WEALTH MANAGEMENT **ADVISOR**

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Digital assets are *the* 21st century estate planning challenge

Trusts vs. LLCs
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THE SECTION 529 PLAN: A VERSATILE FINANCIAL PLANNING TOOL

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The Section 529 plan: A versatile financial planning tool

You're probably aware that the Section 529 plan is one of the most effective college savings vehicles available. But did you know that its benefits extend well beyond financing higher education costs?

For example, you can use these plans to fund limited amounts of elementary and secondary school expenses. Plus, they offer some unique estate planning benefits. And now, under the SECURE 2.0 Act, if your plan is overfunded, you're allowed to roll over some or all unused funds into a Roth IRA.

How do they work?

529 plans are tax-advantaged investment accounts, sponsored by states or state agencies and designed to help families save for education expenses. Although lifetime contribution limits vary from state to state, they can reach as high as $500,000 or more per beneficiary. Cash contributions to 529 plans are nondeductible for federal tax purposes, but the funds grow on a tax-deferred basis and withdrawals are tax-free so long as they're used for "qualified higher education expenses." Qualified expenses include:

- College or vocational school tuition,
- Fees, room and board,
- Books and equipment and
- Up to $10,000 per year in elementary or secondary school tuition.

If you use 529 plan funds to pay for nonqualified expenses, the earnings portion of the withdrawal is subject to income tax plus a 10% penalty.

There may also be state tax benefits to investing in a 529 plan. Many states offer tax deductions

OPTIONS FOR UNUSED PLAN FUNDS

If you save too much and end up with unused funds in a 529 plan, you have several options:

Withdraw the funds. You'll have to pay taxes and any penalties, but you can use the money for whatever you want. Note: If your child receives a scholarship, you can withdraw that amount subject to taxes, but not penalties.

Designate a new beneficiary. This can be another one of your children, a relative outside your immediate family, or even you or your spouse. Remember, 529 plans aren't just for kids. You can also use them for continuing education or for certain trade school programs.

Hold on to the plan. You may be able to use it for a grandchild who hasn't yet been born.

Pay off student loans. You can also withdraw 529 funds tax- and penalty-free to pay down student loan debt, up to a lifetime maximum of $10,000 per beneficiary.

or credits for contributions to plans they sponsor. And 529 plans provide financial aid advantages because they're considered an asset of the parents rather than of the student.

What are the estate planning benefits?

Although 529 plans are primarily education savings accounts, they also offer some surprising estate planning benefits. Traditional estate planning vehicles, such as irrevocable trusts, require you to relinquish most control over the assets they hold to insulate them from estate tax. Contributions to 529 plans, like trusts, are considered completed gifts, so they're removed from your taxable estate. Unlike trusts, however, you maintain a great deal of control over the funds. For instance, you can direct the timing and amount of distributions, change the beneficiary, transfer the funds to another 529 plan, or even close the account and get your money back (subject to taxes and penalties).

Although 529 plan contributions are subject to federal gift tax, they qualify for the annual gift tax exclusion of $18,000 per recipient ($36,000 for gifts split with a spouse). But unlike other vehicles, they can be front-loaded with up to five years of annual exclusions. So you can contribute as much as $85,000 ($170,000 for married couples) to a 529 account in one year without triggering gift taxes or using any of your lifetime gift and estate tax exemption. This is particularly valuable now, because the exemption — currently $13.61 million — is scheduled to be cut in half in 2026.

What if you save too much?

Given the high cost of a college education, it's common for parents to open a 529 plan soon after their children are born. But what if your savings end up being more than you need? Perhaps your child decides not to go to college or receives a scholarship that covers most or all of his or her college costs. If this happens, you don't necessarily have to close the account and pay taxes and penalties. (See "Options for unused plan funds" on page 2.)

Thanks to the SECURE 2.0 Act, you now have another alternative: You can roll over some 529 plan funds into a Roth IRA for your child, tax- and penalty-free, jump-starting your child's retirement savings. But these rollovers are subject to several requirements:

1. Total rollovers can't exceed $35,000 per beneficiary.
2. The 529 plan must have been opened at least 15 years before the rollover is made.
3. Rollovers can't include contributions made within the preceding five years (or earnings on those contributions).
4. The rollover must be executed through a direct trustee-to-trustee transfer.

