Q4 | 2021

ParsecFinancial

LEAVING A LEGACY VIA STRATEGIC ESTATE PLANNING

"It's not how much money you make,
but the money you keep,
how hard it works for you,
and how many generations you keep it for."

- Robert Kiyosaki

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A NOTE FROM THE CEO

> “We have offered trust services for many years and are delighted to announce that we have entered into a strategic alliance with First Covenant Trust and Advisors to offer you a full range of trust solutions while maintaining the relationship and investment advice you have built with us.”

It is extremely liberating to have a well-thought-out estate plan. After all, it is a universal goal among clients that they want to be a good steward of their assets accumulated over their lifetime. When money is properly managed and lived on, it will often outlive its owner. As we age, we often think more about this. In our financial planning projections at Parsec, we often see considerable values that are likely going to build up and outlive our clients.

As we age, we might wonder how an inheritance is going to be helpful to our family. Is my family ready to manage an inheritance? Am I secure enough to consider gifting before my estate? What role do estate and income taxes play in reducing my estate, and what can be done to reduce the tax impact? Do I have enough wealth to consider philanthropy, and what are the best lifetime and estate strategies? Are my intentions clear with my family? There are so many questions.

Estate planning and incapacity planning are often bound together in planning for both the financial and health care decisions that need to be made if you are unable. A very important aspect of this topic is understanding trusteeship and who your fiduciaries are. It is our hope that this edition of the newsletter invites your curiosity to learn more.

We have offered trust services for many years and are delighted to announce that we have entered into a strategic alliance with First Covenant Trust and Advisors to offer you a full range of trust solutions while maintaining the relationship and investment advice you have built with us.

First Covenant was founded in 2011 and is an independently owned trust company held by a large and well-established accounting firm. They have a South Dakota trust charter with trust offices and powers in South Dakota, Tennessee and North Carolina. They maintain offices in all three states, but their primary office is in Johnson City, Tennessee.

In the coming year, I encourage you to review your current trustee appointments to be sure they are willing and able to serve in that capacity. When necessary, a corporate trustee can greatly ease the fiduciary burdens and liability and help bring appropriate governance and investment oversight to trust assets. Please contact your advisor to learn more about corporate trustee services through First Covenant Trust.

We are greatly excited about this new strategic relationship and what it means for our clients. We will share more information on this throughout 2022.

- Rick Manske, CFP®, BFA™

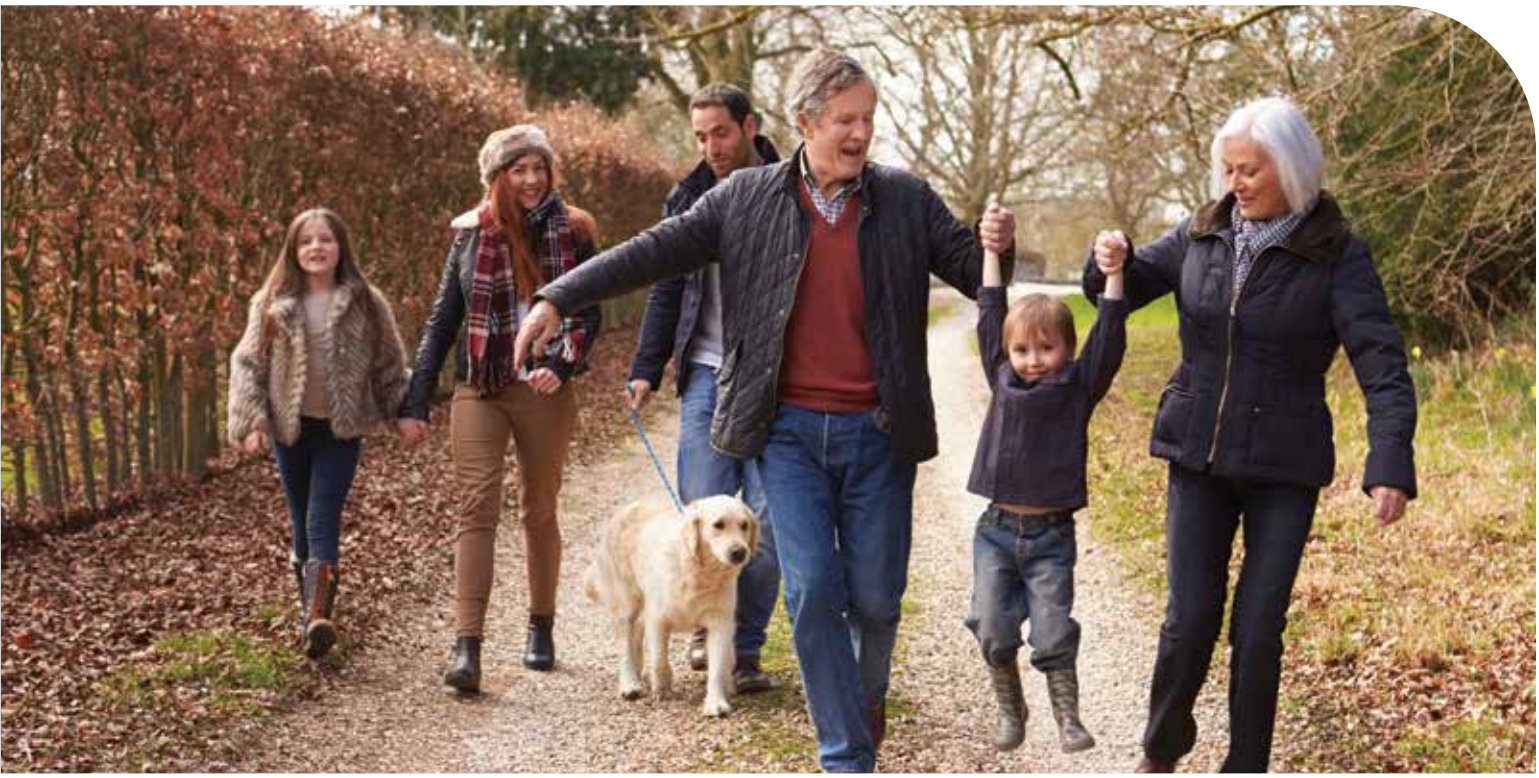
Do You Need an Estate Plan?

