Please note: This is a transcription so there may be slight grammatical errors.

Christina:

Hello, everyone and welcome to today's webinar, Ways to Strengthen Your Estate Plan, and I would now like to introduce Nick DeCenso, Director of Wealth Planning and Solutions at CAPTRUST.

Nick DeCenso:

Good afternoon everyone, and welcome to our CAPTRUST quarterly wealth webinar. Delighted you are here. I'm joined by my colleague Mike Vogelzang, who is our Chief Investment Officer. So Mike, great to see you and welcome.

Mike Vogelzang:

Hey, Nick, how are you?

Nick DeCenso:

Doing well. So today, we're going to kick off our webinar with Mike to get his latest viewpoints on the markets and the economy, and then we'll pivot to a topic that I'm really looking forward to, which centers around ways to strengthen your estate plan. We have a wonderful panel of experts that I'm excited to introduce you to later on. So Mike, as always, great quarterly market update video. Thank you for that. We're almost mid-May here and this year feels a bit less eventful than last year. Markets have rebounded some, but I get the sense that maybe all is not well. You talk about this tug of war between the Fed and the labor markets versus the capital markets. I heard it in the video. I've heard you talk about the tug of war and other venues as well. So what's the latest that you and your team are looking at or thinking about?

Mike Vogelzang:

Yeah, I mean, that video was filmed about six weeks ago or so, and since then, we've had another bank failure and the Fed has taken over another. The banking crisis seems to have been ring-fenced. I'm not sure resolved is the right word. But I think the biggest and most important challenges the Feds had to face there have sort of quieted down, that's helpful. But I think it's a good example of what's churning under the surface here. That's the really remarkable part about what we see. The big picture, we often talk about bluff at CAPTRUST, and in our group we bluff stands for bottom line up front. And the bottom line-up front, this is kind of what life is like with higher interest rates in a shrinking money supply. The money supply is this terrible thing that you probably slept through during economic class, an undergraduate degree. But at the end of the day, it's a really powerful lubricant for financial assets, which is what we're talking about mostly when we're dealing with stocks and bonds and so on.

And for 15 or so years, the money supply had been growing very nicely. So there's plenty of liquidity. There wasn't any inflation risk until post-COVID. And as a result, the Fed could keep the money supply fairly high. We've now had a big bubble upwards in during COVID as all the stimulus hit the money supply, and now that's being drained out of the system. And this is kind of what life feels like when you have negative 5, negative 7% money supply growth or shrinkage in this case. You've got typical markets, you have an upside down yield curve that is inverted yield curve where short rates are higher than long rates. You have weaker housing, you have companies struggling to grow their earnings, you have failed banks. You have all of these things going on as the Federal Reserve pulls on that rope, trying to slow the economy down, trying to stop the economy from generating such high levels of growth that it continues to push inflation.

We've talked about inflation for over a year now. I think the tug of war piece is that while the Fed's trying to control inflation by slowing the economy down, they're failing miserably with labor. Labor continues to be an incredibly strong, powerful force in the economy and it's keeping spending going. I travel a lot, I'm on the airplanes a lot, and my goodness, you can't get a seat on a plane today. Trying to find a seat at a restaurant, I mean, it's very difficult. There's plenty of travel, there's plenty of entertainment, there's services going on. It doesn't feel like a recession. Yet, when you look under the cover, there are some very significant weaknesses that's happening. So we've got this sort of bifurcated thing, I think I said this at our last wealth seminar. I'll say it again, never before have the yield curve been this inverted. Short rates are higher than long rates, and we've not had a recession, hand number one. Hand number two is we've never had a recession with the unemployment rate this low.

So which of those immovable forces that we haven't seen before are going to win the day? And that's kind of what the markets are betting on. That's the discounting mechanism that we're seeing in the markets. So the way we sort of see this is that the expected path forward is probably going to be bumpy, but relatively uneventful. We've seen this now for about three or four months other than the bank failures, the market's been fairly uneventful. We see a very odd market, I can talk about that later if there's questions about why the market's up 7 or 8% and yet the average stock is basically flat. Very odd market, we haven't seen that for a long time. What's going on there? That's again part of the survey of the scene today. There's all these weird aspects of this tight money supply. So the way we see this is that yes, all of the risks to the economy are very clear, okay?

