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MOLDENHAUER & ASSOCIATES

SEPTEMBERNEWSLETTER

Editor: Richard C. Moldenhauer, CLU, CEP, RFC *Chartered Financial Consultant*

With my kids heading back to school, I feel it's appropriate to write a newsletter article about procrastination. After all, this month's newsletter is delayed because…well, I've been procrastinating writing one.

My father or I usually write the end of the year newsletter about "housekeeping". We feel it's important to take a thorough inventory of your financial life; investments, insurance/protection, estate planning documents, etc. Each year we see new rules/changes to some of the laws that impact an individual's plans. There have been A LOT of questions this year about social security, and specifically the taxation of social security checks. There has been clarification on some of the IRS rules regarding inherited retirement accounts, or "Beneficiary IRAs" (BDA IRA). Some days, it seems like keeping up with the changes ruled on, implemented or proposed by the government is a full time job; all the more reason to make sure you're having review meetings…let us know if we need to get one for you in the schedule.

I feel like there have been a lot of questions from clients recently about estate planning. Some clients are looking to implement trust planning to help protect all/some of their assets. Though we're not attorneys, the estate planning documents can significantly impact and influence the guidance and work we do with clients. We want to make sure there is clarification on what kinds of assets should be considered for a trust, what are the pros and cons of keeping certain assets or accounts outside of a trust, etc. We often talk regularly with our client's estate planning attorneys to make sure the financial plan and the estate plan are designed to work together, getting the most benefit possible.

Don't let procrastination on these types of topics create anxiety in your life. We're here to help with these topics, and we have access to people who can help, when the time is right, to make updates.

Since school is starting, I'll also write for a minute about change. This school year presents a big change in our house; all our kids will be in school this year. With Andrea being a stay-at-home mom, I think she's surprised how little free time she still has while the kids are in school, especially compared to what she was expecting.

Along with the theme of "change", many clients have been asking about Commonwealth becoming part of LPL. There has been at least one letter that has gone out to every client about this, and some may have received more based on the type of account(s) they have. I'll summarize it here: Moldenhauer & Associates has been, and will continue to be, an independent financial planning firm. We have chosen to have Commonwealth be our Broker-Dealer, which means they help us in our work with clients (provide technology, implement trades, regulatory compliance review, etc). They have been a great firm for us to partner with in providing guidance and service to our clients. The owner(s) of Commonwealth announced their intention to sell to LPL, which is the largest independent Broker-Dealer. This led me down a path of many weeks-months of due diligence; is LPL a good fit for our firm and how we work with clients? The answer is that I feel they are the best path forward for Moldenhauer & Associates. I've had several conversations with people at LPL, Commonwealth, and our team here. We've reviewed the support they offer and feel that they give us the best tools to support the work we do with clients. They provide more access to efficient custodial work, planning and research work (they're bigger after all), and the technology we will have access to will help us do great work better and more efficiently. I'll stop there, but encourage you to call the office, or ask for more information during your next meeting.

Change and procrastination…a lame newsletter article, but I'm saving my good stuff as we get closer to the end of the year. Until then, GO BILLS!!

Brett Moldenhauer

Brett Moldenhauer

WHAT YOU SHOULD KNOW BEFORE NAMING A MINOR AS A BENEFICIARY

If you have young children, grandchildren, or other little ones in your life who are dear to you, you might consider including them in your estate plan. One component of that estate plan may include naming them as a beneficiary on your financial accounts, insurance policies, or other assets via a will. While leaving assets to minors may seem like a simple solution, it can lead to unintended complications. In this article, we'll explore the challenges minors face when inheriting assets and provide practical strategies to help ensure that your wishes are carried out smoothly.

What Challenges Do Minors Face as Direct Beneficiaries?

Minors legally cannot own or manage significant funds or property without a custodian. Here are the potential challenges when leaving assets directly to a minor:

• **Custodianship:** When a minor inherits assets outside of a trust, they will usually need a custodial account to manage the funds until they reach the age of majority. This account requires a designated custodian, who may be a parent, legal guardian, or another trusted person. If no custodian is named, then most often a natural parent or legal guardian will typically take on this role. Speak to your financial advisor or attorney for more information about how to elect a custodian.

