Legacy Giving

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Agenda

- Maintaining wealth
- Taxes 101
- Giving to people
- Giving to charities
- Ensure a smooth transition

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  CFA® (Chartered Financial Analyst®)
  Series 6, 63 and 65 Securities Licenses
  5 Star Wealth Manager by Texas Monthly

My Caregiving Story

AGE of CENTRAL TEXAS

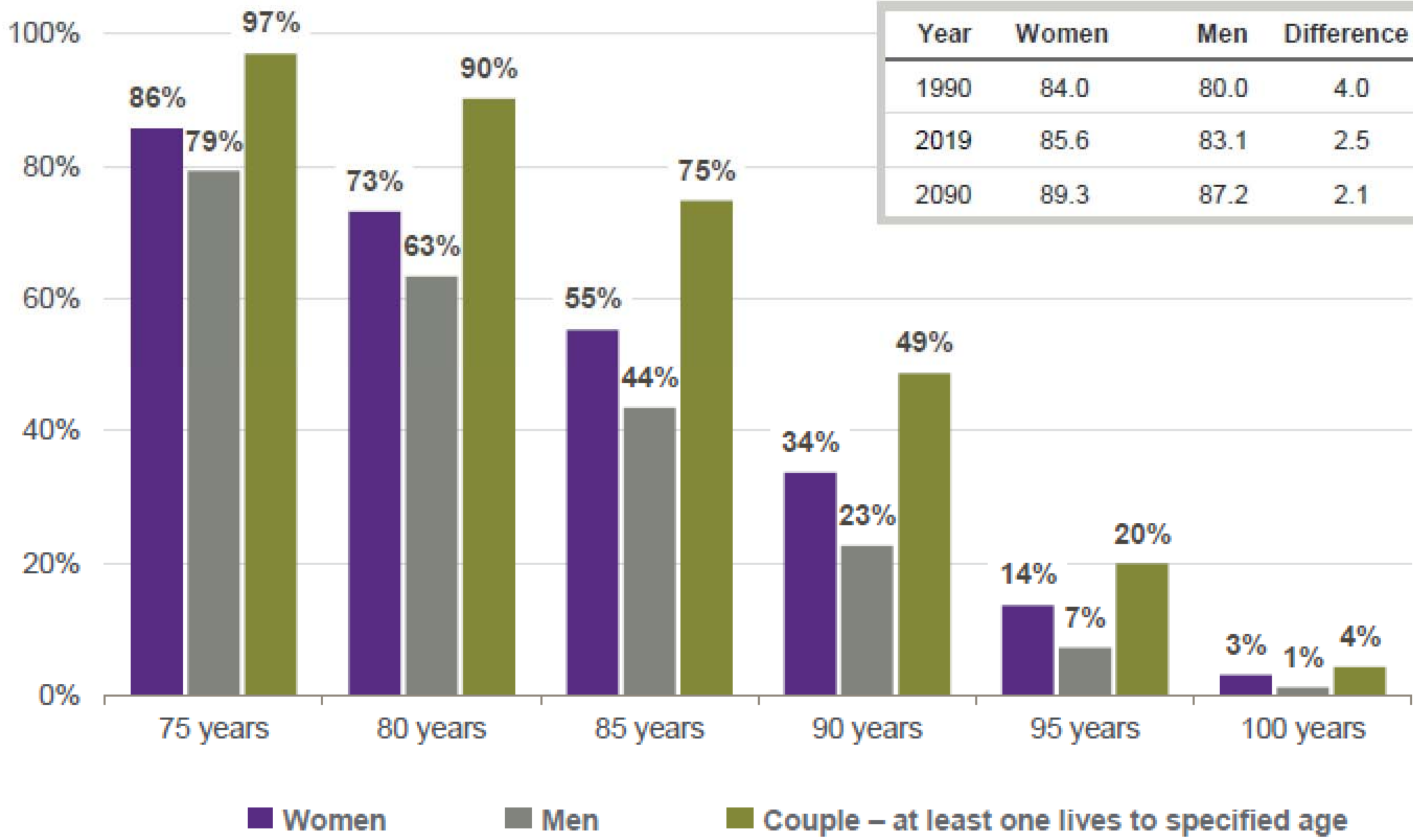
All the caveats

- Everyone is different, so seek legal and tax advice from a professional about your situation
- This presentation provides general education, not advice
- Tax information aimed at Texas residents in 2021

Maintaining wealth

(put on your own oxygen mask first!)

If you're 65 today, the probability of living to a specific age or beyond

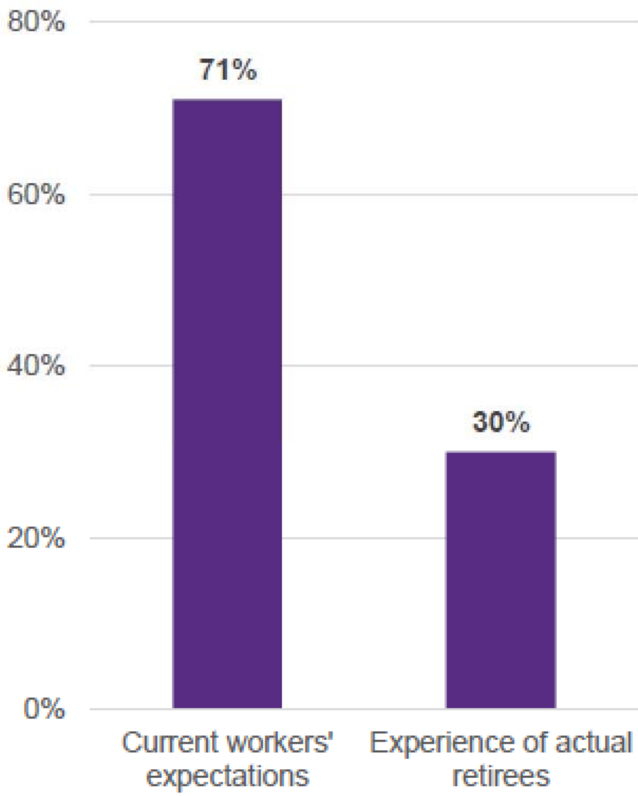


Average life expectancy at age 65

Year	Women	Men	Difference
1990	84.0	80.0	4.0
2019	85.6	83.1	2.5
2090	89.3	87.2	2.1

