GROUNDEDTHOUGHTS

FINANCIAL & RETIREMENT PLANNING FOR LIFE

Giving is a family affair

How to inspire charitable values for generations to come.

As wealth grows, so does the desire to increase charitable contributions – and leave a legacy of generosity. Involving your family in such a noble effort can bring even greater joy. It's a heartwarming feeling when you pass down your value of helping others, to live on long after you're gone.

Before money actually reaches your heirs' hands, you'll want to prepare them for this great responsibility and invite them to actively participate in your giving. There are many ways to do this, casually and formally, but doing it alongside them will set the tone for your expectations later on – and inspire them to perpetuate your benevolence.

VALUES, MORE THAN MONEY

It's easy to get caught up in the details of how best to earmark money for your family to facilitate charitable contributions. But before we consider the how, think about the why. Reflect on why it's important to involve your family in charitable affairs (which may help guide your strategy for execution).

Share with your family why charitable giving is a value you want to pass on to them. They should understand your motivations for doing it and what programs you're passionate about. Educating them on why charitable contributions are important to you will inspire them to make the same impact. If you share stories of how you were able to affect some of the causes close to your heart, they'll also be able to be better stewards for your money (and theirs), later on.

(continued on next page)

Robert D. Pearson, CRPC®
Managing Director
Senior Vice President, Wealth Management
6303 Cowboys Way, Suite 425
Frisco, TX 75034
T 469.476.3655
robert.pearson@raymondjames.com

Andrea Burkhalter
Senior Reg. Client Service Associate
T 469.476.3669
andrea.burkhalter@raymondjames.com

Amanda Adams
Client Service Associate
T 469.476.3656
amanda.adams1@raymondjames.com

Giving is a family affair (cont.)

Everyone's talking about this Great Wealth Transfer, in which an estimated $84 trillion is set to transfer from the hands of baby boomers to their heirs. While $72 trillion is projected to go to the next generation, $12 trillion is expected to be donated to charities over the next 20 years. Prepare your family for the plans you've put in place by starting conversations about your expectations.

You can create a family mission statement to guide your giving but allow your children and grandchildren to start building their own philosophy as well. After all, one of the reasons they'll take interest in participating is that they can decide where some of the funds go. They may see different causes that will benefit from the donations and making a real difference for these charities will spark continued generosity.

VEHICLES FOR DONATING

Knowing about the charitable vehicles available will help facilitate your family's active participation in giving. Each vehicle offers its own benefits, so speak to your advisor about which option is best for your situation.

- **Private foundation:** One of the biggest draws of private foundations is their ability to offer customized and high-touch charitable giving options, including scholarships and competitive grants. You can establish a private foundation and invite your family members to become board members or to vote on where charitable funds will be distributed. Private family foundations can be funded on an ongoing basis through cash, publicly traded securities, private stock, real estate and other family-controlled assets (distributing at least 5% of assets to charities or qualifying individuals each year). Depending on the level of involvement your family members want, you can elect one of them to manage the foundation or hire a professional operating partner to oversee administrative tasks, as they can become complex and burdensome.
- **Donor advised fund (DAF):** Another option to involve family members (perhaps with less of an administrative burden than that of private foundations) is a DAF. These are a popular choice because they offer great tax benefits and desirable flexibility. Unlike private foundations, DAFs aren't required to meet annual distributions requirements, and you can take the immediate tax deduction when you contribute to the fund. In fact, the deduction for contributing cash can be up to 60% of adjusted gross income and 30% for long-term publicly traded securities. (That compares to 20% and 20% respectively for a foundation.) You can use your family name or moniker to name the fund, and even remain an anonymous donor if you wish.

While involving your family in the giving decisions for these family charitable endeavors is a good start, you may consider starting a separate foundation or DAF for family members if there's interest down the line for increased involvement – doing so may mean leaving a more profound family legacy. This will give your children or grandchildren full ownership over choosing the causes to support, and a sense of pride that they were able to make a difference.

LEAVING A FAMILY LEGACY

Regardless of the approach you take to family giving, the end goal is to leave a family legacy of generosity. This starts with a conversation and living and breathing the values of caring and giving on a regular basis. In fact, according to More than Money 360, lack of communication and trust are at the top of the list of risks to family's wealth (along with deficiency in legacy planning).

Communication about financial wealth should not just focus on money. Instead, incorporating core values, legacy, philanthropy and defining life experiences will refocus the conversation on the family unit – what matters most. Coupled with active participation in giving, this practice helps foster a spirit of gratitude over entitlement.

