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"Just Crossed the Millionaire Threshold…what next?"

Our previous DH Financial letter to clients, colleagues, and friends set the stage for a series of three upcoming pieces which would focus on three different profiles of financial success. Each of the profiles is measured by a number of factors, including net worth - each presenting its own challenges and requiring new planning solutions and decisions.

At the high end of this planning spectrum—net worth of twenty million and above—issues center on taxation pitfalls that can undermine the transfer of multigenerational wealth. In the middle of the spectrum, beginning at eight million net worth, education and retirement funding are usually on track, but now estate tax opens planning gaps with a new set of problems and solutions.

These two profiles will be covered in the third and fourth letters of our four-part series, while in this offering, we focus on the breakthrough end of the spectrum—those who have earned millionaire status. If you fall into the \$8M-\$20M+ profiles, you probably have children or grandchildren, or other protégés, who have reached the millionaire brass ring. Below are the dilemmas they may face, which provides you with an opportunity to share this advice.

As always, no matter which net worth profile you have achieved, planning begins with goals—family financial security, business or career longevity, asset accumulation and protection, and of course healthcare. The more definitive your goals, the more clarity you will have to overcome the obstacles and capture the opportunities. Helping clients articulate and quantify their goals is where we enter the planning process. Here are some of the issues that millionaires need to consider.

Income Protection

Life insurance and disability insurance are the essential tools for managing the risks of income interruption. Your planning goals should define your needs and in turn define your solutions. It's more than cost—cost is determined based on your health and competitive market factors. Focus first on the right coverage and the right policy structure to meet your goals, as well as the right long-term flexibility to support changes in your goals ahead.

Retirement Funding

Social Security, employer plans, and personal savings make up the three-legged stool of retirement funding envisioned in the last century. In over eight decades since, the stool has become a little unstable. While the starting point for retirement—defined by the beginning of Social Security benefits—has moved ahead only a few years, longevity gains appear to be pushing the planning horizon by decades. With so long a period to plan for, the personal savings leg of the stool has to bear most of the weight. However, investing for retirement is not as clear cut as it was for past generations. Your returns are subject to market volatility, interest and tax rate volatility, rising cost of living, and expanding lifestyle choices. Our investment system was constructed to manage those variables effectively. One other positive that might surprise you is the potential value of permanent life insurance to balance that volatility alongside your retirement investment portfolio.

Educational Funding
Numerous surveys show that over the past twenty years, tuition costs have jumped roughly 200%. How can parents plan for such a large expense that appears to be multiplying when their children are barely through elementary school? Currently, tax-deferred Education Saving Accounts (i.e. 529 Plans)—analogous to IRA and 401K structures may be the most effective way to fund future tuition costs. But it pays to carefully examine all alternatives and integrate other funding resources including scholarships.

Tax Erosion
While from millionaire status up to the $8M net worth threshold, you will not be subject to estate tax, you must still take steps to protect against tax erosion on the value of the assets that you want to transfer incrementally to the next generation. One of the most valuable erosion strategies is the step-up in basis for transferring assets at an estate owner's death. The step-up ignores the growth in value of assets and accepts the current value of assets transferred shortly after the owner passes away. You can imagine the shock to heirs if they had to pay capital gains tax when they receive assets that have been growing in value for decades. We strongly advise you to capture this step-up in basis advantage as a component in your overall financial plan.

One of the most significant tax erosion traps is the taxation of IRA and other qualified accounts when they are transferred to beneficiaries. The trap means you cannot make your beneficiary choice with careful analysis of the impact of potential beneficiaries, maximizing the ability to stretch the distributions and minimizing tax erosion. Once the right choices are determined, paperwork must be completed and communicated to your account custodian. Perhaps these assets are best left for charitable intentions.

Charitable Intentions
The impulses to share the fruits of success and take more responsibility for public good tend to become more compelling with the growth of wealth. We appreciate smart devices as resources that make us more effective, and in the same way you need a "smart" charitable giving plan to get the most impact from your charitable activities. We can help you design and execute the plan, considering tax impacts as well.

These planning strategies, along with others, are examples of the commitment we make to help guide your understanding of challenges of being a millionaire. Our goal is to help you make informed decisions by educating and empowering you to be a better financial steward when accumulating, preserving, and passing on your legacy.

Best Regards,

David A. Hjorth, CLU, ChFC, AEP – Partner

Nicholas D. Hjorth, CPA, CLTC – Partner

Joanna L. Denny, CLTC - Director of Operations