Note: Even if these requirements are met, rollovers are subject to the usual annual limits on Roth IRA contributions — currently, the lesser of $7,000 ($8,000 if over age 50) or the beneficiary's earned income.

All-purpose financial tool

If college costs are in your future, a 529 plan is a great way to save. And if it turns out you don't need the funds for higher education expenses, these plans are flexible enough to adapt to changing circumstances and serve other financial functions. ■

Digital assets are *the* 21st century estate planning challenge

When it comes to estate planning, the fundamentals have changed very little over the past 50 years. Most people use wills, trusts and other legal documents to protect their assets and pass them to loved ones.

What has changed, particularly in the 21st century, are the types of assets for which you now must plan. Along with cash, investments, real estate and other tangible property are now digital assets — including passwords, websites, cryptocurrency, social media accounts and even intellectual property you've developed. And if you haven't included these assets in your estate plan, they may not go where you want them to after you're gone.

Ask questions

To start the digital asset planning process, ask a few questions: How will your electronic records be handled after your death? Can family members easily obtain passwords and access your accounts? Will the bills you're automatically paying online continue to be paid? And what happens to other information you consider to be confidential?

If you don't have ready answers to those questions, it's time to act. Just keep in mind that the laws in this area are still evolving. Another complication is that legal remedies vary from state to state and some jurisdictions haven't enacted any legislation for these critical issues.

Inventory your holdings

To account for your digital assets, conduct an inventory, including where computers, servers, handheld devices and websites can be found. Next, talk with your estate planning advisor about strategies for ensuring that your representatives have immediate access to your digital assets in the event something happens to you.

Although you might want to provide in your will for the disposition of certain digital assets, a will definitely isn't the place to list passwords or other confidential information. For one thing, a will is a public document. For another, amending your will each time you change a password would be expensive and time consuming.

One solution is to write an informal letter to your executor or personal representative that lists important accounts, website addresses, usernames and passwords. The letter can be stored in a safe deposit box, with a trusted advisor or in some other secure place. However, the problem with this approach is that you'll need to update the list each time you open or close an account or change your password, a process that's cumbersome — not to mention, easy to forget.

A better solution might be to establish a master password that gives your representative access to a list of passwords for all your important accounts, either on your computer or through a Web-based "password vault." Another option is to use one of several online services designed for digital asset estate planning.

Keep in mind that the laws in this area are still evolving and that legal remedies vary from state to state.

Attend to details

Other steps to consider include reviewing social media agreements. Read the fine print about your participation in social media sites and other online accounts. If you're not satisfied with the terms upon closer inspection, you might want to terminate your account. Be especially wary of restrictions on the use of a power of attorney.

Finally, consider using a digital storage unit. There are online services available, or you could save information using encrypted files on your computer or other device such as an external drive. Wherever it's kept, be sure to share the location of the information, and the password for the files, with a trusted individual who'll need to access the data on your behalf. Communication is key.

Special issues

Although these steps can help address common issues surrounding access to your various accounts, you may need additional safeguards if you own assets such as cryptocurrency and NFTs or if you've created digital properties, such as software. Be sure to discuss anything out of the ordinary with your estate planning advisor. ■

Trusts vs. LLCs

Protecting your assets from lawsuits and creditors

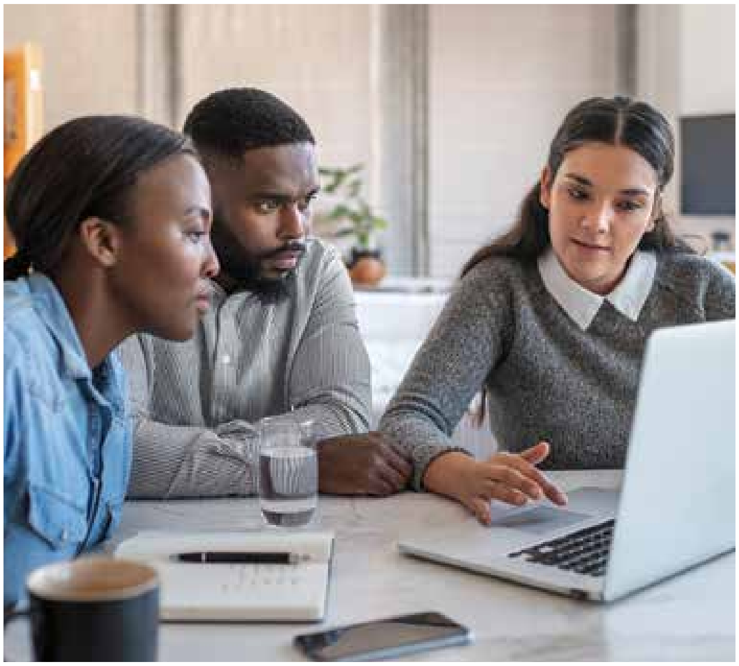
All the estate planning in the world won't do you much good if you have no assets to leave to your family. Protecting what you have is particularly important if your business, profession or personal activities expose you to frivolous lawsuits or creditor claims.

