

THE Retirement Report

Retirement Transition Planning

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Family Wealth Transfer Opportunities Spawned By Covid

Whether you're a grantor or beneficiary of a taxable estate, current conditions require attention. Stock market volatility and drops in real estate values in cities, two financial side-effects of the Covid pandemic, create considerable opportunities to transfer family holdings to the next generation.

in stocks or real estate for three years and any appreciation would not be subject to estate tax.

This is a simplification of the tactic. In real life, it generally involves creating a trust to protect the assets loaned from the possibility of a legal claim, just in case a beneficiary gets divorced, targeted in a lawsuit by



The minimum interest rate on intrafamily loans, which is set by the IRS, was only 18 basis points — that's 18 one-hundredths of 1% — in June 2020. That would allow a grandparent to loan \$1 million, \$10-million, or more, to a child or grandchild for up to three years and the only money grandpa would be required to count as income is the loan interest of \$180 annually. Meanwhile, the loan amount could be

business creditors, or in the event someone slips and falls on your property.

With the presidential election and Covid, between now and the end of 2020, the stock market may be volatile. A one-day plunge of 7% occurred earlier in the Covid bear-market recovery. If a big drop like that occurs

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It's The After-Tax Outcome That Matters

It's often said that death and taxes are both inevitable! Sadly, over the years we've seen many investors strangely disregard the tax consequences of their investing and spending decisions. Taking lump sum withdrawals from their IRAs is one egregious example.

Beyond income tax, there's another big tax that might affect our older clients: estate tax(es). If we are planning on leaving our homes and portfolios to our children, ignoring this one can be spectacularly costly. Some of our current articles address this.

Besides the IRS, Massachusetts has its own estate tax on any estate over a million dollars. Many of our clients will find themselves there, just counting their homes and IRAs. The easy answer is to move to another state, like New Hampshire or Florida.

However, loopholes exist for the transfer of wealth to heirs without moving. The easiest is to just give \$15,000 a year to each child. So, if our IRA distributions exceed our needs, we should consider transfers to our heirs. To be smart about it, we should fund a trust we set up for them as beneficiaries. This protects them from divorce settlements and lawsuits, and even their own worst youthful decisions.

There are other techniques to move assets past estate taxes, all facilitated by trusts. Not planning for this can saddle our heirs with very large tax bills. Beyond the usual will, revocable trust, and power of attorney, estate plans can be used to dramatically reduce or even eliminate these taxes.

Stay Well,

Ric and Trang

Confronting Mortality's Details

The Covid pandemic is causing families unimaginable suffering, worry, and grief. It is forcing many individuals to confront mortality, to consider, in very real terms, perhaps for the first time, what will happen when their life comes to an end. Here, in less than 300 words, are key facts about documents that govern what happens to you at the end of your life.

A health care proxy and living will name someone to make medical decisions if you're unable to express your wishes and contain instructions about end-of-life care. This is understandably top-of-mind for a lot of people now.

A durable power of attorney (POA) permits someone else to manage financial and other matters while you're alive. The POA empowers someone you appoint to pay bills, write checks, or sell and purchase assets on your behalf should you become incapacitated.

Your last will and testament provides the details which take effect at your death for distributing your property. It should be reviewed annually so that the trustee, executor, and guardians of minor children you have appointed still conform to your current wishes. It's best to speak with whomever you're appointing about

your wishes so that they're aware of your intentions.

A revocable trust can also provide for the disposition of your property after you die while avoiding the probate court process. Because courts across the country were shuttered for a time, they must now deal with a surge in filings due to the pandemic. In times like these, it's advantageous to have a revocable trust to avoid probate court delays. Setting up a revocable trust requires changing the titling of bank and brokerage accounts, real estate, and other assets, and may require signing documents with a witness or notary present, which is now

complicated due to social distancing. Fortunately, remote signings can be properly executed via online meeting such as Zoom.

Finally, and most importantly, you will want to be certain that the beneficiary designations on both your retirement plans and your life insurance policies are up to date, as circumstances change over time. As a financial advisor, creating legal documents is beyond the scope of our work, but we can refer you to experienced professionals who can create these documents so they can be properly integrated into a comprehensive financial planning strategy. ●



How Negative Interest Rates In Germany Limit Pandemic Economic Damage To U.S.

While the coronavirus pandemic has exacted a once-unimaginable toll in human life, its financial cost is cushioned by an unusual confluence of global conditions shielding Americans from a much-worse economic catastrophe.

A country's economic growth is the product of two factors: growth in its labor force and productivity gains. National productivity gains can be altered or enhanced almost immediately by government policy or extraneous factors beyond government control. However, growing the labor force, even if a national policy to have

more children were instituted today, would take 20 years to kick in. That's is the earliest time frame in which children born within the next year will start entering the labor force. To investors, 20 years is an eternity! Thus, a nation's economic growth hinges on an almost permanent axis based on national demographics.

Currently, the working age population in Germany is growing slowly relative to the U.S. This led the German central bank to lower interest rates to stimulate economic activity. Lending rates have been lowered so much that long-term German bonds are priced to trade at yields below zero.

This means that bondholders of German government bonds are paying the government to keep their money!

Because bonds are traded worldwide and Germany is the second-largest supplier of sovereign bonds worldwide, negative rates in Germany have led investors worldwide to buy U.S Treasury bonds instead of lower-yielding German Bunds. That anomaly is causing U.S. long term bonds to rise in price and that in turn has depressed yields on U.S. Treasury debt. As a result, the massive aid packages are costing the U.S. Government next to nothing in terms of interest on the borrowings!