Wouldn't surprise everyone, in fact, everyone's been predicting this recession now for at least six months. It hasn't shown up yet. What it's done is its driven investor behavior so that investor portfolios across the board are positioned about as conservatively as they've ever been. So you have a relatively decent market, an economy that's growing with labor, but struggling with the industry, with supply chain, with industrial production, all kinds of other things are sort of point housing, all of point sort of pointing south. And so, all of the investor class are positioned conservatively. We have a 10% underway to our equity positions. But for example, hedge funds have the lowest net long position in history. That is, they're least exposed to the market in history. That's a huge source of capital that can go back into market. Again, people in portfolios like ours are very conservatively positioned.

If you look at sector weights in equity portfolios, they're all in. The big weights are staples and healthcare and utilities, all this sort of conservative stuff. And of course, super large cap tech, which is sort of almost its own asset class at this point. So again, we have this sort of bifurcation, you have everyone expecting in a recession. Portfolios are built and positioned for a market downdraft, and yet we had three bank failures and the market didn't go down. What's going on? I can't believe that I just said those words. We had bank failures. The Federal Reserve had to step in and create special ways to save the banking system and the stock market didn't fall. That's unbelievably strange. And so, that's this tug of war. We have everyone's position negatively, so set another way. People who've wanted to sell have already sold.

So you throw all this stuff into the mix, you throw it into the cookie jar and you mix it all up. And where we come out is it makes some sense to be conservative. We would expect that the market will bump around X any significant inflation shocks or any significant economic shocks. We expect a market to hang around here until this dilemma, this tug of war is resolved. It could take the end of the year where we get markets up 8%, 9% up down another four or five, 6% sort of back to flat sort of bouncing around the rest of the year, interest rates kind of hanging around where they are. Because so many people are waiting for the negative thing to happen that it really won't happen.

Markets go down when they're surprised, and right now we're not. There's really nothing surprising about potential negative market impacts. So long-winded answer, but it's a fascinating and a really fun time to be studying the market because there's such odd things happening. We have, again, these recessionary things are happening every day. You see them, they're so obvious, and yet the labor market's staying very strong. So how that shakes out will be a fascinating end and we'll see. We'll probably know a lot more within six months.

Nick DeCenso:

Mike, you mentioned the regional bank failures and never have we ever had so many questions about FDIC insurance. Your team did a lot of work around that, so it's been just a couple of minutes there. I mean, that was big and that cash is not something that we're used to having to worry about.

Mike Vogelzang:

So FDIC insurance was put in a long time ago, and for those who may need a refresher, the FDIC insurers bank deposits up to $250,000 per client. So the problem is there's no way a large industrial company or any kind of large company can run their business on only $250,000. They're wiring millions and millions of payrolls every day. They need bigger bank deposits. We've now bifurcated the banking system and those that are too big to fail because the government has made them systemically important, and they're effectively guaranteed. And that's half a dozen or a dozen banks. All these regional banks don't have that same guarantee, and that's where the trouble lies. And so, I think what's happened in the last three failures is that effectively, the government has declared some emergency powers to guarantee those deposits in a way.

There's now calls to guarantee all deposits in all banks. Well, that would be an enormously expensive proposition. We'll see where that goes. But it appears that at the moment, certainly the confidence in the large banks, some we're talking JP Morgan, Bank of America, Citibank, Goldman Sachs, so on have been safe. People see them safe. There's been no bank runs there. It's been the regional banks that have been playing out this sort of bank run environment or scenario. There are things that seems to have calmed down, some of the emergency borrowing from the Federal Reserve is down, seems like it's, again, calming down a little bit. People are regaining confidence in the banking system, which is very important. One of the big knock on effects of the banking crisis is that banks are already not terribly willing to lend because they see the same problem in housing and in business.

This banking crisis will make them even less likely to land. And something called the SLO survey, the senior loan officer survey, lovely name shows that. And the problem is that leads the economy by about six months, and we've seen a higher percentage of bank loan officers who are saying, we're making it more difficult to borrow, and that's going to also chill the economy. So it's another thumb on the scale of the side of the Federal Reserve trying to slow the economy down. So there's lots of various things in the mix. It's complicated. It's hard to keep them all straight. Again, I circle back to the bluff, the bottom line is up front. This is what life is like with higher interest rates and a shrinking money supply.

