,000 which prevents him from directly contributing to a Roth IRA.
- John currently has a 401(k) plan but no Traditional IRA.
- John makes a \$7,500 non-deductible contribution to a Traditional IRA and leaves the entire contribution in cash.
- John waits 30+ days and then converts the non-deductible contribution to a Roth IRA.
- Since John had no Traditional IRA holdings and only converted a non-deductible contribution (which had no earnings over the 30-day period), the conversion is not taxable.

## Roth Conversions

Unlike income limits for Roth IRA contributions, there are no such income limitations for completing a Roth conversion. Taxpayers should recognize that converting a Traditional IRA to a Roth IRA typically produces taxable income. Individuals should evaluate their income tax picture to compare how their current tax bracket might compare to a future tax bracket:

- Individuals might consider a partial conversion where income is recognized up to a certain tax bracket.
- For ultra-high net worth individuals that will otherwise have a taxable estate, a Roth conversion may be beneficial as it reduces the size of the taxable estate by the amount of taxes paid on conversion while eventually leaving a favorable asset to heirs (i.e., inheriting a Roth IRA is preferable to inheriting a Traditional IRA).

*Example is hypothetical and for illustrative purposes only.*

*Source: Social Security Administration (2017 OASDI Trustees Report, July 2017).*



## ROTH CONVERSIONS: PROS AND CONS

	Maintain Pre-Tax IRA Balance / No Roth Conversion		Convert Pre-Tax IRA to Roth IRA	
<b>Income Tax on Roth Conversion</b>	Not applicable	+	The amount of the conversion creates taxable income, but such income could potentially be offset by charitable gifts	?
<b>Additional Contributions</b>	If above AGI limits, deductible contributions to pre-tax balance disallowed; however, non-deductible contributions are allowed	-	If the entire pre-tax IRA balance is converted, creates opportunity for Backdoor Roth IRA contributions without additional tax impacts	+
<b>Required Minimum Distributions</b>	In retirement, RMDs must be taken from the account, reducing the overall balance, adding tax liability	-	After Roth conversion, RMDs from the Roth IRA will not be required for the original account owner	+
<b>Income Tax</b>	Distributions are subject to income tax at ordinary income rates	-	Roth IRA distributions are not subject to income tax	+
<b>Estate Tax</b>	Account balance at death subject to estate tax	-	Account balance at death subject to estate tax	-
<b>Post-Death Beneficiary Income Tax</b>	RMDs to beneficiaries subject to income tax	-	RMDs to beneficiaries not subject to income tax	+

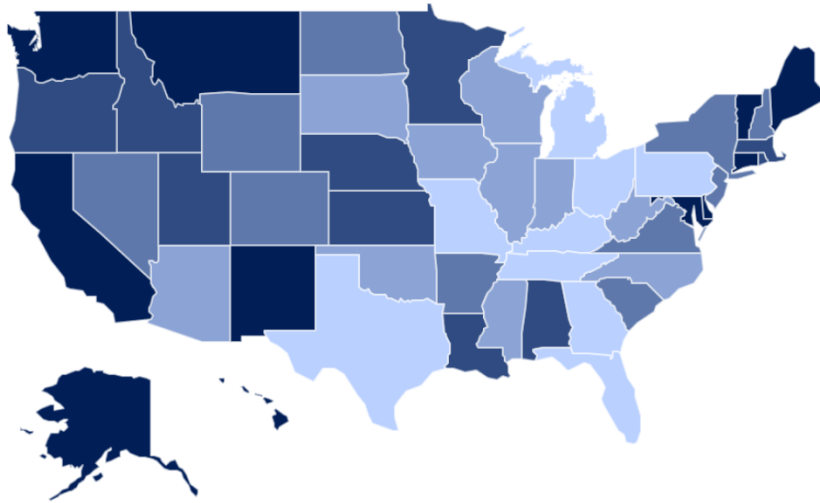


Check if your 401(k)/403(b) plan allows for “in-plan Roth conversions”. Known as a “mega backdoor Roth”, the strategy involves making after-tax contributions and subsequently converting those to a Roth account. This planning strategy could be addressed in future tax legislation.

Retirement assets can go a lot further in some states versus others, though there may also be additional qualitative (non-financial) factors to consider (proximity to family, weather, etc.).

## Best States to Retire

Florida tops Bankrate's ranking of best states to retire, followed by Georgia and Michigan. Our index measures affordability, wellness, culture, weather and crime.



Best States to Retire rank

**Sources:** U.S. Census Bureau, Sharecare Community Well-Being Index, Tax Foundation, Center for Regional Economic Competitiveness, FBI, National Weather Service, U.S. Geological Survey.

## Bankrate.com Rankings: Top 10 States for Retirees

1	Florida
2	Georgia
3	Michigan
4	Ohio
5	Missouri
6	Kentucky
7	Texas
8	Tennessee
9	Pennsylvania
10	South Dakota

Ratings based on the following weightings: Affordability (40%), Well-Being (20%), Culture & Diversity (15%), Weather (15%), and Crime (10%).

Preparing for a comfortable retirement requires diligence and discipline



## Review What Has Changed

- Tax laws
- Retirement goals
- Health/Longevity



## Assess whether Savings are “On Track”

- Compare current savings versus checkpoints
- Review portfolio allocation and asset location
- Look for opportunities to increase/optimize savings across account types
- Determine if retirement goals need to be adjusted



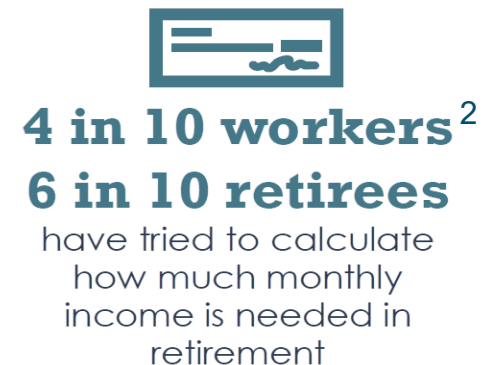
## Plan Ahead

- Periodically review your estate plan
- If nearing retirement, review Social Security benefits and determine an appropriate claiming age/strategy
- Medicare planning



## Estate Planning Document Review

- Periodically review beneficiary designations to ensure beneficiaries are listed as intended
- Especially important upon life events such as marriage, divorce, birth/adoption, etc.
- Review the need of a Trust or Will



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**Social Security  
&  
Medicare**

## When

You may start receiving your Social Security retirement benefits as early as age 62 or as late as age 70.

You can apply for benefits no more than four months in advance of your benefit start date.

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## How

You can apply for retirement benefits or spousal benefits directly online at <https://www.ssa.gov/benefits/forms/>

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## Amount

Check your Social Security statement for a current estimate of your benefits at <https://www.ssa.gov/myaccount/retire-calc.html>

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## Consider

Your monthly benefits will be permanently reduced if you start any time before your “full retirement age.” Conversely, your monthly benefits will be increased if you start after your “full retirement age.”



### ✘ Social Security is going broke

- ✓ Without any changes, the Social Security trust fund is estimated to be depleted by 2035; however, Social Security is a pay-as-you-go system and, as such, will continue to collect revenue from payroll taxes
- ✓ Even if Congress were to enact no changes (which is rather unlikely), based on incoming payroll tax collections, Social Security would still be able to pay an estimated 80% of benefits

### ✘ Full Retirement Age (FRA) is 65 for everyone

- ✓ Full Retirement Age (FRA) depends on birth year and varies from age 65 to 67

### ✘ Social Security will replace most of a retiree's income needs

- ✓ The program was never intended to be the sole source of income for retirees
- ✓ The general rule of thumb is Social Security will replace around 33% of pre-retirement income for an individual with average lifetime earnings, though the replacement ratio is far lower for individuals with high lifetime earnings

### ✘ Earned income is not allowed while also collecting Social Security benefits

- ✓ Individuals can continue to work after receiving Social Security benefits. If an individual collects benefits before full retirement age (FRA) and has income which exceeds the earnings limit, then a portion of benefits will be reduced; however, any benefits which were reduced due to the earnings limit will later be credited back. [There is no earnings limit upon reaching FRA.]

## Cost-of-Living Adjustment (COLA) Increase<sup>1</sup>

- 2023 COLA is +8.7% [increased from +2.8% in 2022]
- 2023 COLA is the largest increase since 1981

## Social Security Wage Cap<sup>1</sup>

- For earnings in 2023, this base is \$160,200 [increased from \$147,000 in 2022]

## Social Security Earnings Limit<sup>1</sup>

- Prior to Full Retirement Age (FRA), recipients can earn up to \$21,240 before benefits are reduced [increased from \$19,560 in 2022]
- In the year of FRA, recipients can earn up to \$56,520 before benefits are reduced [increased from \$51,960 in 2022]
- After FRA, recipients are not subject to any earnings limit.

## Social Security Credit Increase<sup>1</sup>

- For 2023, it takes \$1,640 of earnings to equal one credit
- An individual must earn at least \$6,560 for the year to receive the maximum four credits

<sup>1</sup> Source: AARP – “Biggest Social Security Changes for 2023” (December 2022)

## Four Key Factors for Evaluating when to Collect Retirement Benefits



Life expectancy (single or joint)



Spousal benefits



Income needs



Changes in employment

### Consider taking benefits earlier if...

You are no longer working and find it difficult to cover annual expenses.

You are in poor health and do not expect the surviving member of the household to make it to average life expectancy.

You are the lower-earning spouse and your higher-earning spouse can wait to file for a higher benefit.

### Consider taking benefits later if...

You are still working and make enough to impact the taxability of your benefits.

You are in good health and expect to exceed average life expectancy.

You are the higher-earning spouse and want to be sure your surviving spouse receives the highest possible benefit.





# SOCIAL SECURITY CONSIDERATIONS

## Full Retirement Age (FRA) vs. Early Retirement vs. Late Retirement

### Full Retirement <sup>2</sup>

Year of Birth*	Full Retirement Age (FRA)
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

\* Persons born on January 1 of any year should refer to the previous year

### Early Retirement <sup>1</sup>

- Retiree can elect to receive benefits as early as age 62  
(For a retiree taking benefits five years early, the reduction = 30%)
- For the first 36 months, the FRA benefit is reduced by 5/9<sup>th</sup> of one percent for each month before full retirement age (FRA).
- Beyond 36 months, the FRA benefit is further reduced by 5/12<sup>th</sup> of one percent for each early month.