Roger A. James, JD, CTFA™ | Partner and Director of Trust Services

I'm often asked this question: "With the federal estate death tax and gift exemption amounts being so high, do I really need an estate plan?" The answer I give is "Absolutely yes!"

You might need an estate plan for reasons you have not fully considered. Let's review:

- **Avoid taxes.** The main reason a lot of people have an estate plan is a desire to save on taxes. In 2021, individuals may pass $11.7 million during their lifetime or at death without incurring any federal estate tax, commonly referred to as a death tax. If you happen to be married, your spouse has the same exemption amount, and both exemption amounts are portable. Portability means that if a spouse dies without using his or her full exemption, the remainder is available to be added to the surviving spouse's exemption. It is important to file a Form 706 estate tax return at the time of the first spouse's death in order to elect portability and pass on that spouse's unused estate tax exemption amount. While many people won't have a federal estate tax problem, this exemption amount is subject to change under recently proposed tax law and, even if not, is scheduled to revert to an approximate $6 million exemption per person in 2026. However, simply covering estate taxes alone doesn't give you a good reason to neglect preparing an estate plan.
- **Choose who inherits your assets.** This is a key reason! You decide and direct by a legal document how the assets of your estate will pass and to whom. If you aren't concerned about that and don't have a will prepared, don't worry. North Carolina has one written for you. I sincerely doubt, though, that you'd like how it dictates where, to whom and in what quantities your assets would pass. You want to direct how your estate passes and who your beneficiaries will be. Lastly, please consider that your specific instructions will help prevent family members from fighting over assets, which leads to discord and alienation.
- **Protect your family if you have young children.** Having a plan in place is important to help in the unlikely tragedy of your dying young with young children. Your plan will dictate not only how they are provided for financially but, more importantly, who will be guardians in raising them. It is also extremely important to consult with the potential guardian of your children and get their blessing before naming them in your document.



- **Protect your adult children from themselves.** None of us like to admit this possibility, yet it happens. Perhaps your child or their spouse spends money wastefully. Maybe they have a gambling problem or have become addicted to alcohol or other drugs. It could simply be that they are not capable as money managers. No matter what the issue, you can design an estate plan that helps ensure that funds are professionally managed and distributed. Your estate plan can help keep them financially solvent and protected.

- **Establish protections for yourself.** You can arrange for representatives to be empowered to act on your behalf if you become incapacitated or incompetent. When you create a durable power of attorney and health care power of attorney, you select the individual(s) to represent you in those roles, should that become necessary. This way, you've already selected who will help you when you are no longer able to make legal or health care decisions on your own.

- **Avoid probate.** For some, privacy is an important issue. Different types of trusts can be used to protect privacy by avoiding probate. Since a will becomes a public document during probate, anyone can see your plan of asset distribution. Alternatively, a trust is a private instrument and can shield asset distribution from the public eye. This is particularly helpful when a small, privately held company is in effect and its resulting ownership and organizational structure are outlined in the estate plan.

Great! Now you have established an estate plan, or maybe you already had one in place. There is another important point to remember: Keep your estate plan documents up to date.

Due to potential and scheduled tax law changes and estate law changes, this is vital in order to keep your plan current and fulfilling of your wishes.

An example of this was when a properly executed North Carolina will drafted in 1997 was recently submitted to the clerk of court for probate. The will, however, was not self-proving, meaning all the signatures had not been notarized. Therefore, at least two of the three witnesses would be required to personally verify their signatures to the clerk of court.

Unfortunately, two of the three witnesses had died. In order to meet this requirement, an individual had to be found who could either attest to the deceased witnesses' signatures in an appearance before the clerk of court or sign a notarized affidavit to that effect. Needless to say, this caused undue hardship and extra time. This could have easily been avoided with a review of the will and a revised update allowing the will to be self-proving.

Estate planning will always require time and effort. It is vital for the well-being of your family and for your own peace of mind. Please contact your advisor to see how we can assist in this important process.

Types, Features and Taxation of Trusts

Bradley Burk, JD | Financial Planning Strategist

The areas of trust planning and trust creation are vast, limited only by the imagination of the trust-makers and their attorney, and the limitations of law. Trusts can be written and created to include a wide variety of features and accomplish many goals. So, while there may be a general form to commonly used trusts, no two trusts are ever the same. Somewhat like fingerprints, trusts are unique to each individual.

It's also worth noting that the area of trusts can feel complicated because of their legal nature and the jargon associated with them. To simplify the complex, a trust is a triangular relationship between three parties: the grantors, the trustees and the beneficiaries. These three parties can all be the same person or they can be separate individuals, depending on the situation and the nature of the trust:

- The grantor (sometimes called settlor or trustor) of a trust is the person who creates the trust and typically funds it with assets as well.
- The trustee is the person or entity that owns legal title to the trust assets but maintains a fiduciary relationship to the beneficiaries.
- The beneficiaries are those people or entities that benefit from the trust's assets.

Generally, the types of trusts are named by a particular characteristic that the trust possesses. For example, an inter vivos (during life) trust is simply a trust created during one's life and may contain other characteristics that lead it to be called by other names as well. Similarly, a trust created upon one's death can be called a testamentary trust.