I graduated college in 1983. Nick, I know way before you were in high school or college and probably still in diapers, but when I graduated in 83, interest rates were 12%. My first mortgage was 12 and three quarters, and we've been in a down cycle for inflation and interest rates ever since almost. There's a couple of periods where interest rates went up, but they went from 12 and three quarters all the way down to under 1%. Now they're back to about 4%. This is the first time that's happened and most investors who are still in the marketplace don't have the experience with higher interest rates. So that's a whole nother challenge that we're facing with higher interest rates and a shrinking money supply.

Mike Vogelzang:

... that we're facing with higher interest rates and a shrinking money supply.

Nick DeCenso:

Yeah, 4% feels high to a whole generation, doesn't it?

Mike Vogelzang:

It's unbelievably cheap when you look at the longterm picture.

Nick DeCenso:

Exactly right. Well, hey, Mike, thank you so much. Really appreciate-

Mike Vogelzang:

Sure.

Nick DeCenso:

... all your communications with our clients. We may have some Q&A later on with you, so thank you again.

Mike Vogelzang:

I'll be here. Thanks.

Nick DeCenso:

All right. So let's go ahead and bring up our panelists from our virtual green room. Hi there, Christina, good to see you, and Elie, and Brandy is joining us, as well. Awesome. Welcome. So Brandy and Christine are both principals and financial advisors at Captrust. Most importantly, they are financial planners and work with all of their clients on estate planning. Elie is an estate planning attorney with Wyrick Robbins, 18 years experience. She had a couple of great one-liners in our prep session, so we may hear those again today.

I'm really excited to hear from these experts. So let's jump in. We can keep this conversational and, while we'll have several queued up questions for our panelists to address, we'll monitor your questions and hopefully get to them, as well. All right, Elie, thanks again for joining us. Let's start at the beginning here. You meet with clients all the time. They're just getting started with their estate plans. What do you start with and what are the types of documents that you ultimately look to put in place for clients?

Mike Vogelzang:

Yeah, thank you, and thank you for having me this evening. I'm happy to be here. When I meet with clients, we start the same place, no matter if it's $100,000 net worth or a $100 million net worth. There's certain documents that everybody needs to have.

And I start with them. There's two that operate primarily after you're gone and then there's three that operate primarily during your lifetime. And so the ones that operate after you're gone are your will. That's where you're going to name your executor. That's the person who's going to gather your assets and pay your final bills and just close everything out for you. If you have minor children, that's where you're going to name the guardian. Your will can dispose of your assets or it could work in conjunction with a separate document, a revocable trust, sometimes called a living trust. Those two terms are used interchangeably. And in that case, the will would just say, "I leave everything to my trust." So that's where we start with clients.

A revocable trust is a separate document. There's three main reasons we use them. One is it's a privacy concern for some clients. At least in North Carolina, and I think in just about every state, when you pass away, a will becomes a matter of public record, anybody can go pull it that wants to and look at it, and irrevocable trust is not. It's a private document and nobody sees what those terms are in the trust.

We use revocable trusts quite a bit when we're doing estate tax planning to have those estate tax provisions in there and then we use a revocable trust for probate avoidance so that the trust can own assets rather than an individual owning assets and having those assets go through probate. In the trust, that's where you name your trustee. If you have a trust for kids under a will, that's where you name your trustee and, really, the trustee is the gatekeeper. The trustee is the one that's going to say no to the 16 year old that wants a Lamborghini. So there's some considerations there when you're thinking about who you're going to name.

And then I mentioned a few documents that you should have that operate during your lifetime. One is your healthcare power of attorney. That just names somebody to make healthcare decisions for you. And oftentimes, we'll include the living will provisions in the healthcare power of attorney where you can give your healthcare agent instructions about what you would want to happen end of life. And it's not a fun conversation, but I tell clients, "Have a glass of wine, talk it over, but you need to talk it over. You need to have these kinds of conversations with your family members so that they know and so that they're comforted when and if they have to make those types of decisions."

Another document we have is a durable general power of attorney. That one's for finances. It'll name somebody, really, to do anything with your money you could do with your money. And so when we're talking about who's going to fill those roles, I tell clients, "You need to be selfish. Don't worry about hurting feelings. Pick the folks who are going to be the best decision makers for you. You may have one child who is empathetic, who you know would make a good decision for you healthcare wise, but maybe they're just not great with money. Don't feel pressured to name them. Name somebody else as your agent to handle your finances."