### Late Retirement <sup>1</sup>

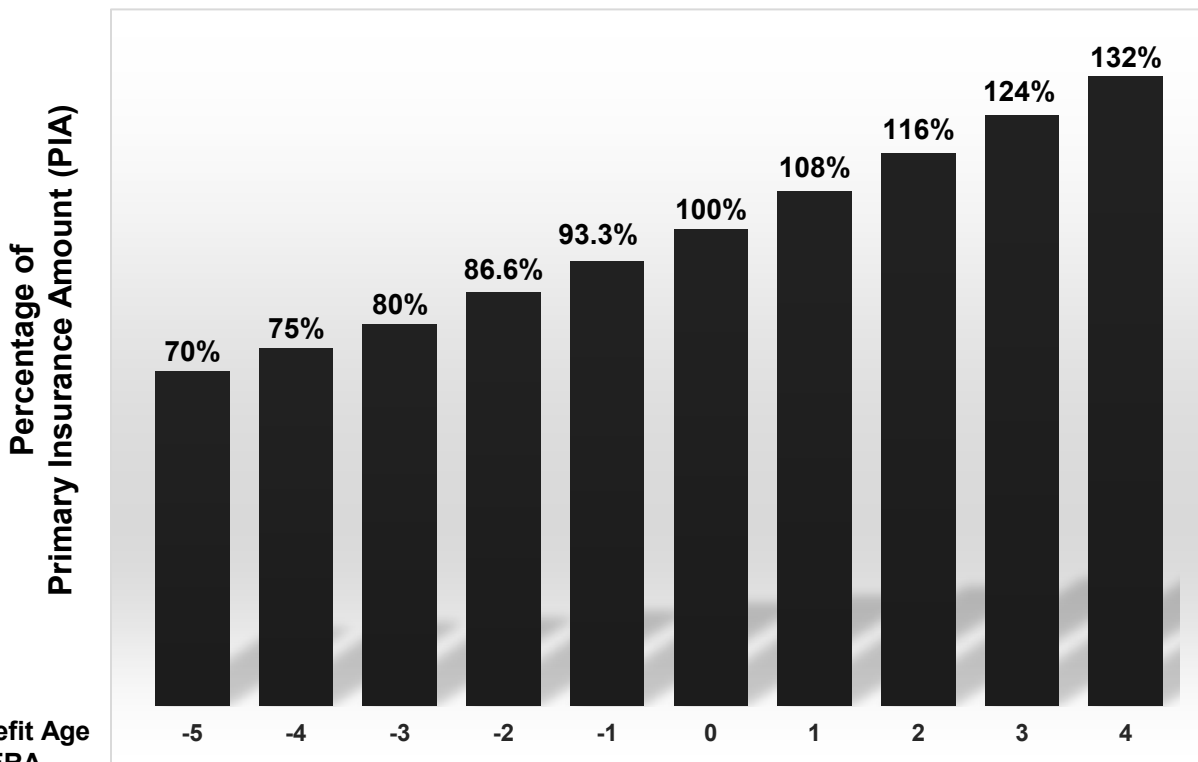
(i.e., Benefits after FRA, up to age 70)

Year of Birth	Credit per Year
Before 1937	Varies
1937-38	6.50%
1939-40	7.00%
1941-42	7.50%
1943 and later	8.00%

<sup>1</sup> Source: SSA.gov – “Early or Late Retirement?” – [https://www.ssa.gov/oact/quickcalc/early\\_late.html](https://www.ssa.gov/oact/quickcalc/early_late.html)

<sup>2</sup> Source: SSA.gov – “Normal Retirement Age” – <https://www.ssa.gov/oact/progdata/nra.html>

## Full Retirement Age (FRA) vs. Early Retirement vs. Late Retirement



Benefit Age vs. FRA



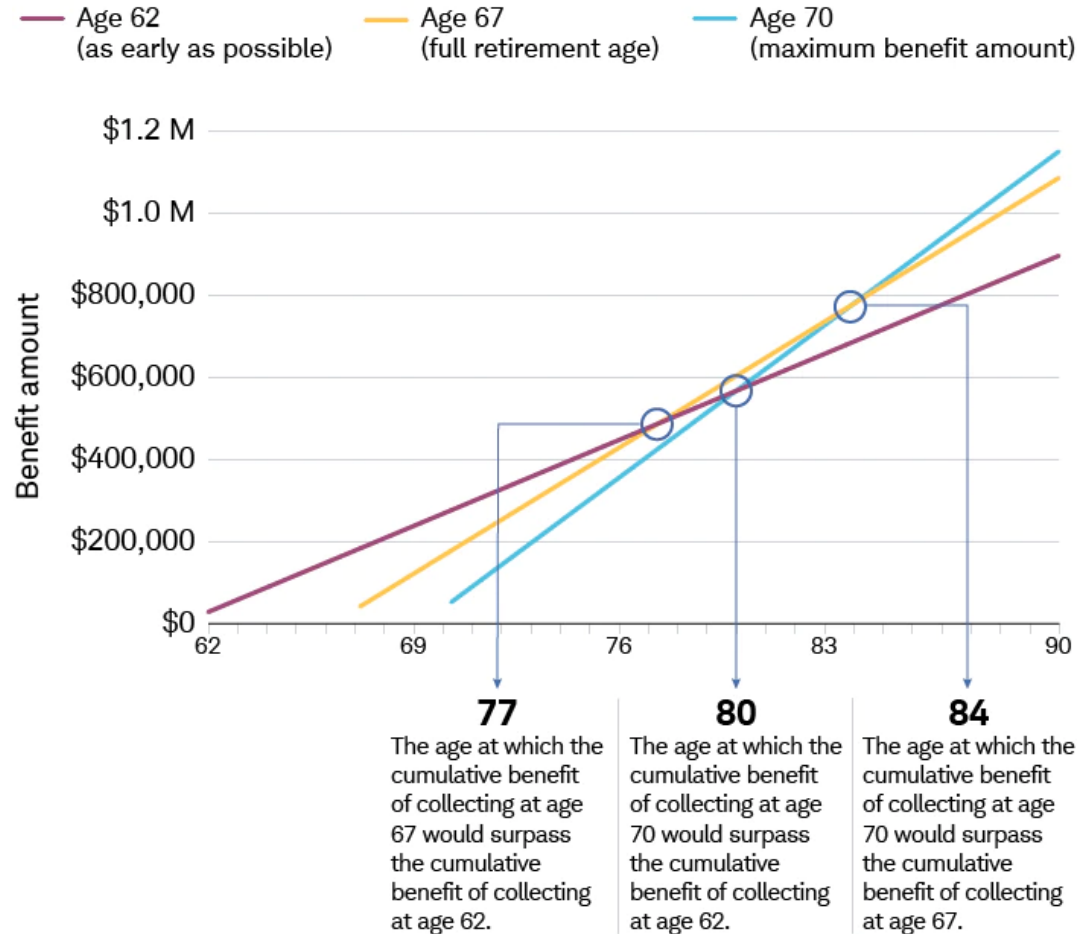
### Notes:

- PIA = Primary Insurance Amount, which reflects the benefit available at Full Retirement Age (FRA).
- Benefits are permanently reduced for benefits commencing before Full Retirement Age.
  - For the first 36 months prior to FRA, the benefit is reduced by 5/9<sup>th</sup> of one percent for each month before full retirement age (FRA).
  - Beyond 36 months, the benefit is further reduced by 5/12<sup>th</sup> of one percent for each early month.
- Delayed retirement credits apply for benefits deferred past Full Retirement Age, up to age 70.
  - For individuals born in 1960 or later, FRA is age 67 with a maximum possible deferral period of three years (maximum +24% improvement).

## Early Retirement vs. Full Retirement Age (FRA) vs. Late Retirement

### Hypothetical Scenario:

Social Security Monthly Benefits
Age 62: \$ 2,572 / mo
Age 67: \$ 3,674 / mo
Age 70: \$ 4,556 / mo



Sources: Charles Schwab: "Social Security FAQs" (January 2022), SSA.gov.

Hypothetical cumulative benefits assume the retiree was age 62 in 2023, age 67 in 2028, and age 70 in 2031 and began collecting a monthly benefit in January of each year. This example is hypothetical and provided for illustrative purposes only. Monthly benefit at any age varies widely by individual based on their earning history.



# EARNINGS LIMIT AND BENEFIT TAXABILITY

## Receiving Social Security Benefits While Still Working <sup>1</sup>

Income Earned <u>Before</u> Full Retirement Age (FRA)	Income Earned <u>During</u> the Year of Full Retirement Age (FRA)	Income Earned <u>After</u> Full Retirement Age (FRA)
<ul style="list-style-type: none"> <li>For retirees collecting Social Security benefits before FRA, Social Security will take back \$1 of benefits for every \$2 over the earnings limit.</li> <li>For 2023, the earnings limit before FRA is \$21,240.</li> </ul>	<ul style="list-style-type: none"> <li>During the year you reach FRA and up to the month you reach FRA, Social Security will deduct \$1 of benefits for every \$3 over the earnings limit.</li> <li>During this year, Social Security only counts earnings that you receive until the month when you hit the milestone.</li> <li>For 2023, the earnings limit in the year of FRA is \$56,520.</li> </ul>	<ul style="list-style-type: none"> <li>There is no earnings limit after an individual reaches full retirement age.</li> </ul>

*Note: Benefit reductions due to the earnings limit are only temporary, as the monthly benefit will be recalculated upon full retirement age to give credit for previously withheld benefits.*

Taxable Portion of Social Security Benefits <sup>2</sup>	Taxable Income	
	Single, Head of Household	Married Filing Jointly
0%	Less than \$25,000	Less than \$32,000
Up to 50%	\$25,000 - 34,000	\$32,000 - 44,000
Up to 85%	Over \$34,000	Over \$44,000

<sup>1</sup> Source: Social Security Administration (SSA) – “Receiving Benefits While Working” – <https://www.ssa.gov/benefits/retirement/planner/whileworking.html>

<sup>2</sup> Source: Social Security Administration (SSA) – “Income Taxes and Your Social Security Benefit” – <https://www.ssa.gov/benefits/retirement/planner/taxes.html>



# SOCIAL SECURITY: SPOUSAL AND FAMILY BENEFITS

Upon starting Social Security retirement benefits, some members of your family may also be entitled to receive benefits from your Social Security earnings record, or you may qualify to receive benefits from their earning record.

