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Financial Briefs

JULY/AUGUST 2020

Estate Planning Considerations for Children

It takes special care to create an estate plan that efficiently distributes your assets and meets your goals for every person and cause important to you. But no part of the process means more to most people than that which involves their children. After all, for most of us, our children are our most important legacy, and how your estate documents treat them will have an impact long after you're gone.

To help organize this process, it is useful to think of children in three categories: minors, young adults, and fully grown adults with spouses and children of their own.

Minor Children

Children from infancy through high school have a different set of needs than children of other ages. One is simply to be able to rely on an income for daily needs in case you're no longer there for them. Since the parents of young children usually don't have large savings or net worth, the challenge is to provide an instant estate, for which life insurance is the best answer.

There are several rules of thumb for how much life insurance to buy — from four to 10 times your annual income. The right amount should be the result of a thorough needs analysis of your entire family, which can be accomplished by asking your

spouse and yourself a series of probing questions, including:

- How much do the two of you already have saved?
- Will your spouse be able to work full- or part-time? If so, what will childcare cost?
- Will your children go to public or private elementary and secondary schools?
- How much will your children

need in college funds by the time they're ready to attend?

- How much will your spouse need for retirement, and how much of that will he/she be able to accumulate on his/her own?

After you determine how much life insurance to buy, you need to think about who will raise your children if you and your spouse both

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The SECURE Act and Stretch IRAs

In the past, beneficiaries could take distributions from an inherited IRA over their lifetimes, often referred to as a stretch IRA. However, the SECURE Act, which is effective as of January 1, 2020, drastically changed those rules. Now, for individuals dying after December 31, 2019, designated beneficiaries (humans with a life expectancy) must withdraw all funds within 10 years. However, eligible designated beneficiaries can still withdraw funds over their life expectancy:

- Surviving spouses
- Minor children
- Disabled or chronically ill individuals
- Individuals who are not more than 10 years younger than the deceased IRA owner

Once a minor child reaches the age of majority, the remainder of the distributions must be taken within 10 years. Withdrawals do not have to be taken out in equal installments over the 10-year period. The only requirement is that the entire balance must be withdrawn by the end of the 10-year period. This provision is expected to significantly increase tax revenue from inherited IRA distributions. It may be a particular problem for children who inherit parents' IRAs and are in their peak earning years.

Some strategies to consider include:

Charitable Beneficiary

If you are already planning to give money to a charity, it will be more tax-efficient to leave taxable

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Estate Planning

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die before the children are adults. This calls for naming a guardian in both of your wills. If you don't have a will, a state court will appoint a guardian for you, and it may not be someone you or your spouse would have wanted for this role. In addition, parents might also wish to designate a person to manage the children's assets, known as a custodian or trustee. This can be the same person as the guardian, but designating an unrelated third party, like an attorney, banker, or trust company officer, who can be charged with thinking only of your children's welfare, appeals to some people.

Among the other major decisions you have to make is whether and how to split your assets between your surviving spouse and your children, and if you leave some assets directly to your children, how to determine the split among them. Often, it can make sense to leave all or most of your assets to your spouse and to divide assets you bequeath to your children evenly. But this might overlook such considerations as children with special medical needs or special abilities.

Young Adults

Once children reach the age of majority — 18 in most states — a new set of considerations enters the picture. By this age, your children no longer require a guardian and are legally capable of spending their money in any way they want — and therein lies a potential problem. What if you leave \$250,000 for college, and instead, your children decide to waste the money and skip college?

One way to control how the inheritance is spent is to establish a trust with a schedule for distributions. One option is to delay a full distribution until they reach a certain age, like 25 or 30. Another choice is to give them a series of partial distributions over many years. Another increasingly popular strategy is the incentive trust. This vehicle

Estate Planning for Complicated Family Situations

Divorce, remarriage, blended families, and children with disabilities are all situations where protecting your loved ones will give you peace of mind.

Divorce

If you divorce, you should update your beneficiaries, will, trusts, durable power of attorney, and healthcare proxy as soon as possible. If you have minor children, you will need to decide on a guardian if something happens to you or both of you.

In terms of financial assets, you can name your children as beneficiaries on life insurance, annuities, retirement accounts, and health savings accounts. However, your children cannot usually receive these funds until they turn 18. The surviving parent or an appointed guardian will need to manage these funds until your children are adults.

If You Remarry

If you remarry and both of you have children from previous

marriages, you and your spouse will need to determine the best way to split assets. Unless you have a prenuptial agreement, your current spouse is entitled to half your estate. If you want your children from your previous marriage to receive assets, you should consider setting up a trust that provides for your current spouse but also ensures your children will receive the assets you designate for them.