The two most known types of trusts are revocable and irrevocable trusts. As their names suggest, a revocable trust can be changed, altered and amended during the life of the trust grantor, while an irrevocable trust cannot be changed. Other common names for trusts — such as living, joint, marital, charitable, special needs, life insurance, credit shelter, etc. — are versions of either a revocable or irrevocable trust that are intended to perform a specific function or accomplish a specific goal. It's best to consult with your attorney and/or financial advisor if you have questions regarding specific provisions or functions of a trust or if you are planning to create such a trust.

Finally, consider taxation when trust planning. For income tax purposes, trusts are identified as either grantor trusts or nongrantor trusts. Generally, if a trust is identified as a grantor trust, the grantor/creator of the trust is responsible for reporting all income of the trust on their personal tax return. This would include all interest, dividends, rents, capital gains, etc., that the trust generates. Thus, the income resulting from the trust falls into the grantor's personal tax brackets. Conversely, nongrantor trusts are typically treated as separate tax entities and are given a tax ID or another identification number. Therefore, nongrantor trusts must file their own tax return and report all income of the trust separately from the trust grantor.

However, just because a trust is a nongrantor trust and has income, that does not mean it will owe income taxes. If any portion or all of the income a nongrantor trust generates is disbursed to beneficiaries, the trust will receive a deduction. Thus, income disbursed from a nongrantor trust to a beneficiary will result in the beneficiary paying income tax rather than the trust. However, if income is accumulated within the trust and not distributed, the trust is likely responsible for the income tax liability. Trusts face much smaller income tax brackets and therefore reach the highest marginal rate for income much sooner than individuals. For example, in 2021, the top income tax rate of 37% is applied to trust income above $13,050. Therefore, it is generally beneficial for income to be disbursed and income taxes to be paid by the beneficiaries rather than the trust. Ultimately though, the trust's provisions will dictate how and when income may or shall be distributed, and therefore, who is responsible for the income taxes. As always, it's important to consult with your tax advisor or financial professional when handling trust taxes.

While there could never be an exhaustive list of all the types and features trusts could have, trusts can be created to accomplish just about any goal during a person's life and even after their death. Therefore, you should consider whether a trust would be appropriate for your overall financial plan.

Structuring a Trust Fund for Your Children or Grandchildren

Michael E. Bruder, CFP®, CTFA™ | Partner

Trusts for children or grandchildren are excellent vehicles if designed and administered properly. As a former trust officer for a N.C. bank, I was fond of saying, "trusts are bounded solely by your imagination and tax law." There is a tremendous amount of truth to that statement as trusts can be designed to do almost anything.

For instance, did you know you can establish a trust to take care of your pet for their lifetime should you predecease them? As reported by attorney Daniel McKenzie, "Karla Liebenstein, a German countess, left her entire fortune to her German Shepherd, Gunther III, valued at approximately $65 million. Tragically, Gunther III passed away a week later. However, the dog's inheritance passed on to his son, Gunther IV; the fortune also increased in value over time to more than $373 million, making Gunther IV the richest pet in the world." Ah, I digress, yet hopefully have piqued your interest! There are numerous types of trusts, but let's focus on ones that can be designed to benefit your offspring as well as theirs.

First, you need to be clear as to your goals for establishing this trust. Some goals that I have heard are:

- I don't want them to have the money all at once, but instead have principal distribution amounts at certain ages.
- I'd like to establish some incentives for them to receive the money.
- I wish to protect them from a spendthrift spouse or from themselves.
- I want to provide supplemental income but not eliminate their need to work.
- I want them to have access to principal in case of a catastrophic financial event but not for whimsical purchases.
- I want to preserve the principal for them in case their spouse chooses to divorce them.
- I want them to use the principal for a house purchase or to start their own business.

Once you have goals established, it's important to obtain legal advice in drafting the document so that it conforms with current trust law as well as IRS regulations.

It's helpful to be very specific. Suppose you want to encourage your adult child to work yet not stunt their competitive drive. You might design a feature of the trust to pay a principal bonus in the amount of their W-2 earnings for the year. This would encourage as well as reward them for growing in their careers. Or, you could stipulate for every dollar they earned; they would receive three dollars from the trust. What you'd be doing in both cases is offering incentives based on a verifiable document, be it a W-2 or paystub.

Another example is perhaps you prefer setting a specific percentage of the trust for them to receive at certain ages. At age 30 they receive 25% of the principal value of the trust; at age 40, 50% of the value of the trust; at age 50, 100% of the remaining value of the trust. Of course, you can determine the ages and percentages that match your individual situation the best.

Or perhaps you want to encourage their educational growth by setting incentives for earning higher education degrees. Hopefully you are noticing that the possibilities are endless as each individual situation is different.

Now that you've solidified your reasons, designed your trust, and determined who is to benefit from the trust, you'll need to select a qualified trustee.

This is a role that should never be taken lightly as it assumes fiduciary responsibility. The trustee holds legal ownership of the property and has the power to handle the assets of the trust for the beneficiaries and their best interests. If you decide you want to name an individual, it is imperative that you discuss the role's responsibilities with them upfront to determine if they accept. Most folks will lean toward a corporate trustee as they have the expertise and systems in place to handle trust matters. Your Parsec advisor is prepared to discuss your individual situation to determine if your family could benefit from one.

How to Talk to Your Children About Your Estate

Roger A. James, JD, CTFA™ | Partner and Director of Trust Services

Talking with your children about disability and/or death can be a difficult task for most people. Parents spend the better part of their financial lives working, saving and planning only to end up avoiding proper communication and planning with their children on the topic of death. Parents often do not discuss their estate plans with adult children out of fear that this will only cause tension and improper incentives. In my experience as an attorney and financial advisor, the most successful planning results come from good communication. Let's examine a few key elements to having good communication regarding estate planning.