## Spousal Benefits

Start between spouse's age 62 and FRA:

- Permanently reduces monthly benefit
- May be affected by the earnings test if still working

Start after spouse's FRA, receives the greater of:

- 50 percent of your monthly benefits based at your FRA (no delayed credit)
- Spouse's FRA personal monthly benefit with delayed credit

## Children Benefits

Eligible children, including biological, adopted, stepchildren, and/or dependent grandchildren may also be eligible for benefits, provided they meet the following qualifications:

- Unmarried and
- Under age 18 or
- Age 18-19 and full-time student (no higher than grade 12) or
- Greater than age 18 and disabled from a disability that started before age 22

## Ex-Spouse Benefits

You may be entitled to benefits from your ex-spouse's record if you meet the following qualifications:

- Marriage lasted more than 10 consecutive years
- You are unmarried
- You and your ex-spouse are at least age 62

**Maximum Family Benefit:** If one of your children also qualifies for benefits, generally the total amount you and your family may receive is about 150 to 180 percent of your full retirement benefit.

An Ex-Spouse benefit does **not** affect the benefit you or your family may receive.



- **Part A (Hospital Insurance)**

- Free for people age 65 and older who paid payroll tax for 40+ quarters (about 10 years)
- Helps cover in-patient hospital care, skilled nursing facility care, hospice care and home health care



- **Part B (Medical Insurance)**

- Anyone eligible for Part A is eligible to enroll in Part B and pay a monthly premium
- Helps cover physician services, outpatient care, home health care, therapy services, ambulance services, preventive services and durable medical equipment



- **Part C (Medicare Advantage)**

- The private health insurance alternative to ‘Original Medicare’ (Parts A & B), which might also include Part D coverage
- If enrolling in Medicare Advantage, must still enroll in Parts A & B and pay the Part B premium; also will sign up and pay for the chosen Medicare Advantage plan



- **Part D (Prescription Drug Coverage)**

- Run by private insurance companies that follow rules set by Medicare
- Helps cover the cost of prescription drugs
- Once total drug costs (between what you and the plan have spent) reach \$4,660 (2023 limit), enrollee will pay no more than 25% of the drug price (this is often referred to as the ‘donut hole’ of Part D coverage)

## ✘ Medicare provides completely free health care

- ✓ For most people, Medicare Part A does not require a premium, but you are still responsible for copays, coinsurance and deductibles
- ✓ Medicare Part B has premiums, copays, coinsurance and deductibles similar to other health insurance plans

## ✘ Medicare covers everything

- ✓ Does not cover any type of long-term care, whether in a nursing home, assisted living community, or home care.
- ✓ Dental and Vision health care services are not covered
- ✓ Prescription drug coverage is only covered through Part D and Medicare Advantage plans
- ✓ Beginning in 2023, Medicare will cover a visit to an audiologist (without a physician's referral), so long as the hearing loss has existed for at least 12 months

## ✘ Medicare may not cover you

- ✓ You cannot be rejected for coverage or be charged higher premiums due to serious illness

## ✘ Eligible enrollees will be notified when it's time to sign up for Medicare

- ✓ Unless you are already receiving Social Security benefits, you must apply for Medicare
- ✓ If you sign up when first eligible, you can avoid delays in coverage



## MEDICARE: IMPORTANT DATES TO REMEMBER

Medicare benefits generally do not require annual enrollment. Key dates for enrollment and changes are highlighted below.

Date	Notes
Initial Enrollment Period	<p>Seven-month period: initial enrollment period begins three months prior to the month turning age 65 and ends three months after the month turning age 65</p> <p>Individuals who do not sign up during the IEP may be subject to a late enrollment penalty</p>
General Enrollment Period	<p>January 1 – March 31</p> <p>Those missing the Initial Enrollment Period can sign up during this period; coverage will subsequently start July 1</p>
Medicare Advantage Open Enrollment	<p>January 1 – March 31 (only for individuals who already have a MA plan)</p> <p>If enrolled in a Medicare Advantage plan, enrollee can:</p> <ul style="list-style-type: none"> <li>• Switch to a different Medicare Advantage plan</li> <li>• Drop Medicare Advantage plan and return to Original Medicare</li> <li>• Sign up for Medicare Part D (if returning to Original Medicare)</li> </ul>
Annual Open Enrollment Period	<p>October 15 – December 7</p> <p>Individuals can join, switch, or drop a plan for coverage beginning January 1</p>
Special Enrollment Period	<p>Individuals with certain qualifying life events (losing health coverage, moving, getting married, having a baby or adopting a child) may be eligible to sign up during a Special Enrollment Period</p>
January 1	<p>New coverage begins; monthly premium adjustments go into effect</p>

Source: Medicare.gov

Source: Aetna Medicare – “Unpacking Medicare: What you need to know about Medicare enrollment periods (and when you can change your plan)”



	Original Medicare (Parts A & B) <sup>1</sup>	Medicare Advantage (Part C) <sup>1</sup>
<b>Care Options</b>	<ul style="list-style-type: none"> <li>Visit any doctor that accepts Medicare; in most cases, no referral is needed for a specialist</li> </ul>	<ul style="list-style-type: none"> <li>Must use doctors only in plan network (most commonly HMO or PPO network); a referral may be needed to visit a specialist</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>Monthly premiums determined by income.</li> <li>No annual out-of-pocket maximum</li> <li>Usually pay 20 percent of Medicare-approved amount after meeting deductible</li> </ul>	<ul style="list-style-type: none"> <li>Still have to pay Part B premium (and, if applicable, Part A premium) in addition to the plan's premium</li> <li>Varying out-of-pocket costs, but will not pay additional costs in a year after reaching plan limit</li> </ul>
<b>Coverage</b>	<ul style="list-style-type: none"> <li>Part A and Part B included</li> <li>Part D may be added separately</li> <li>Supplemental (Medigap) coverage allowed</li> </ul>	<ul style="list-style-type: none"> <li>Plans must cover all services Original Medicare covers and may offer additional benefits</li> <li>Prescription drug coverage (Part D) is included in most plans</li> <li>Cannot buy or use separate supplemental coverage</li> <li>May include additional services not covered by Original Medicare such as dental, vision and hearing care</li> </ul>
<b>Additional Notes</b>	<ul style="list-style-type: none"> <li>May be preferable for those wanting greater provider choices</li> <li>According to the Kaiser Family Foundation, 93% of primary physicians participate in Medicare (however, only 70% of primary care doctors are accepting new Medicare patients)<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>May be cheaper than Original Medicare with additional Medigap coverage</li> <li>May be beneficial for those with low medical usage</li> </ul>

***“Think of it as choosing between ordering the prix fixe meal (Medicare Advantage) at a restaurant, where the courses are already selected for you, or going to the buffet (original Medicare), where you must decide for yourself what you want.” – AARP***

<sup>1</sup> Source: AARP – “The Big Choice: Original Medicare vs. Medicare Advantage” (November 2022)

<sup>2</sup> Source: eHealth insurance – “Do Most Primary Care Doctors Accept Medicare?” (September 2019)

## Modified Adjusted Gross Income (MAGI) Thresholds for Additional Medicare Part B Premiums

- Taxpayers with higher Modified Adjusted Gross Income (MAGI) must pay additional Medicare premiums
- Adjusted Gross Income (AGI) is found on the first page of a tax return. The most applicable deductions added back to AGI to determine MAGI are: one-half of self-employment tax, passive income/loss, IRA contributions and taxable Social Security payments
- Medicare premiums are determined by an individual's tax return from two years prior; for example, the 2021 tax return filed in 2022 determines 2023 Medicare premiums

Single Filers	Married Filing Jointly	Part B Monthly Premium (2023)	Part D Monthly Premium (2023)
0 - 97,000	0 - 194,000	164.90	Plan premium
97,001 - 123,000	194,001 - 246,000	230.80	12.20 + premium
123,001 - 153,000	246,001 - 306,000	329.70	31.50 + premium
153,001 - 183,000	306,001 - 366,000	428.60	50.70 + premium
183,001 - 499,999	366,001 - 749,999	527.50	70.00 + premium
500,000 +	750,000 +	560.50	76.40 + premium



### Options to Lower MAGI

- Spend from taxable accounts, minimize amount withdrawn from a tax-deferred account
- Make a Qualified Charitable Distribution from an IRA
- Harvest losses in taxable accounts to offset realized capital gains

## Medicare Coverage for Nursing Home Costs

Medicare will only cover skilled nursing care expenses in very specific situations and is not designed to pay for **nursing home or custodial care costs** long term. One such situation is when a senior has been hospitalized and released, but still requires a bit of specialized care. Medicare will help pay for short-term stays in nursing homes if they:

- ✓ Were admitted to the hospital for a minimum of three days as an inpatient.
- ✓ Have been admitted to a Medicare-certified facility within 30 days of the hospital stay.
- ✓ Need skilled care like physical therapy, speech therapy, and other types of rehabilitation.

Those who meet all of these conditions under original Medicare will qualify for assistance as follows.

- ✓ Up to 20 days of nursing care is 100 percent by Medicare.
- ✓ After day 21 and up to day 100, patients will pay a copay that is up to \$200 per day.
- ✓ After 100 days, all Medicare coverage ends, and all payments are the patient's responsibility.

Source: Seniorliving.com – “Nursing Home Costs in 2023” (January 2023)

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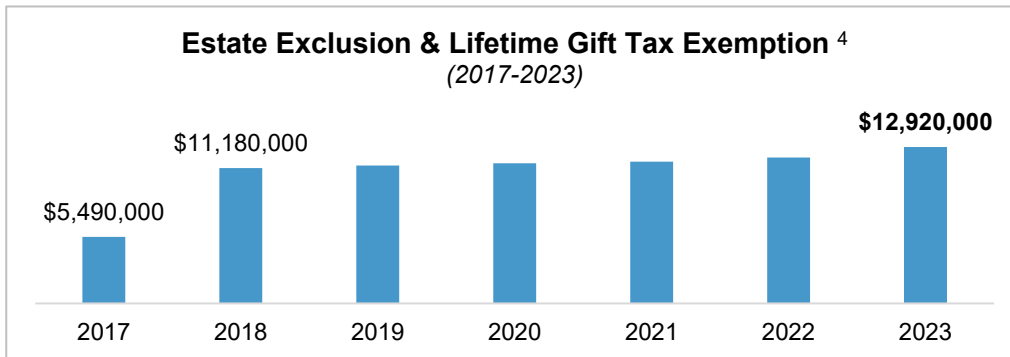
# Estate Planning



# ESTATE PLANNING UPDATES

## Federal Estate Planning Limits <sup>1</sup>

	2022	2023
Estate Exclusion	\$ 12,060,000	\$ 12,920,000
Maximum Estate Tax Rate	40%	40%
Lifetime Gifting Exemption	\$ 12,060,000	\$ 12,920,000
Maximum Gift Tax Rate	40%	40%
Annual Exclusion Gift	\$ 16,000	\$ 17,000
Annual Gifting Limit to U.S. Citizen Spouse	Unlimited	Unlimited
Annual Gifting Limit to Non-U.S. Citizen Spouse <sup>1</sup>	\$ 164,000	\$ 175,000



## No Clawback

- The Tax Cuts and Jobs Act (TCJA) significantly increased the estate exclusion amount (presently \$12.92 million for 2023). Under present federal legislation this limit is set to decrease to \$5.0 million (adjusted for inflation) in 2026.<sup>1</sup>
- In November 2019, the Treasury Department and IRS issued final regulations indicating individuals utilizing the increased gift and estate tax exclusion amounts (scheduled for 2018 to 2025) would *not* be adversely impacted should the exclusion revert to pre-2018 levels.<sup>3</sup>

## Key Takeaways

- The federal estate exemption has increased significantly (+\$860,000) in 2023 due to the inflation adjustment, providing additional gifting opportunity to those who had previously exhausted the lifetime gift tax exemption.<sup>2</sup>
- With the scheduled decrease in exemption amounts in 2026, individuals who have – or are likely to have – a taxable estate *and* who have sufficient assets for retirement may want to consider gifting additional assets.