As your family members age, they may find new causes they care about and have the desire to support. If you lay the groundwork for charitable giving, they will carry it with them for the rest of their lives – and pass it down to the next generation. Talk about making a difference.

NEXT STEPS

To involve your family in your charitable giving:

- Invite them to have a say in guiding your donations.
- Keep ongoing conversation focused on the impact your wealth can make.
- Consider opening a charitable account for them to manage.

Sources cerulli.com; cnbc.com; westwoodgroup.com; plannedgiving.com; nonprofitpro.com; fidelitycharitable.org; philanthropydaily.com

Raymond James does not provide tax or legal advice. Please discuss these matters with the appropriate professional.

Should you convert your traditional IRA to a Roth?

Some scenarios point to Yes, others say No.

If a Roth IRA conversion means tax-free withdrawals in retirement and a more substantial inheritance for your heirs later on, it sounds like a no-brainer. But converting a traditional IRA to a Roth doesn't make sense for everyone.

Roth IRAs are funded with after-tax dollars, and provided that several criteria are met, qualified withdrawals are tax free. If you're converting funds from a traditional IRA to a Roth IRA, you'll have to pay taxes on that income upfront. But it may be worthwhile to have access to tax-free money during retirement.

SMART MOVE?

Below are a few situations in which a Roth IRA conversion is worth considering:

- **To minimize income taxes, consider a Roth IRA conversion in a year that your income is lowest**. The amount you convert will be added to your annual gross income and could push you into a higher tax bracket.
- **You live in a state with no income tax but will retire to a state with income tax.** By doing the conversion in your current state, you'll avoid the state income tax on withdrawals of the converted funds.
- **You have most of your assets in tax-deferred accounts.** Once you make the conversion to a Roth IRA, you'll have access to tax-free money in retirement. Diversifying your accounts by tax treatment will allow you to better manage your tax bracket and help optimize tax planning in retirement.
- **You don't need the money from the IRA in your lifetime and want to maximize the estate you leave to your heirs.** Your heirs can eventually access the Roth IRA without tax implications, as long as they follow the guidelines set forth by the IRS
- **Your taxable income will stay the same but you expect tax rates to go up in the future.** If you think tax rates will go up in the future, it might be better to pay the tax liability now when rates are lower.

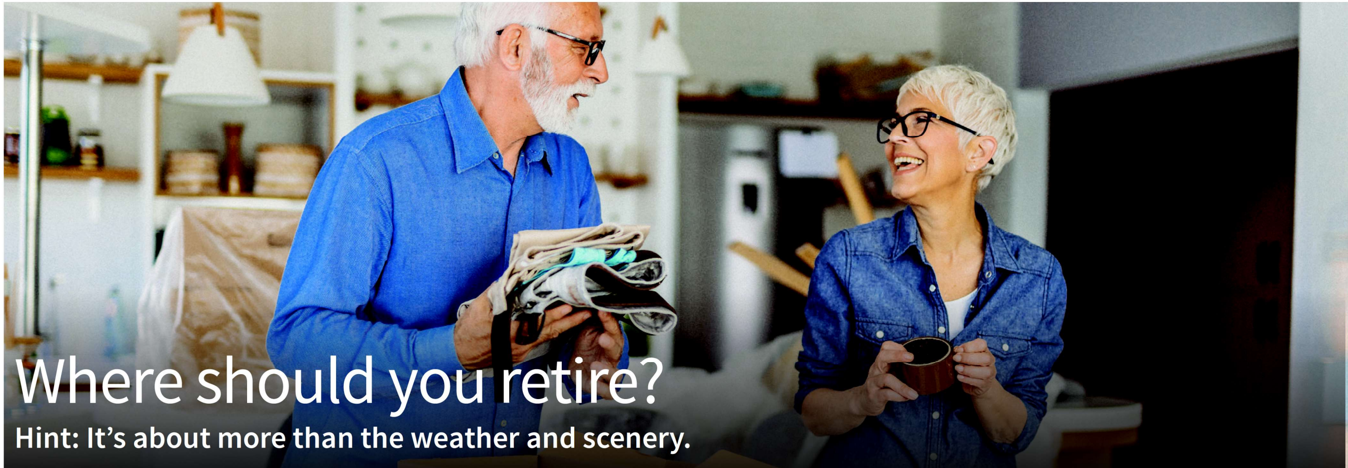
But in these scenarios, you might want to think twice about making a Roth IRA conversion, at least for now:

- **You're nearing retirement and you plan to use your traditional IRA to pay for living expenses**. The advantage of the Roth IRA is that qualified distributions are tax free. If you need IRA funds soon, you can't give those funds a chance to grow and compound and you haven't maximized the growth potential.
- **You're currently receiving or are two years away from receiving Medicare benefits**. A Roth conversion would increase your taxable income and could impact how much you pay for Medicare Part B and D premiums.
- **You don't have cash on hand to pay for the conversion taxes.** If you don't have the cash but want to go through with the conversion anyway by selling assets to pay the taxes, look at assets without taxable gains or those that have a higher cost basis. Best practice is to use funds outside of an IRA to pay for the conversion.
- **You plan to give a substantial amount of your IRA to charity**. A Qualified Charitable Distribution (QCD) from a traditional IRA to an eligible charity is a non-taxable way to fulfill charitable wishes. While a QCD from a Roth IRA will also meet charitable goals, it results in unnecessary taxes paid beforehand.

Chat with your advisor before converting a traditional IRA to a Roth. While it can be a powerful move, it's not always the best choice.

Sources: wellsfargo.com; schwab.com; investor.vanguard.com; investopedia.com; kiplinger.com; fool.com

If you decide to convert from a traditional to a Roth IRA, there won't be tax on any distributions, however there could be a 10% penalty unless each conversion has a five-year holding period or you meet a 10% penalty exception. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.



Where should you retire?

Hint: It's about more than the weather and scenery.

Dreaming of a sunny retirement? Or one with a mountain view? Where you retire depends on more than the weather and the scenery. Different states have different tax considerations – and taxes can have a major effect on the quality of your retirement. Among other financial factors, local taxes should be considered as you decide where you'll spend the next chapter of your life.

TAX CONSIDERATIONS

One way to cut your tax bill is by moving to a state that doesn't have an income tax. There are seven U.S. states that do not have an income tax: Alaska, Florida, Nevada, South Dakota, Tennessee, Texas and Wyoming. Washington state taxes investment income and capital gains, but only for certain high earners, and New Hampshire taxes investment and interest income but is phasing out those taxes.

Keep in mind that wherever state taxes are lower or absent, state-funded programs may be similarly lacking. If you expect you may one day depend on certain government-supported services, you may find a state with higher taxes a smarter move in the long term.

Avoiding destinations with a state income tax isn't a surefire way to minimize your tax burden. WalletHub conducts an annual analysis of the total tax burden by state, measuring the proportion of total personal income that residents pay toward state and local taxes – including state income taxes, property taxes and sales and excise taxes. There are a few additional states on WalletHub's list that keep their tax burden low, even while taxing residents' income. According to WalletHub, the 10 states with the lowest overall tax burden, lowest to highest, are Alaska, Delaware, New Hampshire, Tennessee, Florida, Wyoming, South Dakota, Montana, Missouri and Oklahoma.

OTHER FINANCIAL FACTORS

A lower tax bill shouldn't be the only consideration when it comes to location-specific expenses in retirement. The biggest expense in retirement is housing cost, which fluctuates drastically by location. Even if you've paid off your mortgage, other homeowners' expenses like property taxes, insurance, maintenance and repair costs are higher in some regions and cities than others. Moving where housing costs are low – even if taxes are high – can help your overall budget significantly.

If you plan on working in retirement, you'll want to take note of the second-act career opportunities in some areas. (Of course, with remote working becoming widely available, job location is not as important as it used to be.) Also important is the accessibility of quality affordable healthcare where you plan to retire – healthcare ranks third on the list of biggest expenses in retirement and may be the most important consideration as you age.

While warm weather and a gorgeous view are the makings of an ideal retirement, don't overlook taxes and other location-specific financial factors. Considering these may ultimately lead to a higher-quality retirement.

FRIENDS, NEIGHBORS AND FAMILY

For more than twenty years, we have made ourselves available as a sounding board for anyone needing financial advice or a second opinion. If you have a friend, neighbor or family member who is in need of advice, or a second opinion service, please let them know that we will always make time to listen and do our best to help. It is such a privilege having you on board, and we'd be thrilled for the chance to service more folks as awesome as you!

Sources: investopedia.com; pods.com; finance.yahoo.com; wallethub.com; visionretirement.com

All investments are subject to risk, including loss. Past performance is not indicative of future results. There is no assurance the trends mentioned will continue. Material created by Raymond James for use by its advisors. The information contained herein has been obtained from sources considered reliable, but we do not guarantee that the foregoing material is accurate or complete. Raymond James is not affiliated with any other entity or individual listed herein.
© 2023 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. 22-BDMKT-5851 BS 11/23