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WEALTH MANAGEMENT

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HEMINGTON
NEWSLETTER

FALL 2021

High Net Worth Estate Planning Considerations

By Fred Hubach, CFP®, CPWA®, EA

The lifetime federal estate tax exemption of $11.70 million – the amount that each person can transfer without incurring federal gift or estate taxes – is the highest that it has ever been. For many high-net worth families, this has created a tremendous opportunity for passing wealth to the next generation. However, this window may soon close.

Once the Tax Cuts and Jobs Act sunsets at the end of 2025, the lifetime exemption is scheduled to be cut in half to $5.85 million. There have also been several legislative proposals to accelerate this change, creating an additional layer of uncertainty. The top federal estate tax rate is currently 40%, meaning that the sunset would create an additional $4.68 million estate tax liability for a married couple with a taxable estate.

At Hemington, we have been focused on proactive estate planning for our clients. Below are five of the most common strategies being utilized this year.

Year	Estate Tax Exemption	Top Estate Tax Rate
2000	**$675,000**	**55%**
2001	$675,000	55%
2002	$1,000,000	50%
2003	$1,000,000	49%
2004	$1,500,000	48%
2005	$1,500,000	47%
2006	$2,000,000	46%
2007	$2,000,000	45%
2008	$2,000,000	45%
2009	$3,500,000	45%
2010	**$5,000,000 or $0**	**35% or 0%**
2011	$5,000,000	35%
2012	$5,120,000	35%
2013	$5,250,000	40%
2014	$5,340,000	40%
2015	$5,430,000	40%
2016	$5,450,000	40%
2017	$5,490,000	40%
2018	$11,180,000	40%
2019	$11,400,000	40%
2020	$11,580,000	40%
2021	**$11,700,000**	**40%**

FULLY FUNDING IRREVOCABLE TRUSTS

Many families with surplus wealth are choosing to fully fund irrevocable trusts today. In addition to locking in the current exemption, this approach shifts future appreciation outside the grantor's estate. This is a highly effective strategy but requires a complete relinquishment of control to work properly.

INTENTIONALLY DEFECTIVE GRANTOR TRUSTS

Many new trusts are setup as "intentionally defective for income tax purposes," which allow the grantor the option to pay any income taxes associated with the trust's investments. This preserves the trust principal for future appreciation and acts as a tax-free gift to the beneficiaries.

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SPOUSAL LIFETIME ACCESS TRUSTS (SLATs)

For married couples worried about loss of control, Spousal Lifetime Access Trusts (SLATs) have become increasingly popular. A SLAT is an irrevocable trust that allows one spouse to remove assets from their estate by funding a trust for the benefit the other spouse and/or their dependents. This structure enables the grantor to indirectly benefit from their spouse's future access to the trust.

CREATING TRUSTS & WAITING TO FUND

Others are drafting irrevocable trusts now but waiting to fund them until there is more clarity around when the lifetime exemption will be reduced. It generally costs $2,000-$3,000 for an attorney to draft an irrevocable trust, so many view this cost as an "insurance premium" against an early reduction in the lifetime exemption.

ROTH CONVERSIONS

In addition to the Federal government, 12 states (including Maryland) plus the District of Columbia levy estate taxes. Partial Roth conversions can be used to lock in today's relatively low income tax rates and reduce estate taxes by removing cash from the estate used to pay related income taxes. This strategy can be especially effective when done in lower income years.

When estate tax laws change, attorneys are often overwhelmed with new work. It takes time to properly implement advanced estate planning strategies, so it is imperative for families to focus on proactive estate planning techniques before it is too late. Consider speaking with your advisor if you have additional wealth transfer goals that you would like to pursue.

Commonly used estate planning strategies include fully funding irrevocable trusts, typically "intentionally defective" ones, SLATs and Roth conversions.

Must-Have Estate Documents

Estate planning is a gift to your family and an important part of your financial plan. By executing your estate documents, you are not only helping to ensure that your family and key people carry out your wishes in case you are unable to do so, you are also helping to maintain family harmony and ensure your legacy.

In general, each individual should have the following basic estate planning documents. Each estate plan is different, and your estate documents should be customized based on your particular situation and wishes.

- **Will** – Makes clear your wishes for the distribution of your personal property and financial assets. Assets that pass via your will are subject to probate, which is a court process to ensure that assets are distributed to the correct people and debts and taxes are paid. Your will should also name guardians for your children, if needed.
- **Durable financial power of attorney** – Gives your agent the power to make financial decisions on your behalf, such as paying your bills or directing your investments.
- **Healthcare power of attorney** – Gives your agent the power to make medical decisions on your behalf when you are unable to do so.
- **Living will** – Provides instructions for your end-of-life care and preferences.

You also may consider establishing a revocable trust for asset protection and to avoid probate. Reach out to your advisor or estate attorney if you have any questions about your estate planning.

Regardless of what your will says, some accounts will pass to your heirs based on operation of law. Retirement accounts and life insurance proceeds will pass based on the beneficiary designations named on each account. Also, jointly titled assets with rights of survivorship (JTWROS) will pass to the surviving owner.

WHAT'S NEW AT HEMINGTON?

Hemington is Growing!