• **Lack of control:** In almost all circumstances, control of custodial accounts must be transferred directly to the minor once they reach the age of majority as defined by state law (often either 18 or 21). This may not align with your original intention if the child isn't ready to handle the inheritance responsibility.

• **Probate:** When leaving assets to a minor via a will, they could go through probate, a costly and time-consuming process that validates your will and distributes the assets. To avoid delays and complications, it's important that all accounts have named beneficiaries, and you consider using a trust to bypass probate.

How Can You Establish a Trust to Protect a Minor's Inheritance?

A trust is often the most flexible and effective way to ensure that your child's inheritance is distributed according to your wishes. However, it is also often the most expensive. Here are some of the features of a trust:

• **Control over distribution:** You can set specific terms, such as distributing funds at milestones like graduating from college or reaching a certain age, ensuring that your child is prepared to manage their inheritance.

• **Protection from mismanagement:** A trustee (either an individual or institution) will manage the funds responsibly, ensuring that they are used appropriately, such as for education or housing, until the child is mature enough to take control.

• **Extended control beyond age of majority:** If you don't want your child to have full control at 18 or 21, a trust allows you to distribute assets over time (e.g., 25% at age 25, 25% at 30, and the remainder at 35). This approach helps ensure your child's financial maturity before receiving large sums.

When Might Custodial Accounts Be Appropriate?

If you're looking for a simpler option, custodial accounts under the Uniform Transfers to Minors Act (UTMA) or the Uniform Gifts to Minors Act (UGMA) might be a good choice. These accounts allow you to transfer assets to a minor while appointing an adult custodian to manage them until the child reaches the age of majority (usually 18 or 21, depending on the state) via a beneficiary designation.

Key features of custodial accounts:

• **Simple and cost-effective:** Easy to set up with no complex administration. There are typically no ongoing fees or tax filings.

• **No probate:** Funds in a custodial account avoid probate via a beneficiary designation, ensuring a quicker transfer.

• **Automatic control at age of majority:** Once the child reaches the age of majority as defined by the state, they gain full control over the account, which may not be ideal if they aren't ready to manage it. For this reason, custodial accounts may be best suited for smaller amounts or simpler needs.

Why Is Choosing the Right Trustee or Custodian Critical?

Whether you choose a trust or a custodial account, selecting the right person to manage the funds is essential. This person will be in charge of handling the money and making decisions, so they must be financially responsible, trustworthy, and likely to outlive you. It's also a good idea to name a backup trustee or custodian in case your primary choice is unable or unwilling to take on the responsibility.

For larger sums or more complex situations, you might want to consider naming a professional trustee, such as a financial institution or estate planning expert, to ensure that the trust is managed according to your wishes. Speak with your financial advisor to determine if a professional trustee is the best option for you.

What Circumstantial and Tax Implications Should You Consider?

Leaving money or property to a minor can have tax implications that should be considered. One important factor is the kiddie tax, which applies to any unearned income (such as investment earnings) a child receives. If the amount exceeds a certain threshold, it will be taxed at the parent's rate instead of the child's, which could lead to a higher tax burden. Also, trusts are often taxed at higher rates than individuals, so if you set one up, it may quickly reach the highest tax bracket, even if the income is relatively low. Additionally, retirement assets left to minors could affect their eligibility for student aid, and naming special needs beneficiaries could affect their government benefits. Always consult with your financial advisor and a tax professional to structure the inheritance in a way that minimizes tax consequences and aligns with your overall financial goals.

Have You Considered 529 Plans for Education-Specific Inheritance?

For those who want to leave funds specifically for a child's education, a 529 college savings plan can be an excellent option. These state-sponsored accounts provide tax advantages when funds are used for qualified education expenses. The benefits include:

• **Tax advantages:** Contributions grow tax free, and withdrawals for education expenses are not taxed.
• **Control:** The account owner maintains control of the funds, even after the child reaches adulthood.
• **Flexibility:** If the child doesn't need the funds, you can change the beneficiary to another family member. Additionally, starting in 2024, you can transfer a certain amount of funds into a Roth IRA for the beneficiary, offering additional flexibility for long-term savings.

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Some estate planners recommend using a 529 plan alongside other inheritance tools, such as trusts, to create a comprehensive financial plan.