Prepare:

Good estate planning discussions begin with good financial planning discussions. While children are young, discuss important basic financial planning principles with them like saving for things you want to buy, managing debt properly, good cash flow and spending habits, appropriate risk-taking, and basic stock and bond investing.

It is never too late to have these discussions. If your children are already adults, have these discussions with them now. You can also discuss these principles with your grandchildren. Of course, you will always need to cater the discussion to the child's or grandchild's life stage and level of financial experience and responsibility, but good financial planning communication paves the way to good estate planning communication.

Plan:

Your adult children need to know what to do if certain things happen. Explain to them that in the event of disability, you have documents such as a health care power of attorney, living will and durable power of attorney. Tell them where you have these documents stored, how they can get these documents activated, and who will be serving in these roles to make health care and financial decisions. Provide your adult children with copies of these documents for their records. Do the same thing regarding your will and/or trust document and tell them who will be serving as executor or trustee. Provide your adult children with the names and contact information for your financial and estate advisors.

Inform:

The most important part of communicating an estate plan to children is communicating your family legacy. Tell your children and grandchildren your story. Share with your children how you built up your estate, your spending habits, your work experience, your financial stewardship habits, the financial mistakes you made, your charitable giving priorities and, most importantly, your values regarding how to handle money.

Based on your adult children's life stages, level of experience and maturity in handling their finances, share with them details on how assets will be distributed or held in trust upon your death. Explain your reasoning for the structure and if distributions will be equally or unequally distributed. Adult children are more likely to be accepting when they have heard the reasoning from you during life as opposed to wondering after your death why you planned your estate the way you did.

> The importance of good communication in preparing, planning and informing your mature adult children of your estate plan far outweighs most fears that you may have that are preventing you from doing so.

Not all adult children are in a place to be able to appropriately handle the information regarding your estate plan. If you are in a position where these conversations are too difficult to have during life with adult children or if you have a disabled or financially irresponsible child, then consider leaving a written statement of your family legacy story to include your values, hopes, fears and intent for what your estate plan provides to your children. This letter can be stored with your will or trust and read after death. This will ensure that you are able to share with them your values and the reasoning for your estate plan.

The importance of good communication in preparing, planning and informing your mature adult children of your estate plan far outweighs most fears that you may have that are preventing you from doing so. In the end, the more your adult children understand about how your plan is set up, who will be involved, how to access what they need, and your estate and financial values, the stronger the likelihood is that your planning goals will be fulfilled.

Financial To-Dos in the Aftermath of Losing a Loved One

Gregory D. James, CFP® | Partner

Losing a spouse or partner is a dramatic and emotional experience that can have a serious impact on the financial health of the surviving spouse. Financial planning and investment management needs vary dramatically depending on what stage of life the surviving spouse is in.

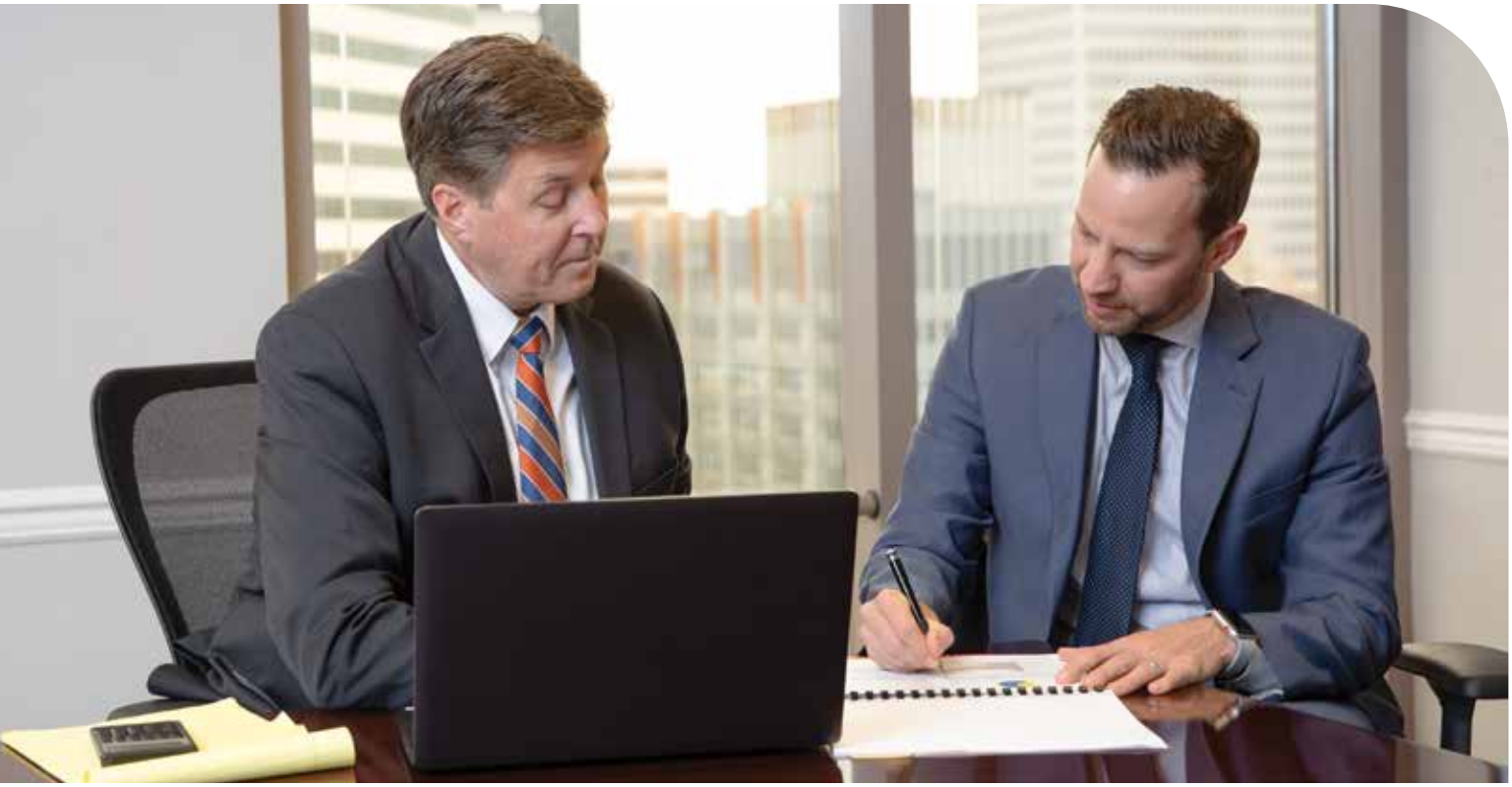
In our 41 years in business at Parsec, we have worked with many clients who have unfortunately lost spouses at all stages of life. Death is universal, but the financial steps to take in its wake depend on each situation.

