

Estate Planning Issues

Federal estate tax exemption = \$11.4M for 2019, i.e. \$22.8M per couple; expires at year-end 2025

But ... be careful of income tax efficiency

Roth accounts are best; Heirs own no taxes, can stretch withdrawals over their lifetime

Taxable accounts are good; Step-up in basis; no tax owed if sold immediately

Tax-deferred IRAs are worst; No step-up in basis; heirs owe ordinary income tax on distributions

Consider leaving to charity. Qualified Charitable Distributions, QCD, count as RMD.

Managing your cash flow in the distribution phase

Income: 3-legged stool: Pension, Social Security, Retirement portfolio

Expenses: First cut = 80 % of final salary; No retirement plan contributions, commute expenses, lower taxes, etc.

Retirement planning software: T. Rowe Price, Vanguard, Fidelity, Schwab, AARP, etc.

Better to do a budget; Travel, increased medical expenses, long term care, etc. {See local chapter website}

Income needed from your retirement portfolio after Social Security benefits, pension, etc.

(a) Safety first approach

Provide a guaranteed income stream for life, regardless of stock market fluctuations

Fixed income; Bond ladder

Single premium income annuity (SPIA), Deferred income annuity (DIA) {more in March}

(b) Probabilistic approach

Pick a safe withdrawal rate based on historic returns, e.g. Bengen's 4% withdrawal rate.

Typically funds a higher standard of living than the safety first approach, but.....

..... small but finite risk of outliving your portfolio. {more next month}

Problems with all retirement planning software: Beware precision output to 5 significant figures; GIGO!

Output is only as good as input assumptions: Life expectancy; actuarial tables only give averages

Market returns, Sequence of return risk, Tax rate forecasts, inflation estimates

Compounding these unknowns 35 years into the future is not an exact science!

Best uses for retirement planning software: Learning tool, Comparison of scenarios, Sensitivity analyses

Even a rough plan is significantly better than no plan. Update and re-evaluate annually.

What if I can't stretch the portfolio to age 100?

Unattractive solutions: Start saving earlier, save more, work longer, reduce withdrawals, seek higher return

Consider other possible solutions: Reverse mortgage, Annuity {more in March}

Home Equity Conversion Mortgage, HECM: insured by Federal Housing Administration, FHA

Requirements: Age 62 or older, significant equity in principal residence, pay taxes, insurance

Maximum loan: Lesser of appraised value or \$679,650 adjusted for age of youngest borrower

Form of loan: Lump sum, monthly payments, non-cancellable line of credit, combination of these

Cost of a HECM: Closing costs, origination fee, interest, mortgage insurance, service fees

Possible uses for HECM credit line:

Defer Social Security benefit to late retirement

Allows smaller short-term cash bucket for emergencies; lower "dead money" cost

Reduces sequence-of-return risk; minimizes need to sell equities in a bear market

Can provide living expenses if retirement portfolio is exhausted.

Non-recourse credit line, unused portion grows at interest rate; consider applying early

Potential Train Wrecks to a great retirement plan

Longevity, Long-term care, Liability litigation {more in March discussion on insurance}

Next month, January 9th, 2019: Retirement Planning ... II Safe withdrawal rates, Bucket strategies

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