And then the last document we always do for clients is just a HIPAA form, just to try to avoid some red tape if we can so that, when the folks you've named in your healthcare documents need to make healthcare decisions for you, there's no problem with them accessing your medical records and talking to your physicians. So those are the five documents that, again, everybody should have. I think, when we were talking before, Nick, in a prep and I mentioned there the adulting documents, that's what I tell clients, that, "We're all adults now and these are just the documents we need to have in place."

Nick DeCenso:

The basic adulting documents. Love that. And look, we meet with new clients all the time that may not have that or may not have them all. So Christina, anything to add around the basics of estate planning as you work with your clients?

Christina:

Yes. And good to see you. Elie, that was an incredible overview. Thank you. A couple that we get to see often, because they are the living documents, are the power of attorneys. And some things that we've noticed that I'll highlight is it's awesome when a family has a lot of people that they want to name. They've got lots of people that care about them, it's a great situation to be in, and sometimes they want to name multiple people to make healthcare decisions or financial.

And what we have found that, if you narrow that down to one for financial and one for healthcare, and maybe they're different people that have different skillsets, that that tends to make things go smoother, and then have a successor. So having those current, someone you trust, and having them current, and having them somewhere where someone can find when that time comes that you need to use them.

Also, on the power of attorney subject, we often see families grow up. And when minor children become adult children, they sometimes go off to college, they move away, and having a power of attorney for them so that a parent or a loved one can step in in case of an emergency is a good practice on the power of attorneys.

Nick DeCenso:

Yeah, that's great. A lot of picking and choosing of people in certain roles. Brandy, how about you? How does this play out for you and your clients?

Brandy:

Well, what I like to share with clients is, when they die, they're going to pass assets one of three ways. They're going to pass according to what their wills say or their trust documents say. Are they going to pass based on titling? So most people have their home's title joint with right of survivorship. And the third way is by contract. And so if you have a retirement account, a life insurance policy, those beneficiary designations are considered a contract. So it's very important to understand how your assets are titled, to understand what assets you have that do have a beneficiary designation, and what those designations are.

And so one of the things that we work with our clients closely is to make sure that we provide that good information to their estate attorney so that their estate attorney can do their best work for them. While they may have a general understanding of, "Oh, I've got a net worth of around #3 million," and they can tell their estate attorney that, it's very important to get specific on exactly how those assets are owned and what those beneficiary designations are. So that's something that I think is often overlooked. Even if you have those documents, just make sure that they're coordinated with the actual assets that you have.

Nick DeCenso:

Yeah. Great points, Brandy. Okay. We have the basics down now, or this is a good start. We've taken Elie's advice and we've implemented some documents. This morning, I found a Robert Frost quote for what comes next, and it goes like this, "The afternoon knows what the morning never suspected." I like that a lot. "The afternoon knows what the morning never suspected." And the point is things change, and sometimes very abruptly, and you can't foresee them. So Brandy, let's go back to you. As you work with clients that already have estate plans in place, we've got the basics down. What do you focus on with them moving forward? What are some of the things that might get overlooked as these life changes occur?

Brandy:

One thing that sometimes will pop up is people will have their estate documents in place, they feel good about them, a few years have passed, and maybe they've purchased a vacation property in another state, and then they just put that in their name. Well, then you may be in a situation of having probate in that other state. So I think that's just a little something that, if you've done, it's probably time to do a check-in with your state attorney to see if you want to maybe title that property in a different way, maybe place that in your revocable trust. So just that can pop up on you and create a little bit of issue at your death if you haven't done that.

The other thing I'll see is people will do their plans and, look, it's not fun to do your estate plan. I know that the people on this panel think about people dying all the time and how are we going to make plans, and we get a little callous about it, perhaps. So nobody really likes to go through this exercise. So it's easy to feel like you've done that and time passes so quickly and you look up and it's been seven, eight, 10 years. And so it's something that you need to dust off and take a look at. And I'd love for Elie to comment on how often she thinks we should take a look at those estate plans and provide updates.

Mike Vogelzang:

Yeah. So I tell my clients every few years, at a minimum, that's if I know that I'm relying on the client to take the initiative. If I'm working on a team and I've got advisors, for example, advisors from Captrust, I know I'm not going to have to worry about it too much because that's part of your financial, meaning your financial checklist every year. And that makes me feel better. But I tell clients every couple years and, of course, anytime there's a family change, a birth, death, inheritance, anything like that. And a lot of people, in fact, I got an email last week from a client, they had pulled out their documents and reviewed their guardian provisions, and they named a couple, and it's not a workable situation. And I'm sure it hadn't been a workable situation for awhile now and they just happened to look at it and see and email me and said, "We've got to change this ASAP."

