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ESTATE PLANNING & CHARITABLE BEQUESTS

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Estate Planning Council
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The Estate Planning Council of Seattle (EPC) includes attorneys, Certified Public Accountants, trustofficers, insurance professionals, financial planners and members of the planned giving community whose careers center on helping individuals achieve their estate planning goals.

The EPC:
- Fosters a team approach of all the professionals involved in estate planning.
- Educates the public on estate planning matters and issues.
- Promotes the education and knowledge of estate planning professionals through an annual estate planning seminar and regular continuing legal education on important and timely topics.

Visit the EPC's website to access unbiased information about estate tax planning strategies, wills, trusts, business succession, and other topics that impact your personal estate plan.

Additionally, the website provides a list of council members who are among the best in the field – ready to assist you with your estate planning and business succession planning needs.

www.epcseattle.org

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ON THE COVER

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Russell Investments names BlackRock veteran as its next CEO

BY RICK MORGAN
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Zach Buchwald spent more than 14 years at BlackRock.

GARYSPECTOR

Seattle-based financial firm Russell Investments has named Zach Buchwald as its new CEO and chairman, effective May 1.

Buchwald, who was announced as the incoming CEO on Feb. 8, is joining Russell Investments from BlackRock, where he has led the investment giant's institutional business in the U.S. and Canada. He replaces Michelle Seitz, who stepped down last year and launched an investment and advisory firm in September.

"I am deeply honored to join Russell Investments," Buchwald said in a news release. "I am excited to work with this innovative team to help clients achieve their investment goals with the best possible toolkit."

Buchwald has worked at BlackRock since 2008. Before joining BlackRock, he was a managing director at Morgan Stanley. His LinkedIn page notes he was at Morgan Stanley for about 10 years.

Russell Investments, founded in Tacoma in 1936, works with individual and institutional investors, as well as financial advisers. The firm moved its headquarters to Seattle in 2010. Russell Investments says it had $276.5 billion in assets under management at the end of 2022, and it has offices in 17 cities. In 2016, the private equity firm TA Associates and the investment firm Reverence Capital Partners acquired Russell Investments for $1.15 billion.

Seitz had led the firm since 2017 before leaving last year. In August, Russell Investments said it had hired a recruiting firm to find Seitz's replacement, and that Kate El-Hillow, the firm's global chief investment officer, would be co-president alongside Kevin Klingert, the firm's president at the time. A Russell Investments spokesperson said Klingert left the firm in October.

"I look forward to working with Zach, especially benefiting from his stellar record of innovating client solutions to deliver on their desired investment outcomes," El-Hillow said in the release. "Zach is expertly prepared to further the firm's innovation success."

"Zach is expertly prepared to further the firm's innovation success."

KATE EL-HILLOW,
Russell Investments global chief investment officer

Seattle Humane's

LEGACY CHALLENGE

For the Next 125 Years

Your estate gift to Seattle Humane can help pets in our community right now—without costing you a dollar in your lifetime.

Commit to Seattle Humane's Legacy Challenge today and help us unlock **$750,000** in challenge funds!

Learn more at **SeattleHumane.org/LegacyChallenge**.

Other Savvy Ways To Create a Lasting Legacy

No matter what stage of life you're in, having an estate plan that reflects what you value is empowering. Supporting a nonprofit organization like Seattle Humane through your estate plan creates a lasting legacy that is meaningful to you.

Tiffany R. Gorton, partner at KHBB Law in Seattle, counsels clients that not all assets are inherited equally. For instance, an inherited IRA may come with income tax implications for a human beneficiary— but not for a charity. Designating a charity like Seattle Humane as an IRA beneficiary may provide an estate tax deduction—while also helping pets in need.

Julie A. Back, Senior Vice President and Advisor at Wealthspire in Seattle estimates that more than half of her wealth management clients provide for charities during their lives and in their estate plans. Julie encourages clients to convey their intentions to the organizations they have designated in their estate plan, which "can lead to deeper connections with the cause and a more meaningful relationship with the charity during the client's lifetime."