Expectations of workers vs. retirees

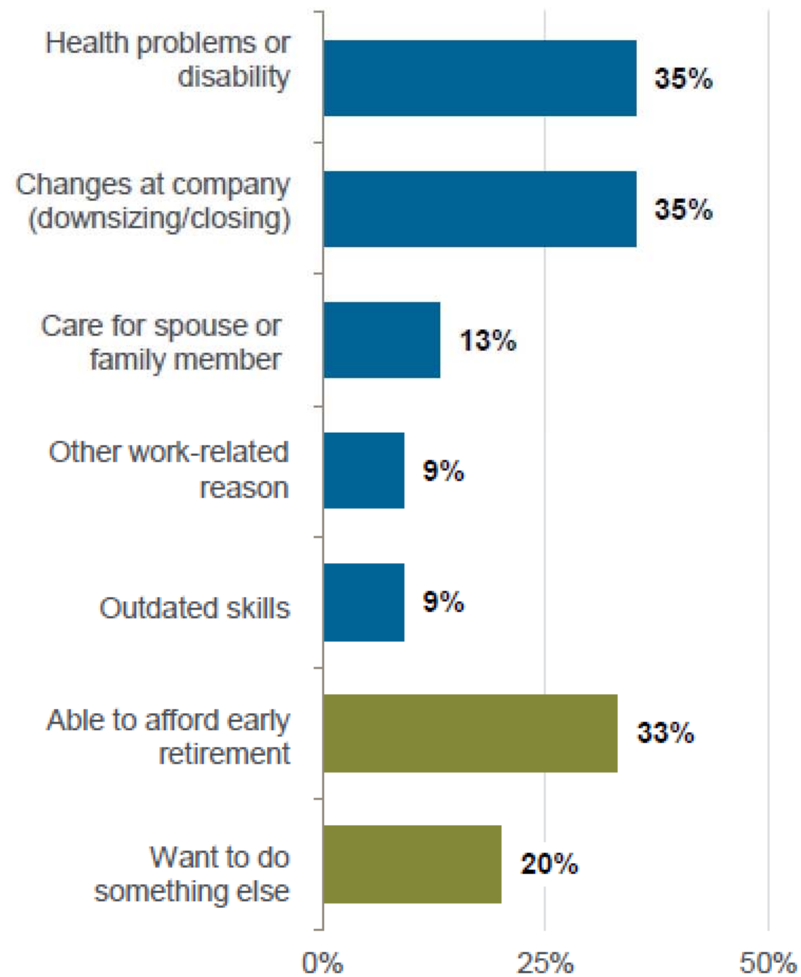
To retire at age 65 or older



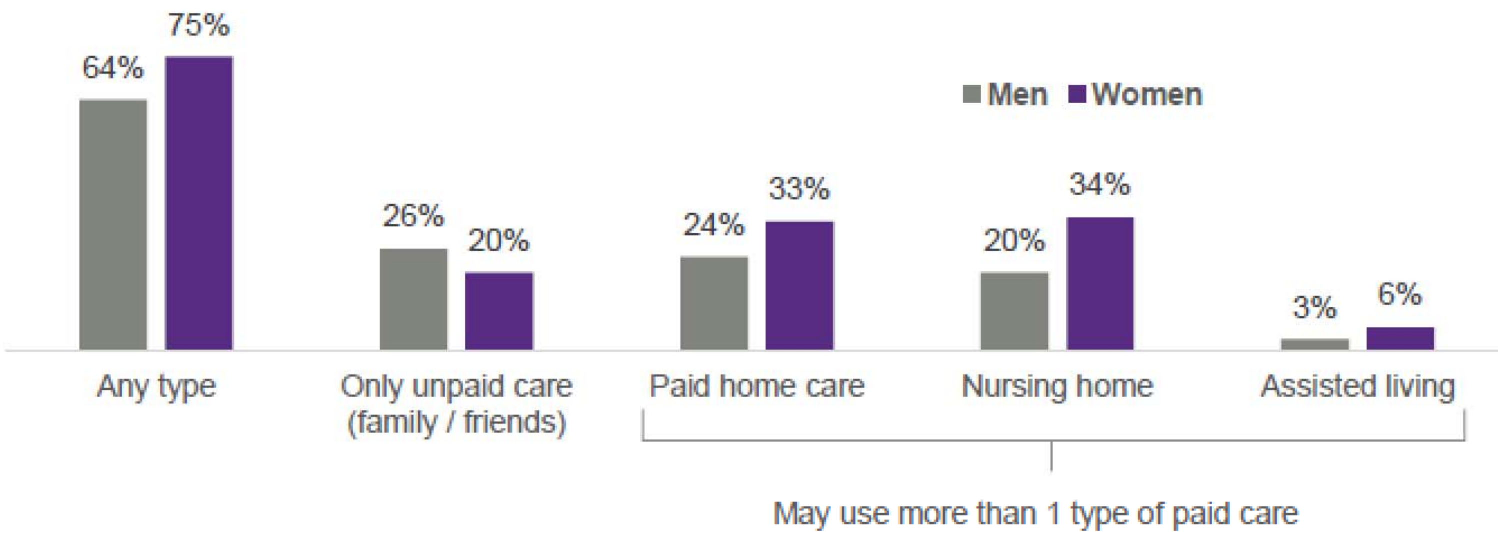
Median retirement age

Expected:	65
Actual:	62

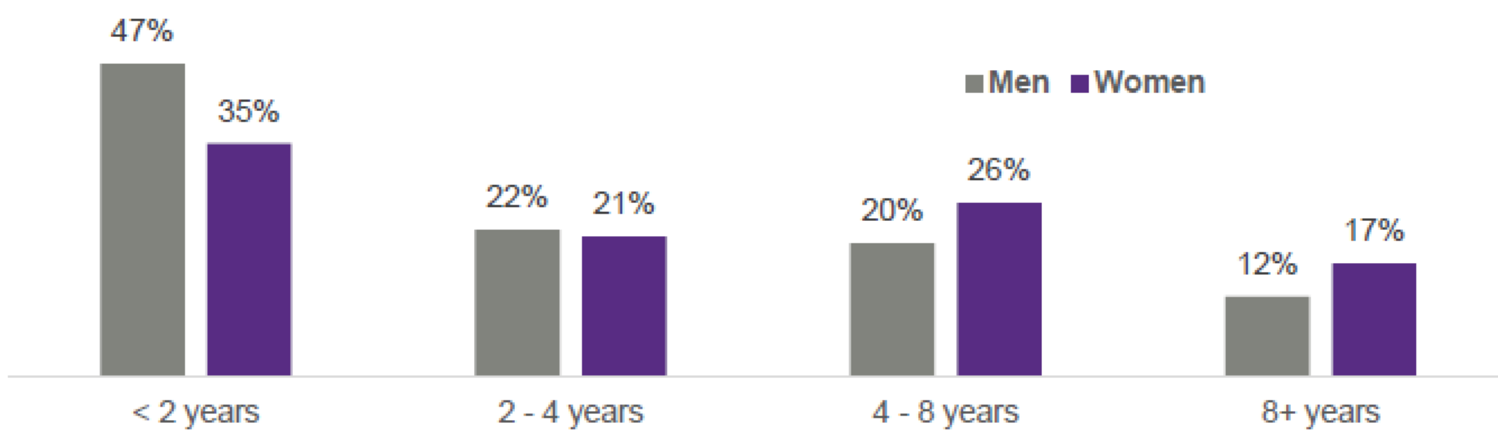
Reasons cited for retiring earlier than planned



Lifetime probability of needing assistance with two or more activities of daily living



Duration of paid care after age 65 (if paid care is used)



Monthly Cost	Austin Area, TX 2020
Home Health Care	
Homemaker Services	$4,385
Homemaker Health Aide	$4,576
Based on annual rate divided by 12 months (assumes 44 hours per week).	
Adult Day Health Care	
Adult Day Health Care	n/a
Based on annual rate divided by 12 months.	
Assisted Living Facility	
Private, One Bedroom	$4,250
As reported, monthly rate, private, one bedroom.	
Nursing Home Care	
Semi-Private Room	$5,201
Private Room	$7,057
Based on annual rate divided by 12 months.	

How do I pay for these expenses?

Goal: find as many resources as possible to pay expenses <u>for</u> you

Private Health Insurance

- Through an employer or military
- Through ACA exchange

Veterans Benefits

- Aid and Attendance
- Residential support
- Adult day care
- Long term care
- Some surviving spouse benefits available

State and Federal Programs

- Texas Medicaid Programs and SSI
- Home Repairs
- Section 8 Housing Vouchers
- Supplemental Nutrition Assistance Program (SNAP)
- Home Energy Assistance Program

Nonprofit Assistance

- AGE!
- Family Eldercare
- Area Agency on Aging of the Capital Area
- Lawyer Referral Service of Central Texas
- Disease-specific organizations
- Drive a Senior

Other Assistance

- Financial planners
- Elder and estate planning attorneys
- Care management companies
- Companies specializing in helping people downsize
- Family mediators/facilitators

Delay/Reduce Expenses

- Engage friends, family members, church or community contacts
- Use services such as adult day care instead of a facility
- Use home health aides when necessary to remain at home (Medicare may pay a share)

