ESTATE PLANNING

October 2022

EMERALD COAST
ESTATE PLANNING HAS NEVER BEEN MORE SIMPLE

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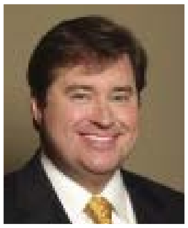

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WELCOME

Benjamin Franklin once said, “Don’t put off until tomorrow what you can do today”. However, when it comes to Estate Planning, we tend to put it off way past tomorrow. My name is James Wright, and I have the honor and privilege of being the President of the Estate Planning Council of the Emerald Coast this year. Many people think Estate Planning is only for the wealthy and that is just not true. Estate Planning is vital for anybody, regardless of his or her wealth. Estate Planning provides peace and comfort for families because they know they are following their loved one’s wishes. It also helps provide clear direction for healthcare providers and allows you to make the decisions concerning your property and your life. Estate Planning is vital and it should never be put off until tomorrow.

The Estate Planning Council of the Emerald Coast is a local organization comprised of Attorneys, CPAs, Wealth Managers and Financial Advisors who are capable of helping you ensure your affairs are in order and your wishes are followed after your death. No one likes to think of his or her death; however, it is something we all must consider and having our affairs in order makes it so much easier on our loved ones. The piece of mind your loved ones have knowing they are following your wishes is invaluable.

It is our hope the articles and content you read in the following pages provide meaningful information and help you as you think about these decisions. We also hope you will join us on October 20, 2022 at 1:00p.m. at the Island Resort, Fiji Room in Fort Walton Beach for our Fifth Annual Estate Planning Day as part of National Estate Planning Week. Like years past, we will have panel discussions on various estate planning topics presented by members of our Estate Planning Council.

On behalf of the Estate Planning Council of the Emerald Coast, it is my honor and pleasure to present the Third Annual Estate Planning Magazine. We hope you enjoy.

Sincerely,

James D. Wright, CPA, J.D., LL.M.
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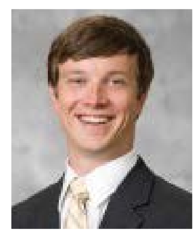

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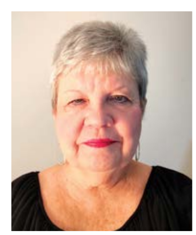

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IT'S TIME TO CREATE, OR UPDATE, ESTATE PLANS

BY: CHRIS POATE CFP®

If you haven't created an estate plan or have one but the documents may be outdated, you might be putting yourself and your family at risk if the unthinkable, such as becoming incapacitated or passing away, should happen to you. To assist you with getting started on creating or updating your plan, it helps to understand these five important documents that are part of many estate plans:

1. Will

A will provides instructions for when you die. You appoint a personal representative (or "executor") to pay final expenses and taxes and distribute your assets. Remember that beneficiary designations on 401(k) plans, IRAs, insurance policies, etc., supersede what you have in your will. If you have minor children, a will is the only way to designate a guardian for them.

2. Durable power of attorney

A power of attorney lets you name an agent, or attorney-in-fact, to act on your behalf. You can give this individual broad or limited management powers. Choose them carefully because they will generally be able to sell, invest, and spend your assets.

A traditional power of attorney terminates upon your disability or death. However, a durable power of attorney will continue during incapacity to provide a financial management safety net. A durable power of attorney terminates upon your death.

3. Health care power of attorney

A durable power of attorney for health care, also called a health care proxy, authorizes someone to make medical decisions for you in the event you are unable to do so yourself. This document and a living will can be invaluable for avoiding family conflicts and possible court intervention if you're unable to make your own health care decisions. Remember to review this document regularly to ensure the right person is designated to make any necessary medical decisions.

If you are a parent, be aware that once a child turns 18, you need a health care power of attorney for them so you can engage with their medical professionals.

4. Living will

A living will expresses your intentions regarding the use of life-sustaining measures in the event of a terminal illness. It expresses what you want but does not give anyone the authority to speak for you.

5. Revocable living trust

By transferring assets into a revocable trust, you can provide for their continued management during your lifetime (when you're incapacitated, for example), at your death, and even for generations to come. Your revocable living trust lets trust assets avoid probate and reduces the chance that personal information will become part of public records.

Along with working with an attorney to create or update these, and possibly other estate planning documents, remember to:

- Make sure your loved ones are able to access your documents or know whom to contact (such as your attorney) when they need them.
- Go over account titling, powers of attorney, and successor trustee provisions to be certain the right individuals have access to funds.
- Determine who should have information on electronic passwords and online banking access so they can access information, update automatic payments, etc.