So it's things like that. Time goes by, you forget who you've named. It's a good idea to pull it out and just take a look and make sure that the folks that you thought of seven years ago that would be a good fit, make sure that they're still a good fit. And those types of changes are pretty straightforward. Clients, I understand they don't want to talk to a lawyer, I understand they don't want to be billed by a lawyer, but most of the times, when you're working with your counsel and email to them, we'll fix that issue pretty quickly and efficiently.

Nick DeCenso:

Yeah. Thanks, Elie. So Christina, how about you? You deal with some affluent families. Christina's in Texas and I know has clients all over, but how does this play out for your client base, which may be a little bit different than Elie, Brandy, and me in North Carolina?

Christina:

Yeah. Well, the terms of being things overlooked, working with an estate planning attorney, like Brandy was saying, is a really big deal. You have some tough conversations, make some decisions, go through all this effort, and have this plan in place. And it's really helpful when all of that is in one place where your loved ones can find it. Sometimes things are online, nobody's not sure where they are. Sometimes it's in a safe deposit box and can't get to on short notice. And it's already a stressful situation when somebody is ill or there's a loss and just having those things together in one place, access to power of attorneys, will, final wishes, passwords, statements, things like that, it makes it so much easier. And of course, working with an advisor, the advisor's going to have a lot of that information already and be able to quarterback a lot of that, but it just goes so much more smoothly at ...

Christina:

Ready and be able to quarterback a lot of that, but it just goes so much more smoothly. It makes that stressful time less stressful when that part is thought about.

Mike Vogelzang:

I agree. You got to think about where you keep these documents. I advise clients often don't put them in a safe deposit box. Especially a power of attorney, a healthcare power of attorney, we may need that on a weekend and we can't get there. And the folks that you've named in the document, it's a circle, at least in North Carolina, your executor has access to your safe deposit box. But we don't know who your executor is until we get into the box and get the will. Then we've got to pay somebody to come drill it and the sheriff has to be there. It's a mess.

So I tell clients just keep them somewhere safe, in a safe in your house where somebody can find them. Mine are in a notebook. I've told my husband 15 times where they are. I bet he couldn't find them today if he tried, but at least I've tried it. I had one client that told me that she was going to keep them in her freezer, and I've said, "Okay." And I made a note of that so that when her children call me and say, "We can't find the will," I can pull the file up and then say, "Mom said she was going to keep it in the freezer." But just tell somebody where they are.

Nick DeCenso:

Brandy, were you going to jump in there?

Brandy:

There's a couple things there. One is reviewing it and look at a few years because children grow up and they become adults and then... As Ellie was speaking about having guardians. At some point, you no longer need guardians, and then maybe it's time to take a look and see who's serving in those key roles and maybe it becomes your children. And who better to serve in some of those places? So I think that's another reason to keep it updated for sure.

Also, I would just say that Ellie made the comment, "The children are going to call her." I often will meet with my client's children. We will have a family meeting with the children there and just talk about... Sometimes they just want to introduce me and say, "If something happens, I'd like for you to call Brandy." So you may want to consider just introducing your advisor to your children or at least making sure they know who to call in the event that something should happen. Sometimes those meetings include all of the detail of the assets, and what the estate plan says, and what's going to happen. Some people are not comfortable with that at all, so those details are not included. So that meeting can look any way that you would like, but it certainly gives those children a face with the name and it makes it more real if when something does happen, they know who to call and it's not a completely cold relationship.

Nick DeCenso:

That's great. One final topic here. We got a lot of questions queuing up, which is great, but I want to hit one final topic that I haven't heard addressed, which is life insurance. I guess, ultimately, what role does that play in estate planning? It feels important, but maybe not everyone needs it all the time in their life. So, Brandy, you want to lead us off there?

Brandy:

It is. Just make sure that the person has the correct type of insurance. Speaking very broadly, there's two general types of life insurance. There's term insurance, which most people are probably familiar with which lasts for a specific period of time. And then there's maybe what's considered or called cash value or whole life insurance that is designed and can last no matter at what age you die. So if you live to 105, if the policy is structured correctly, then it's going to pay no matter when you pass away. So the first thing that's important is just to understand, "What is my life insurance need? Do I have one? And if I do, what is the appropriate type of insurance?" Oftentimes, clients will already have policies in place, and so then the role is to determine are these policies the appropriate policies for my clients based on what they need?