Hemington is excited to announce that **Beth Kaufman** has joined our team as a Client Service Manager. Beth brings a decade of experience in the wealth management industry as an operations and compliance professional for some of the largest financial institutions in the country. In her role as CSM, Beth takes great care of clients at Hemington Wealth Management by applying her meticulous attention to detail in solving client problems.

Beth graduated from Carthage College, where she earned Summa Cum Laude honors and played for the women's tennis team. She currently resides in Denver, Colorado, and in her free time she enjoys hiking in the mountains, playing in pickleball tournaments, and visiting her family in the Chicago area.

WASHINGTON BUSINESS JOURNAL

Hemington Wealth Management was recognized in the top 8 of ***Washington Business Journal's* Largest Wealth Management Firms in Greater DC List**. The depth of Hemington's metro-area advisors along with its annual revenue and fee-only financial planning focus were positive consideration factors that put it at the top of the list against other wealth management firms in the Northern Virginia, Maryland, and Washington DC area.

2021 NorthernVirginia MAGAZINE TOP FINANCIAL PROFESSIONALS

Northern Virginia Magazine recognized **Mike Byman** and **Eileen O'Connor** as Top Fee-Only Financial Planners for 2021. The magazine surveyed financial professionals in northern Virginia and asked them to recommend other financial professionals to whom they would refer family and friends. Those who made the list received the most nominations.

FA FINANCIAL ADVISOR MAGAZINE

Hemington Wealth Management has once again been included in the listing of ***Financial Advisor Magazine's* Top RIA Ranking** for the 5th year in a row. Financial Advisor Magazine annually reports an exclusive list of the nation's leading independent financial advisory firms based on their total discretionary and nondiscretionary assets reported on their Form ADV.

Hemington's Internship Program

This summer Hemington held its first Internship Program. Three rising seniors in finance at Virginia Tech, Indiana University, and College of Charleston joined Hemington to learn firsthand about wealth management. During the program, the interns assisted advisors with real-life financial planning scenarios, gained valuable experience using our top technology platforms, and participated in team meetings. The Hemington team enjoyed passing along their years of experience to the next generation of financial professionals.

Above: The Hemington team celebrating our final 2021 summer intern, Rhys.

Jonathan Duggan recently earned his Masters of Science in Taxation from American University. The MS Taxation degree is a highly specialized graduate accounting degree that builds an extensive core of knowledge in the complexities of tax law. Attaining this credential further solidifies Jon's expertise in understanding and creating advanced tax planning strategies for Hemington's clients. Congratulations, Jon!

CFA Society Washington, DC

In July, **Amy Mitchell** moderated a panel on Emerging Markets Economic Outlook that was hosted by the CFA Society of Washington, DC. Over 70 advisors, analysts, and portfolio managers joined the webcast to hear from thought leaders about emerging markets strategies and expectations, as well as its role in investors' portfolios.

YEAR-END PLANNING PRIORITIES

As we approach the final months of 2021, below are some planning items to consider.

» **Max out your 401(k) / 403(b) / TSP:** $19,500, or $26,000 if age 50+. Consider increasing contributions for the last few months of the year to maximize contributions, if needed.

» **Contribute to a traditional or Roth IRA:** $6,000, or $7,000 if age 50+. You have until April 15, 2022, to contribute for 2021.

» **Roth IRA for Kids:** If your child has earned income in 2021, from a summer job for example, then consider funding a Roth IRA. You or your child may contribute up to the child's earned income or $6,000, whichever is less.

» **529 Plans:** Contributions must be made by year-end to be deductible on your state income tax return (if applicable). Also, distributions from 529 plans for eligible expenses incurred in 2021 must be taken by year-end.

» **Required Minimum Distributions (RMDs):** We assist clients age 72 and over with RMDs well before year-end to avoid IRS penalties. RMDs were suspended in 2020 thanks to the CARES Act but are required for 2021.

» **Qualified Charitable Distributions (QCDs):** Gifting IRA distributions directly to a charity is a great strategy, especially if you do not need your RMDs for current income and you do not itemize your deductions. QCDs are excluded from gross income rather than being reported as a charitable deduction. You must be at least age 70 1/2 and the limit is $100,000 per year.

» **Open Enrollment:** Make sure you review your options to optimize your employee benefits for 2022 or choose the right Medicare plan. We have a Medicare specialist on retainer to help, if needed.

» **Gifting Stock:** If you itemize your deductions, gifting appreciated stock (rather than cash) to charities is another great strategy to maximize the value of your donation, receive an income tax deduction, and avoid paying capital gains tax. Any gifts should be made by early December to ensure they are completed by year-end.

» **Family Gifting:** The annual gift exclusion for 2021 is $15,000 per giftee.

At Hemington, we often remind clients to "focus on what you can control." When it comes to tax planning, especially with potential tax law changes on the horizon, we view 2021 as a critical year to do exactly that – focus on the strategies you can implement today.

Right: Hemington team members enjoy some afternoon time together during a local Happy Hour.

About Hemington Wealth Management

Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

Hemington Wealth Management

Falls Church, VA Office
7651 Leesburg Pike
Falls Church, VA 22043

Phone 703.828.2479
Toll-free 855.HWM.WLTH (855.496.9584)
Email info@hemingtonwm.com

Chicago, IL Office
150 S. Wacker, Suite 2400
Chicago, IL 60606

Phone 312.757.5339
Email info@hemingtonwm.com