If you have a spouse or partner or adult children, you should talk to them about their estate plans along with creating or updating your own.

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BASIC ESTATE PLANNING CONSIDERATIONS

The current environment of Covid-19 and market volatility has motivated many of us to evaluate just how prepared we are for the unexpected.

Several life planning questions may cross your mind during unpredictable times like we are experiencing now. For example,

- **What will happen to my family if something happens to me?**
- **Will someone know what to do if I or my spouse become seriously ill?**
- **Do I really need an estate plan? Is a will enough?**

While you may possess limited to no control over numerous factors that impact your strategic planning, you possess complete control over the creation and implementation of your estate plan.

Estate Planning can best be described as a process that a person does to:

- Maximize estate value
- Define the decision-making process
- Minimize claims and demands on the estate
- Determine who will receive the assets of the estate
- Avoid family conflicts and disagreements
- Minimize expenses, taxes, and delays"

Steps in the Estate Planning Process:

Step One - Set Your Estate Planning Goals

By defining what you want to achieve, you can develop your estate plan around your personal objectives & preferences. Examples of questions to ask yourself include,

- What type of financial support will your family receive?
- How will you distribute assets and possessions (who, what and when)?
- Who will make decisions for you if you are unable?
- How will you protect your heirs from a lack of planning, asset management challenges, and potential creditors?"

Step Two – Document Your Assets and Possessions

Leverage your strategic financial plan to document all your assets, including investments, property, business interests and personal possessions. Also, capture any debts such as loans and mortgages. The creation of a detailed/updated balance sheet will support this objective and provide your decision-makers with a roadmap to facilitate your intentions."

Step Three – Select Your Personal Representative / Executor

Do not underestimate the importance of this step! Your Executor will ensure the terms of your estate plan are followed. The person you select should be someone you trust, with the ability and experience to handle the demands of the role. The use of a corporate fiduciary to administer the settlement of your estate may be prudent to make the process most efficient.

Step Four – Document Your Wishes for Healthcare & Incapacity

Determine how you wish medical and healthcare decisions to be made if you are unable to make them yourself. Examples of these considerations include,

- Who should make healthcare decisions on your behalf?
- What level of care should be provided?
- End of life decisions? Organ donations? Funeral arrangements, etc.?

Your decisions made regarding healthcare and incapacity will be reflected in multiple documents in Step Five (see below).

Step Five – Create Your Primary Estate Planning Documents

Your primary estate documents provide the formal representation of the planning you have completed in Steps One through Four. Your state of residence will be important in determining which documents are most applicable to memorialize your planning intentions. The following documents (as described) are applicable in most states. More complex situations may require additional documents and professional consultation.

- **Last Will & Testament** – a legal document stating your wishes/ directives for distribution of your assets. The foundational document of your estate plan.
- **Revocable Trust** – a trust document that may be amended with the purpose to avoid probate and protect privacy for the trust grantor and beneficiaries.
- **Power of Attorney** – a legal document that appoints an individual(s) to make financial and/ or healthcare decisions on your behalf if you are unable to – temporarily or permanently.
- **Health Care Directives / Living Will Combination** – a legal document that states your wishes for your healthcare, including the level of care you desire, in the event of a terminal illness or permanent incapacity.

Step Six – Gather & Store Important Documents

Your planning can fail if no one can locate your documents. Organize your documents, including your estate planning documents, insurance policies, investment statements, property deeds, etc. As well, do not forget to consider your digital assets including, social media, online portals, consumer points, etc. Make sure your executor knows where these documents are located and is able to access them.

Basic estate planning has less to do with how wealthy you are, and much more with ensuring your family's financial well-being and harmony. Following this six-step process will position you for a fully implemented estate plan.

Speak to a Regions Wealth Advisor

There are numerous planning considerations in addition to the issues discussed in this summary. A Regions Wealth Advisor can work with you to determine the long-term impact these strategies may have on your strategic financial planning goals.

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The Problem(s) with Financial Advice

BRIAN P. O'NEILL, CFP®

Financial advice helps families make decisions that secure goals like adequate retirement income and sound estate plans. But financial advice can be a mine field. Who can you trust? What is fair compensation? Are there conflicts of interest? Does ***Fiduciary*** matter?

