Audio file

Emily Skyrm - Estate Planning.wpp 1.m4a

Transcript

But we know the drop. we Oh. Don't know the ocean.

Hello and welcome to the New Knowledge podcast. My name is Mark Singer, partner of Newton Advisors, and I'm joined by our managing partner Steve Target. Steve, how are?

We today, good morning.

Mark, it's great to see you. It's great to see you as well. The New Knowledge Podcast will provide meaningful content to our valued advisor community and anyone interested in learning more about sophisticated insurance related topics. Focused on estate planning and executive benefits. Our discussions will deliver unique insights into the people, processes and products that make our industry so critical. Newton one is a national life insurance planning firm delivering customized solutions structured to help clients and their advisors engaged in solving estate planning, wealth transfer, business succession and executive benefits challenges. We are a member of the. Some Financial Group which grants our clients access to the nations elite carriers. And exclusive products available only through our network. Today we have the opportunity to speak with Emily squirm, wealth strategist with PNC Private Bank. Emily, how are we? Today.

I'm great, thanks, Mark. Excited to be.

Here, excited to have you here. You want to tell us a little bit about yourself and the work you do with PNC Private bank?

Absolutely. I work as a wealth strategist for PNC Private bank, assisting clients with their financial and estate planning needs. I serve on a team of five specialized experts from portfolio management to trust services, but where I focus my energies is. Training. I joined PNC in 2010 after graduating from Grove City College and have really grown up in the industry since. I have my CFP designation and I also hold my CLU designation, but happily hand off all insurance related matters to the experts here at Newton one. And I'm just really honored to be here and excited for our topic today.

We're excited to have you.

Here, Emily, thanks for being with us, Emily. And we would back up one of your designations. The CLU, which was earned from the American College, which. Is our what we would consider on the insurance side of the business the the gold standard for designation. So we're proud to have you with us today and certainly enjoy working with you and and with your valued clients. So let's let's start a little bit at at a very high level. Just speaking about a state planning and a state planning can be defined by different people. Different things, but I think we would probably all agree or suggest that that some form of estate planning takes place or should take place with with most families and it's putting together a plan to help identify, at the very least, how do we transfer assets? How do we, how do we transfer? For assets can be things. It can be money, it can be desires to different people or different parties upon death. So talk to us about the the process that you and your team work through with regard to estate planning for your clients.

From my perspective, it doesn't matter whether you have $100,000 or $100 million. A basic estate plan is critical for every and all families. When working with clients, I begin every engagement with the basic goals based discovery process. We help our clients articulate first their personal. Goals. Secondly, their family goals and then their charity and legacy goals in that order as well. Strategist and a financial planner. It's all well and good when the client says that they want to give their children the world in terms of education or a leg up in life. But where we first need to make sure the clients are is taking care of themselves, their basic needs addressing that they can. Handle events in terms of long term care or they can get to retirement and still maintain their lifestyle. The basic standpoint of their cash flow, if they can meet those. It's fantastic. If they can't, then maybe we need to have a conversation level set to help them get better position for a reality. Do they need to tweak their spending now? Asset allocation, let's strategize. The most efficient way to make that a reality. And as we start to have these conversations about what's most important to the clients in terms of their overall goals now. It really leads into that legacy conversation about what happens when I'm gone. Now there's a running joke in my office that I usually kill off every single one of my clients in a meeting. But we really need to have to do these conversations and get to the heart of what does happen when I pass. Where do my assets flow? Do you want your assets to stay in the bloodline or are you comfortable with dollars going to a child's house? Does one of your children have a highly litigious profession where you would have concerns about creditors? Sadly, one of the issues that's becoming more prevalent these days. Is substance abuse. Do you have a child that having a windfall of this kind may help to feed their addict? Then. And often the hardest question. I know that two of you run into this as well is what is fair and what is equitable among my children. And we try to flush out all of these concerns with our clients. To determine the focus of the estate planning objectives even before we're sitting across the table from a drafting attorney.

