ASSET ACCUMULATION, PROTECTION, PRESERVATION AND TRANSFER, L.L.C.

Since 1999

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Advisory Services through AAPPT, L.L.C.
725 Eaton Road, Blue Ridge, GA 30513
770-874-0083
jcory@aptjac.com • www.aptjac.com

AAPPT, LLC FINANCIAL OUTLOOK **WINTER 2020/2021**

Estate Planning Considerations for Children

It takes special care to create an estate plan that efficiently distributes your assets and meets your goals for every person and cause important to you. But no part of the process means more to most people than that which involves their children. After all, for most of us, our children are our most important legacy, and how your estate documents treat them will have an impact long after you're gone.

To help organize this process, it is useful to think of children in three categories: minors, young adults, and fully grown adults with spouses and children of their own.

Minor Children

Children from infancy through high school have a different set of needs than children of other ages. One is simply to be able to rely on an income for daily needs in case you're no longer there for them. Since the parents of young children usually don't have large savings or net worth, the challenge is to provide an instant estate, for which life insurance is the best answer.

There are several rules of thumb for how much life insurance to buy — from four to 10 times your annual income. The right amount should be the result of a thorough needs analysis of your entire family, which can be accomplished by asking your spouse and yourself a series of probing questions, including:

- How much do the two of you already have saved?
- Will your spouse be able to work full- or part-time? If so, what will

Continued on page 2

The SECURE Act and Stretch IRAs

In the past, beneficiaries could take distributions from an inherited IRA over their lifetimes, often referred to as a stretch IRA. However, the SECURE Act, which is effective as of January 1, 2020, drastically changed those rules. Now, for individuals dying after December 31, 2019, designated beneficiaries (humans with a life expectancy) must withdraw all funds within 10 years. However, eligible designated beneficiaries can still withdraw funds over their life expectancy:

- Surviving spouses
- Minor children
- Disabled or chronically ill individuals
- Individuals who are not more than 10 years younger than the deceased IRA owner

Once a minor child reaches the age of majority, the remainder of the distributions must be taken within 10 years. Withdrawals do not have to be taken out in equal installments over the 10-year period. The only requirement is that the entire balance must be withdrawn by the end of the 10-year period. This provision is expected to significantly increase tax revenue from inherited IRA distributions. It may be a particular problem for children who inherit parents' IRAs and are in their peak earning years.

Some strategies to consider include:

Charitable Beneficiary

If you are already planning to give money to a charity, it will be more tax-efficient to leave taxable assets to your individual beneficiary and the IRA assets to a charity. The charity will receive the funds as a tax-exempt organization, meaning they will owe no taxes on the distribution.

Choose Beneficiaries Carefully

The idea is to try to reduce the income tax burden from the inheritance. That could mean naming younger or more lightly taxed beneficiaries to receive the IRA. For instance, if your children don't have a need for the IRA, you may want to give it to your grandchildren instead. You can also name more beneficiaries so that each receives less taxable income.

Continued on page 3

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Estate Planning

Continued from page 1

childcare cost?
- Will your children go to public or private elementary and secondary schools?
- How much will your children need in college funds by the time they're ready to attend?
- How much will your spouse need for retirement, and how much of that will he/she be able to accumulate on his/her own?

After you determine how much life insurance to buy, you need to think about who will raise your children if you and your spouse both die before the children are adults. This calls for naming a guardian in both of your wills. If you don't have a will, a state court will appoint a guardian for you, and it may not be someone you or your spouse would have wanted for this role. In addition, parents might also wish to designate a person to manage the children's assets, known as a custodian or trustee. This can be the same person as the guardian, but designating an unrelated third party, like an attorney, banker, or trust company officer, who can be charged with thinking only of your children's welfare, appeals to some people.

Among the other major decisions you have to make is whether and how to split your assets between your surviving spouse and your children, and if you leave some assets directly to your children, how to determine the split among them. Often, it can make sense to leave all or most of your assets to your spouse and to divide assets you bequeath to your children evenly. But this might overlook such considerations as children with special medical needs or special abilities.