Financial Advisor Designations

No regulatory or industry standard allows a person to be called or stripped of the title "Financial Advisor" or "Financial Planner." Certified Financial Planners (CFP®), Chartered Financial Consultants (ChFC), and Certified Public Accountants with the Personal Financial Specialist (CPA/PFS) are some of the more prestigious financial planning designations, but more than a dozen other designations are held by those calling themselves a Financial Advisor or Planner. At the most basic level, a person needs to pass the Series 65 exam to register and be compensated for investment advice.

Compensation Models

For many years, financial advice coupled with investment management has cost a percentage of your assets. This **assets under management (AUM)** model may or may not be worth the value of the services received.

Some advisors offer **hourly services** which can be economical and may even allow a "test drive" of the relationship. Comprehensive planning on an hourly model is expensive and you may be hesitant to schedule time to avoid running the meter.

Retainer/Subscription/Flat-Fee services are more common now. These arrangements may include investment management. Do-it-yourself investors may just want professional help in an "over-the-shoulder" capacity.

A **"one-time plan"** engagement may suit some families. This usually involves working with a financial planner for a period of months to determine necessary actions, then putting the plan into action without ongoing advisor support.

Conflicts of Interest

Every financial relationship has conflicts of interest—full stop. An AUM advisor has an incentive to take risks to grow the assets and advise against moving assets away from her management.

An hourly planner has an incentive to run the clock when completing agreed upon tasks.

Retainer/Subscription/Flat-Fee planners have an incentive do as little as possible to earn their fees since the fee shows up each period regardless of the number of client meetings or deliverables.

Just because these conflicts of interest exist doesn't mean they're harming your relationship, but the best advisors will proactively address conflicts of interest as they arise. You must make sure you're satisfied with the relationship.

Standards of Care

An investment advisor representative, registered with a state regulatory authority or the SEC must adhere to a **fiduciary standard** of care at all times. CFP® practitioners must do the same. The fiduciary standard of care requires putting the client's best interests first at all times. The fiduciary standard requires advisors to proactively identify and manage conflicts of interest.

Suitability used to be the standard for broker-dealers that sell products. Under the suitability standard, a broker-dealer only needed to ensure that a recommended investment was suitable to meet the client's needs. This often led to investments that were expensive or underperforming.

In recent years, "Best Interest" has become a confusing replacement for suitability. The Best Interest standard requires broker-dealers to make recommendations that are in the best interest of the client at the time of the sale. This is not the same as a fiduciary standard, but it may look that way.

Summing it Up

Financial advice is necessary to navigate the complexities of retirement. Determining who to trust, how to pay them, and understanding how they're required to manage your relationship can feel like a fulltime job. It's imperative to do your homework and revisit your requirements from time to time to make sure you're getting the value you deserve.

Estate Planning for New Parents

A new family member brings a world of changes to one's life. Parenthood prompts a multitude of newfound concerns, many previously inapplicable just months earlier. The need for a safer car, a larger house in a trustworthy school district, a local childcare provider, and a trusted pediatrician are suddenly at the forefront of parents' minds.

One often-overlooked consequence of becoming a parent is the increased need to develop a comprehensive estate plan. Now that you have dependents who are relying on you for financial support, meeting with a professional to put foundational estate planning documents in place is a wise decision for any young family.

Here are four estate planning essentials for new parents to consider.

Ian Eberle, J.D.
Associate Wealth Advisor

1. Establish a Trust

It is a myth that trusts are only applicable to high-income families or those who were fortunate enough to inherit substantial family wealth. In fact, most families should consider establishing a living trust to house financial assets, such as real estate or investment accounts. Combined with a pour-over will, a trust can ensure that your estate passes to your beneficiaries outside of probate (saving you money) and can give you greater control over your estate assets, even after your death.

For parents of young children, having a trust is essential to guarantee that your assets are used to benefit your children in the manner you see fit. Having a trust will prevent your children from inheriting large amounts of cash in a lump sum. Rather, the assets will be overseen by your appointed trustee whose job it will be to ensure that your assets are being used in accordance with your written plan. For example, if your children inherit a $1 million life insurance policy, you can direct your trustee to invest that money and only allow your children to spend the proceeds on expenses you have pre-approved in the trust documents, such as college tuition or a down payment on a first home.

Trusts are the glue that holds the rest of your estate plan together. Combined with the other estate planning essentials, having a trust ensures that the legacy you leave will last.

2. Make a Will and Designate a Guardian

The most common estate planning document is the will. This is the document we use to devise specific gifts from the estate.