Below is a summary of key financial aspects that we review with recently widowed clients. Every financial decision is personal and determined in close partnership between the advisor and client.

The young widow or widower:

This stage of life will typically require the most financial planning, so it's important to consult your advisor as soon as reasonably feasible.

- **Budget:** If there is a loss of income, then reviewing your budget is critical. Household needs don't cease, and often at this stage there are young children who have ongoing expenses.
- **Financial plan:** Given the drastic change in your life, you should revisit your financial plan. How does this change your education savings plan? Does this change your envisioned retirement and thus your necessary savings rate? If you receive proceeds from a life insurance policy, it's important to manage those funds properly and strategically to incorporate them into your day-to-day budget and longer-term financial plan. Moreover, if you are now the sole provider of young children, you should consider additional life insurance policies to protect them in case something should ever happen to you.
- **Estate plan:** After the passing of a spouse, it is incredibly important for you to review your old and new assets and your overall estate. You will likely need to change the titling of assets to your name. Then take some time to determine what you would like your estate plan to be moving forward. Consult with your trusted estate attorney to update your estate planning documents as necessary. Since it is likely your spouse was going to be the guardian of any minor children and the beneficiary of your assets, you will need to update your plan to name a new guardian and beneficiaries. Finally, consult with your advisor to update any beneficiary designations on retirement accounts, life insurance, etc., to complete your new estate plan.



The middle-aged widow or widower:

By this stage of life, hopefully the surviving spouse will be in a more secure financial position with some previous financial and estate planning.

- **Budget:** There may be a substantial loss of income. That risk may be mitigated with life insurance, and the household income could shift from earned income to portfolio income. Your advisor can review your options to determine the best method to ensure you have enough cash to meet your short-term needs.
- **Financial plan:** Let's review your financial plan to determine necessary changes to keep you and your loved ones on track for the long run. If you have children, there may be ongoing education costs to review. Either your envisioned retirement age and/or savings plan will likely need to shift.
- **Estate plan:** Take time to review your old and new assets and your overall estate. You may need to change the titling of assets to your name. Then take some time to determine what you would like your estate plan to be moving forward. Consult with your trusted estate attorney to update your estate planning documents as necessary. By now, you may no longer have minor children but potentially children in their own relationships and marriages. You will need to update your plan documents (and beneficiary designations) and have new beneficiaries chosen. Finally, you may even need to think about appointing children or other trusted individuals as attorney-in-fact within your power of attorney documents to potentially make decisions on your behalf.

The elderly widow or widower:

An elderly surviving spouse or partner may be in retirement and financially secure. However, Social Security income will be less, and pension income could be less or stop all together.

- **Budget:** It is not uncommon for a spouse to pass away from a long illness, resulting in extreme health care bills. This will take some planning to determine where to draw the needed income from in the most tax-efficient method.
- **Financial plan:** At this stage you may be looking to downsize, move to a retirement community, or move close to family or children. Any move requires planning and has unique tax consequences. We also need to work with the current estate attorney to be sure the proper types of accounts are being used to limit federal estate tax. You should also review your insurance needs.
- **Estate plan:** Consult with your trusted estate attorney to update your estate planning documents as necessary. You may have already planned appropriately for the passing of a spouse, but it is important to understand the effects of such a passing on your plan. Make sure your beneficiaries still match your plan and update them if necessary. By now your generational family may be in good financial positions of their own, so this may be an appropriate time to consider adding charitable/philanthropic organizations and causes that you (and your late spouse) value to your estate plan.

If you are mourning the recent loss of your spouse, please let us help you through this difficult time. We are so sorry for your loss.

3 Small-Business Transfer Strategies

Michael Ziemer, CFP® | Partner

Throughout my career at Parsec, I have had the opportunity to join our founder, Bart Boyer, at several client appreciation dinners. During these events, Bart would famously review the current economic environment and discuss how to build long-term generational wealth. Without fail, he always reminded clients that "there are only two ways to build wealth: through business ownership and ownership of real estate." As a wealth management firm, we have long preached the benefits of owning shares of public companies as an investment vehicle to build long-term wealth. We are clearly not alone in this endeavor. There are many news agencies and television programs that spend countless hours debating if and when investors should buy and/or sell certain hot-topic companies.