So that's a that's a great explanation and and a wonderful way to set up the rest of our conversation today. What got us thinking about today's podcast was specifically the. The sun setting of the tax cuts and JOBS Act of 2017, which is going to take place on January 1st, 2026. We know that date is coming. So we we know that something's going to happen. So if we shift our conversation from general estate planning. To a state tax, can you review with us? How is an estate tax determined? I mean, there there's ownership interest, there's certain assets that are considered part of your taxable estate, other assets that may not be considered part of your taxes. Real estate let let's walk through that a little bit and then discuss how some of this may be changing between now and 2026.

Absolutely. And so instant disclosure right off the bat now to CPA. So speaking in generalities, of course, in terms of the taxable ownership, it's really any and all financial assets to which you have direct title could be everything from your home to your 401K that is included in the calculation for your federal estate tax, certain trust depending on their structure can be excluded from the taxable. Ownership. Category. If you have irrevocably gifted or transferred ownership of that asset, and it's beyond what they call the clawback period. Three years and legal pieces there. But it's important to remember that there's also a difference between taxable ownership, which is what we're discussing, and mere taxable income. For example, you might receive income from a trust that was irrevocably. Set up for your benefit and you need to pay income taxes on any income that is paid to you on the regular basis. If you don't have what they call the ability to grant the ownership of that trust beyond your passing or a general power of appointment that's not included in your tax in terms of your federal estate tax bill. So it really just depends on how the trust is set up, whether or not it's included in your overall estate tax. From that perspective, that's getting into the weeds a little bit. In terms of the numbers and we always try to look at things from the perspective that things are always changing, taxes being one of the most.

OK.

OK. And that we're in large not trying to have the tax tail wag the dog, taxes are always a big concern for individuals, whether it's your taxes that we talked about, the income taxes on a regular basis, what happens when I pass, how much is going to go to the federal government or the states when that time comes, we're in a period of. Current. Really inflated federal tax exemptions currently for an individual, it's 12.92 million and nearly 26,000,000 for married filing joint. Well, after sunset, those figures will revert with the cost of living adjustment expected to be for rounding purposes, around 7 million per person. Pretty significant haircut from where we are right now.

7,000,000 versus almost 13 million today. Exactly that is significant and that so that changes the number of families. Of course that potentially could be subjected to estate taxes. Absolutely. Can we talk a little bit about what an estate tax is, what what the percentages are? I mean is it a large number? Is it a small number or do we think that number is going to stay the same? Of course, we're not protecting anything. But you know, we're just having a loose conversation.

It sounds like you're asking me to get my crystal ball out and kind of product the future. I can't do that. Yeah. But I will say getting inside in our industry, we always anticipate and expect that taxes are going to have to rise. We live in a country that is expensive to live in, from maintaining our infrastructure, our military, just the entitlement programs from Medicare and Social Security. There's a lot that our government needs to pay for in order to. Meet the obligations for its citizens. That money needs to come from somewhere. Some of that comes from our income taxes. Every time you get a paycheck, you'll see a nice little deduction goes to the federal government. To your states as well, but from the federal estate tax standpoint, that's another way for the government to get some additional revenue and resources, but they don't want to hurt everyday Americans. So they set some limits as to where that starts. And that's the numbers that we were talking about in the last question when we actually look at the future. Again, very hard to predict. We can only really anticipate that from an incomes tax standpoint, things are going to rise from a federal estate tax standpoint. We know for certainty that on January 1st of 2026, things will what they call sunset go back to where they were before. That's 7 million per person. In relationship to that exemption, going back to where it is right now, a lot of my peers aren't really anticipating that that will. Happen. So let's plan for the here and now you may hear that phrase. You know, use it or lose it pretty frequently. And if we are going to be as prudent as we can and using the figures as we know them, that's when we start to.

M.

To try to be as prudent as we can with our planning techniques for clients.

Good looking forward.

What I hear you're saying is plan for now with the the flexibility to to pivot later. What does what does your team help facilitate in terms of discussing some of the strategies that families can implement to help mitigate some of these state taxes and proposed state tax?