For example, if you want your son to inherit your classic Corvette and your daughter to inherit your lake house, your will would specifically state that, upon your passing, your son is to receive the Corvette and your daughter the lake house.

For parents of young children, the will is also the document used to designate a guardian who would care for the children in the event something happens to both parents. This is typically going to be a grandparent, an aunt or uncle, or another trusted family member.

3. Create Powers of Attorney and an Advance Medical Directive

All adults—especially parents of young children—should have powers of attorney and an advance medical directive in place in the event that they become incapacitated. A financial power of attorney appoints someone (or several people) to take over your financial affairs and gives them access to your financial accounts to pay your bills if you become unable to do so. An advance medical directive provides instructions and appoints someone (or multiple people) to direct your medical care if you are unable to do so.

The need for these documents will likely feel remote for most young people, but in the event that one or both parents are involved in an accident, these documents will provide the tools for a trusted family member or friend to manage your medical care, pay emergency bills, and have access to the resources necessary to fund the everyday expenses that support your children, such as food and rent.

4. Buy Life Insurance

It is often the case that new parents are just getting established in their careers and have not yet had the opportunity to accumulate significant financial assets. That is okay. Building wealth is typically a decades-long journey of consistent saving and investing. It is not necessary for a twenty- or thirty-year-old to have already built a substantial estate to engage in estate planning.

Term life insurance is an inexpensive and reliable funding source to serve as the foundation of any young family's estate plan. For just a few hundred dollars, a young family could buy life insurance policies for both parents worth several hundred thousand to several million dollars. In the event of one or both parents' untimely death, the proceeds from these life insurance policies would need to provide enough cash necessary to support the children through young adulthood.

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REVOCABLE LIVING TRUST VS. LAST WILL AND TESTAMENT: WHAT YOU NEED TO KNOW

**BY AMELIA BEARD, PARTNER, SANTA ROSA BEACH AND
MADISON LEONARD, ASSOCIATE ATTORNEY, PENSACOLA
MOORHEAD LAW GROUP**

If you are thinking about creating your estate plan and have started exploring your options, you have most likely asked yourself the following question: what is the difference between a trust and a will? A revocable living trust and a last will and testament are two of the most commonly used estate planning tools. While there are certain similarities between the two, a trust and a will accomplish two different things in your estate plan.

What is a revocable living trust?

A living trust provides increased management and protection over your assets if you become disabled and offers greater control over when and how your assets are distributed. A trust allows you to outline intentions and provisions in the event you become mentally or physically unable to make your own decisions. A living trust also simplifies (or in some cases eliminates) the probate process. Because trusts are private documents and do not need court approval, using a trust often allows one to minimize or avoid probate entirely. Additionally, a living trust applies to any assets you hold inside of the trust, and it can be amended or revoked by you at any time. After you create a living trust, you need to fund the trust by transferring assets to it, making the living trust the owner of those assets. This makes a trust a little more complex to set up as opposed to a will. Once those assets are moved into the trust and you appoint yourself as trustee, you have control over the use and management of those assets while you are alive. The named successor trustee will manage the trust immediately upon your death or if you become incapacitated.

What is a last will and testament?

A will allows you to do things like name guardians for minor children, appoint a personal representative (often called an 'executor' in other states) of your estate, and declare your final wishes. One of the main differences between a living trust and a will is that a will does not go into effect until you pass away, whereas a living trust is effective immediately upon signing and funding it. While a will allows you to designate where your assets go and specify final arrangements, a will also limits your control over the distribution of your assets. Additionally, wills are public documents that go through probate (in many, but not all, instances), which can be costly and time-consuming.

Can your estate plan have both?

Because revocable living trusts and wills do two different things, you can include both a trust and a will in your estate plan. Most revocable living trusts include what is called a "pour-over will," which is a type of will designed to work in conjunction with a trust. With a pour-over will, most assets owned outside of the living trust (with the exception of assets that are paid via a beneficiary designation such as an IRA or life insurance policy) will be paid to the trust at the time of your death. Pour-over wills essentially act as a backup plan to ensure your assets are distributed as intended. Thus, your estate plan would include both a will and a trust.

Creating an estate plan requires a team of professionals with the knowledge to choose the estate planning tools that will best serve your wants and needs. For more information regarding your estate planning in Florida, contact us at abeard@moorheadlaw.com and mleonard@moorheadlaw.com or by phone at 850-608-0112.