Not only am I a CERTIFIED FINANCIAL PLANNER™ for a firm that focuses on investing in public companies, but I also come from a long line of small-business owners. My father is the second-generation owner of a small family-owned business in Evansville, Indiana (my brother will eventually become the third-generation owner). My father-in-law recently sold his second-generation electrical distribution and manufacturing company to a private equity firm. And I am a second-generation partner and owner of Parsec.

Unlike public companies, news agencies and television programs give little (if any) time to small-business transfer strategies. This is surprising given that according to the U.S. Small Business Administration, small businesses make up a significant share of the U.S. economy:

- **99.7%** of U.S. employer firms
- **64%** of net new private sector jobs
- **49.2%** of private sector employment
- **43%** of high-tech employment

Given the above statistics, it is not surprising that we work with many clients who have either started, inherited or purchased small businesses. Many of these business owners have become experts at running and managing their small company. However, it is always surprising to learn that few have given much thought to how they will transition (monetize) their business. This can lead to complicated retirement planning meetings since many small-business owners' largest asset is the business itself. Below we will examine three commonly used strategies for small-business owners to use when selling/transitioning their business.

Intrafamily business transition (inheritance):

This is the transfer technique that my father (and his father before him) have used to transfer Ziemer Funeral Homes generationally. My grandfather started the business and eventually sold it to my father who had worked in the business for his father for decades. The same transition is now taking place between my father and brother. Here are three positive and negative aspects of intrafamily business transition:

Positives:

- The founder of the family business can keep the business asset in the family.
- It creates a legacy (source of future income) for children and family members.
- The founder can work for the business (and generate income) until they're ready to step away.

Negatives:

- The founder may not derive the maximum value from the business transition.
- Family businesses can cause conflict as the business is transitioned between generations.
- Identifying a family member who is willing/capable of running the family business can be difficult.

Private sale to an outside third party:

This is the transfer technique that my father-in-law used to transfer (monetize) his business. He was not able to identify any family members who were either willing or capable to allow for an intrafamily transition. Thus, he worked with an investment banker to find a private equity firm that purchased his manufacturing company as part of its overall portfolio. The most common types of outside sales are usually made to an investor group (like a private equity firm) or a strategic buyer (a company in the same industry looking to expand). Here are three positive and negative aspects of outside sales to a third party:

Positives:

- The founder often maximizes the value of the business.
- It allows the founder to walk away from the business and enjoy a traditional retirement.
- The third party often takes on all management responsibilities after the sale.

Negatives:

- The economic environment may not be ideal for a business sale/transaction.
- These deals often fall apart many times before the deal is finalized.
- The seller may not be able to replace the business income due to low interest rates (reinvestment risk).

Internal sale to employees:

This is the transfer technique that is currently being used at Parsec. Our company was founded by Bart Boyer in 1980, and he has long believed in the benefits of sharing equity with employees. This makes Parsec a family-and-employee-owned company. As of Sept. 30, 2021, 44 employees (80% of eligible employees; 63% of all employees) are shareholders, owning 46% of the firm. Here are three positive and negative aspects of internal sales to employees:

Positives:

- The founder often retains a portion of ownership and cash flow throughout retirement.
- It creates a culture where employees are also owners of the company.
- Employee ownership promotes a positive client/customer experience.

Negatives:

- It can be difficult to find employees who are interested or able to be owners of a small illiquid company.
- The founder and employees often disagree about the value/price of the company.
- The founder may not derive the maximum value from the transaction.

As you can see, there are many reasons why our favorite financial channels often avoid the topic of small-business transfer strategies. They are quite messy, and there is no perfect strategy. And like most financial planning conversations that we have with clients, we must first know our clients' objectives and situation before finding the appropriate solution. The best advice I can give to small-business owners regarding the best transfer technique for their business is to start planning now!

Taxation of Inherited IRA Assets

Brad Burlingham, CPA | Co-Director of Tax Services

If you have recently inherited an IRA, may receive an inherited IRA in your future or are passing along your IRA to beneficiaries, it is important for you to be aware of the IRS requirements for taking required minimum distributions (RMDs) from an inherited IRA. Since IRA accounts are typically funded with all — or almost all — pretax funds, every distribution from an IRA is taxed as ordinary income and can have a considerable effect on your tax liability. There have always been rules to require taxpayers to take these distributions and pay tax on them, but these rules have changed significantly in the last couple of years.

Is the IRA inheritor an eligible designated beneficiary?

The 2019 Setting Every Community Up for Retirement Enhancement (SECURE) Act changed the RMD requirements for inherited IRAs. A key question is whether or not the inheritor of the IRA is an eligible designated beneficiary. An eligible designated beneficiary receives preferential treatment and has more options for delaying distributions from the IRA. Five types of individuals qualify for this treatment:

1. The surviving spouse of the original (deceased) IRA owner

2. A minor child of the original IRA owner

3. A beneficiary who is disabled

4. A beneficiary who is chronically ill

5. A beneficiary who is less than 10 years younger than the original IRA owner

The owner of an inherited IRA who qualifies under one of these five categories can take RMDs from the inherited IRA based on their own life expectancy or the life expectancy of the deceased original owner, depending on which of the five categories applies. If a beneficiary's status under one of these categories changes, however, their RMD timing may also change.

All other IRA inheritors:

What if the beneficiary does not fall into one of those five categories? The SECURE Act requires that the entire balance of the IRA be distributed by Dec. 31 of the 10th year following the original owner's date of death. This is a substantial departure from what the law required before the SECURE Act, when most beneficiaries could take advantage of life expectancy provisions to stretch inherited IRA distributions.

What if there is no designated beneficiary?