<sup>1</sup> Source: Forbes – “IRS Announces Estate And Gift Tax Exemption Amounts For 2023” (November 2022)

<sup>2</sup> Source: Anchin – “Estate Tax Exemption Increased for 2023” (October 31, 2022)

<sup>3</sup> Source: IRS – “Estate and Gift Tax FAQs”

<sup>4</sup> Source: Evans Estate Law Resources – “Federal Estate and Gift Tax Rates and Exclusions”

## Don't Forget Estate Tax at the State Level!<sup>2</sup>

Many states have estate exclusions far below the federal level which may result in estate taxes at the state level.

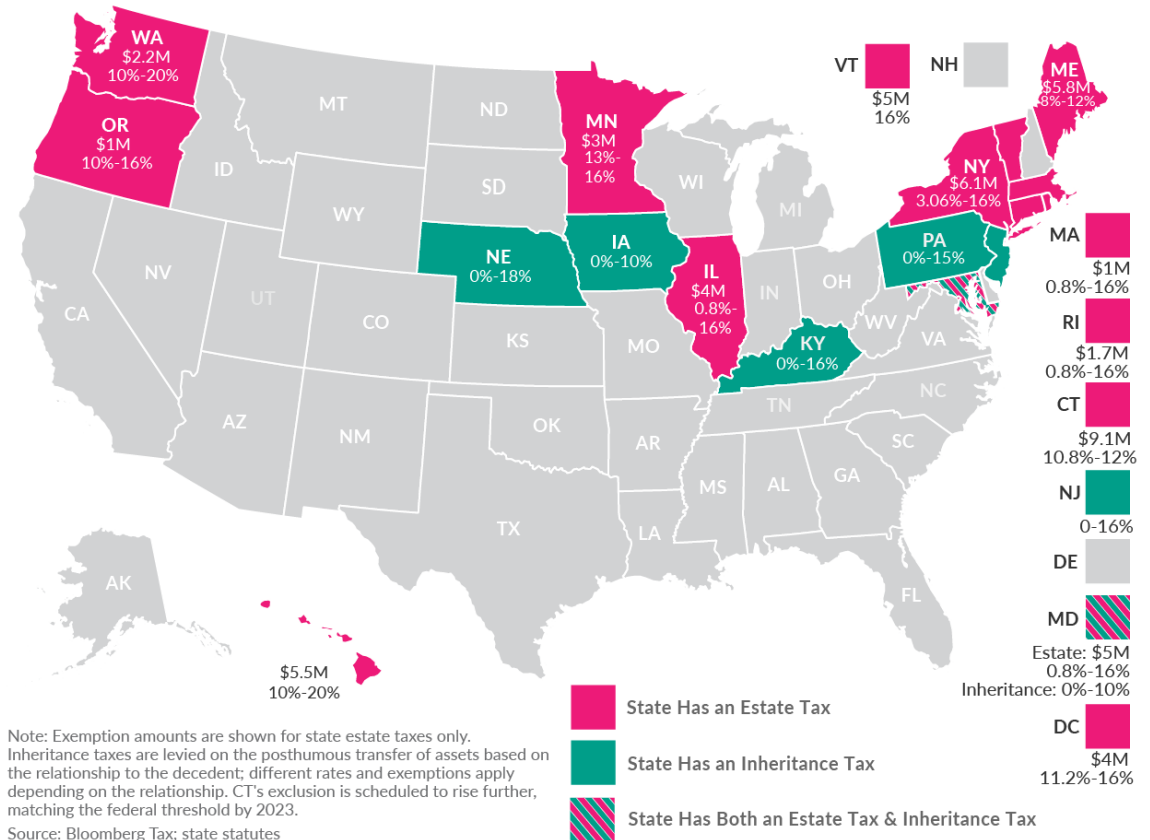
Of the 12 states with an estate tax, only four states have an estate exemption above \$5 million:

- CT \$ 12.92 million (2023)
- HI \$ 5.49 million (2023)
- ME \$ 6.41 million (2023)
- NY \$ 6.58 million (2023)

Older estate plans should be reviewed to ensure trust provisions incorporate current federal and state estate tax limits.

## Does Your State Have an Estate or Inheritance Tax?<sup>1</sup>

State Estate & Inheritance Tax Rates & Exemptions in 2022



<sup>1</sup>Source: Tax Foundation – “Does Your State Have an Estate or Inheritance Tax?” (June 2022)

<sup>2</sup>Source: The American College of Trust and Estate Counsel – “State Death Tax Chart” (January 2022)

## Level One (Must Haves)

**Planning for and documenting the transfer of assets with minimized tax and transfer cost. Review upon life events (marriage, divorce, birth, adoption, etc.)**

- A Will appoints guardians for your children and spells out specifically how you want your property split
- A Living Trust avoids probate, allows for privacy and designates how assets are to be divided upon your death
- A Healthcare Power of Attorney allows you to designate a Healthcare agent to make healthcare decisions in the event you are unable to make decisions for yourself
- A Financial / Property Power of Attorney allows you to designate an agent to make financial decisions in the event you are unable to make decisions for yourself
- Joint accounts transfer to a designated person upon death, it is important to review co-ownership provisions and the titling of accounts
- Some assets (such as IRAs, Life Insurance and Annuities) pass to your designated Beneficiaries. It is very important to periodically review beneficiary designations and coordinate with the overall estate plan

## Level Two (Considerations)

**Further enhance the direction of assets, minimize Estate Taxes or increase Asset Protection**

- The Spousal Lifetime Access Trust (SLAT) has become a popular estate planning strategy to take advantage of current lifetime gift tax exemptions (\$12.92 million each)
- Grantor Retained Annuity Trusts (GRAT) seek to pass assets to beneficiaries free of estate and gift tax that have appreciated over the IRS Section 7520 interest rate
- Explore Charitable Trust, Donor-Advised Fund and Foundation Options
- Since Life Insurance is not necessarily estate tax-free, consider establishing an Irrevocable Life Insurance Trust
- A Qualified Personal Residence Trust (QPRT) is a popular planning strategy which allows the donor to 'freeze' the value of the residence with the intent of future estate tax savings
- Intra-Family Loans can provide family members with lower borrowing rates than traditional financing options
- Special Needs Trusts ensure the proper passing of assets to ensure beneficiaries with special needs are not disqualified from entitled benefits

## Level Three (Advanced)

**For Complex Estate Tax Issues or Liability Concerns**

- Domestic and Offshore Asset Protection Trusts offer those in high liability fields of work and those with high estate tax brackets options to reduce liability
- Self-Cancelling Notes allow the exchange of property for periodic payments based upon mortality
- Family Limited Partnerships and Family LLCs provide legal, financial, and tax structure to family businesses

### **Concept Check: Portability**

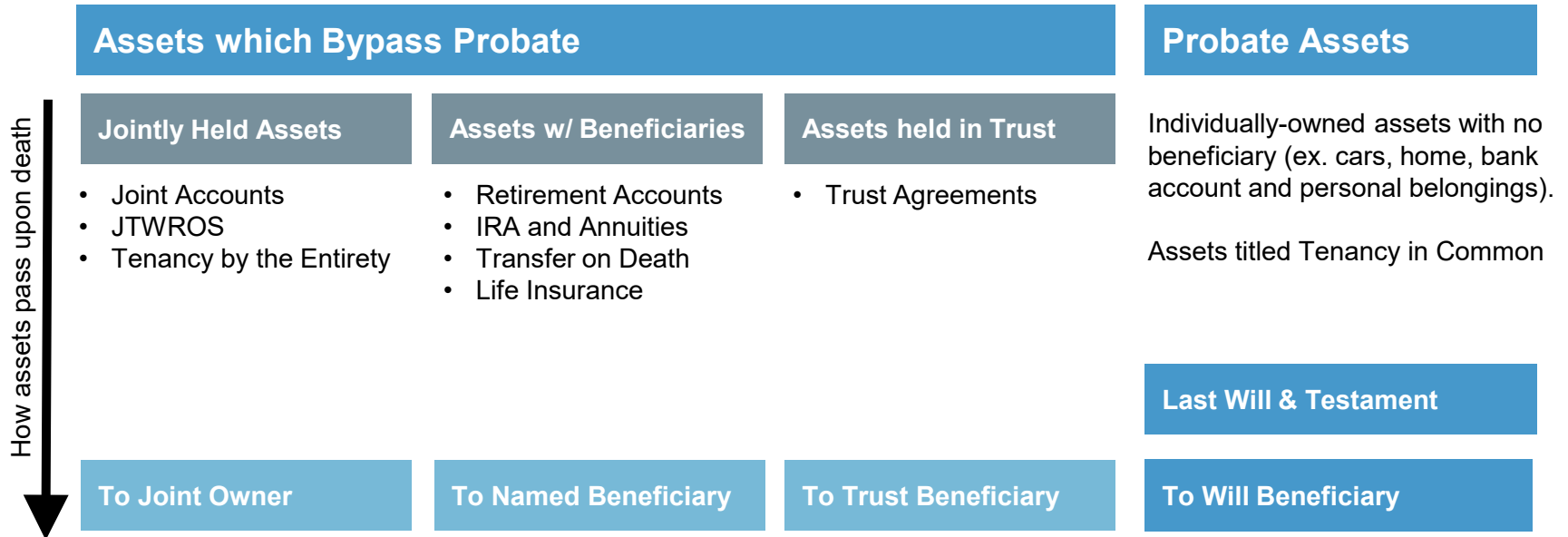
Portability allows you to use your spouse's unused estate tax exclusion. While portability was made permanent for federal estate tax purposes, you should check if your resident state also allows for portability of a deceased spouse's unused estate exclusion. In the event your resident state does not allow for portability, it may make sense for both spouses to have assets in their respective name (or trust's name) up to the resident state's estate exclusion amount. Note that portability may require the filing of estate tax returns at first death even if there is not a taxable estate.

