Rochester Wealth Strategies

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Optimizing Your Legacy

By Dominic Garcia

You are now over the age of 70 and perhaps you feel like you missed out on many of the retirement strategies that advisors preach to those in their 60s. The good news is that there are still plenty of options available. With the recent legislative proposal to reduce the estate tax exemption from $11.7 million to around $6 million, individuals with assets near or above this amount should take a serious look at how to secure their assets.

Qualified charitable distributions (QCDs) are a great way to start lowering your taxable income. Although most people incorporate this strategy once they are required to take distributions from their IRA (RMDs) at age 72, you do have the ability to make QCDs as early as age 70½. Perhaps you give money to your church on a weekly basis; an alternative may be to make this donation directly from your IRA account.

How well are your beneficiaries doing in life? Let's say that you are in a 22% tax bracket; however, your children are very successful, and they are in the 37% tax bracket. If your money will eventually pass to your children, then Roth conversions may be an efficient estate planning tool. For example, if one child inherits an IRA worth $1,000,000, he or she will be forced to liquidate this money within ten years. Those distributions will be taxable as income and could be liable for increasing his or her tax bracket. As such, paying taxes while you're alive could save a beneficiary well over $100,000 in taxes; not to mention the tax-free growth he or she will receive on those assets.

If you have grandchildren or even adult children who plan on attending college, the Michigan 529 plan (or MESP) would be an ideal vehicle to contribute to. This investment would be unique in that the contributions would be removed from your estate, yet you still can maintain control over the assets and change the beneficiaries if needed. Moreover, you will receive a state tax deduction for the first $10,000 contributed each year.

Do you have any relatives or friends that are working part-time as they pay their way through school, or maybe you know someone who is just getting by and does not have enough income to save for their retirement? Depending on eligibility, consider contributing to a Roth IRA for them. Although you will not receive any tax benefits, this would be a very generous way to teach them the value of money, investing, and compounding interest.

The more common strategy that wealthy people utilize is gifting. Based on current laws, a couple may gift up to $30,000/year (or $15,000/year for a single person) to any individual of their choosing. You may also make unlimited direct payments to educational institutions or medical providers on behalf of others. These strategies will not reduce your estate tax exemption and are a great way to help your loved ones during your lifetime.

Also, it's important to be cognizant of life insurance proceeds. Although most proceeds are considered tax free to beneficiaries, many forget that these proceeds may still be subject to estate taxes. Depending on the size of your estate, it is important to properly title these policies. An irrevocable life insurance trust may also be a topic of conversation.

Last, but definitely not least, is true estate planning. If the reduction in the estate tax exemption is a concern, it is crucial to begin the discussion regarding various legacy strategies. For example, a Credit Shelter Trust (also known as an AB Trust or Bypass Trust) is designed to help couples reduce or potentially avoid estate taxes when passing money to their heirs. There are also techniques to lock in the $11.7 million exemption today before laws change.

Dominic Garcia is President of Rochester Wealth Strategies LLC, an Independent Registered Investment Adviser located in Downtown Rochester. RWS is a Fiduciary and Fee-Only financial advisory firm.