Two of the most effective asset protection vehicles are trusts and limited liability companies (LLCs). Each type of entity has advantages and disadvantages, so the right one for you depends on your circumstances and objectives.

Irrevocable legal arrangement

A trust is a legal entity you establish to hold assets such as cash, investments or real estate for the ultimate benefit of your spouse, children or other loved ones. The trust document designates one or more trustees and successor trustees to manage the trust. It also specifies the conditions under which the assets will be distributed to your named beneficiaries.

Generally, to protect your assets from creditors, the trust must be irrevocable, meaning you must relinquish most control over the assets it



holds. You should also avoid naming yourself as a discretionary beneficiary, although that may be permissible in states that authorize domestic asset protection trusts (DAPTs). Another option is an offshore trust, which offers strong asset protection and may even allow you to access the assets down the road.

There are several advantages to trusts. For example:

- They're relatively inexpensive to set up and maintain,
- They're usually private — that is, they don't require any public filings and
- Trust assets generally are exempt from probate.

The main disadvantage of trusts is that to provide asset protection they need to be irrevocable. That means you must give up control of the assets. Plus, protection from creditors ends after your beneficiaries take ownership of them.

Flexible business entity

An LLC is a business entity that combines the liability protection of a corporation with the flexibility and tax advantages of a partnership. To protect your assets, establish an LLC, transfer assets to the entity, and then gift or sell membership interests to your spouse, children or others.

The LLC structure facilitates a transfer of wealth while providing strong asset protection to you and the other members. Generally, the members' personal creditors can't effectively reach the LLC's assets. Conversely, the LLC's creditors can't reach the members' personal assets.

LLCs are generally more costly and time consuming to set up and maintain than trusts, and because they require public filings, some personal information may have to be disclosed. What's more, avoiding probate may be more challenging (though still possible). But LLCs provide asset protection while allowing you to maintain complete control over the assets by retaining a controlling interest in the entity. Plus, this protection can extend beyond your lifetime. When your loved ones take control, they continue to enjoy the liability protection provided by the LLC structure.

Sooner the better

Asset protection strategies only protect you against unanticipated creditor claims that arise in the future. You can't use them to avoid liability for existing or reasonably foreseeable claims. Federal and state fraudulent conveyance laws prohibit transfers of property (to a trust or LLC, for example) with the intent to hinder, delay or defraud existing or foreseeable future creditors. Also, certain obligations — such as taxes, alimony or child support — are difficult, if not impossible, to avoid.

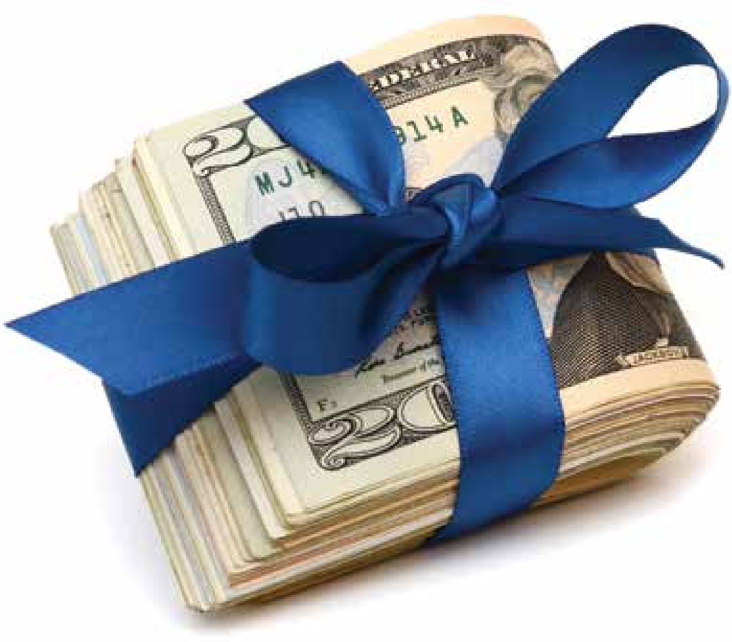
Therefore, the sooner you implement an asset protection strategy the better. Discuss your situation and needs with a professional advisor. ■

When does it make sense to fund gifts with retirement savings?