## Probate vs. Non-Probate Assets



*Probate is a public-court process that helps settle legal and financial matters upon death according to a will, if written.*

*Court costs, length of time, the lack of privacy and family disagreements are all potential issues that may arise within the probate process. With proper estate planning, you can limit the amount of assets that pass through probate.*



**Digital Assets:** *Nearly all 50 states have passed a version of the Uniform Law Commission's Fiduciary Access to Digital Assets Act, Revised that legally allows for an executor, trustee, etc. to access a deceased's digital accounts. Consider discussing your digital estate with your attorney and the potential need to share online access information with your executor.*



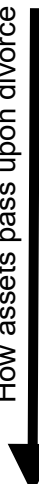
## Marital vs. Separate Property



*Estate planning is not divorce planning. Without a pre- or post-nuptial agreement, marital assets may be subject to equitable division in a divorce proceeding.*



*Effective for divorces finalized after January 1, 2019, alimony payments will no longer be tax-deductible by the paying spouse and will not be added to the taxable income of the receiving spouse.*

	<b>Marital Property</b>	<b>Separate Property</b>
How assets pass upon divorce 	<b>Property Earned or Acquired During Marriage</b>	<b>Property Acquired Before Marriage</b>
	Any property, real or personal, the couple earns or acquires during the course of the marriage, <u>regardless of title or who paid for it.</u>  Typical examples include: <ul style="list-style-type: none"> <li>• Retirement and Investment Accounts</li> <li>• Pensions</li> <li>• Homes and Vacation Homes</li> </ul>	Any property, real or personal, acquired prior to the marriage, also including specific instances of property acquired during the course of the marriage by one spouse.  Typical examples include: <ul style="list-style-type: none"> <li>• Inheritances</li> <li>• Gifts</li> <li>• Any property owned prior to marriage</li> </ul>
	<b>Subject to Equitable Division</b>	<b>Not Subject to Equitable Division (with exceptions)</b>



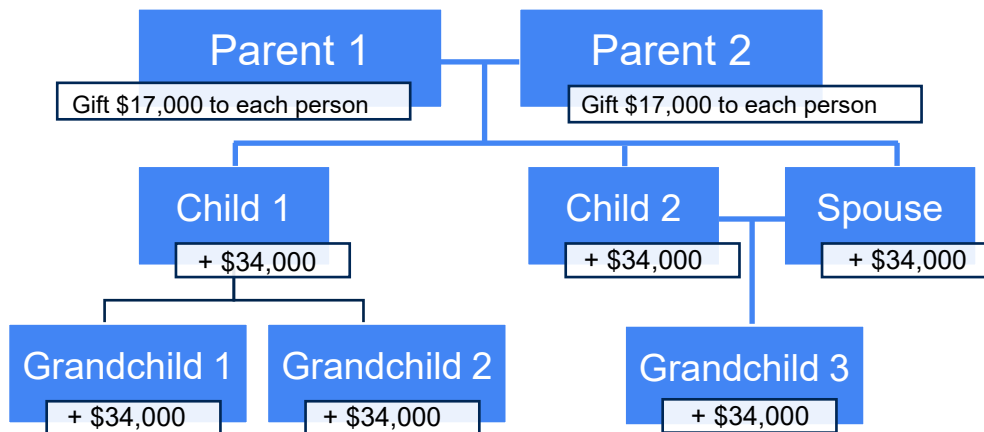
**Tainting of Assets:** *Separate assets may be tainted during the course of a marriage and may be treated as marital assets in a divorce proceeding. For example, if a spouse deposits a personal inheritance into a joint account or uses income from an inheritance to support the couple's lifestyle, this separate asset may be treated as a marital asset.*



Individuals who are likely to one day have a taxable estate should consider annual exclusion gifts as a means to reduce the size of the taxable estate.

The current annual gift exclusion enables a donor to transfer up to \$17,000 per donee; gifts above \$17,000 are allowed but may require using a portion of one's lifetime gift tax exemption and may require filing a gift tax return. Consider consulting with an estate planning attorney on the proper titling of gifts and evaluate ideal savings/investing vehicles for the donee(s).

Additionally, tuition payments made directly to an educational institution and payments made directly to a healthcare provider for a person's medical care do not constitute gifts (and thus do not count toward the \$17,000 annual exclusion gift limit). Given the considerable expense often associated with private school or college, direct tuition payments can serve as a meaningful planning opportunity to reduce the size of a taxable estate.



### Example:

Each donor can individually gift to each donee \$17,000 per year, which equates to up to \$34,000 gifted to each recipient annually (from a couple).

In this example, the parents (the first generation) are able to transfer \$238,000 tax-free each year to their heirs to reduce the size of their total estate, which may produce significant estate tax savings if annual exclusion gifts are made over a period of years.

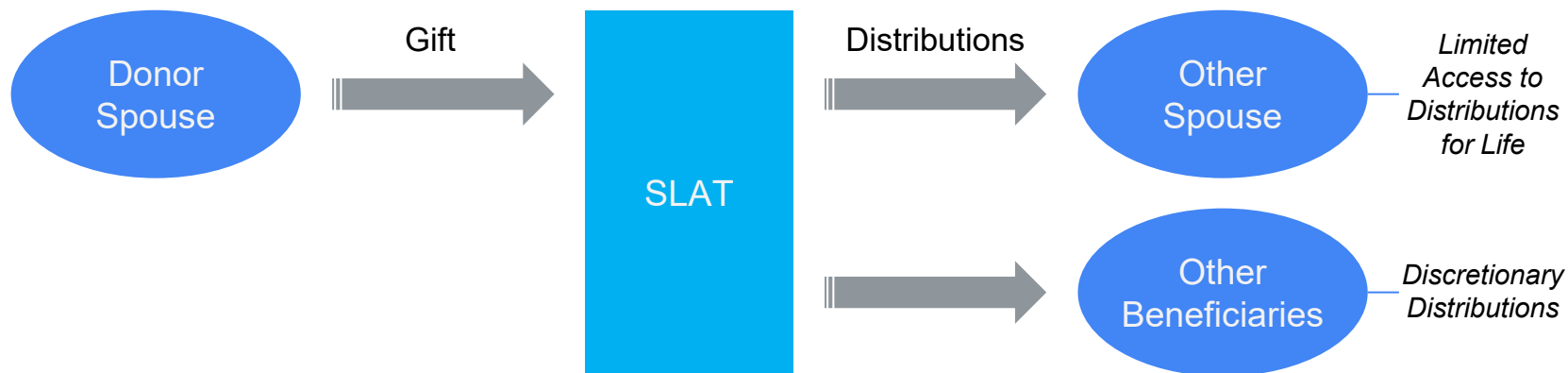


Individuals with assets in excess of the estate exclusion (currently \$12.92 million per person) might consider this strategy as an opportunity to further utilize the currently elevated lifetime gift tax exemption.

A Spousal Lifetime Access Trust (SLAT) is an irrevocable trust created by one spouse which provides *limited* discretionary access to the other spouse for their lifetime and potentially discretionary access to the trust for children, grandchildren and future generations, depending on the provisions of the trust.

Upon funding, the donor spouse may use lifetime gift and generation-skipping tax exemption.

By funding and naming a spouse as a lifetime beneficiary, the donor spouse theoretically retains indirect access to trust assets. While the primary goal of the trust is to maximize the lifetime gift tax exemption, the ability to access funds by the beneficiary spouse – should the need arise – is an attractive feature.



# GRANTOR RETAINED ANNUITY TRUST (GRAT)



Individuals with assets in excess of the estate exclusion (currently \$12.92 million per person) might consider this strategy as an opportunity to potentially transfer additional assets to beneficiaries on a gift and estate tax-free basis. The current low interest rate environment makes this a particularly attractive planning opportunity.



	Notes & Logistics
<b>Trust Funding</b>	<ul style="list-style-type: none"> <li>Grantor executes a legal document specifying the trust provisions and the term of the trust</li> <li>Grantor funds the trust ('GRAT') with cash and/or securities</li> </ul>
<b>During the Trust Term</b>	<ul style="list-style-type: none"> <li>The GRAT pays out an annuity to the grantor over the trust's specified term</li> <li>Portfolio income generated during the term of the trust flows back to the grantor</li> </ul>
<b>End of the Trust</b>	<ul style="list-style-type: none"> <li>If the GRAT outperforms the 'hurdle rate' (IRS Section 7520 rate), the GRAT will have remaining assets that will pass estate tax-free to the named beneficiaries</li> </ul>
<b>Additional Notes</b>	<ul style="list-style-type: none"> <li>The value of the gift at funding (if any) = fair market value of contributed assets /less the actuarial present value of the annuity, as determined by the IRS Section 7520 rate (often referred to as the 'hurdle rate')</li> <li>Grantor may create a 'zeroed-out GRAT' whereby the fair market value of assets contributed to the trust matches the actuarial present value of the annuity</li> <li>If the grantor dies during the term of the GRAT, the GRAT assets revert back to the grantor's estate and would potentially be subject to estate tax</li> <li>7520 rate = 4.6% as of January 2023; for perspective, 7520 rate stood at 1.6% as of January 2022.<sup>1</sup></li> </ul>

<sup>1</sup> Source: Brentmark – Section 7520 Rates



Interest rates can play an important role in determining the success of some estate planning strategies.

The IRS publishes two rates monthly: the Applicable Federal Rate (AFR), which is used to determine the minimum interest rate for lending strategies, and the Section 7520 rate, which is used to calculate the actuarial present value of annuities, life estates and remainders. Over the past year, such rates have risen considerably, but the rise in the 7520 rate may redirect the use of some planning techniques.

	Short-Term AFR	Mid-Term AFR	Long-Term AFR	Section 7520 Rate
January 2023	4.41%	3.78%	3.77%	4.60%
December 2022	4.46%	4.19%	4.25%	5.20%
June 2022	2.19%	2.89%	3.07%	3.60%
December 2021	0.33%	1.26%	1.88%	1.60%

Source: Brentmark – “7520 Rates”; Evans Estate Law Resources – “Applicable Federal Rates”

A split interest trust is an irrevocable trust which provides a benefit to a current beneficiary for a specified term (period of years or life expectancy) with the remainder passing to a different beneficiary. Depending on the strategy employed, the goal may be to maximize either the retained benefit or the remainder interest, for which changes in interest rates can have a notable impact on achieving the desired outcome.