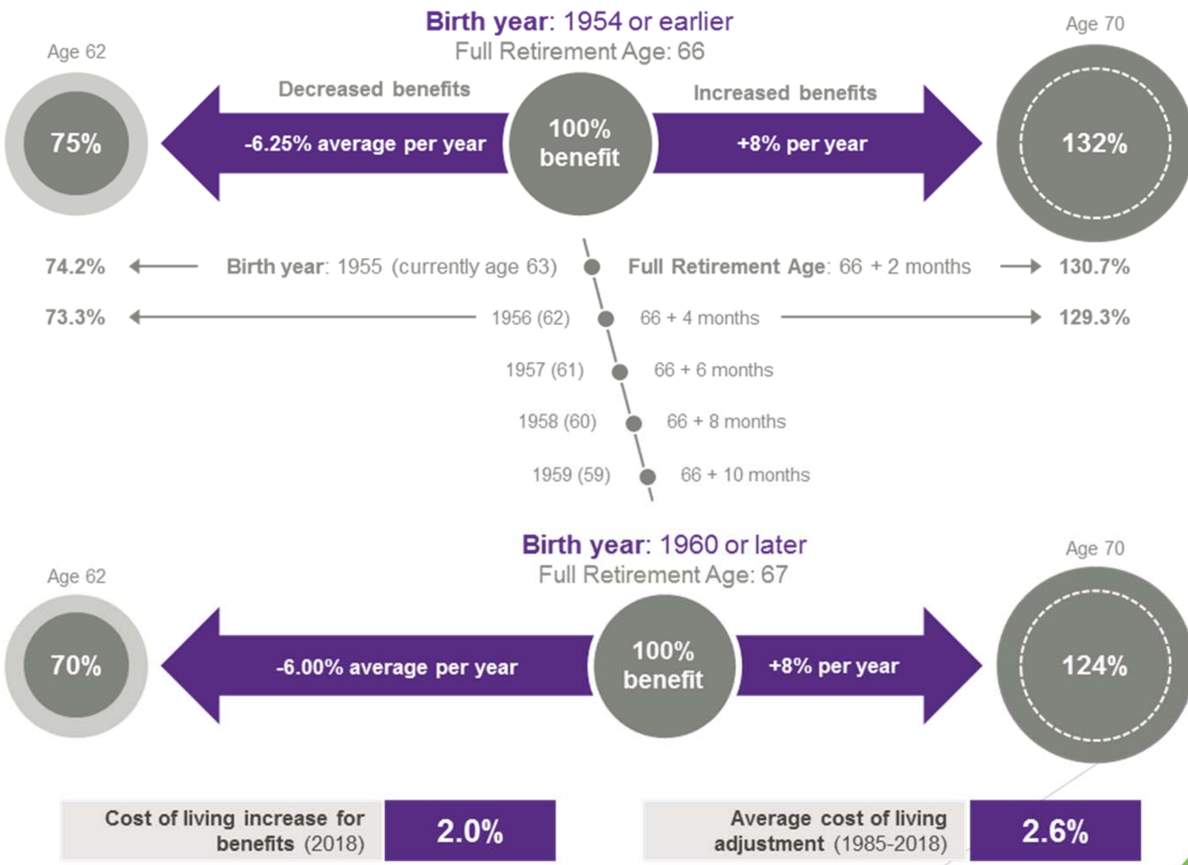
Important Decision Points

- When to claim Social Security
- Portfolio withdrawals