While naming a minor as a beneficiary is a thoughtful gesture, it requires careful planning to ensure that your assets are used responsibly and in the best interests of your child or grandchild. Consulting with an estate planning attorney, tax professional, and your financial advisor is key to creating a plan that aligns with your goals, minimizes tax implications, and helps avoid unnecessary complications in the future. By taking proactive steps today, you can ensure that your loved ones are supported when they need it most.

Three Ways to Protect a Minor's Inheritance

TRUSTS

- Managed by a trustee you select
- Custom distribution schedule (e.g., 25% at age 25 and 30, remainder at 35)
- Funds can be designated for specific purposes
- Protection from future creditors for some types of trusts

BENEFIT:
Maximum control over how and when assets are distributed

CONSIDERATION:
More complex and costly to set up and maintain

CUSTODIAL ACCOUNTS (UTMA/UGMA)

- Managed by custodian until child reaches adulthood
- Simple to establish at most financial institutions
- Lower setup and maintenance costs
- No probate process required

BENEFIT:
Straightforward and inexpensive to create

CONSIDERATION:
Child gains full control at age of majority (18–21)

529 PLANS

- Tax-advantaged education savings
- Account owner maintains control regardless of beneficiary's age
- Can be transferred to another family member or up to $35,000 can be transferred to a Roth IRA if needed after certain requirements have been met
- Funds grow tax free when used for education

BENEFIT:
Tax-free growth for educational expenses

CONSIDERATION:
Penalties may apply if not used for qualified education costs

How Much Should You Spend on Aging in Place?

Aging in place—the idea of staying in your own home as you grow older—offers both independence and comfort. But while the idea sounds appealing, the financial reality of making it happen can be more complicated than many anticipate. From home modifications to in-home care, there are a variety of costs to consider and plan carefully. Let's break down the key costs associated with aging in place, and how you can manage them to stay on track with your financial goals.

Home Modifications: Preparing Your Home for the Long Term

As you get older, your home needs to be safe and easy to navigate. If you're noticing that everyday tasks, such as walking up stairs or stepping into the bathtub, are becoming more difficult, now is the time to think about home modifications.

Key Modifications to Consider:

- **Stairs and entryways:** If you have trouble with stairs or walking, adding ramps or installing a stairlift can improve safety and mobility.
- **Bathroom updates:** Consider a walk-in shower, grab bars, or a raised toilet seat to reduce risks.
- **Wider doorways:** If you use a walker or wheelchair, widening doorways can make it easier to move around.

These updates could cost anywhere from a few hundred to a few thousand dollars, but they're far less expensive than medical bills from accidents caused by unsafe living conditions. Fortunately, there are financing options such as home improvement loans and grants specifically for seniors, and some modifications may even be tax deductible.

Financial Tip: Look into financing options early to avoid unexpected financial strain. Research grants, loans, and tax benefits to help cover the cost.

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Home Maintenance: Planning for Ongoing Costs

As you age, maintaining a home becomes more difficult. If you've lived in a large house for years, you might find that tasks such as mowing the lawn, cleaning gutters, or even managing repairs are becoming overwhelming. At some point, you'll likely need help with these tasks.

Maintenance Tasks to Plan For:

- Lawn and yard care: Lawn mowing, snow shoveling, and landscaping
- Routine repairs: Plumbing issues, fixing appliances, roof repairs
- Cleaning services: Regular cleaning to keep the home tidy and safe

For many older homeowners, these costs add up quickly. The expense of hiring help for even basic upkeep can reach thousands of dollars annually, depending on your location and the services you need. Planning for these ongoing expenses now can help prevent surprises down the line.

Financial Tip: Set up a dedicated maintenance fund specifically for these types of expenses. This allows you to manage regular costs without tapping into your retirement savings.

In-Home Care Costs: How to Prepare for Assistance

As time passes, most people will need some help with daily activities, whether it's preparing meals, managing medications, or getting dressed. These costs can add up quickly, so it's important to plan for them in advance.

Types of Care to Consider:

- Personal care aides: These professionals assist with daily tasks such as bathing, dressing, and meal preparation. They usually charge an hourly rate.
- Skilled nursing care: If you need more specialized medical help, such as physical therapy or medication management, a nurse may be required. This is generally more expensive than personal care aides.