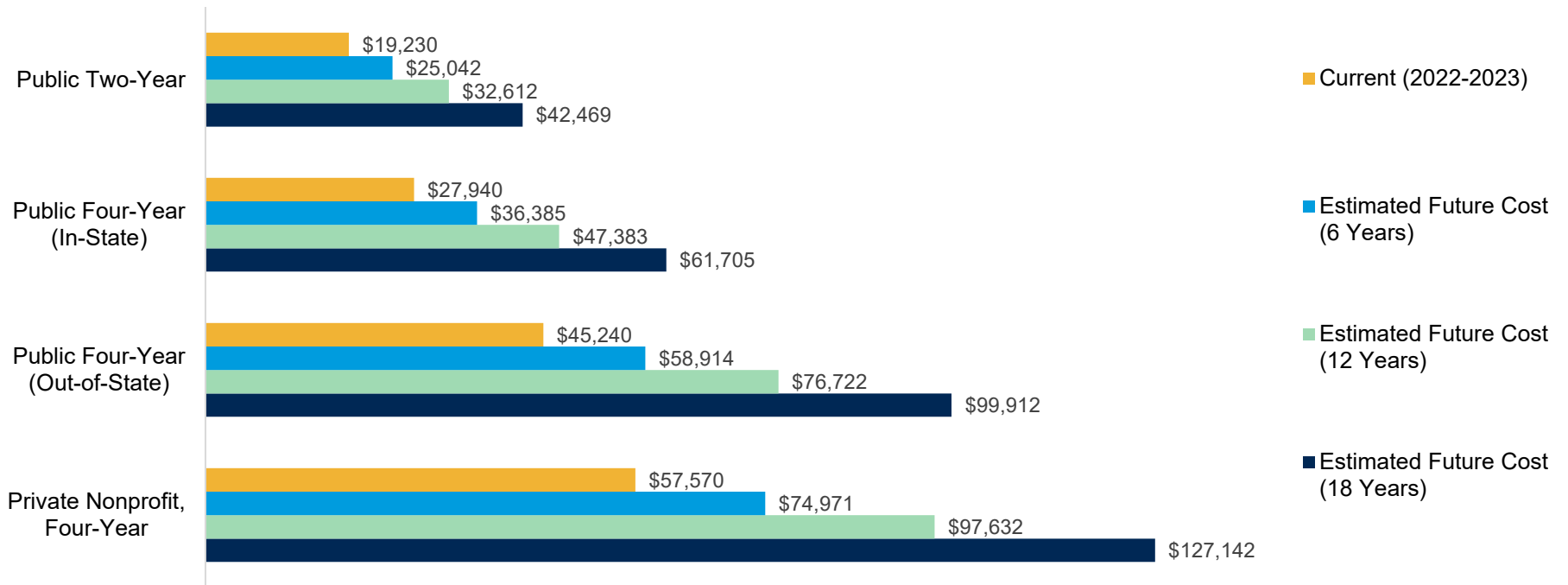
Beneficial Strategies for Lower Interest Rates <i>(Maximize the Remainder Interest)</i>	Beneficial Strategies for Higher Interest Rates <i>(Maximize the Retained Interest)</i>
Grantor-Retained Annuity Trust (GRAT)	Qualified Personal Residence Trust (QPRT)
Installment Sale to Intentionally Defective Grantor Trust	Charitable Remainder Trust (CRT)
Charitable Lead Trust (CLT)	
Intra-Family Loans	

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# Education Planning

With college costs steadily rising, a four-year education has become an increasingly expensive proposition. Over the last 10 years, published tuition and fees and room and board (TFRB) expenses have increased two percent above inflation for public four-year institutions and six percent above inflation for private nonprofit four-year institutions.

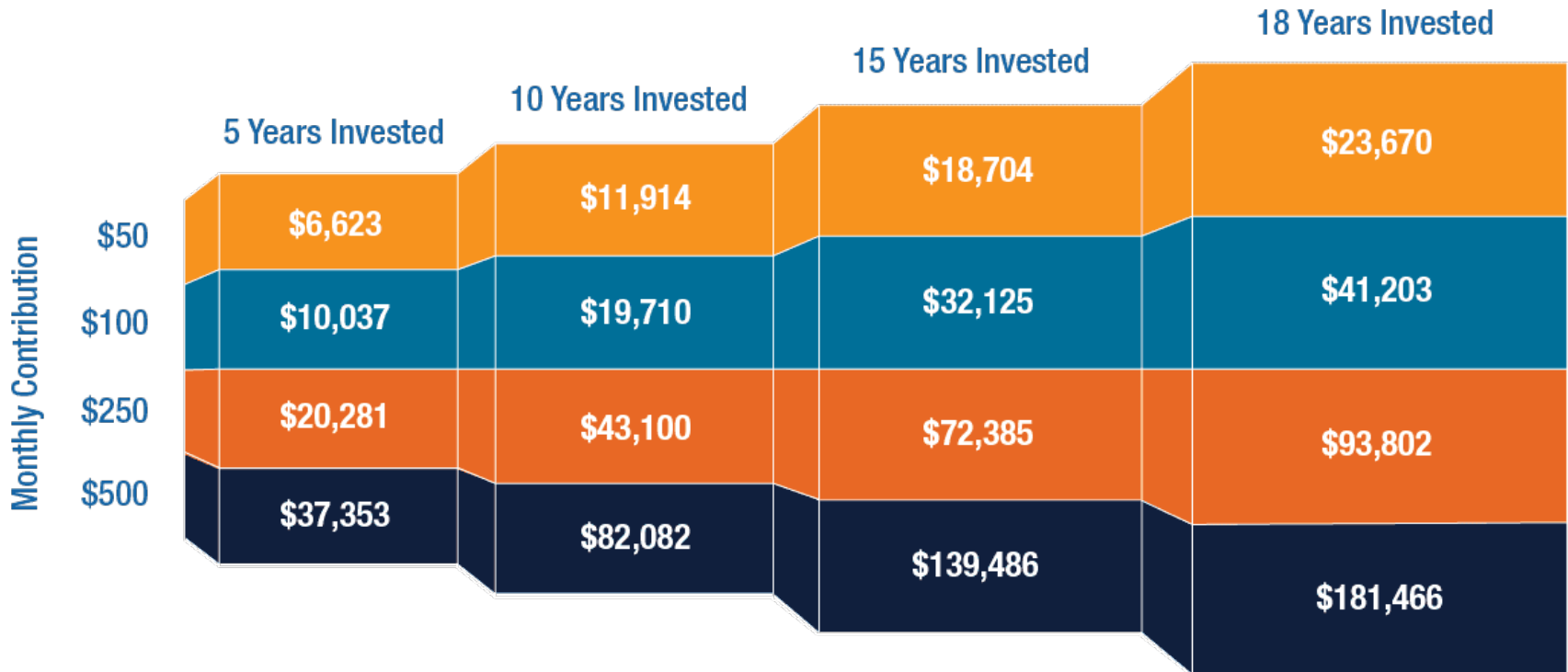
### Average Estimated Full-Time Undergraduate Expenses (2022-2023)



Current expenses via College Board's "Trends in College Pricing and Student Aid 2022" (October 2022)  
 Calculations for estimated future college expenses assume a 4.5% annualized increase.



# SAVING FOR COLLEGE AND THE POWER OF COMPOUNDING



\* For illustrative purposes only. This hypothetical example illustrates the accumulation potential with a \$2,500 initial investment and a monthly contribution plan at a 5% projected average annual return. The above example is based on projections and does not reflect an actual investment in the Bright Start Direct-Sold College Savings Program. If fees were included, the returns would be lower. Actual results may differ considerably from the illustration above. These results are hypothetical and do not represent results earned by clients of Fiduciant Advisors.

Brightstart.com: "How Much Do I Need"



## Assumptions:

- Annual cost of college is \$50,000 per year
- Annual cost of college increases by 4.50% per year
- College savings (529 Plan, etc.) annualize at 6.00% per year
- Parent(s)/Guardian(s) wish to fully fund college education

## Approximate Monthly Savings Required to Fund Future College Expenses

Years until College	\$0 Beginning Balance	\$10,000 Beginning Balance	\$25,000 Beginning Balance	\$50,000 Beginning Balance	\$75,000 Beginning Balance	\$100,000 Beginning Balance
18	\$1,140	\$1,064	\$951	\$761	\$572	\$382
17	\$1,197	\$1,118	\$1,001	\$805	\$609	\$413
16	\$1,260	\$1,179	\$1,057	\$854	\$651	\$448
15	\$1,331	\$1,247	\$1,120	\$909	\$698	\$487
14	\$1,412	\$1,324	\$1,192	\$971	\$751	\$531
13	\$1,505	\$1,413	\$1,274	\$1,043	\$812	\$581
12	\$1,614	\$1,516	\$1,370	\$1,126	\$882	\$638
11	\$1,742	\$1,638	\$1,483	\$1,224	\$964	\$705
10	\$1,895	\$1,784	\$1,618	\$1,340	\$1,063	\$785
9	\$2,082	\$1,962	\$1,782	\$1,482	\$1,182	\$882
8	\$2,316	\$2,184	\$1,987	\$1,659	\$1,330	\$1,001
7	\$2,615	\$2,469	\$2,250	\$1,885	\$1,520	\$1,154
6	\$3,014	\$2,848	\$2,600	\$2,186	\$1,771	\$1,357
5	\$3,572	\$3,379	\$3,089	\$2,606	\$2,122	\$1,639

*For illustrative purposes only. Actual results may vary based on a variety of factors (annual performance of savings, annual college cost increases, etc.). Analysis assumes no taxes. These returns are hypothetical and do not represent returns earned by clients of Fiduciant Advisors.*

*As an additional resource, Vanguard's "College Savings Planner" (<https://vanguard.wealthmsi.com/csp.php>) allows for additional calculations, based on assumptions for funding amount, estimated annual increase in college expenses, fund returns, etc.*

## 529 Plan – Facts/Basics

- Tax-free investing and distribution for qualified college education expenses, as well as distributions up to \$10,000 per child per year for K-12 expenses and cost of apprenticeship programs, and up to \$10,000 for qualified student loan repayments (lifetime limit).<sup>1</sup>
- With limited exceptions, non-qualified withdrawals are taxed as ordinary income *plus* a 10% penalty on the earnings.<sup>1</sup>
- Ability to change beneficiaries. The new beneficiary must be a family member (spouse, step-sibling, in-law, or cousin are eligible).
- Investment allocation can be changed up to twice per year for previously invested funds.
- No income limits for contributors. Special provision allows for up to five years of annual gift exclusions to be made within a single year (Increased to \$85,000 as an individual, \$170,000 as a couple for 2023).<sup>1,3</sup>
  