Changes. Yeah. Thanks, mark. And you know it's all getting back to the client goals where we start every single one of our conversations. What do they want to have happen after they? Pass. They may again want to keep assets in bloodline. They may want to support charity. Whatever the case may be, that helps to kind of guide our decisions. But if we're just looking at things from a pure tax standpoint, the lowest hanging fruit to spend your money. Now, if you have enough resources to last your lifestyle, travel around the world, eat those five star restaurants, enjoy the fruits of your labor. Chances are that's not going to get you all the way there. And you know, you might get tired of all of the fancy food and keep being on an airplane or waiting at TSA. So if that ends up being the case, then the next most prudent method tends to be gifting. Gifting can happen in a lot of different ways. There's what they call annual exclusion. Acting. That's a figure that's looked at every year about 17,000 for an individual married filing, married filing joint couple can be 34,000 per individual. So if you're looking to get assets out of your state, that's against the low hanging fruit, you can pay for medical, you can pay for health related expenses directly to the institution also helps to decrease the overall size of your state. But if we're looking bigger, picture and clients are really trying to take advantage of that, use it or lose it aspect. Right now there are some estate planning techniques that we can use a lot of estate freeze techniques that we can use where we really irrevocably do some gifting. Now there's no gift tax due, but you do need to file a gift tax return again, not a CPA. But I would recommend that you work with one. To make sure that you're locking in the gifting that you've done at these higher exemption amounts. And then, like I said, there's a a plethora of ways that you can get into actual strategies as long as it all ties back.

To the clients goals, that makes sense and and we've we've worked together for some time now and and I know you and Steve have worked on a few cases and this is a selfish question, but I don't think you were going to come here and do this podcast without us asking this question. Being a life insurance consulting firm. Where does life insurance fit within the estate planning structure in terms of creating liquidity for such income tax situations or estate tax situations?

Yeah, I'm shocked that you're asking about life insurance as we're sitting here and you're totally shocked and. Obviously life insurance is is a great resource and we look at it as a piece of our clients portfolio in a way that can help them get to where they need to be. For me, as a financial planner, it all comes down to the math. Does the premium outlay make sense for them in order to use life insurance as a means to one fund future estate tax liabilities? Essentially, buying a bucket of funds that they can use to pay that bill. Or help use that life insurance to equalize the estate. One of the cases that that Steve and I did where we had a a family that had a family business where they have certain children there involved in the business and certain children that are not. So when they were looking at their overall estate, obviously the business being such a huge portion of their overall balance sheet, they wanted to be as equitable. And again, equitable and fair, not always the same in every family to their other children. So what is the best way that they can try to equalize the other children who are not involved in the business and quite honestly have no desire to be involved in the? Using life insurance, they used what is called an irrevocable life insurance trust as the chassis for that insurance, and by doing so they purchased a significant policy, put it in this trust so that there's no gift taxes due or anything like that. And when they pass now, the other child that is not involved in the business. Effectively has been equalized from the child that is now a million. Factors could happen in the future. Again that polished off crystal ball. Maybe the business goes to zero, maybe the. Business exponentially grows beyond their wildest dreams in the next 20-30 years that we can't project, but we can at least plan for the here and now and again. Take advantage of those gifting restrictions that we have and the form that we can use is really that local life insurance stress and it's a great way to help equalize.

And of course, kind of table stakes for us, but certainly something that you believe in as well is putting all the professionals in the room together. Have everyone sitting at the table strategize. Go back and forth. We are in the life insurance business, but the reality. Because, you know, we've got, as you mentioned, the numbers have to work. So there's a lot of strategies and a lot of ways to mitigate some of these estate taxes that don't involve life insurance. But if we get to the end of the process there and the numbers work and it seems to make sense and we think it can be a, a pretty wonderful vehicle. We're sitting here in Delaware today.

Hmm.

We are.

I think a beautiful, sunny Delaware. I think it would be surprising if we didn't bring up some of the advantages that Delaware trust or other Delaware tax planning may hold for some of our clients. So let let's talk a little bit about that. Have you seen that as an opportunity?