I'll just say a little bit more about that. If you are in your 30s and 40s and you're working and you are primary breadwinner, then it's important to ensure the risk of that income stream stopping early, prior to retirement, prior to the plan. You want to ensure it gets the risk of that income stream going away. So that's the most common. Oftentimes, if that is just the need, a term policy will take care of that. So if they plan to work for 20 more years or they feel they're going to be financially independent in 20 years, then a 20-year term may be the perfect policy for that. It's the most cost-efficient way to do it and that's the risk exposure that you're covering.

If you have a family business or a lot of property and that may have a liquidity issue at death to pay estate taxes, if inheritance is super important to you and no matter, what you want to make sure X amount is left to your children, then you may want to cover that with an insurance policy, which will probably more of a permanent-type insurance policy, cash value policy. And then the role that we take is just to make sure that they get the most competitive, the right type. I always like to say, "Life insurance is a risk management tool, so I try not to take too many risks with my risk management tool." So just having your advisor review that and take a look at it and make sure it's the right kind.

So, do you need coverage, and what is the coverage for? And so then what type do you need? Or, if you have policies, are they competitive? And if you do have policies in place, specifically cash value-type policies, is it working in the best way for you? Are there levers you could pull within the policy to make sure that it's operating efficiently and that it is going to last until you want it to? So if you definitely want it to pay no matter what age you die, does it need more funding? Do we want to change how it's structured? So life insurance is important when thinking about estate planning, can be critically so. But you just need to work with your advisor to make sure you've got the right kind. Selling life insurance is not part of my practice, but I review it and help people make decisions all the time and then just work with their agent to make those changes.

Nick DeCenso:

And, Ellie, I know you're not a financial planner, but from the estate planning and the attorney perspective, how do you address life insurance needs for clients?

Mike Vogelzang:

It's really a lot of the same way Brandy mentioned. I mean, when I'm meeting with a young couple, one of my questions is, "Do you have life insurance? And if not, let's get some life insurance in place for income replacement." But then when I'm a higher net worth or let's say we anticipate some estate taxes are going to be due but all the value of the estate is tied up in an illiquid business or a family business that we certainly don't want to liquidate at death in order to generate funds to pay taxes, that's where life insurance is very important. One of the things I talk about with clients is who's going to own the insurance? Are they going to own it individually? That's another place where a trust could come in and a trust could own the insurance.

The main reason for that is insurance is subject to estate tax. And clients tell me all the time, "Well, wait a minute, insurance is not taxable." And that's correct. It's not taxable income tax-wise to the recipient. But if I own a $16 million life insurance policy on myself, when I'm looking at what I own at my death, $16 million of value is in my estate even though I don't get the benefit of any of that 16 million, other than perhaps the peace of mind that my family's taken care of. So we talk about who's going to own it and then beneficiary designations. Certainly do not want life insurance payable to an estate because then it's subject to the claims of creditors, so making sure that your beneficiary designations are up-to-date and work with the plan, which Brandy had alluded to earlier.

Nick DeCenso:

Thanks, Ellie. Geez, there's a lot, a lot that y'all just covered there, and we have a lot of questions that we'll get to. Before we do that, I do want to just kind of summarize this conversation away with some takeaways just before anyone has to check out. So, Karina, if you go to our takeaway slide. First off, like we talked about, ensure that you have basic adulting or basic estate planning documents in place. I mean, this is number one on the takeaways for a reason, really as it's most important. And then next, keeping these documents up-to-date really is critical, right? Revise them with big life events or revise them as the people that you have named need to be switched or changed out. And then lastly on our takeaways, address with your advisors if life insurance is needed and how much. Not everyone needs it throughout the entirety of their life, but many do. So be sure to consult with your advisors on your life insurance needs and revisit policies that you currently have in place.

All right, let's pivot to some questions. We have a number of them and a few I'm going to try to combine together and paraphrase here. First one, Ellie, I'm going to have you take a run at this first. We touched on, I think, throughout this webinar, the estate planning exemption limit. Right now, I believe it's $12.9 million per person. That is set to sunset end of 2025 and be cut roughly in half. So I guess the first question is how are you handicapping that? Are you expecting the sunset to occur? Do you think Congress is going to step in? What are your thoughts?