Young Adults

Once children reach the age of majority — 18 in most states — a new set of considerations enters the picture. By this age, your children no longer require a guardian and are legally capable of spending their money in any way they want — and therein lies a potential problem. What if you leave $250,000 for college, and instead, your children decide to waste the money and skip college?

One way to control how the inheritance is spent is to establish a trust with a schedule for distributions. One option is to delay a full distribution until they reach a certain age, like 25 or 30. Another choice is to give them a series of partial distributions over many years. Another increasingly popular strategy is the incentive trust. This vehicle makes payouts contingent on your child's achievement of specific accomplishments — like maintaining a certain grade point average; graduating from college, graduate, or professional school; marrying; or buying a home.

Adult Children

Many of the same kinds of considerations that apply to minors and young adults can also influence your decisions regarding adult children. Do they, their spouses, or their children have special medical needs? Have your adult children fallen on hard times or are they irresponsible with money? How many children do they have and how much help will they need to finance their education?

Another consideration has as much to with your own objectives for minimizing estate taxes. If your estate is much larger than you and your spouse's combined estate tax exemptions (currently $11.58 million for each spouse in 2020), you might want to shrink it with an aggressive campaign of gifts to your children and grandchildren. On the other hand, any funds you leave to your children might encumber them with estates equally as large as yours or larger, with the same tax challenges. In this case, you might want to transfer some of your assets to a generation-skipping trust, which bypasses your children and names your grandchildren as the beneficiaries.

Don't go it alone when mulling over these decisions. Most importantly, you need to reach a meeting of the minds with your spouse and even your children, especially if they are adults. One thing you don't want to do is to create bad feelings after you're gone, either toward you or among your survivors.

Estate Planning for Complicated Family Situations

Divorce, remarriage, blended families, and children with disabilities are all situations where protecting your loved ones will give you peace of mind.

Divorce

If you divorce, you should update your beneficiaries, will, trusts, durable power of attorney, and healthcare proxy as soon as possible. If you have minor children, you will need to decide on a guardian if something happens to you or both of you.

In terms of financial assets, you can name your children as beneficiaries on life insurance, annuities, retirement accounts, and health savings accounts. However, your children cannot usually receive these funds until they turn 18. The surviving parent or an appointed guardian will need to manage these funds until your children are adults.

If You Remarry

If you remarry and both of you have children from previous marriages, you and your spouse will need to determine the best way to split assets. Unless you have a prenuptial agreement, your current spouse is entitled to half your estate. If you want your children from your previous marriage to receive assets, you should consider setting up a trust that provides for your current spouse but also ensures your children will receive the assets you designate for them.

If You Have a Special Needs Child

With a special needs child, the two most important things to consider are protecting his/her eligibility for Medicaid and providing assets for his/her financial future. This is a delicate balance because an inheritance could disqualify your child from essential benefits from Medicaid. The best solution is to set up a special-needs trust, which will ensure he/she qualifies for Medicaid benefits while preserving assets for his/her future.

The SECURE Act

Continued from page 1

Life Insurance

You can buy life insurance to help beneficiaries fund the taxes from the inherited IRA distributions. Since life insurance proceeds are income-tax-free, your beneficiary will receive the proceeds of the life insurance policy without having to pay taxes.

Convert to a Roth IRA

If you convert your traditional IRA to a Roth IRA, your beneficiary will receive the funds free from income tax. The distributions still need to be taken within a 10-year period, but at least no taxes will be due on those distributions. A Roth IRA conversion involves taking funds from a traditional IRA, paying tax on any previously untaxed funds, and then putting the funds in a Roth IRA so that distributions can be taken income-tax-free. Most experts recommend using cash to pay the tax on conversion to avoid depleting your retirement savings. Paying the taxes with cash is especially critical if you are under age 59½, because if you use money from your IRA to pay the tax, you'll owe a 10% penalty on the amount that's not rolled over into the Roth IRA.

Meeting Your Financial Goals

Goals and concerns should be written down to establish specific strategies to improve your overall financial well-being. Most aspects of financial planning fall under at least one of the following five categories:

Asset protection and preservation: Do you have an appropriate amount of life insurance? Have you protected yourself against loss due to long-term care, property losses, or liability?