If You Have a Special Needs Child

With a special needs child, the two most important things to consider are protecting his/her eligibility for Medicaid and providing assets for his/her financial future. This is a delicate balance because an inheritance could disqualify your child from essential benefits from Medicaid. The best solution is to set up a special-needs trust, which will ensure he/she qualifies for Medicaid benefits while preserving assets for his/her future. ■■■

makes payouts contingent on your child's achievement of specific accomplishments — like maintaining a certain grade point average; graduating from college, graduate, or professional school; marrying; or buying a home.

Adult Children

Many of the same kinds of considerations that apply to minors and young adults can also influence your decisions regarding adult children. Do they, their spouses, or their children have special medical needs? Have your adult children fallen on hard times or are they irresponsible with money? How many children do they have and how much help will they need to finance their education?

Another consideration has as much to do with your own objectives for minimizing estate taxes. If your estate is much larger than you and your spouse's combined estate tax exemptions (currently \$11.58 million

for each spouse in 2020), you might want to shrink it with an aggressive campaign of gifts to your children and grandchildren. On the other hand, any funds you leave to your children might encumber them with estates equally as large as yours or larger, with the same tax challenges. In this case, you might want to transfer some of your assets to a generation-skipping trust, which bypasses your children and names your grandchildren as the beneficiaries.

Don't go it alone when mulling over these decisions. Most importantly, you need to reach a meeting of the minds with your spouse and even your children, especially if they are adults. One thing you don't want to do is to create bad feelings after you're gone, either toward you or among your survivors. Please call if you'd like to discuss this in more detail. ■■■

The SECURE Act

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assets to your individual beneficiary and the IRA assets to a charity. The charity will receive the funds as a tax-exempt organization, meaning they will owe no taxes on the distribution.

Choose Beneficiaries Carefully

The idea is to try to reduce the income tax burden from the inheritance. That could mean naming younger or more lightly taxed beneficiaries to receive the IRA. For instance, if your children don't have a need for the IRA, you may want to give it to your grandchildren instead. You can also name more beneficiaries so that each receives less taxable income.

Life Insurance

You can buy life insurance to help beneficiaries fund the taxes from the inherited IRA distributions. Since life insurance proceeds are income-tax-free, your beneficiary will receive the proceeds of the life insurance policy without having to pay taxes.

Convert to a Roth IRA

If you convert your traditional IRA to a Roth IRA, your beneficiary will receive the funds free from income tax. The distributions still need to be taken within a 10-year period, but at least no taxes will be due on those distributions. A Roth IRA conversion involves taking funds from a traditional IRA, paying tax on any previously untaxed funds, and then putting the funds in a Roth IRA so that distributions can be taken income-tax-free. Most experts recommend using cash to pay the tax on conversion to avoid depleting your retirement savings. Paying the taxes with cash is especially critical if you are under age 59½, because if you use money from your IRA to pay the tax, you'll owe a 10% penalty on the amount that's not rolled over into the Roth IRA.

Please call if you'd like to discuss the implications of the SECURE Act on your retirement accounts. ■■■

Estate Planning Tips for Baby Boomers

As the baby boomer generation gradually makes the transition from their working years to retirement, it's time for them to get serious about estate planning. For a variety of reasons, many boomers have put off this essential task. These tips can help get back on track with estate planning.

1. Know what your kids expect — and what you plan to give them.

By and large, boomers' parents were conservative savers. They came of age in the Great Depression, and that formative experience often led them to be cautious with their money. Many of them accumulated far more than they ever spent, and they passed that wealth on to their boomer children. But many baby boomers aren't taking the same approach. Even boomers who've saved a lot may end up spending much of what they've accumulated, since retirements are likely to be longer and healthcare costs expensive. But there's also an attitude difference. Active boomers may be planning on spending much of their hard-earned money on themselves. They believe they've done a lot for their children already. That's fine, but if this is your plan, you may want to let your children know.

2. Have a plan for the end of your life.

Many, if not most, boomers are still leading busy lifestyles, and they plan to keep doing so for some time. Boomers who value staying fit and healthy may not consider what will happen when the inevitabilities of aging finally do catch up. While taking steps to live a healthy lifestyle is important to enjoying a great retirement, boomers shouldn't assume they'll be healthy forever. Sickness and disability can happen, and it will be easier for you and your family to deal with if you have a plan. Not only should you think about long-term care and how you'll pay for it, you should also make sure you have end-of-life planning docu-

ments in place.