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Amy P. Slaman, *Shareholder*
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Amy Pedone Slaman is a shareholder in the Firm's Destin office. Ms. Slaman joined the Firm in 2020 and focuses her practice in the area of Wills, Trusts and Estates. Ms. Slaman provides services regarding estate planning, probate, trust administration and guardianship as well as small business associations and real estate.

In addition to her work at Clark Partington, Ms. Slaman also serves on the Board of Directors for the Niceville-Valparaiso Chamber of Commerce, Niceville Public Library, and is a member of the Estate Planning Council of the Emerald Coast, Walton County Bar Association, Okaloosa County Bar Association, and Okaloosa Chapter of the Florida Association of Women Lawyers. She has also served on the Florida Bar's Grievance Committee for the First Circuit (1B) and is a graduate of Leadership Okaloosa class of 2018.

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SEVEN MISTAKES TO AVOID WHEN NAMING BENEFICIARIES

By: Kevin Nelson

If you have a will or a trust, you might think that's all you need to ensure your assets are distributed as you wish when you're gone. In reality, naming beneficiaries on certain accounts can also be an important step in securing your legacy goals—if you avoid some common mistakes, like the ones below.

MISTAKE #1:
Not naming beneficiaries

Many types of financial accounts — such as retirement accounts, annuities and life insurance policies — give you the chance to name specific people you want to inherit those assets after your death. If you don't complete their designated beneficiary forms, though, the assets often are paid directly into your estate.

MISTAKE #2:
Not coordinating your beneficiary designations with your estate plan

Naming beneficiaries on specific accounts should be coordinated with your overall estate planning objectives and documents. The accounts with named beneficiaries will pass to the named beneficiary and not be directed by the decedent's will, which may have different intentions.

MISTAKE #3:
Not considering the potential impact of designating beneficiaries

You can name nearly anyone you want as a beneficiary. However, there may be extenuating circumstances to consider. For example, if you name an individual with special needs as a beneficiary, could that inheritance alter any government benefits they receive? Do you want to leave assets to a child who doesn't make smart financial decisions? In cases like these, would it make more sense to put the asset into a trust?

Inheriting certain assets may also have tax implications for the beneficiary. Your financial, tax and estate advisors can help you sort through the pros and cons when making beneficiary designations.

MISTAKE #4:
Not assigning contingent beneficiaries

People often stop with naming a primary beneficiary and don't take the next step to name a contingent beneficiary — someone who will inherit the asset if your primary beneficiary dies before you. Without a contingent beneficiary you've lost control of what happens to that asset. Depending on the type of asset, it might pass under your will or have the disposition determined by state law.

MISTAKE #5:
Not understanding the chain of inheritance

It's also important to understand what happens if a beneficiary dies before you. In this case, if the beneficiary designation form follows "per stirpes" distribution, the benefit would usually pass to the deceased beneficiary's own children.

This may also come into play if you name multiple beneficiaries for a single account. It's important to read any beneficiary designation form closely to make sure you understand how the full chain of inheritance works for each account.

MISTAKE #6:
Not keeping beneficiary designations up to date

Things change over the years. Your beneficiary preference may change, or a beneficiary dies. It's a good practice to review your designations periodically and revise as needed.

MISTAKE #7:
Trying to do it all yourself

It's easy enough to fill out a beneficiary designation form. But understanding the full impact of your designations and how they fit into your overall estate plan can be more complex. Working with your estate attorney and banker may prove helpful in making sure your assets are distributed as you wish.

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PROTECTING ASSETS *with nursing-home planning*

BY: STEVEN E. QUINNELL, ATTORNEY

BOARD-CERTIFIED IN ELDER LAW BY THE FLORIDA BAR

OFFICES IN GULF BREEZE, PENSACOLA, AND CRESTVIEW

Here are some typical cases in my practice: A daughter tells me her mother is heading for a nursing home, and has heard horror stories about her mother losing her life savings. Or, a wife tells me her husband of 60 years is in a nursing home, and she is worried about having enough savings and income to live on.

We usually can come up with a reasonable solution, especially for the wife in the example above.