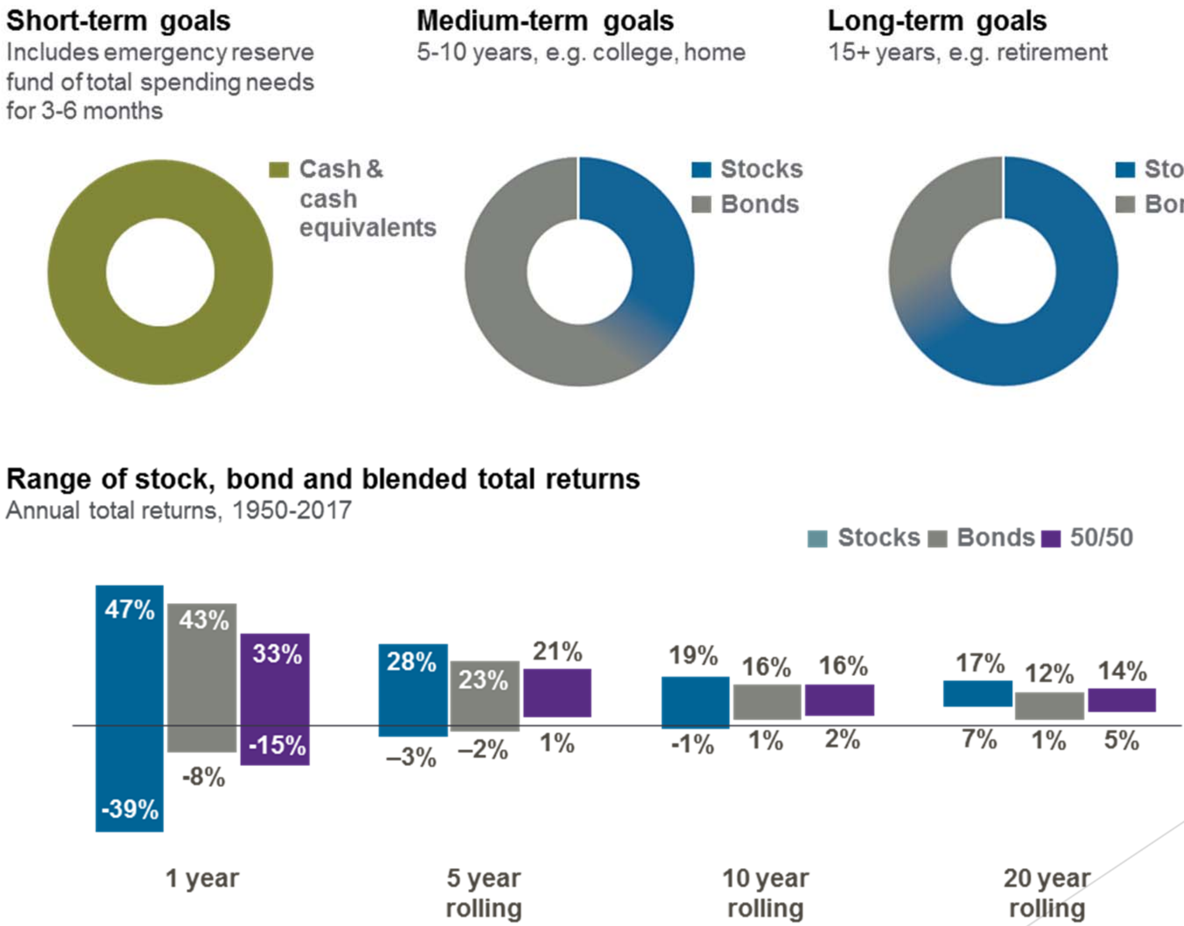
Social Security

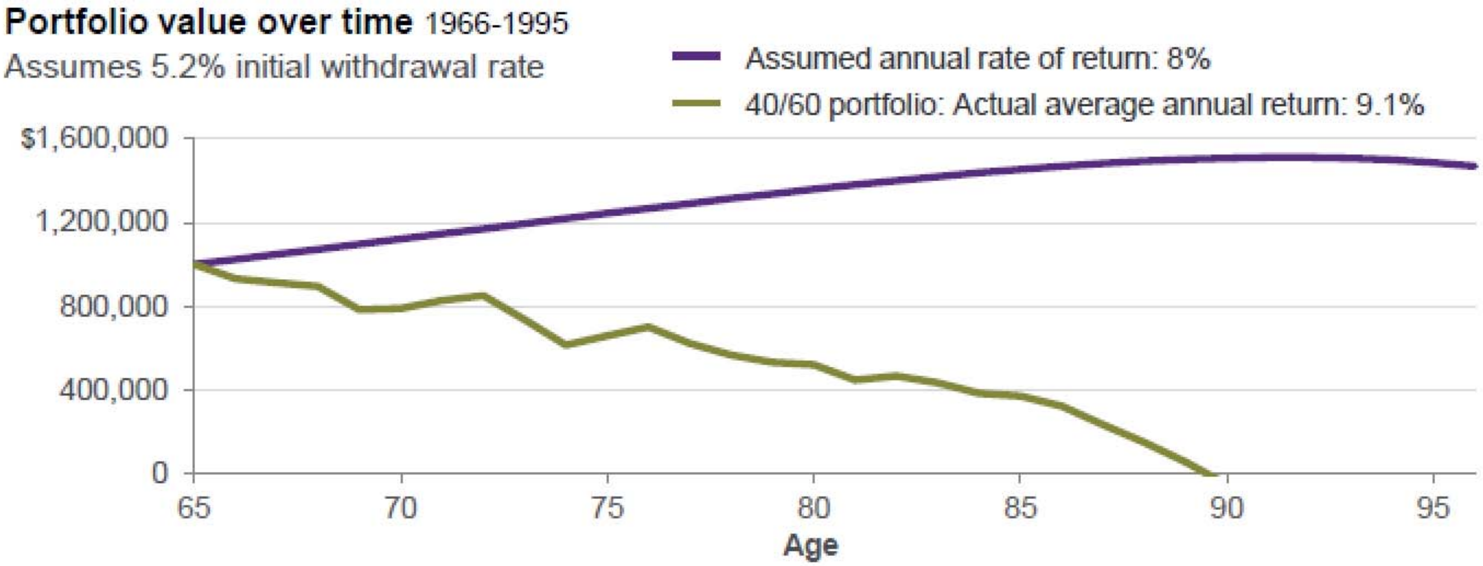
Benefits differ by birth year and claim age