Mike Vogelzang:

I think I'm a bit of a pessimist in this area. I do expect the sunset to occur. And the only reason I say that is because in order for the sunset to occur, Congress does nothing. So without affirmative action by Congress to change it, we are going to have a sunset. So like you said, just everybody on this video call can leave about $13 million free of estate tax. Between a married couple, that's $26 million. That's a lot of wealth that we can transfer free of estate tax. But we anticipate, unless something happens, January 1, 2026, that's going to get cut in half to about $6.5, maybe $7 million a piece.

So working with higher net worth clients, we're anticipating, we're planning for that, and right now, having initial conversations about what steps could they take during lifetime with maybe gifting strategies to mitigate that if the tax law does change. If there's a potential that there would be an estate tax situation after a sunset, I think being proactive is going to be your friend and talking to your advisors now about what the options are rather than waiting till 2025 or second half of 2025 even to make those kind of decisions.

Nick DeCenso:

Yeah. Yeah. Clearly, if you're way above that exemption amount, you want to take an action by now or very soon. If you're far below it, you might want to hold on. But there's a lot of folks in the middle. Maybe, Christina, you want to jump in here? How are you discussing this with clients?

Christina:

Yeah, that's a great question. Brandy and I, who do a lot of planning, have actually similar thoughts on this. We would say someone who's in the middle, we would encourage them not to make any big irrevocable gifts without some really careful planning. If you've got 10, 20, 30 years left to live out your life, a lot can happen. There are things that people can do along the way to help plan for that aren't irrevocable, that are small, incremental changes that really help move the needle over time. Some of those are the annual exclusion gifts of gifting 17,000 a year per person without having to use up your limits, paying for tuition for somebody if it goes directly to the university, or healthcare expenses, same thing. There's some neat charitable planning options out there. So there's a lot to do along the way without having to make big irrevocable gifts to try to get in front of this.

Nick DeCenso:

Brandy, anything to add there?

Brandy:

I tell my clients I'll always be comfortable having a conversation with their children after they're dead that they're going to have to pay a little estate tax. More comfortable with that conversation than having a conversation with my client that they are running low on cash because they've made such large gifts.

Nick DeCenso:

Yeah. Yeah, great point. All right, a few questions-

Nick DeCenso:

Yeah, yeah. Great point. All right, a few questions coming in. And Ellie, sorry, I'm going to go back to you around naming co-trustee, co-executor. Obviously that's going to depend on the family, whether that makes sense, but you have any general reaction to that?

Mike Vogelzang:

Yeah, I think it does. The co-trustees can work well in the right situation. The time I see co-trustees, the problem with co-trustees or co-executors is sometimes I'm worried about there's too many cooks in the kitchen. If I have to get two people, three people, I mean, I've seen clients try to name all four kids as a trustee and that's just not workable. To sign off on everything, that's difficult. Where co-trustees, I think, can come in handy as if you have a corporate co-trustee. Perhaps you're working with a family and you've got a family member who's going to be a trustee, but they may need some handholding when they're dealing with the trust administration portion of it. Another thing that I tell clients, quite honestly, if you're going to have an uncle as a trustee for minor children, sometimes it can create friction in the family.

If a minor child has got to go to the trustee and say, "I want money for X, Y, Z," and the family trustee knows, family member trustee knows it's not a good idea and has got to say no, that can create friction sometimes. Having a separate corporate trustee, where the family member can quite frankly blame the corporate trustee and say, "Johnny, I would give this to you, but big old bad trust company over here won't let me do it." It provides them some cover. It kind of helps preserve a family relationship sometimes when you're dealing with that. That's where I've seen a co-trustee situation work pretty well.

Nick DeCenso:

Yeah, corporate trustees come up for us time and time, right, Christina and Brandy? And maybe most often as successor trustee, a backup, but sometimes co, you have any experience there?

Brandy:

Of course. I mean, it's all just so very specific to the family's situation and obviously you typically have a corporate as the final backstop to all the human beings. And also sometimes, and Ellie, I'd like to get your take on this, I think sometimes if you are transitioning to allow a beneficiary to be the trustee of their own trust, sometimes we'll see them be co-trustee with a corporate trustee for a season, as a training launchpad to get some experience in that and have someone standing beside them going through it before they're able to act as trustee on their own.

Mike Vogelzang:

Yeah, and I like that a lot. I think that's a great way for them to get some experience, some education around wealth planning, quite frankly, and then take the training wheels off, so to speak.