Here are the ABC's of nursing-home Medicaid:

1. Most residents of nursing homes got there from a hospital stay under Medicare. Assuming it was at least a 3-night hospital stay, then Medicare will pay for the first 20 days at a nursing home for rehab and therapy.
2. Everyone thinks Medicare covers 100 days, but actually it's 100% for 20 days, and then a small percentage for the next 100 days, called "co-pay days."
3. Everyone also thinks their supplemental insurance (e.g. United Health Care through AARP, or BlueCross) will pay the difference, but 99% of the time that's wrong. The only reliable secondary insurance is Tricare.
4. So, after the first 20 days, the client is required to pay approx..70% of the nursing-home charges, and then after the co-pay days are completed it will be 100% private-pay, approx.. $9,000 - $10,000/month.
5. The only available governmental coverage: Nursing-home Medicaid, a welfare program with financial requirements similar to food stamps (whereas Medicare is based on paying into the system during the client's work, and it is not welfare.)
6. We must apply for Medicaid, which requires showing the client's assets and incomes down to the last penny, with copies of documents to prove all the facts.
7. Then, the countable assets have to be below a certain amount.

EXAMPLE – SINGLE CLIENT: Ms. A has the following:

a. Homestead, $15,000 home equity loan
b. Checking account $17,000, joint with her daughter
c. Savings account/CDs: $50,000, joint with her daughter
d. Term life insurance, $25,000 death benefit
e. Car, paid for
f. Social Security and Civil Service, total $3,000/mo

The homestead/principal residence does not count as an "asset" here. However, the other assets push Ms. A over the $2,000 limit. What can she do to get rid of the necessary money to qualify for nursing-home Medicaid?

a. Prepaid irrevocable funeral contract
b. Prepay utilities
c. Pay off all debts, such as credit cards or home mortgage
d. Attorney's fees
e. Home repairs/improvements
f. Payment to family under a lump-sum personal services contract, based on her age and life expectancy.
g. Medicaid Income Trust for the monthly income
h. Note: The homestead is exempt, including after Ms. A's death; however, keeping it maintained might be a challenge.

EXAMPLE – MARRIED CLIENT: Mr. & Mrs. B have the following, with Mr. B in a nursing home:

a. SAME SET OF FACTS, except add: Mrs. B has Social Security of $800/mo.
b. Because the parties are married, Mr. B still has a $2,000 limit of countable assets, but Mrs. B as the "community spouse" can now have an additional $137,400 asset allowance.
c. So in the facts above, there is no need to spend-down any money.
d. One important issue: However, the monthly income for Mr. B will have to be paid over to the nursing home, with only a modest spousal allowance for Mrs. B, so she will have less income for her support each month.


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OPPORTUNISTIC ROTH CONVERSIONS

BY MARK DUTRAM, CPWA®, CFP®, AEP®

"Corrections" or "Bear" markets can be stressful for investors particularly for those who are near retirement or have recently retired and are therefore especially susceptible to sequence- of-return risk, as a market downturn in the first decade of retirement can negatively impact a retiree's sustainable spending rates. At the same time, though, market downturns can create favorable tax planning opportunities, including the ability to maximize 'discounted' Roth conversions.

While individuals at any income level can complete Roth conversions (unlike making Roth IRA contributions, which have income limits), it does not necessarily mean that doing so will always be the most tax-efficient decision. Because whether traditional or Roth accounts are better depends on that individual's tax rate today as compared to their expected future tax rate. Typically, this means that it will be advantageous to make traditional contributions (and reduce taxable income) when a person's marginal tax rate is higher today than it will be when the funds are withdrawn in the future, and Roth contributions (or conversions) when the future tax rate is expected to be higher than it is today.

For investors who do consider making a Roth conversion, a declining market can effectively put the conversion at a (hopefully) temporarily depressed value. This is because, as the total value of the account drops, the dollar amount to be converted to a Roth account will represent a larger percentage of the Traditional IRA, resulting in a larger portion of the future growth of the account being shifted into a Roth. With the depressed account values, this should result in a lower tax consequence for the converted dollars.

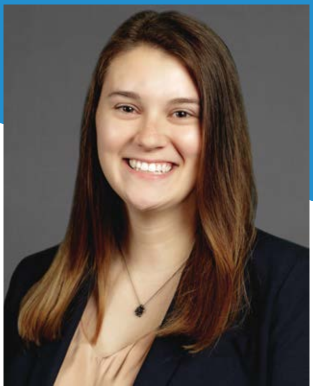
Notably, the benefits of Roth conversions during a market downturn can also depend in large part on how an individual sources the funds to pay the taxes on the conversion. And when it comes to paying the taxes due, cash is usually king, since using available cash set aside in a savings account – instead of taking funds that could have otherwise been converted to pay those taxes, which could also subject someone to early withdrawal penalties if under the age of 59 ½ – will allow a larger balance of the tax-free Roth account to enjoy a potential market rebound. While the individual might not have wanted to allocate these funds to current income taxes, by doing so, you are creating greater potential for future tax-free growth in the Roth account!