Youthful, sunny Delaware. Absolutely. So Delaware itself, you know, we usually just see it as that that sales tax haven people come come across the border and go to Christiana Mall. Or anywhere and buy things without sales tax. But there are a lot of estate planning benefits, not just shopping benefits in Delaware and a few different trust structures that are, I would say, more unique to Delaware than they are in other states. I would have said only unique to Delaware, but certain states have changed some of their. State laws to be a little bit more favorable than they used to be, but they're still, I would say, several decades away from the support that we have. We have in terms of Delaware here two of the most popular trusts that we hear about are the Delaware Asset Protection Trust or APT. As you'll commonly see it, which for individuals that are in these highly litigious professions, doctors, lawyers, etc. Where they're concerned about being sued malpractice, whatever the case may be, they can use their wrapper of a Delaware asset protection. Less and there's a holding period for years. They need to meet some certain obligations, but if? To do there is never a time where a creditor can attach themselves to the assets, and they would have to pay out those funds. So that's a huge attraction for a lot of professions. Now there are some that are government can always come after you for taxes, childcare, excuse me, spousal support and child support payments. So those types of things, there's no protection. And nor should there be. But everything else creditor can't attach themselves to, there's also, obviously the the Delaware. What we would say like more of a dynasty trust, where a lot of states have laws that I trust, can only exist for a certain period of time. The law of perpetuities if you've ever heard that thrown around Delaware. Throws that to the wind and we have what are called these dynasty trust, where you can have a trust that exists beyond all the lives that are in being at the time of its creation, meaning that families can continue their wealth for multiple generations. So that's again a really unique component of Delaware and going to get a little bit nerdy on you. But one of the things that also is pretty unique to Delaware. Is our court system. So we have the Chancery courts that are here unique to Delaware, that focus solely on the team trust and Estates business. And when you're specifically in trust in states, they have the ability to have judges and clerks and staff that understand that business so much better than other jurisdictions where they're tied in with all of the other civil cases that may come across across the docket. So if you need to make a change to a trust, you can file a non judicial settlement agreement and in JSA. Much faster than you could potentially in a different jurisdiction.

Steve and I love nerdy, so please keep keep nerding out so we understand that we are a very small piece of the overall estate plan when it when it comes to to partnering with individuals such as yourself and. PNC as well as the estate planning attorney and and CPA's, but is there anything else that your team helps facilitate and implementing any any forms or any other strategies outside of life insurance in terms of family LLC's Grats donor advised funds? Are there any other strategies you'd like to share with us that your? Team can be a resource for.

Absolutely. And as I've said, it all comes back to the clients goals. But here's where we're going getting into the alphabet soup so. There are many, many different ways that we can help clients to achieve their goals, but it really depends on what they're trying to accomplish. So if you have a client that has a family business as we talked about, you could use what's called an intentionally defective grantor trust. A way that you can help to gift some of the appreciation out of the estate for the individual, which is a great way to help build. That legacy, coupled with the life insurance, it's kind of a A once you punch to really help. Reduce that federal estate tax liability or take advantage of it as we have right now and still get our clients from where they need to be. If you have clients that are charitably and client, you could have either a charitable remainder trust or a charitable lead trust that allows them to benefit an individual loved one family member, friend, whatever the case may be and get the benefit. Of a federal estate tax exemption for the charitable component of the. Trust a really, really big advantage for folks that do you have that dual purpose goal that they're trying to accomplish? I would say the other big piece that we're seeing a lot of these days, you may hear the term slat thrown around and I will say it's slat, not slap because it is a spousal trust. So I want to make sure that we're pretty. Clear on that. So it's a spousal lifetime access trust where you're effectively still allowed to have the other spouse have access to those funds for meeting their obligations, paying their bills, mortgage, whatever the case may. But you've effectively taken that out of your estate for federal exemption purposes. So for clients that are married, happy couple and they have maybe 2022 million and they're looking to lock in that exemption amount because they know it's gonna go down to 14 pretty quickly for the two of them, they're able to use a slap. In order to reduce some of that federal exemption amount.

Great information, truly a wealth of knowledge here, Emily. And it's been a blast speaking with you today. Is there anything else you'd like to add, or is there anything else we missed? Or we we close our segment here?

No, I just again I know thanks for having me and I encourage all of our partners and listeners just to always take a step back and consider what your goals are and it's not always again, just tax is leading the way. Make sure whatever you do, you're looking at your goals first.

Thank you so much, Emily. Thanks, Emily.

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