Nick DeCenso:

A few questions around estate planning for real estate. I have a few folks talking about granting their primary home to a trust. And just maybe, Ellie, talk us through the implications of that. I think they're worried about how the taxes play out if you sell the house in the future, and I guess maybe even taking us back to one-on-one on that. Why do folks consider their primary home in their estate plan?

Mike Vogelzang:

So there's a couple ways to do that. The first was what Brandy had mentioned is if it's in a state where real estate is a probate asset and you can title the asset that the real estate in your revocable trust, then you can avoid probate on that. And selling the house in that situation, the tax treatment is the same because the trust is you, you are the trust, for income tax purposes. Another situation that comes up with real estate and trust you see sometimes is a QPRT, a qualified personal residence trust. That is really an estate planning technique where you can transfer it into the trust for a period of years. In essence, it will freeze the value of that in your estate, so if you've got an asset or a piece of property real estate that is appreciating rapidly, that you're able to get that appreciation, some of that appreciation out of your estate.

And then a question has come up, a question I get asked a lot by clients is, "Well, what happens if I do put it in the QPRT and then I sell it? Do I still get the benefit? It's my personal residence, I'm living there, do I get the benefit of the capital gains exclusion?" And the answer is usually yes. Usually QPRTs are, by default, what we call a grantor trust, which again is not a separate taxpayer from the individual. And so even though the trust technically owns the residence, you should still be able to get the benefit of the capital gains exclusion. So it can be a useful technique in some situations, but again, certainly I think like almost everything we've talked about, it's personal to individual needs.

Nick DeCenso:

Thanks. So a couple of questions related to, I'm seeing two folks, well, more than a couple asking about annual gifting. My estate planning attorney's really pressing me to use annual gifting, what does that mean? Why are they so hung up on my annual gifting to people? I guess we won't call on anyone, but we deal with that a lot.

Christina:

I'll gladly start here. Annual gifting is a way that someone can gift to anyone else and not have to use up their $6 million, $12 million, and really help reduce the size of their taxable over time. It's such a personal thing, gifting, that I think it's real important for the person doing the gifting, their heart has to be in it, it has be a gift that makes sense for them, but doing it to multiple people over many years can be an effective way to really reduce the size of that estate tax liability that that person might have. And it's simple, it's easy, can be done in a variety of ways. But that's generally where I would see an estate planning attorney really come in on that. Ellie?

Mike Vogelzang:

No, yeah, I agree. It's one of those gifts or transfers that we call a perfect gift because it doesn't use any of your exemption amount. Everybody can give $17,000 to anybody. I teach a class in the summer and I tell them that I can make a $17,000 gift to everybody sitting in this classroom or go right down the phone book. I'm not going to do that, but I could. But it's an effective wealth transfer technique. So between a married couple, you could get $34,000 to individuals. And when you're talking with folks and they start making gifts and they've got three kids and they've got six grandkids, you do the math, that's an easy way to get quite a bit of wealth out of an estate and it's very straightforward, there's no tax return required, it's writing a check. So it's an effective way.

Brandy:

Nick, I would just add to that you don't have to give them cash. Your estate attorney could create trust for each of those beneficiaries if you wanted to give it the trust instead. So if it feels uncomfortable to give that money outright to an individual because it's not appropriate, maybe if they're too young or maybe you're not sure they can manage it well or you don't want it to, as one of my clients from Mississippi says, you don't want it to ruin them, you don't want them to adjust their lifestyle to get accustomed to that, I mean, you could put it in a trust instead. I mean, there are other ways to do it other than just writing a check to the individuals. So there's some ways around that if that's a concern.

And the other thing I like about annual gifting is it's year by year. You have to make it clear to the person getting it that this is happening this year, but it may not happen next year going forward. And then you can adjust and see are your assets sustaining themselves? Do you feel good about it? Maybe the market's really down, maybe something, an investment didn't work out the way that you thought it would. And so you're a little less comfortable giving in future years. So you can decide in real time if it's something you want to do each year.

Nick DeCenso:

That's great. Well, I think we're going to wrap up on the perfect gift that Ellie mentioned. So we do have a handful of questions that we didn't get to, so we'll follow up with folks as we can. I definitely want to thank you all for joining us. This has been fantastic. A brief webinar survey will be sent to all of our attendees afterwards, and we really, really appreciate your feedback. Thank you again to Mike, to Brandy, to Christina and to Ellie. We look forward to hosting you again next quarter. Bye-bye.