In addition, because Roth conversions can be made throughout the year in any amount, certain strategies can help maximize the value of the conversions, minimize potential regret, and avoid violating the tax rules that govern conversions. For example, conversion-cost averaging (dividing a selected annual conversion amount into regular, smaller conversions throughout the year) and Roth barbelling (converting once at the beginning of the year and again at the end of the year when your tax picture is clearer) can allow for adjustments of the amount converted if your income changes unexpectedly, among other benefits.

Ultimately, the key point is that a market downturn presents an opportunity to convert a higher percentage of a Traditional IRA to a Roth account for the same amount of taxable income, for those who should be doing a Roth conversion given their current tax rate. Because while a down market can be challenging for investors, the opportunity for Roth conversions during these periods (when appropriate!) offers investors the chance to generate a significantly reduced tax bill over their total retirement period.

WHAT IS TAX BASIS AND WHY DOES IT MATTER?

BY AMY P. SLAMAN, ESQ. AND SARA N. MARTIN, ESQ.



Tax basis is the value assigned to a taxpayer's investment in property. In other words, it is the fair market value of what you paid for your property when you purchased it. What assets qualify for a tax basis? Almost anything. Your house, car, stocks, bonds, furniture, jewelry, etc. Anything that can be measured by monetary value is an asset that qualifies for a tax basis. Tax basis matters because it is the amount that is used to determine your profit or loss when you sell your property – and that amount affects your tax bill.

What happens to my tax basis if I improve my property? Improvements on property can actually cause your tax basis to be adjusted. An adjusted basis is when your original basis is increased or decreased based on changes made to the property. An increase in your tax basis occurs when your property is worth more than what you originally paid for it. An increase in your tax basis is important because this adjustment lessens your tax liability when you sell the property for more than you paid for it. A decrease in your tax basis occurs when your property is worth less than what you originally paid for it. A decrease in your tax basis can also be important because if the price of property falls below the price you paid for it, you may be able to claim a tax loss when you sell it.

Not only do you have a tax basis in property that you purchase, but you also have a tax basis in property you receive by gift or inheritance. When property is gifted to you during the original owner's life, it has a carryover basis. A carryover basis is when the original owner's tax basis is carried over to the person the property is being gifted to. When you inherit property upon the death of the original owner, however, it receives a stepped-up basis. A stepped-up basis is when the tax basis of appreciated property is adjusted up to the current fair market value of the property. The fair market value of the property for a stepped-up basis is measured on the date that the property is inherited. A stepped-up basis is different from a carryover basis because with a stepped-up basis, it doesn't matter what the original owner paid for the property.

Why does tax basis matter? Well, the basis of your property affects the taxes you pay when you sell your property. Receiving a gift of property that has appreciated during the life of the original owner, such as real property or stocks, can significantly increase the taxes you pay, should you sell that property at any later date. This is because the gain to be taxed is based on the tax basis of the original owner and the sales price of the property when sold. Alternatively, selling inherited property that has appreciated during the life of the original owner results in a lower tax bill than selling property received as a gift. This is because there is less gain to be taxed since the gain is based on the stepped-up value of the property upon the original owner's death and the sales price of the property when sold. This is why it is important to make sure you are speaking with the appropriate professionals before deciding to gift property to your desired beneficiaries during your life or have your property pass to those beneficiaries through inheritance.

FINANCIAL FOCUS
Be prepared for long-term care costs

BY STEPHANIE R. DUFFIELD, AAMS

Like everyone, you'd like to enjoy a long, healthy, independent life. But the future is unknowable, so it's a good idea to prepare for a variety of outcomes – including the possible need for long-term care.

Consider the following:

- Someone turning age 65 today has almost a 70% chance of eventually needing some type of long-term care service, according to the U.S. Department of Health and Human Services.
- The median annual cost for a private room in a nursing home is about $105,000, and it's almost $55,000 for home health aide services, according to the insurance company Genworth.

Medicare also may cover very few of these costs. Consequently, it's a good idea to include potential long-term care costs in your planning. While everyone's situation is different, you may want to budget for two to three years' worth of long-term care expenses.