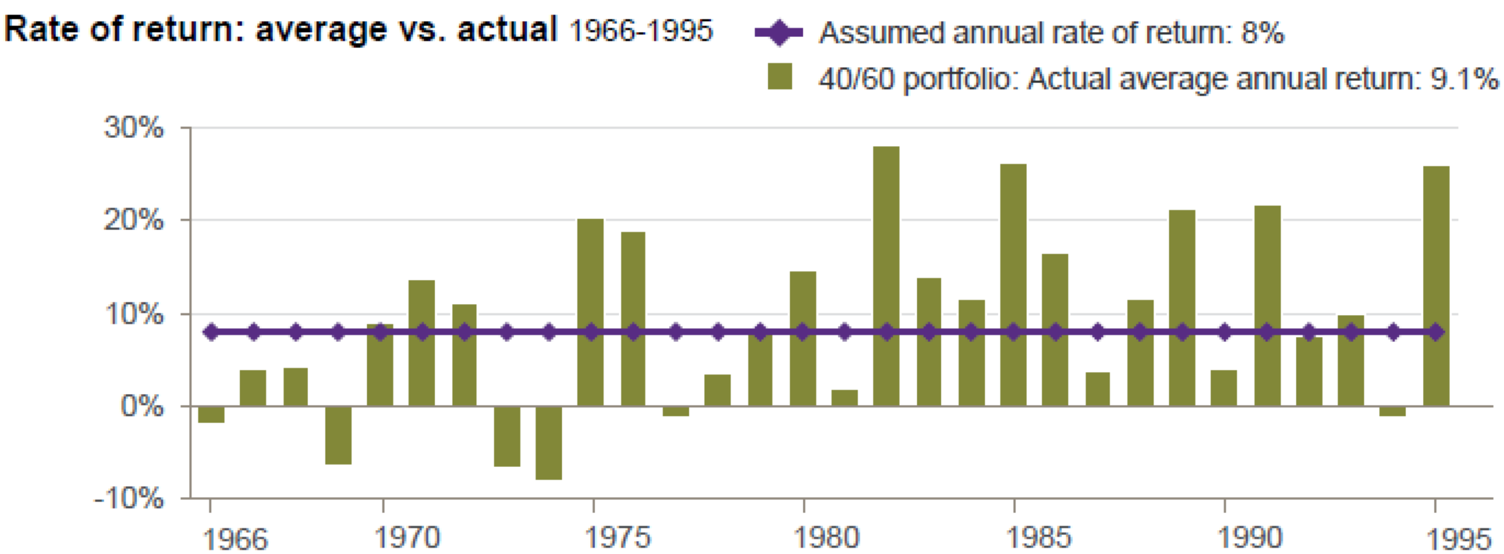
Full Retirement Age = 100% benefit

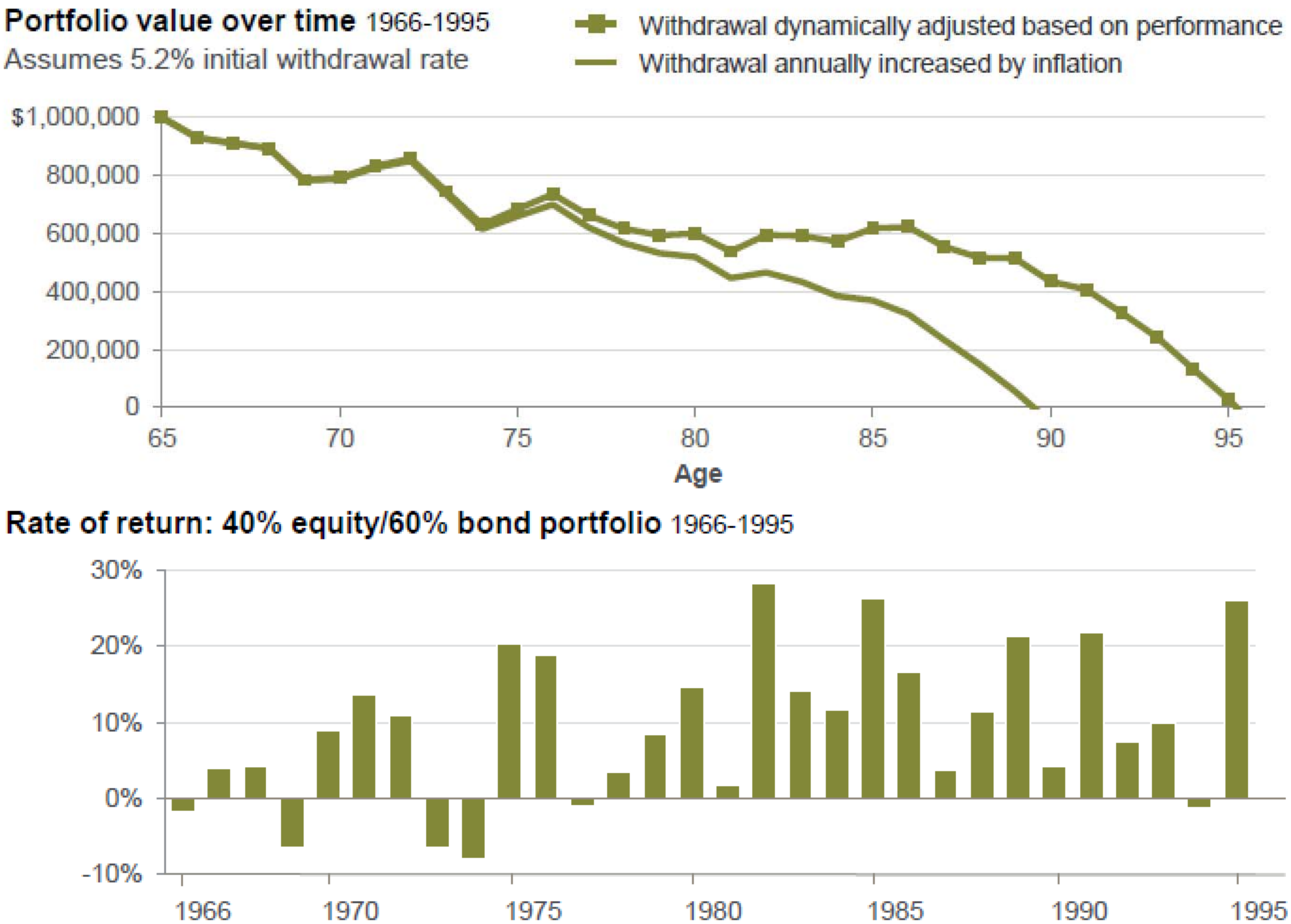


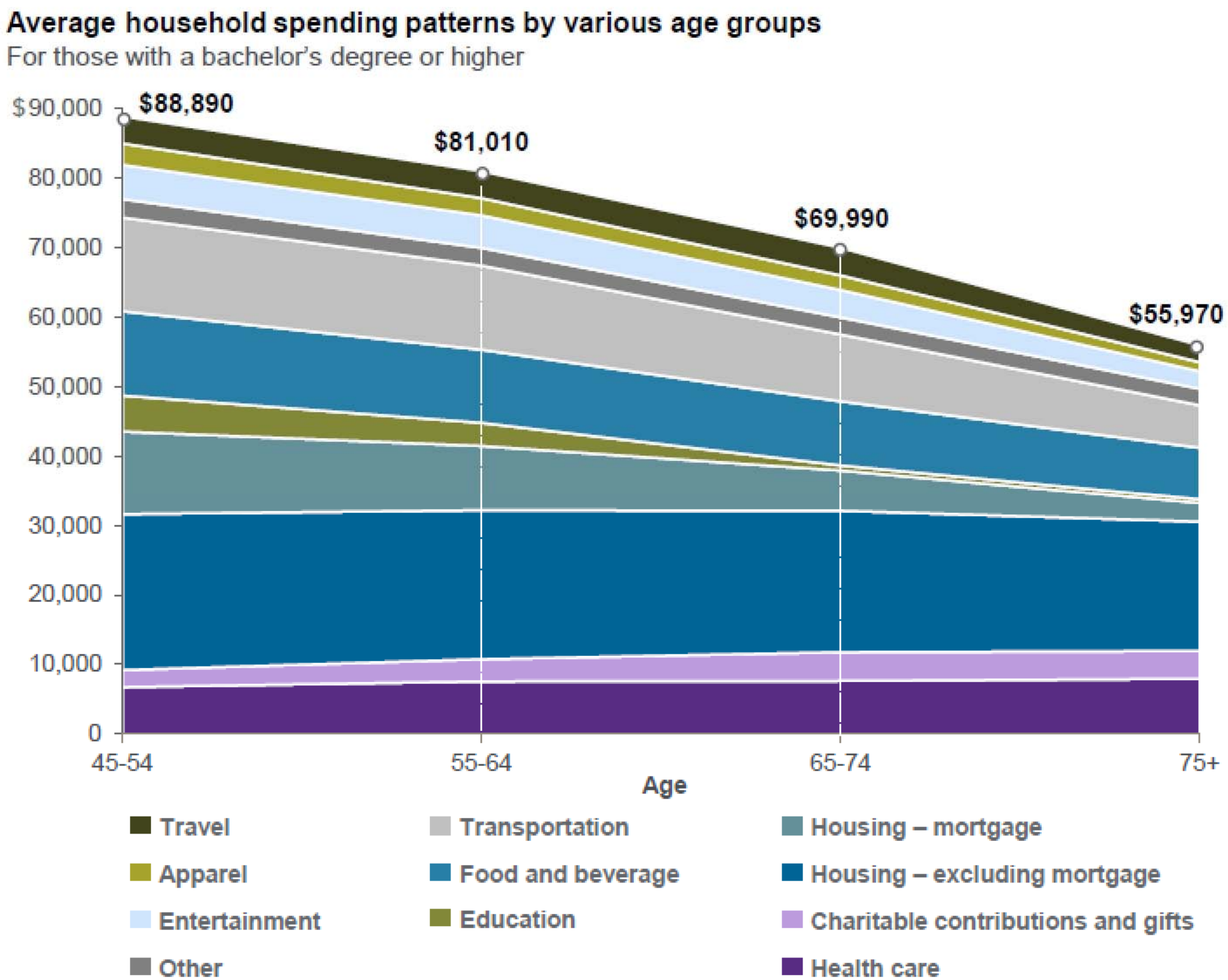
Your Investments




Portfolio value over time 1966-1995
Assumes 5.2% initial withdrawal rate
Assumed annual rate of return: 8%
40/60 portfolio: Actual average annual return: 9.1%
$1,600,000
1,200,000
800,000
400,000
0
65
70
75
80
85
90
95
Age