- 49 states (all but Wyoming) and the District of Columbia offer a 529 plan<sup>5</sup>
  
- Over 30 states offer residents a state income tax deduction or credit for 529 contributions.<sup>2</sup>
  - Eight tax parity states offer taxpayers a deduction for contributions to any state's 529 plan<sup>2</sup>
    - Arizona, Arkansas, Kansas, Minnesota, Missouri, Montana, Ohio, and Pennsylvania
  - Five states currently have a state income tax, but do not offer a deduction for contributions: California, Hawaii, Kentucky, Maine and North Carolina<sup>2</sup>
  
- States typically offer income tax benefits to any taxpayer who contributes to a 529 plan.<sup>4</sup>
  - Nine states and the District of Columbia only allow the 529 plan account owner (or the owner's spouse) to claim a tax benefit: Iowa, Massachusetts, Missouri, Montana, Nebraska, New York, Rhode Island, Utah, Virginia

<sup>1</sup> Savingforcollege.com – “What is a 529 Plan?” (January 2023)

<sup>2</sup> Savingforcollege.com – “How Much is Your State's 529 Tax Deduction Really Worth?” (January 2023)

<sup>3</sup> IRS – “What's New - Estate and Gift Tax”

<sup>4</sup> Savingforcollege.com – “529 Plan Gifts May Be Deductible on State Income Tax Returns” (October 2020)

<sup>5</sup> <https://thecollegeinvestor.com/529-plan-guide/wyoming/> - “Wyoming 529 Plan and College Savings Options”



# 529 PLANS AND CUSTODIAL ACCOUNTS (UGMA/UTMA)

## 529 College Savings Plans – What’s New for 2023

- SECURE Act 2.0 provides a new allowance of tax- and penalty-free rollovers from unused 529 funds directly to a Roth IRA, subject to certain provisions.<sup>1</sup>
- FAFSA changes will benefit grandparent-owned 529 Plan accounts; effective October 1, 2023 (for the 2024-25 academic year), students will no longer be required to disclose cash distributions from grandparent-owned 529 Plans.<sup>2</sup>

## Custodial Account (Uniform Gifts to Minors Act/Uniform Transfer to Minors Act)<sup>3</sup>

- Funds must be used for child’s benefit, but not necessarily for college
  - Cannot change beneficiary as with 529 Plans
- **High impact** on financial aid eligibility<sup>3</sup>
  - Counted as student’s asset versus plan owner’s asset as with 529 Plans
- Child assumes full control at age of majority (generally age 18 or 21)
- For tax year 2023, the first \$1,250 of your child's unearned income qualifies for the standard deduction and is therefore untaxed. The next \$1,250 is taxed at the child’s marginal rate. Unearned income that exceeds \$2,500 is taxed at the parent’s income tax rate.<sup>4</sup>

<sup>1</sup> Ed Slott & Company – “SECURE 2.0 Allows Rollovers of 529 Funds to Roth IRAs” (January 2023)

<sup>2</sup> Savingforcollege.com – “What to Know about the 529 Grandparent Loophole & New FAFSA” (December 2022)

<sup>3</sup> Savingforcollege.com – “Are Custodial Accounts a Good Option for Parents Saving for College?” (May 2019)

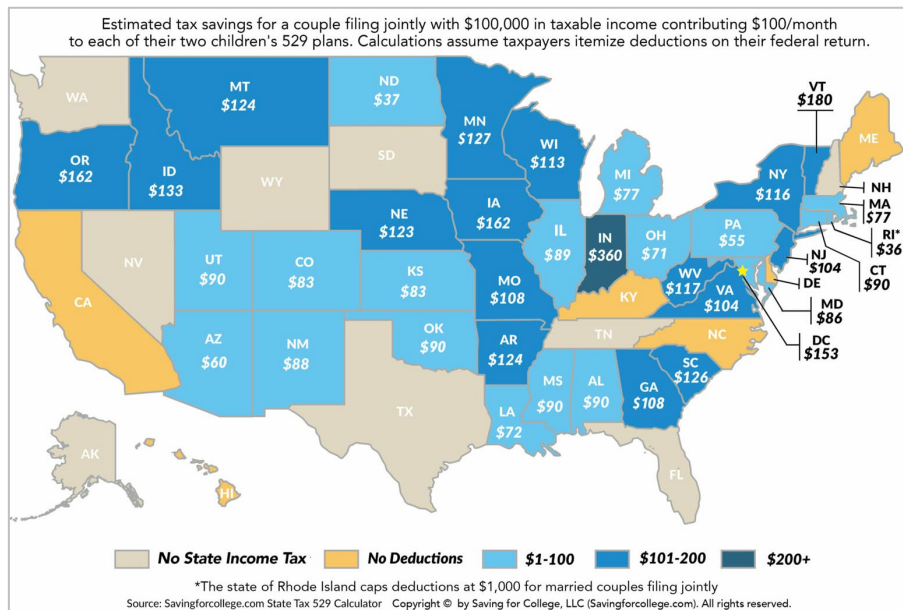
<sup>4</sup> The College Investor – “What Is The Kiddie Tax And How Does It Work?” (December 2022)

Gold-Rated Plans (2) <sup>1</sup>	State
Michigan Education Savings Program	MI
my529 Plan	UT

Silver-Rated Plans (12) <sup>1</sup>	State
T. Rowe Price College Savings Plan	AK
ScholarShare College Savings Plan	CA
Path2College 529 Plan	GA
Bright Start Direct-Sold College Savings	IL
MD Kasemeyer College Investment Plan	MD
Minnesota College Savings Plan	MN
MOST Missouri's 529 College Savings Plan	MO
The Vanguard 529 College Savings Plan	NV
College Advantage 529 Savings Plan	OH
Oregon College Savings Plan	OR
Pennsylvania 529 Investment Plan	PA
Edvest 529 Plan	WI

Individuals can contribute to any 529 plan (not limited to the resident state plan). If your resident state does not offer a meaningful tax deduction or tax credit for 529 plan contributions, consider a plan that has low fees and a broad range of investment options.

Websites such as [Savingforcollege.com](https://www.savingforcollege.com) can be a helpful resource for comparing 529 plans.



Savingforcollege.com – “How Much is your State’s 529 Tax Deduction Really Worth?” (Jan 2023)

<sup>1</sup>Morningstar: “Morningstar 529 Ratings: The Top Plans and What They Offer” (November 2022)

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# Risk Management



A thoughtful risk management (insurance) plan requires periodic evaluations to reassess objectives and sufficiency of coverages

	Why?	What Now?
<b>Life Insurance</b>	Death benefit for debt payoff, income replacement for heirs, payment of estate/inheritance tax	Review Beneficiaries, review necessity for death benefit vs. cash value growth vs. neither
<b>Disability Insurance</b>	Income replacement in event of illness or injury	Review coverage as necessary
<b>Property &amp; Casualty Insurance</b>	Protection against major claims and lawsuits	Review amount as property value and net worth changes
<b>Health Insurance</b>	Protection from high, unexpected health costs	Review coverage options annually, especially with Medicare
<b>Long-Term Care Insurance</b>	Protection for prolonged illness, accident and disability	Review coverage as necessary

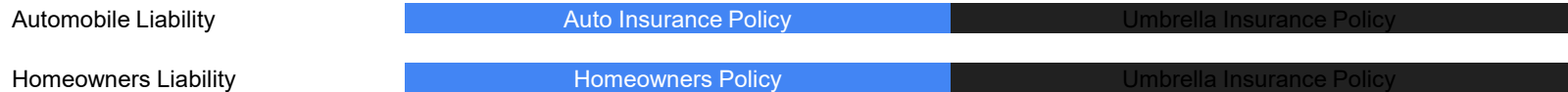
## Common mistakes

- Failing to understand policy coverage terms
- Purchasing coverage that does not cover the full replacement or fair value of an asset
- Not revisiting/updating coverage as net worth changes over time

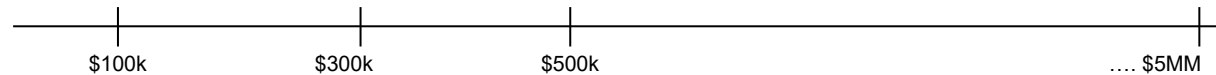
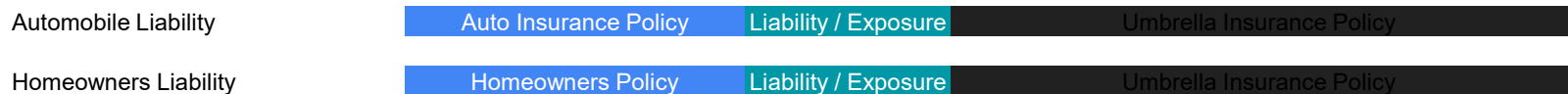
## Umbrella Liability Coverage

Provides additional liability coverage against judgments in lawsuits in excess of primary home and auto insurance liability coverages

### Scenario #1: No Coverage Gaps

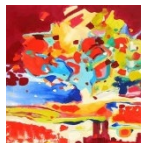


### Scenario #2: Coverage Gaps



## Art, Jewelry and Collectibles Insurance

- Insure art, jewelry and collectibles with adequate insurance coverage with your property and casualty provider.
- In the case of modern artwork, more timely appraisals may be needed to keep pace with potentially rapidly changing values.