Sometimes when an IRA owner dies, the owner's estate is named as the beneficiary or the estate becomes the beneficiary by default. The RMD in that situation depends on whether the deceased owner had started taking his or her RMDs before death. If the owner died after taking RMDs, distributions can continue over the life expectancy of the deceased owner. If the owner died before taking RMDs, the severe five-year rule applies, and the entire balance of the IRA must be distributed by Dec. 31 of the fifth year following the year of death. This discussion only provides a general overview of the rules for distributions from an inherited IRA. There are many variations on these rules and some options that can affect the most beneficial treatment of an inherited IRA. The spouse of a deceased IRA owner may need to choose between several alternatives to achieve the most appropriate result. If there are multiple beneficiaries of the IRA or a trust beneficiary, or if the IRA has changed ownership before because of a prior death, the results can be quite different. Some IRA documents or trustees may employ varying RMD policies. Your Parsec advisor and tax professional can help you navigate the details of your situation.

Estate Planning After a Divorce

Chad Foster, CFP®, CDFA®, ChFEBC℠ | Senior Financial Advisor

Divorce is never easy. There is always a laundry list full of things that you need to be dealing with or thinking about during this time. One very important item that typically isn't at the top of the list is reviewing your estate plan. Chances are, when you originally set up your estate plan, it gave your spouse full control and named them as the primary beneficiary of your assets.

While some states have laws that would interject and remove the spouse, others might not. In fact, the law may not cover everything or may not turn out the way you would have wished.

So where do you start? Take inventory of the estate planning you've already done. The main items will be a will, power of attorney, trust and advance directives. You'll also want to review how you've listed beneficiaries on retirement accounts and insurance policies.

Let's look at each of the primary estate documents first and identify specific areas to address in each:

- **Will:** Who is your executor? Most likely, you have named your spouse as the executor. As mentioned above, there are laws that may remove an ex-spouse from acting as your executor. However, these laws might not go into effect until after the divorce is final. If you pass away during a divorce, it will be your soon-to-be ex that will be handling your estate. Do you want this person executing your final wishes? Also, you may have changed your mind about who and what is listed within the will. While anything that goes to your ex may be removed by law, anything going to your ex-sister-in-law, for example, will remain.

- **Power of attorney:** Let's say you have decided to file for divorce but have not yet officially filed. Your spouse will still have the power to act on your behalf if you gave them the right to do so in your power of attorney document. Are you comfortable with your soon-to-be ex having that authority? Unlike the will, the law will typically remove the spouse when divorce is filed. If you have not filed yet, though, your soon-to-be ex may still have authority. Also, laws vary by state, so it is important to discuss this matter with your attorney.

- **Trust:** Have you named your soon-to-be ex as a beneficiary of the trust? Some trusts may have provisions within the trust to remove your ex. What happens until the divorce is finalized? Irrevocable trusts are different. Let's say you named your spouse as a beneficiary of an irrevocable trust. You are not able to remove your spouse if you specifically named them. You could have created provisions that your spouse become a beneficiary at the time of your death. This will protect the assets after the divorce but not before it. Lastly, if you have minor children, how will the trust be administered, and who can make those decisions as trustee after you are gone? How will the assets be distributed? For example, does the trust dictate that a specific portion be spent on education, weddings or home purchases? The trust language can also protect the assets if you are remarried at the time of your death.

- **Advance medical directives:** A medical directive may express your wishes in a medical situation if you are unable to communicate. It may also appoint a person to represent you and make medical decisions. Make sure you review the document and update it if needed.

Estate planning may be a hard subject to approach when you're already going through a very difficult time, but it is necessary. You should update documents and review your final wishes in the event you pass away prematurely. Your attorney can provide the legal advice you need to properly adjust the documents so that they meet your new wishes.

Careful review will ensure a smoother process for your loved ones. An estate planning attorney who is well versed in this area can make sure you are making crucial updates.

Remember that state laws can vary based on where you live and where you own property, so you may be affected differently during and after a divorce depending on these factors. It is important to seek counsel from an estate planning attorney who understands the process.

Estate Planning for the Nontraditional Family

Bradley Burk, JD | Financial Planning Strategist

No two people are alike, and no two families are alike. More and more often, families are being created and shaped in nontraditional ways and continue to change the way we think of families, such as single-parent families, blended families, same-sex households and children as caregivers for aging parents. In a way, nontraditional families are more the norm than the exception.

According to the U.S. Census Bureau, from 2008 to 2019, the total number of same-sex households in the U.S. increased 80% from approximately 540,000 to 980,000. Additionally, according to the Current Population Survey, the living arrangements of children in the U.S. are changing, with the number of children living with two parents down from approximately 85% in the 1960s to 70% currently. Lastly, according to Generations United, the number of Americans living in multigenerational households increased from 7% to 26% — an increase of 271% — in a decade. It is clear that the families of today do not look like the families of the past.

Everyone wants to take care of their family, and estate planning is a huge piece of that. Estate planning is generally described as the conservation and distribution of property, assets and wealth in the manner that most efficiently and effectively accomplishes one's goals. Estate planning is inherently a goal-oriented activity — using tools, techniques and actions to achieve certain goals. Naturally, questions often arise for nontraditional families around estate planning. How should they handle estate planning? What are their unique challenges? What aspects of an estate plan should they focus on? However, more often than not, a nontraditional family has the same goals and wishes for estate planning as a traditional family: to protect and distribute their assets in the way they want to. So, while estate planning for nontraditional families comes with a few unique issues, it follows the same path of stating the family's goals and wishes, making a plan to achieve those goals, and then taking action toward those goals.

> From 2008 to 2019, the number of Americans living in multigenerational households increased from 7% to 26% — **an increase of 271%**.