Rate of return: average vs. actual 1966-1995
Assumed annual rate of return: 8%
40/60 portfolio: Actual average annual return: 9.1%
30%
20%
10%
0%
-10%
1966
1970
1975
1980
1985
1990
1995


Portfolio value over time 1966-1995
Assumes 5.2% initial withdrawal rate
Withdrawal dynamically adjusted based on performance
Withdrawal annually increased by inflation
$1,000,000
800,000
600,000
400,000
200,000
0
65
70
75
80
85
90
95
Age
Rate of return: 40% equity/60% bond portfolio 1966-1995
30%
20%
10%
0%
-10%
1966
1970
1975
1980
1985
1990
1995


Average household spending patterns by various age groups
For those with a bachelor's degree or higher
$90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
$88,890
$81,010
$69,990
$55,970
45-54
55-64
65-74
75+
Age
Travel
Apparel
Entertainment
Other
Transportation
Food and beverage
Education
Housing – mortgage
Housing – excluding mortgage
Charitable contributions and gifts
Health care

Federal Taxes 101

Types of taxes

Income: most pay on part of income
Gift: on wealth transfers during lifetime (if above $11.7m)
Estate: on wealth transfers at death (if above $11.7m)

Misconceptions about taxes

(it's not as bad as you probably think)

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Federal income tax rates applicable to taxable income

Tax rate	Single filers	Married filing jointly	Capital gains & dividends
10%	Up to $9,950	Up to $19,900	0% up to $40,400 (single) / $80,800 (married)
12%	$9,950-$40,525	$19,900-$81,050	
22%	$40,525-$86,375	$81,050-$172,750	15% up to $445,850 (single) / $501,600 (married)
24%	$86,375-$164,925	$172,750-$329,850	
32%	$164,925-$209,425	$329,850-$418,850	
35%	$209,425-$523,600	$418,850-$628,300	
37%	$523,600 or more	$628,300 or more	20%

Misconceptions about taxes

Vast majority of people do not pay estate tax or gift tax

Misconceptions about taxes

Most proposed tax changes will not affect those making less than $400,000/year

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Misconceptions about taxes

Sorry – Social Security benefits are probably partly (or mostly) taxable

Gifting to People

Gifting to People: During your Lifetime

- Annual gift “limit” of $15,000 per year per person
- Exemptions: spouses, charities, amounts paid directly to educational or medical provider, political organizations

Gifting to People: During your Lifetime

- Direct gifts can be cash, stock, real estate
- Recipient gets your cost basis

Gifting to People: At your Death

- Inheritance can be cash, stock, real estate
- Recipient gets cost basis “stepped up” to market value as of DOD

Gifting to People:
Issues with Direct Gifts/Bequests

- If recipient is on need-based aid, additional assets could reduce benefits (government or college)

Gifting to People: Issues with Direct Gifts/Bequests

- If recipient is sued (including divorce) these assets are considered his/hers and may be subject to creditors' claims

Gifting to People:
Issues with Direct Gifts/Bequests

- Recipient may have spending issues

Gifting to People: Issues with Direct Gifts/Bequests

- Gifts go into recipient's estate, which may cause problems down the road

Gifting to People: Issues with Direct Gifts/Bequests

- IRAs for non-spouses have new rules
- Account must be distributed within 10 years of receipt

Gifting to People:
Using Trusts

- Instead of making a gift to a person, make a gift to a trust
- Can be during lifetime or at death

Gifting to People: Using Trusts

- Revocable vs irrevocable trust

Gifting to People: Using Trusts

- Allows you to write rules around the use of money after it's no longer in your control

Gifting to People: Using Trusts

- Lifetime gifting to irrevocable trust
- Can also leave additional assets to this trust from your will

Gifting to People:
Using Trusts

- Special Needs Trust can provide support to disabled person without affecting need-based aid

Gifting to People: Using Trusts

- Testamentary trust (trust created by will)

Gifting to People: Using Trusts

- Pros:
  - You can control how/when money is spent (to an extent)
  - Provides protection from creditors for beneficiary
  - Not in beneficiary's estate

Gifting to People: Using Trusts

- Cons:
  - Expensive to set up and maintain (annual tax returns); higher effective tax rates
  - Must choose trustee who will fit beneficiary's needs and charge a reasonable fee
  - Could lead to resentment from beneficiary

Gifting to People: Using 529s

- 529s are college savings accounts which can also be used for private school tuition

Gifting to People: Using 529s

- Sponsored by states
- Put money into prepaid tuition plan or investment account
- Investments can be static or gradually become more conservative as child approaches 18

Gifting to People: Using 529s

- Analyze investment fees and performance
- Compare administrative fees
- Savingforcollege.com is a good resource

Gifting to People: Using 529s

- Pros:
  - Tax free if used for qualified expenses
  - Can make one time lump-sum contribution of 5 times the annual gift amount (5 x $15,000 = $75,000) and spread gift over 5 years
  - Can change the beneficiary to qualified family member

Gifting to People: Using 529s

- Cons:
  - Taxes and possible penalties on earnings if proceeds are not used for college/private school
  - Could affect qualification for need-based financial aid
  - Limited investment options (like a 401k lineup)

Gifting to People: Using ABLE accounts

- Designed for beneficiaries with disabilities
- Like a 529 in many ways; avoids setting up special needs trust
- Tax free growth of assets if used for qualified disability expenses
- Does not disqualify beneficiary for need-based government aid (but watch total account balance)