Disability and income protection: Is your disability protection appropriate? Was your income and spending what you expected and planned for this year? Did you use all reasonable ways to reduce your taxes?

Debt management: Have you managed your debt as expected?

Investment planning and accumulation: How did you do against your rate of return target? Were your annual contributions or withdrawals expected? Is your asset allocation appropriate? Was your portfolio income-tax efficient?

Estate planning: Do your wills and trusts match your wealth transfer wishes? Do you need and have a durable power of attorney, healthcare declaration, and living will? Are your assets titled properly, and are beneficiary designations appropriate? Have you minimized future estate taxes?

Investment Planning

If you are a new or seasoned investor, you need to keep one thing in mind about investing: the prices of stocks and bonds will move up and down. Although some investors may not have dealt with this until recently, this one truth is something we need to remember to keep our focus.

No one can accurately predict when the market will move up or down, or by how much. Because we cannot predict or control the market's movements, we need to plan for any possible event by creating a diversified portfolio. Once your investment goals, risk tolerance, and time horizon are all assessed, a portfolio can be designed to meet your investment needs.

It can be difficult to stick with a plan when the market is fluctuating, so here are a few principles to help you in a volatile market:

1. Stay calm. Even though everyone around you may panic, don't let them distract you. If you have second thoughts, remember that you are in it for the long term and that your portfolio is designed to weather ups and downs.

2. Don't make quick changes to your portfolio. Although it may be tempting, it may not be wise to make sudden changes in your investment mix during a market downturn. Many experts will tell you that trying to quickly move your money around in a volatile market is rarely successful.

3. Stay diversified. If we worked together to develop your portfolio, then we diversified your investments to help keep you balanced from the brunt of market volatility. A benefit of diversification is that when the market falls in one area, your other investments are structured to help offset the loss with their own gains.

Hopefully, these will help you as you encounter stock market volatility.

Your Retirement Is Your Responsibility

Do you know how you will pay for your retirement? Company-sponsored defined benefit plans are on the decrease; and Social Security, at a minimum, is likely to become less generous. In order to make sure you will enjoy a comfortable retirement, you must take responsibility for saving for that retirement. Your chances of saving enough improve dramatically if you:

1. Start saving now. It is far better to begin saving small amounts now than to wait a few years to begin saving. Saving a little when you are young can contribute more to your long-term nest egg than saving a lot when you are older.

2. Carefully consider where to invest your savings. It is important to review your investment options, using appropriate alternatives considering the long-term nature of your savings. Even small differences in rates of return can have a significant impact on the ultimate size of your nest egg.

3. Use tax-deferred savings vehicles. Contributions to 401(k) plans, simplified employee pension (SEP) plans, Keogh plans, and some individual retirement accounts are tax-deferred from current income taxes, and earnings accumulate tax-deferred until withdrawn. These tax benefits can provide a significant boost to your retirement savings.

4. Once you set aside money for retirement, don't use it for any other purpose. Raiding your nest egg now will only make it more difficult to meet your future retirement needs.