By designating Seattle Humane as a beneficiary in your will, retirement account, life insurance policy, or bank or brokerage account, you'll leave a legacy of care and compassion for animals for generations to come.

Seattle Humane

*Please contact Hailey Cassell, J.D. at **hailey@seattlehumane.org** or **(425) 373-5387** to learn more.*

How to plan in a high-interest-rate environment

The rapid rise in interest rates generated headlines throughout 2022. The increases impact many areas of everyday life, including certain estate planning techniques.

Two of the most important interest rates in estate planning are the midterm Applicable Federal Rate (AFR) and the Internal Revenue Service (IRS) Code Section 7520 rate. The AFR is the minimum interest rate that the IRS allows for personal loans. The 7520 rate is used to discount the value of annuities, life estates and future values remaining in trust to their present value.

The IRS publishes both rates monthly. These rates more than tripled during 2022 and are the highest they have been since 2007.

Increases in interest rates can significantly impact a variety of estate planning methodologies, from simple strategies like loans or sales to family members, to more complex plans involving Grantor Retained Annuity Trusts (GRAT), or Charitable Lead Trusts (CLT). For techniques that rely on low interest rates to be effective, higher rates may necessitate a pivot in strategy. Here are some alternative techniques that can be beneficial in a high-interest-rate environment.

Nathaniel A. Rothbauer, CPA, is a managing director of wealth strategy with Ascent Private Capital Management of U.S. Bank.

Qualified Personal Residence Trusts (QPRTs) are used to transfer a residence into an irrevocable trust for a set period of time, and to generally reduce the size of one's taxable estate. During the term of the trust, the person who established the trust (grantor) can continue to live in and use the home. When this period expires, the residence passes to the trust's beneficiaries, typically the grantor's children or a trust for the benefit of their children. If the grantor wishes to continue living in the home beyond the term of the trust, they may do

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so by paying fair-market rent to the beneficiaries. When structured properly, these rent payments can further reduce the size of an estate without income or gift taxes.

Upon the initial transfer of the residence, a reportable gift is made for gift tax purposes. This gift is not the current market value of the home, but is the value of the remainder interest in the home, calculated using the Section 7520 interest rate. Higher rates at the time of transfer result in a lower reportable gift valuation. Thus, QPRTs can effectively remove the full value of a home, including future appreciation, from a grantor's taxable estate while reporting a lower amount for gift tax purposes.

Charitable Remainder Trusts (CRTs) allow someone to establish a trust that will make annual payments back to them or a beneficiary for a set term of years or for their lifetime. The amount remaining in the trust at the end of that period is donated to the charity named in the trust. Because the remainder interest goes to charity, a charitable deduction is allowed the year the trust is established. However, this deduction is only allowed when a minimum of 10% of the value of the trust goes to charity. The value of the charitable deduction is calculated using the 7520 rate and, in this case, the higher the rate, the higher the charitable deduction. CRTs can remove assets from an estate, provide income to a grantor or beneficiary and provide the added benefit of taking a current charitable deduction.

There may be another silver lining to higher interest rates and inflation: Two key estate planning amounts were adjusted for inflation in 2023. The lifetime gift tax exemption increased by $860,000 between 2022 and 2023, a significant adjustment, with the exemption now at $12,920,000. This is the amount that can be transferred to others during life or through one's estate before incurring gift or estate taxes. Additionally, the annual gift tax exclusion increased to $17,000 for 2023, just one year after reaching $16,000. That means individuals can give – tax free – up to $17,000 each per year to an unlimited number of beneficiaries. This is a quick and easy way to pass on wealth and reduce the value of one's estate.

With the rapidly changing interest rate environment, it is worth revisiting the estate planning strategies that have been viewed as less favorable recently. This is not to say the "low-rate" techniques favored over the past 16 years cannot still be viable options. They may have lost some luster with higher rates, but this does not make them unusable. Because each individual's financial situation is different, it's advisable to work with professional advisers to determine what estate planning strategy is best.

Tired of paying life insurance premiums? Think twice before canceling your policy

Ryan Bray is senior manager with Baker Tilly in Seattle.