But how can you prepare for these costs? Essentially, you've got three options:

- **You could self-insure.** If you would like to cover the costs of long-term care out of your own pocket, you'll need to consider a few issues: How will these potential costs affect your family? How might your other goals be affected, or even altered, by your decision to self-insure? Will you have to adjust your investment mix or designate certain investments to help achieve your self-funding objectives? None of these questions should dissuade you from trying to self-fund for long-term care, but they can help you clarify the significance of this choice within your overall financial strategy.
- **You could transfer the risk to an insurance company.** You could purchase either long-term care insurance or a life insurance policy that provides long-term care benefits in addition to a death benefit. Before obtaining either type of policy, though, you'll want to know exactly what the policies cover and when they kick in. Also, be aware that the younger you are when you buy a policy, the lower the premiums. On the other hand, if you buy a straight long-term care policy when you're young, you could end up paying premiums for many years for coverage you may never need. A financial advisor can help you evaluate all your insurance options and recommend which one, if any, is appropriate for your situation.
- **You could combine self-insurance with an insurance policy.** You could plan to self-insure for long-term care for a limited time – perhaps one year's worth of anticipated costs – and then buy enough insurance for additional expenses. This technique could involve some juggling on your part, in terms of where to direct your money, but it might prove to be a workable compromise between self-insurance and putting all your long-term care resources into an insurance policy.

Which of these methods is right for you? There's no one "right" answer for everyone. But whichever route you choose, you'll be helping to protect yourself – and possibly your grown children or other family members – from the potentially huge costs of long-term care. And that protection can help brighten your outlook throughout your retirement.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor Stephanie Duffield.

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DEDUCTING
WHEN YOU ARE NO LONGER ITEMIZING

BY DEANNA L. MULDOWNEY, CPA, AEP AND JAMES D. WRIGHT, CPA, J.D., LL.M.

When preparing someone's tax return, the most common question we hear is "are there any tax deductions I am eligible for?" Prior to the passage of the Tax Cuts and Jobs Act in 2017, the standard tax deduction was $12,700 for married couples who filed a joint tax return or $6,350 for single tax filers. Because of these lower standard tax deduction numbers, many people chose to itemize their tax deductions for expenses such as medical costs, mortgage interest, real estate taxes and charitable contributions. These expenses were often larger than the standard deduction and allowed people to receive a better tax benefit.

WHAT IF THERE WERE A WAY TO CONTINUE TO RECEIVE A TAX BENEFIT FOR YOUR CHARITABLE CONTRIBUTIONS WHILE TAKING THE STANDARD TAX DEDUCTION?

The Tax Cuts and Jobs Act essentially doubled the standard deduction and as a result, a majority of people no longer itemize their deductions. What if there were a way to continue to receive a tax benefit for your charitable contributions while taking the standard tax deduction?

For most people, the only way to deduct a charitable contribution is to itemize their tax deductions. However, if a person owns a Traditional IRA, he or she could deduct charitable contributions even without itemizing his or her tax deductions.

Generally, a distribution from a Traditional IRA is treated as income and is subject to tax. If a person is age 70 ½ or older, he or she may direct the IRA Company to distribute money from the Traditional IRA to a qualified charity and that distribution will not be treated as income and subject to tax. This is referred to as a Qualified Charitable Distribution or QCD. In order to qualify, the following conditions must be satisfied:

- The person must be age 70 ½ or older.
- The person must have a Traditional IRA.
- The distribution must be a cash distribution.
- The distribution must be made from the IRA directly to the Charity.
- The distribution cannot go to the IRA holder.
- The maximum amount that can qualify is $100,000.

If these conditions are satisfied, the distribution is not treated as income. This is a very good strategy for people who are required to take minimum IRA distributions, are already giving money to charity and cannot itemize their deductions. For example, John is 73, has a Traditional IRA and does not itemize his tax deductions. He is required to take a minimum distribution of $10,000 out of his Traditional IRA every year. Instead of taking the entire $10,000, John directs his IRA to distribute $8,000 to him and to distribute $2,000 directly to a qualified charity.

John has satisfied his required minimum distribution because $10,000 was distributed from the IRA. However, he only has to report the $8,000 he actually received as income and the remaining $2,000 is considered a Qualified Charitable Distribution, which is not taxed. Moreover, John also continues to take his standard tax deduction.

Even though John takes the standard tax deduction, he still receives a tax benefit for his charitable contribution because the amount of his IRA distribution was reduced by the amount of the charitable contribution.

The majority of people no longer need to itemize their tax deductions because of the increased standard deduction. Qualified Charitable Distributions are a great way for people who are required to take distributions from their IRAs to receive a tax benefit for their charitable contributions even if they no longer itemize their tax deductions. Therefore, if the circumstances are right, there is still at least one tax deduction available even if you no longer itemize your tax deductions.

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