Using your traditional IRA or employer-sponsored retirement account to fund gifts generally is a bad idea. Withdrawing those funds will immediately trigger income tax (plus a 10% penalty if you're under 59½), not to mention the loss of continuing tax-deferred growth in the future. However, under certain circumstances, funding gifts with your retirement savings may provide a tax advantage.

High exemption through 2025

The federal gift and estate tax exemption is $13.61 million ($27.22 million for married couples) in 2024. But in 2026, those numbers are scheduled to drop to $5 million and $10 million, respectively.



To lock in the higher exemption amounts before they expire, consider making substantial gifts by the end of 2025. If the funds for such gifts are unavailable elsewhere, it may make sense to tap retirement accounts, so long as the anticipated estate tax savings outweigh the income tax cost.

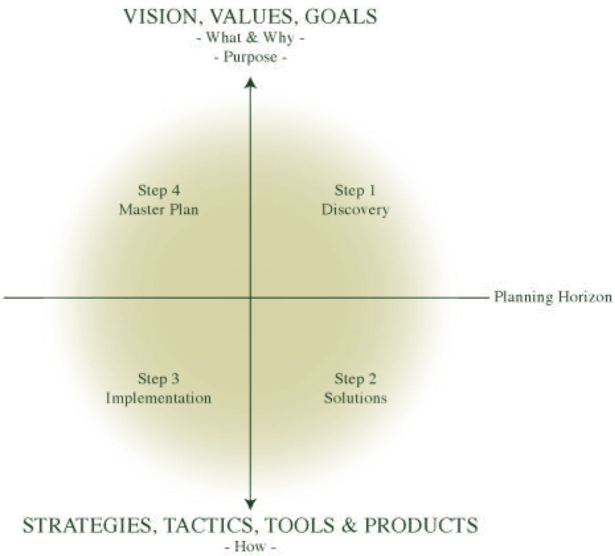
Let's look at an example. Suppose that Meredith, a single parent, has a current net worth of $7 million, including $1.5 million in a traditional IRA. When she dies in 2026, the exemption has dropped to $6.46 million, while her IRA balance has grown to $1.75 million and her overall net worth has grown to $8.46 million. Her estate tax is 40% x ($8.46 million – $6.46 million) = $800,000.

Suppose, instead, that Meredith withdraws the funds from her IRA and gives them to her two children in 2024. The gift is shielded from gift tax by the exemption. Assuming she's in the 35% tax bracket (and is over 59½), she's liable for federal income tax of 35% x $1.5 million, or $525,000. By withdrawing the IRA funds, she avoids $700,000 in estate tax (40% x $1.75 million).

Right move

Granted, the previous example is oversimplified. But the point is clear: In some circumstances, estate tax savings outweigh income tax costs, and using an IRA to fund gifts can be a reasonable strategy. Talk to your financial advisor to learn whether it's the right move for you. ■

About Integrated Financial



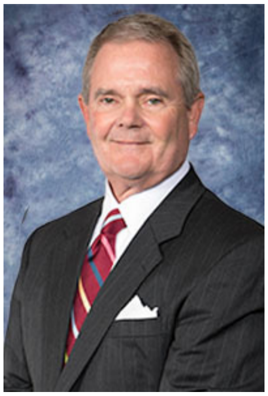
The Integrated Planning Process™

Over the last four decades, successful individuals, entrepreneurs, privately owned companies, foundations, and Fortune 1000 corporations have provided Integrated Financial with daily opportunities to address diverse estate, financial and business planning challenges.

Through this experience, we have developed a process that provides a strategic approach to addressing the important financial concerns that our clients encounter. This unique four-step process, The Integrated Planning Process™, assists our clients in gaining clarity and insights as to their Vision and Goals for themselves, their family, their business and their community.

We believe that success breeds success. While we acknowledge there are many qualified advisors to choose from, very few can match the combination of our experience, resources, perspective and success.

Meet Michael



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