Covid, The Fed & American Exceptionalism

The Coronavirus financial crisis is being compared to the near collapse of the global financial system in 2008 and The Great Depression from 1929 to 1939, but there is one big difference this time: The Fed. The Federal Reserve Bank is using innovative new tools to contain the financial damage of the Coronavirus epidemic.

crises, repeatedly deployed a technique called quantitative easing (QE). QE expanded the Fed's balance sheet to buy back U.S. Government bonds on the open market, thus, lowering long-term interest rates.

Never before had the tactic been used by a central bank in a major economy. It worked, however, and QE was one of the reasons the U.S emerged

Under the \$2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted March 27, 2020, the U.S. Government allocated \$454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thus enabling it to lend up to \$4.54 trillion to companies in financial distress.



In the financial crisis of 2008, the chairman of the Fed at the time, Ben Bernanke, an academic who had spent decades studying previous financial

successfully from The Great Recession of 2008 and 2009. The Fed's present response to the Coronavirus crisis is literally 10 times more powerful.

That sum is reportedly more than all U.S. commercial and industrial loans outstanding at the end of 2019, plus all the new corporate bonds issued during 2019 combined! Although the expansion of the Fed's power has been criticized as a step toward a centrally planned economy, this government action limits the risk of potentially massive corporate bond defaults and corporate bankruptcies.

The U.S. led the worldwide economic

recovery following the global financial crisis of 2008, in part because of the Fed's innovative approach. And now, this most recent display of Yankee ingenuity -- in the form of the Fed's new tools -- is at play once again in fighting the Coronavirus-induced financial crisis.

In these frightening times, the Fed's new toolset is likely to become a mere footnote in history books that will be written about the pandemic in the decades ahead. Ever since Alexander Hamilton established the first U.S. central bank in 1791 to respond to the financial crisis that followed the Revolutionary War, the uniquely American central bank has enabled the progress of civilization through financial crises. The U.S. Government response to the Coronavirus financial crisis is a shining example of what makes America exceptional among the nations of the world. ●



While this may seem academic, it has real world consequences. Anomalous global economic conditions are supporting greater U.S. Government largesse while adding a negligible amount to the long-term

national debt. Negative interest rates in Germany are making it possible for Uncle Sam to bolster funding for the CARES Act, as well as programs like the Paycheck Protection Program, the Supplemental Nutrition Assistance Program (SNAP) for food stamps, the hike to unemployment

insurance compensation payments and other U.S. Federal Government aid.

Conclusion: The U.S. is benefiting from foreign demographic trends in its fight to limit the pandemic's economic damage. ●

Three Easy Ways To Increase Your Chance Of Financial Success

Changing your financial behavior can be an important step in determining your long-term financial success. Here are three simple activities that can help.

Automate. Infrequent interventions, such as budgeting once a year, are less likely to bring success than more automatic actions that occur quarterly or monthly. Enrolling in a salary reduction plan which takes money from each paycheck and goes into your qualified retirement plan illustrates the difference between decisions that require your recurring action versus those that are automated. What else might you automate to increase your savings or make sure you pay your bills? Examples include signing up for a newsletter, webinar series, or class about tax and investment planning. The easier you make it to become educated about a topic you might not otherwise research regularly on your own, the more likely you are to seek out the

knowledge you need to be more fully engaged in learning and find answers to the important questions.

Write it up. Whenever you make a major financial decision, write yourself a note about your decision. By jotting down your analysis at the time you make a decision, you'll create an introspective record that, over the years, will help reveal successes and failures.

avoid sabotaging yourself. The burgeoning social science of behavioral finance can help you learn about your financial personality traits. For example, would you rather receive \$160 today or \$246 in 12 months? How about \$160 today or \$180 in 12 months? Your answer to a series of questions like this can reveal your predisposition toward deferring rewards now in favor of reaping



financial benefits from a long-term plan. Similar questions can guide you in determining how likely you are to tolerate losses in bear markets, whether you are overconfident about your financial decision-making abilities, and offer hints of the types of investments that might work best in a long-term portfolio designed to help you accomplish your

financial goals.

If you would like to talk about other steps you can take to ensure healthy financial behavior, please do not hesitate to contact us. ●

Increase self-awareness. Your financial personality can help or hinder your financial success and you may be entirely unaware of it. Increasing self-awareness can help you

Opportunities Spawnd By Covid

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again between now and the end of 2020, the next big plunge could be an opportune time to consider a loan to children or grandchildren to effectively transfer wealth to the next generation, if you believe stocks will appreciate 1% or more.

Past performance is never a reliable indicator of what your future investment results will be, but it is important to be mindful that the historical annual rate of return on stocks is about 10%. Thus, assuming a return for the next three

years of 1% annually one tenth the historical norm is a very conservative expected return and yet it would still make this tactic a profitable investment.



And if the stock market returns anything like the historical norm, then your heirs are way ahead, because the

gains would not be taxed with the rest of your taxable estate.

For families with real estate holdings in cities where values have declined sharply, the same logic holds true. If you think your real estate will appreciate more than the current applicable federal rate, this is an opportune moment to consider loaning assets within a trust.

The general information above cannot address your individual situation but is intended only to educate families about current tax and financial economic conditions. Legal, tax, or financial advice depends on your specific situation. ●