Gifting to People: Using ABLE accounts

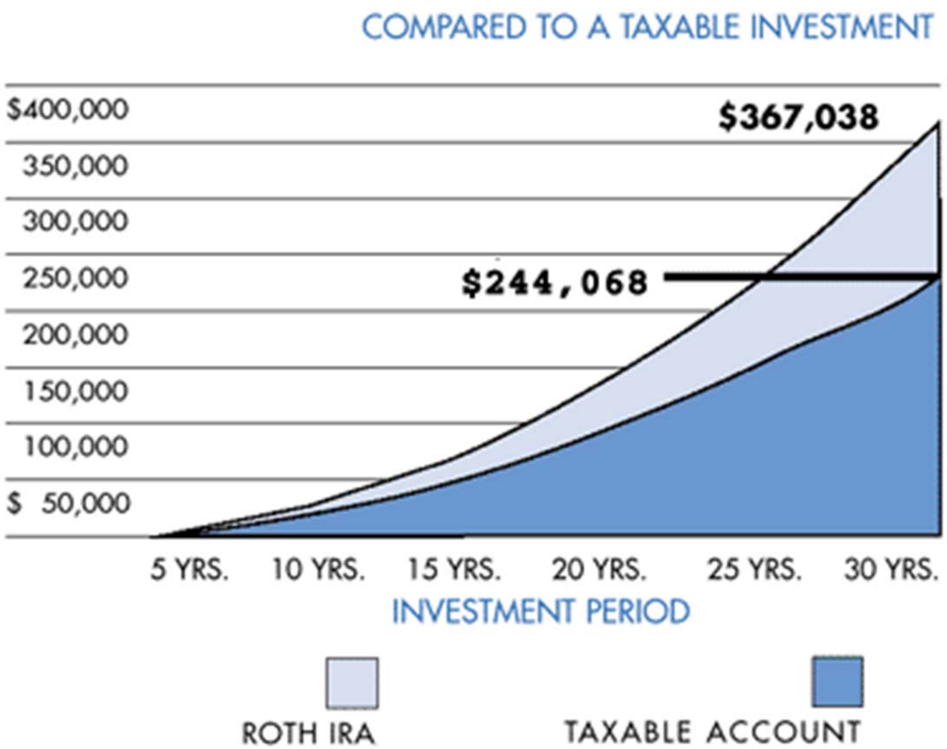
- Beneficiary's disability must have begun prior to age 26
- $15,000 annual contribution limit (plus more if beneficiary is working)

Gifting to People: Funding a Roth IRA

- Instead of giving directly to a person, fund their annual Roth IRA contribution
- Roths grow tax free if held for at least 5 years and used for qualified expenses

Gifting to People: Funding a Roth IRA

- Contributor must have earned income (from a job)
- Max contribution is $6,000 with $1,000 catch up
- Family income for contributor must be less than $140,000 for singles and $208,000 for married filing jointly for 2021
    - Phaseouts start at $125,000 single/$198,000 mfj


COMPARED TO A TAXABLE INVESTMENT
$400,000
350,000
300,000
250,000
200,000
150,000
100,000
$ 50,000
$367,038
$244,068
5 YRS.
10 YRS.
15 YRS.
20 YRS.
25 YRS.
30 YRS.
INVESTMENT PERIOD
ROTH IRA
TAXABLE ACCOUNT

Gifting to People: Knowledge of Investing!

- Most important gift to someone may be the knowledge that investing is important
- Encourage children and grandchildren to contribute to 401k's or other retirement accounts
- Make sure they know they can't just rely on Social Security

Gifting to Charities

Itemizing vs Standard Deduction

- Everyone gets a standard deduction ($12,550 for singles and $25,100 for mfj in 2021)
- Additional standard deduction if over ($1,700 if single and $1,350 per person if mfj)
- Total income minus deductions = taxable income*

*Very simplified definition

Itemizing vs Standard Deduction

- If you have more deductions than the standard deduction, you get to "itemize" on your taxes
- Common deductible items:
  - SALT (state and local tax aka property taxes) capped at $10,000
  - Mortgage interest
  - Unreimbursed medical expenses (if over 10% AGI)
  - Charitable contributions

Itemizing vs Standard Deduction

- The “bunching” strategy
- Double up on property taxes and/or charitable contributions every other year
- Take standard deduction in “off” years
- Not as effective with cap on SALT, but still helpful

Gifting to Charities: Donor Advised Fund

- An investment account for charity; irrevocable
- Donate cash, securities or other assets and receive a tax deduction equivalent to the fair market value at the time of the donation
- Then “grant” the funds to qualified charities on your own schedule

Gifting to Charities: Donor Advised Fund

- Best to donate long-term appreciated stocks or other property
- You can avoid paying capital gains tax so the full value of the asset goes to the account
- The account grows tax free
- Great for assets whose cost basis is unknown

Gifting to Charities: Community Foundations

- Similar to a donor advised fund, but with greater local focus
- May have more options for ways to give
  - Simplified foundations
  - Scholarship funds
- Austin Community Foundation

Gifting to Charities: Qualified Charitable Distribution (QCD)

- If over 70.5, can make contributions to charities directly from IRA
- Does not count as income and is not deducted
- Counts towards Required Minimum Distribution if over 72

Gifting to Charities: Qualified Charitable Distribution (QCD)

- Up to $100,000 per year
- Must come directly from IRA to charity via check made payable to charity
  - Checkbooks often available for IRAs
- Use traditional IRAs, not Roth IRAs

Gifting to Charities: Charity as beneficiary

- Can name a charity as beneficiary of retirement plan, insurance policy, will, etc.
- Better to leave Roths to people and traditional retirement accounts to charities
- Good choice for H.S.A.'s

Gifting to Charities: Charity as beneficiary

- Health Savings Accounts
- Wonderful during lifetime, but not great to leave to non-spouses
- Non-spouse must pay income tax on amount in H.S.A. account
- Strategy: Spend them down during lifetime (with spouse) and leave any remainder to charity

Leaving Assets to Loved Ones

- **Better for people**
  - Roth IRAs
  - Taxable accounts
  - Life insurance policies

- **Better for charities**
  - Traditional IRAs
  - Health Savings Accounts

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Ensure a Smooth Transition of Wealth

Legal Considerations: Get documents in order

- Visit with an estate planning attorney to ensure all documents are updated and reflect your wishes
- Check your beneficiaries on life insurance and retirement plans
- Make sure documents are accessible by those who may need them

Legal Considerations: Talk to beneficiaries

- Make your wishes clear, especially if conflict is possible
- Best to have family meeting, but a letter included with estate documents may help, especially if there are special circumstances
- Make sure your wealth passes to people and causes you love, not attorneys

Questions