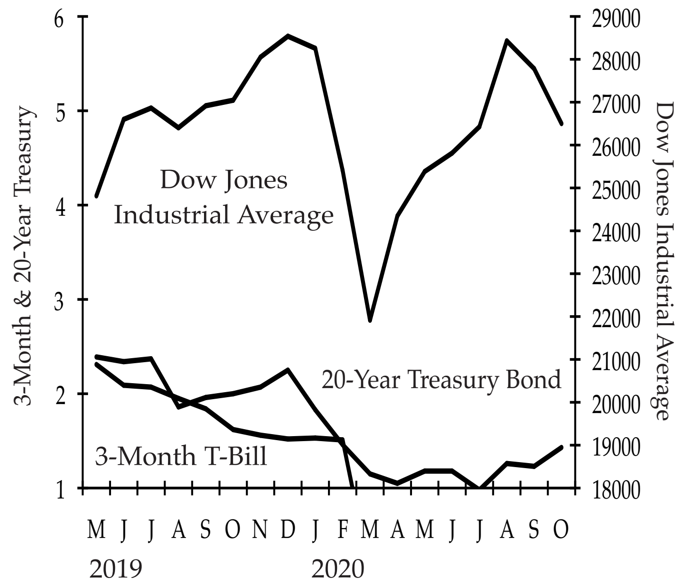
Business Data

	Month-end				
Indicator	**Aug-20**	**Sep-20**	**Oct-20**	**Dec-19**	**Oct-19**
Prime rate	3.25	3.25	3.25	4.75	4.75
3-month T-bill yield	0.10	0.10	0.10	1.52	1.62
10-year T-note yield	0.72	0.69	0.88	1.92	1.69
20-year T-bond yield	1.26	1.23	1.43	2.25	2.00
Dow Jones Corp.	2.22	2.17	2.23	2.84	2.90
GDP (adj. annual rate)#	-5.00	-31.40	+33.10	+2.10	+2.10

	Month-end			% Change	
Indicator	**Aug-20**	**Sep-20**	**Oct-20**	**YTD**	**12 Mon**
Dow Jones Industrials	28430.05	27781.70	26501.60	-7.1%	-2.0%
Standard & Poor's 500	3500.31	3363.00	3269.96	1.2%	7.7%
Nasdaq Composite	11775.46	11167.51	10911.59	21.6%	31.6%
Gold	1970.00	1886.90	1881.85	23.6%	24.5%
Unemployment rate@	10.20	8.40	7.90	125.7%	125.7%
Consumer price index@	259.10	259.92	260.28	1.2%	1.4%

— 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
May 2019 to October 2020



"You Can't Take It With You"™

While the election is being challenged in several states, Joe Biden probably will be elected President; but, despite runoffs, the Republicans probably will retain control of the Senate. What are you doing with your life's resources, gifts, talents, and abilities? AAPPT, LLC provides assistance in the *accumulation, protection, preservation, and transfer* of the assets that you require to meet material needs and achieve your financial goals. I provide independent financial advice and consultation to help professionals, business owners, and retirees integrate estate planning of valuable financial assets with legacy planning that expresses values, wishes, and intent, all from a moderate/conservative prospective. I am also a CPA and attorney licensed in the state of Georgia.

I'd like to help you get what you want for yourself, spouse, children, grandchildren, your church, maybe your charity, and not Uncle Sam. Is everything working together? Retirement plans, investments, wills, trusts, insurance, etc. Are your investments properly diversified and within your risk tolerance level? Is your investment return appropriate for your risk level? Is your marginal income tax rate included in your analysis? How are you protecting your hard-earned assets?

How can you protect and preserve your wealth and legacy? One answer is by utilizing trusts and balancing control (the terms of your trust, your trustee selection, and successor sequence) with flexibility and cost. Trusts can be revocable, irrevocable, contingent, or testamentary and involve securities, real estate, life insurance, retirement plan/IRA (Traditional or Roth) with disability, asset/ creditor protection (spendthrift), educational, income- and estate-tax reduction, second marriage issues, attempted value incentives, special needs, generation skipping, and dynasty provisions. Trusts are utilized for *assets* to be *accumulated, protected, preserved, and transferred.* (AAPPT, LLC).

What financial, social, emotional, and spiritual values are you trying to pass to your lineal descendants? Incentives that can be utilized in your estate planning/trusts include: Family Nobel Prize, Holy Land Trip, Marriage (encouraging length of), Matching Earned Income, Ministry, Post-Secondary Education, Stay-at-Home Parent, Teaching as a Profession, and Working (maintaining a job).

A legacy plan communicates more than financial details — it expresses your values, final wishes, and the life lessons you want to pass along. It conveys knowledge that may make things smoother for your heirs and your company at a time of grief and crisis. It imparts wisdom that your successor may use to guide inherited assets in the future so that these assets might endure for more than a generation.

AAPPT, LLC is Your Wealth/Legacy Planner/Practitioner™. To unsubscribe to this newsletter, please e-mail your request to **jcory@aptjac.com.**