It is worth noting that federal and state estate laws are generally based on the traditional family structure rather than the wide range of nontraditional family structures. This means that traditional families are more likely to benefit from and be protected by federal and state laws. For instance, a state may have a law that leaves all of a spouse's property to their surviving spouse if they die without a will. However, a nonspouse partner may not be afforded those same benefits and protections under state or federal law. Additionally, nonmarried partners may not take advantage of the unlimited gift tax deduction that is provided to spouses.

While estate planning for nontraditional families requires thoughtful and creative planning, there seem to be only a few differences from traditional family estate planning:

1. **Nontraditional families may not be provided the same tax, gift and estate benefits and therefore must be more meticulous and careful when making material financial decisions.**
   - For example, the transfer of property between nonmarried partners may be a taxable event and should be carefully considered before being carried out.
2. **Nontraditional families must be more intentional to make sure their wishes are clearly stated and their plan effectively accomplishes their goals, as they may not have the same legal protections built into state and federal laws.**
   - For example, nontraditional families may need to specifically name their beneficiaries by legal name rather than a generic class description such as "my children" because even though you may consider someone your child, the law may not.
3. **Nontraditional families may have more relationships and more goals for estate planning than traditional families. Therefore, some goals may have to be prioritized over others.**
   - For example, a blended second family may have numerous beneficiaries to whom they wish to provide some benefit, so the value of the benefit to each beneficiary may need to be reduced in order to be spread around evenly.

So, while nontraditional families face unique challenges when it comes to estate planning, just like traditional families, they can create a plan that can accomplish their goals. And whether it's for a traditional or nontraditional family, estate planning can be done by taking a few small but meaningful actions (with the help of legal, financial and tax advisors) to implement their estate plan. Some steps include reviewing and updating beneficiary designations on retirement accounts and life insurance policies, reviewing how assets such as real estate and vehicles are titled, having a durable power of attorney for someone to make decisions for you if you become incapacitated, and executing a will that names a guardian for minors if necessary and directs how and to whom property and assets will pass upon the death of the individual.

To review, a nontraditional family can create a comprehensive estate plan that meets all of their goals and wishes in much the same way a traditional family would. Of course, a nontraditional family's unique circumstances and concerns will require careful planning with the help of trusted advisors.

How Property Titling Can Affect Your Estate Plan

Michael Bruder, CFP®, CTFA™ | Partner

Most people don't realize that how you hold title to property directly influences your estate plan. Since it's a common misunderstanding that can dramatically alter your intentions, let's explore why.

Unfortunately, there remains a great deal of confusion as to how assets pass at the time of death. Most people think their will transfers all assets, while others think they transfer through living trusts. Both are, in fact, correct but only partially. Assets transfer at death by operation of law — more commonly understood as how you hold title to property — or through beneficiary designation. Understanding these concepts can be the key to a successful transition of your assets as you intended.

Let's look at some examples:

Let's say you have a properly executed will, and you hold title to your bank account solely in your name. Because you are the sole owner of that account at the time of your death, its disposition will be dictated by your will. On the other hand, if you held it as a joint tenant with right of survivorship (JTWROS) with your spouse, it would automatically pass to your surviving spouse no matter what your will says. The operation of law (how you held title to that property) supersedes what you've said in your will. That is a very important concept to grasp and is often misunderstood.

If you have life insurance or retirement accounts, you already know you had to name primary and contingent beneficiaries. When you pass away and the custodian has been presented with a copy of the death certificate, the assets will pass to the named beneficiaries. If the primary beneficiary has predeceased you, the assets will pass to the contingent beneficiary. Again, no matter what your will instructs, these assets will pass by the specific beneficiary designation. It's crucial that you take this into consideration as you do your estate planning.

It is very important that you review and update your beneficiary designations, or — as in the case of a divorce — you may face unintended consequences. I've witnessed situations where someone has passed away and their former spouse was still named as the primary beneficiary. Because the beneficiary designation was never changed, the former spouse is entitled to and will receive the assets. That can be an unfortunate, unintended consequence for the remaining heirs. The only solution to that particular situation is for the former spouse to renounce their claim and allow it to pass to the contingent beneficiaries.

Living trusts are effective tools in estate planning for a variety of reasons, especially probate avoidance. To function properly as well as avoid probate, they must be properly funded by the retitling of assets into the name of the trust. Too many people pay significant attorney fees to have the documents drawn, only to fail to fund them by not retitling assets into the name of the trust. If assets are not retitled and a death occurs, the main function of the living trust — avoiding probate — is forfeited.

One of the most important steps you can take in your estate planning is to ensure that your assets are properly titled to match your disposition plan. Don't automatically assume they currently are. Circumstances change over time, and it's vital that you confirm the titling and that beneficiary designations fit your estate planning documents. Your advisor is happy to walk you through these steps to determine if changes are warranted.

Office Closings

Friday, Dec. 24 – Christmas Eve
Monday, Jan. 17 – Martin Luther King Jr. Day

Kudos

Congratulations to Senior Research Analyst Edmund Clapham for becoming a CFA® charterholder.

Congratulations to Trader Karisa Weissgerber for attaining her Financial Paraplanner Qualified Professional℠ designation.

Welcome

We warmly welcome Kenny Bitar as a research analyst in Charlotte.

We warmly welcome Katie Wilken as a tax services administrator in South Asheville.

We warmly welcome Marisa Palestino as a client service assistant in Asheville.

Celebrations

Congratulations to Senior Portfolio Manager Jessie Goodwin and her husband on the birth of their healthy baby girl.

Congratulations

to Tax Services Administrator
Kathy Hartsell on her upcoming retirement.

We thank her for her hard work
and dedication over the past **20 years!**