3. Make sure your estate plan is up-to-date.

Many boomers have estate plans they created decades ago. The primary goal of those estate plans may have been to ensure their children and surviving spouse were protected in the event of unexpected death. But as you get older, your estate planning needs change. If your kids are independent adults, providing for them is no longer as critical. You may have grandchildren who you want to receive part of your estate or new property that should be incorporated into your will. Or your family composition might have changed. You may even have received a health diagnosis that is affecting your estate-planning goals. For all these reasons and more, boomers need to sit down and review their estate plans to make sure they are properly conveying all their wishes.

4. Decide if, and how, you want to leave a legacy.

Successful boomers often want to find a way to leave a lasting impact on the world and to support the causes and organizations closest to their hearts. If you count yourself among those for whom leaving a legacy is important, now is the time to start thinking seriously about how to turn those legacy dreams into reality. If your goals are ambitious — like starting a foundation or charity or endowing a scholarship — you should start planning now. The more lofty your goals, the more important it is that you take clear, concrete steps to turn your dreams into reality — like meeting with the leaders of the organization you support and finding out how you can best help them. After all, you won't be able to do this work after you are gone.

Not sure how to put these estate-planning tips into action? Please call if you'd like to discuss this topic in more detail. ■■■

Business Data

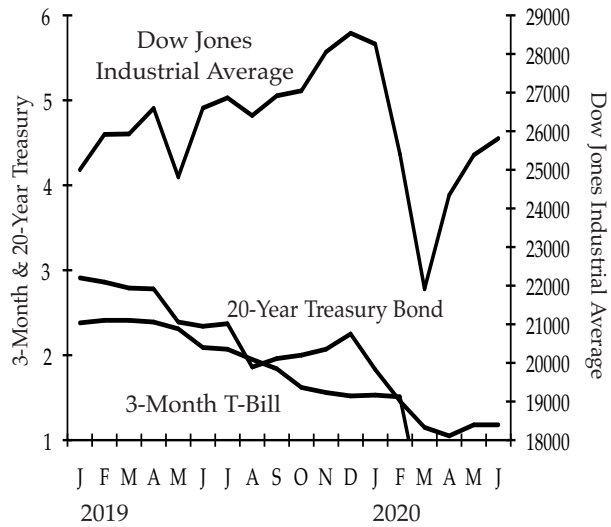


Indicator	Month-end				
	Apr-20	May-20	Jun-20	Dec-19	Jun-19
Prime rate	3.25	3.25	3.25	4.75	5.50
3-month T-bill yield	0.12	0.13	0.15	1.52	2.09
10-year T-note yield	0.64	0.65	0.66	1.92	2.05
20-year T-bond yield	1.05	1.18	1.18	2.25	2.34
Dow Jones Corp.	2.72	2.63	2.50	2.84	3.22
GDP (adj. annual rate)#	+2.10	+2.10	-5.00	+2.10	+3.10

Indicator	Month-end			% Change	
	Apr-20	May-20	Jun-20	YTD	12 Mon
Dow Jones Industrials	24345.72	25383.11	25812.88	-9.6%	-3.0%
Standard & Poor's 500	2912.43	3044.31	3100.29	-4.0%	5.4%
Nasdaq Composite	8889.55	9489.87	10058.77	12.1%	25.6%
Gold	1702.75	1728.70	1768.10	16.1%	25.5%
Unemployment rate@	4.40	14.70	13.30	280.0%	269.4%
Consumer price index@	258.12	256.39	256.39	-0.3%	0.1%

— 3rd, 4th, 1st quarter @ — Mar, Apr, May Sources: Barron's, Wall Street Journal
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield



News and Announcements

Should You Serve as a Guardian?

When asked to serve as the guardian of someone's minor children in the event of his/her death, it is usually meant as a compliment that the person trusts you to serve in this important role. While you may fear that you'll hurt your relationship with that person by saying no, don't accept this role without giving it serious thought. Consider the following:

- **Are your lifestyles compatible?** Go over all details involved in raising the children. Will the children move in with you? If so, will that mean relocating them far from their current home? What are the parents' preferences regarding education, religion, lifestyle, and other factors? How well does your family get along with their children? Consider the impact on your children, including the fact that you will probably have less time available for them.
- **How much financial support will be available?** This involves more than making sure money is avail-

able for college and other expenses directly attributable to the children. Additional children in your house will increase many of your bills. Your house may now be too small, requiring an addition to your current home or moving to a larger home.

- **Are you comfortable taking on responsibility for the children's finances?** Just because you agree to take physical custody of the children does not mean you have to handle their finances. You may feel more comfortable with another person involved.
- **Has a contingent guardian been named?** Find out if a contingent guardian has been named in case you cannot serve. However, don't use this as an excuse to say yes when you really want to decline. It is better to indicate that you do not want to take on this responsibility now, so another guardian can be chosen and has the opportunity to go over all these details. Also, if your situation changes in the future, inform the parents immediately.

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