Insurance premiums can be an expensive, annual drain on cash flow. In the past, many of our clients acquired life insurance policies due to fear of federal estate taxes. However, over the years, Congress increased the estate tax exemption substantially, to the point where now a married couple do not expect to owe federal estate tax unless their assets exceed $25.84 million. And while Washington state estate tax may be expected for an estate worth more than $2,193,000, the expected insurance needed to cover the estate tax is commonly much less than in the past.

Your financial needs will change over time, and this should include your life insurance policy. You may find that the policy you relied on as a security blanket earlier in life is no longer needed, or maybe it's become too expensive to maintain in retirement.

However tempting it may be to cancel the insurance and collect the remaining value of a whole life policy, you may get less money this way. And although death benefits paid from life insurance are generally free of income tax, the cash you receive from surrendering a policy will be reduced by income tax.

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If you want to continue insurance coverage, you can simply stop making premium payments. For a while, the ongoing premium costs of a whole life policy can be paid out of built-up cash value or from a policy loan. However, eventually the policy will lapse, and coverage will expire. A variation on this would be to ask the insurance company for a reduced paid-up policy. Here, the insurer may provide you with a reduced death benefit for the rest of your life with no more premium payments.

Another option would be to sell your life insurance policy, which could yield more money than you'd get by lapsing or surrendering it. Each year in the United States, about $200 billion in life insurance will lapse when it could have been sold as a life settlement. In fact, when life insurance companies create their products, they only anticipate approximately 10% of the policies being in force when the insured dies. People have the right to know the value of their assets, so they can make informed decisions. That includes the resale value of their whole life policy. Although such a sale does cause income tax, you can end up with more money than if you surrendered the policy to the insurance company.

Trustees of life insurance trusts should seek competent professional advice before surrendering policies. Imagine that you, as trustee of a life insurance trust, decide to terminate a $2 million life insurance policy in favor of receiving the current cash value of the policy of $300,000. Unbeknownst to you, the now uninsured person recently received a cancer diagnosis and is expected to live only another six months. You now have a potential malpractice claim against you for the $1.7 million difference that you lost for the family. Before lapsing a policy, it is imperative to investigate the health of the insured person to avoid these issues.

If you are debating canceling or lapsing your insurance policies, think twice and seek professional advice first. Doing so could help you avoid costly mistakes, or even yield more money in the long run.

Keeping the Family Business in the Family: Four Critical Components

Little surprises me after 34 years in the financial services business. When we meet prospective clients, we ask the following questions and often receive similar answers:

Question: *"Do you have a succession plan?"*

Response: *"No," or, "I do, but it's not formalized."*

Question: *"Do you know how much you need to achieve your financial goals?"*

Response: *"No," or, "I'm going to work forever; I'll never retire."*

Julie Prince is a wealth management adviser and owner of Prince Financial Services.

Question: *"Is your business worth as much as you need?"*

Response: *"I don't know."*

After growing up in a successful, second-generation family business, I knew I wanted to own a business someday. This led me to my wealth management practice and helping family-owned businesses plan. Having worked with hundreds of companies over the years, we've found there are four components to successful transitions.

What's your Plan?

Sounds simple. Some owners DO have what they consider a "plan;" however, is it integrated? Your financial adviser, legal counsel, and CPA will help you build a plan that works together and includes the following sub-plans:

- ***Personal financial plan*** to determine assets needed to meet your financial goals and protect against risks that could derail your vision.
- ***Business financial plan*** including continuity planning and succession planning, while using tax-efficient strategies. If this is done, when was it last reviewed?
- ***Estate plan*** to ensure the right assets are passed to the right people at the right time in a tax-efficient manner. If you have one, does it achieve your goals?

> ***"It takes roughly five to seven years to build and implement a transition plan."***

Fair is not Equal.

We once met children who inherited different assets when their parents passed. The son worked in the business with his dad, so he inherited the business. The daughters received real estate instead and felt it was inferior to the businesses' growth potential.

Ultimately, the son wasn't successful at running the company and closed it. Conversely, the daughters' real estate appreciated significantly. In the end, the method of passing on assets in the family