John Smith, Modern Painter  
 Painting X  
 Purchased 01/01/2018  
 Fair Value \$30,000

John Smith, Modern Painter  
 Painting Y; Painting Z  
 02/28/18 Sale \$200,000;  
 05/01/18 Sale \$400,000

John Smith, Modern Painter  
 Painting X  
 06/30/18 New Fair Value  
 \$250,000



Insurance costs have increased by 740% since 1984 – picking the right insurance plan matters\*

Types of Plans	Description
<b>Health Maintenance Organization (HMO)</b>	Typically less expensive annual premiums, lower-to-no deductible, out-of-network doctors are not covered and many plans require primary care physician to provide a referral to see a specialist.
<b>Preferred Point Provider (PPO)</b>	Premiums tend to be higher, higher deductible, out-of-network doctors/hospitals may be covered and specialists can generally be seen without a referral from a primary care physician
<b>High Deductible Health Plan (HDHP)</b>	Lowest monthly premiums of the main plans, higher annual deductibles and out-of-pocket maximum limits and ability to contribute to a Health Savings Account

## Medical Savings Plans



- **Health Savings Account (HSA)**

- Available only to individuals covered by a qualified High Deductible Health Plan (HDHP)
- Contributions limited to \$3,850 self / \$7,750 family; additional \$1,000 limit for age-55+ catch-up contributions
- Contributions are tax-deductible
- Earnings grow tax-free and distributions for qualified medical expenses are tax-free
- Unused balances roll over to the next year



- **Flexible Savings Plan (FSA)**

- Available to individuals with benefits package from employer
- Pre-tax payroll deduction; contributions limited to \$3,050
- Unused annual balances are forfeited, unless employer offers rollover

\* Source: Clever.com – “How U.S. Health Policy Changes Have Affected Healthcare Costs Over Time” (August 2021)



## Long-Term Care Insurance generally covers

- Skilled care – licensed therapists, nursing homes, rehabilitation services
- Custodial care – home health aides, companion services
- Assisted living and sheltered care
- Adult day care and hospice care
- Care coordination services

## When to buy

- Consider at age 50, no later than age 70
- Before developing medical issues that might disqualify coverage

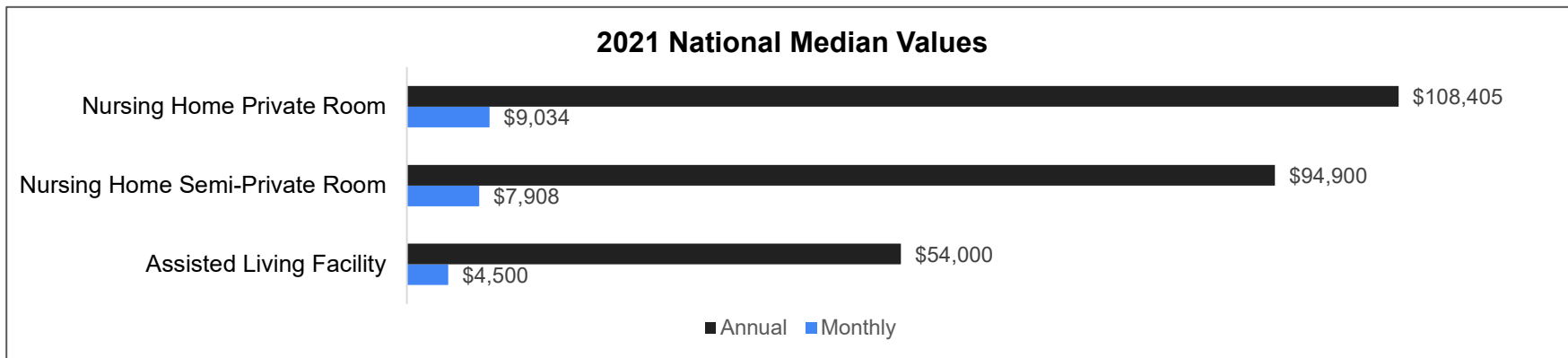
## When to begin benefits

- Qualifying for long-term care benefits generally involves assistance with two of the Activities for Daily Living (ADLs): dressing, eating, toileting, bathing, transferring and continence

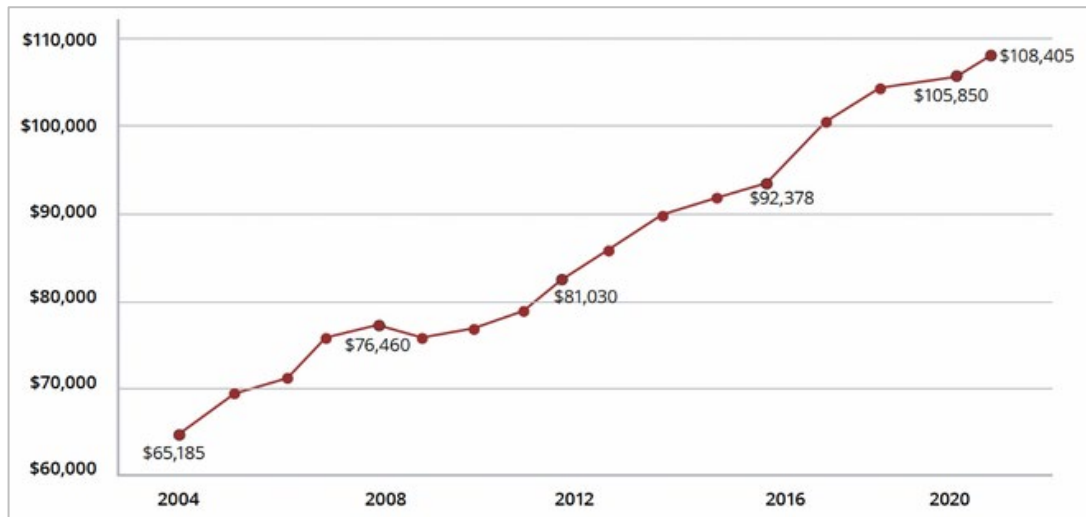
## Other Considerations

- Premium payment amounts are not guaranteed and may increase significantly after purchase
- Policyholders may be able to deduct a portion of premium payments (as medical expense, subject to the floor of 7.5 percent of AGI as itemized deduction)
- Most long-term care policies have a waiting period before benefits kick in (typically 90 days). All costs during waiting period are out-of-pocket

With 10,000 Baby Boomers turning age 65 every day, cost of care is increasing to keep up with demand.



### Private Room Nursing Home Costs



### Ways to Cover Long-Term Care Needs

1. Medicare (max 100 days) and Medicaid
2. Self-Insure
3. Long-Term Care Insurance
4. Hybrid Life Insurance / Accelerated Death Benefits

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**Cybersecurity  
&  
Fraud Prevention**

PREVENT

1. **Strong Passwords**: Use a combination of numbers, symbols and letters to form a long, complex password. Use unique passwords for each online login and regularly change all passwords.
2. **Multi-Factor Authentication**: If available, enable two-factor authentication for email, social media, financial accounts, etc. This functionality sends a one-time code to a mobile device to verify access, thus preventing unauthorized parties from accessing your account without the code.
3. **Secure Wi-Fi Network**: Avoid unsecure access to public Wi-Fi networks, such as in coffee shops, airports, hotels, etc. A virtual private network (VPN) creates a personal, private network across public networks.
4. **Cautiousness with targeted telephone calls**: Avoid divulging any banking or personal information to a caller over the phone and do not give in to pressure to take immediate action. The IRS and law enforcement agencies will not call you. Beware of the question “can you hear me” which leads to the recording of you saying “yes” to authorize unwanted charges, etc.
5. **Safe Surfing**: Only open emails, attachments, and links from people you know. Pay attention to a website's URL; hover over any links to see where they lead. Only visit trusted websites.

DETECT

1. **Account Review**: Open your credit card bills and bank statements right away. Check carefully for any unauthorized charges or withdrawals and report them immediately.
2. **Review Your Credit Report**: By law, you can obtain a free credit report every 12 months from [www.annualcreditreport.com](http://www.annualcreditreport.com). According to the Federal Trade Commission, this is the only authorized source for the free annual credit report (though it will not include your FICO score). You should review your credit report for any discrepancies (unauthorized accounts, etc.).

REACT

If you have been a victim of identity theft:

- File a report with the local law enforcement agency.
- File Form 14039 (Identity Theft Affidavit) with the Internal Revenue Service.
- Contact one of the three credit bureaus (Equifax, Experian, TransUnion) to report the crime and freeze credit. Once one of the credit bureaus issues a fraud alert, the other two bureaus are automatically notified.

A cyber attack refers to an action designed to target a computer or any element of a computerized information system to change, destroy, or steal data, as well as to exploit or harm a network. Cyber attacks have been on the rise, in sync with the increased digitization of business.

Examples	Description
<b>Phishing</b>	<p>A variant of social engineering; a method of tricking users into divulging login credentials to gain access to an internal network.</p> <p>The most common form of phishing is email phishing, where an email posing as legitimate communication is sent to potential victims.</p> <p>Interacting with any of the infected links or attachments in phishing emails could initiate the installation of malware on the target computer system or load a counterfeit web page which harvests login credentials.</p>
<b>Ransomware</b>	<p>During a ransomware attack, cybercriminals lock out victims' computers by encrypting the computers with malware. The damage is only reversed if a ransom is paid.</p> <p>Ransomware attackers use multiple extortions to pressure victims into paying a ransom, the most popular being publishing greater portions of seized sensitive data on criminal forums until a ransom is paid.</p>
<b>Distributed Denial-of-Services (DDoS)</b>	<p>A victim's server is overwhelmed with fake connection requests, forcing it offline.</p> <p>DDoS attacks are a popular cyber threat because the attack surface is diverse – banking IT infrastructures, customer accounts, payment portals, etc.</p>
<b>Trojan Horses</b>	<p>This attack uses a malicious program that is hidden inside a seemingly legitimate one. When the user executes the presumably innocent program, the malware inside the Trojan can be used to open a backdoor into the system through which hackers can penetrate the computer or network.</p>

## Excerpts from “10 Things You Can Do to Avoid Fraud” by the Federal Trade Commission (FTC)

### Spot imposters

Scammers often pretend to be someone you trust, like a government official, a family member, a charity or a company you do business with. Don't send money or give out personal information in response to an unexpected request — whether it comes as a text, a phone call or an email.

### Talk to someone

Before you give up your money or personal information, talk to someone you trust. Con artists want you to make rushed decisions. They might even threaten you. Slow down, check out the story, do an online search, consult an expert — or just tell a friend.

### Don't believe caller ID

Technology makes it easy for scammers to fake caller ID information, so the name and number you see aren't always real. If someone calls asking for money or personal information, hang up. If you think the caller might be telling the truth, call back to a number you know is legitimate.

### Consider how you pay

Credit cards have significant fraud protection built in, but some payment methods don't. Wiring money is risky because it's nearly impossible to get your money back; that's also true for reloadable cards (like MoneyPak or Reloadit) and gift cards (like iTunes or Google Play). Government offices and honest companies won't require you to use these payment methods.

### Be skeptical of free trial offers

Some companies use free trials to sign you up for products and bill you every month until you cancel. Before you agree to a free trial, research the company and read the cancellation policy. Always review your monthly statements for charges you don't recognize.

### Sign up for scam alerts: [ftc.gov/scams](https://www.ftc.gov/scams)

Get the latest tips and advice about scams sent right to your inbox. If you spot a scam, report it at [ftc.gov/complaint](https://www.ftc.gov/complaint). Your reports help the FTC and other law enforcement investigate scams and bring criminals to justice.