The cost of hiring an aide for even a few hours a day can run into thousands of dollars per month, depending on your location and the level of care needed. If you don't already have long-term care insurance, now is the time to consider it to offset these future expenses.

Financial Tip: Check whether your health insurance covers any part of in-home care, or if Medicaid is an option in your state. And if you don't already have long-term care insurance, look into options that might suit your needs.

A Step-by-Step Financial Guide for Aging In Place

Assess home accessibility needs
Identify modifications you may require.

Budget for home modifications
Plan for safety upgrades, such as grab bars or stairlifts.

Account for ongoing maintenance
Set aside money for routine repairs and services.

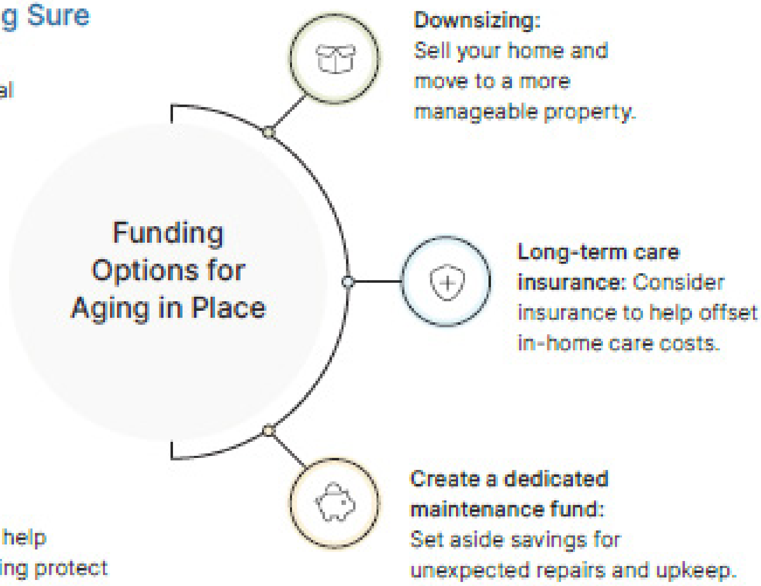
Understand care costs
Determine the level of in-home care you may need and get quotes.

Explore financing options
Research downsizing and long-term care insurance.

Reevaluate regularly
Monitor your needs and financial situation yearly.

Financial Sustainability: Making Sure You Can Cover the Costs

Aging in place requires long-term financial planning to ensure that you can cover all these costs without depleting your savings. You may need to explore different strategies for funding your home modifications, maintenance, and care needs.



Options to Consider:

- **Downsizing:** If your current home is large or costly to maintain, selling it and moving to a smaller, more affordable property can free up cash.
- **Long-term care insurance:** This can help cover the cost of in-home care, helping protect your savings when your care needs increase.

Financial Tip: Downsizing is a significant financial decision. Speak with a financial advisor to fully understand its long-term implications before moving forward.

When Aging in Place Becomes Too Costly

At some point, you may find that the costs of aging in place—or the physical demands of maintaining your home—become too great. If your care needs increase or home maintenance becomes too difficult, it's time to reassess whether staying in your home is still the best choice.

For example, you might start with part-time in-home care, but as your needs grow, you may find that full-time care is necessary. The costs of full-time care and maintaining your home could exceed your budget, making other options, such as assisted living, more appealing.

Financial Tip: Regularly reassess your needs and expenses. If aging in place becomes unmanageable, consider speaking with a financial advisor to explore other options, such as transitioning to assisted living, before you reach a crisis point.

Plan for the Long Term

Aging in place is a great goal for many, but it requires thoughtful financial planning. From home modifications to in-home care and regular maintenance, understanding the full scope of the costs involved will help you set realistic expectations. By budgeting carefully, exploring financial options, and reassessing your needs periodically, you can ensure that aging in place remains a viable option that allows you to live comfortably in your own home for as long as possible.

UPCOMING EVENTS:

OUR FINANCIAL PLANNING DINNER SEMINARS WILL RETURN IN THE FALL

Have a safe and enjoyable Summer!

We find that the best way to introduce new potential clients to our firm is when an existing client brings a friend to one of our seminars. As you know, these are information/educational events. We are not there to convince people that we are the only firm to consider working with. Rather, we do believe that our firm offers a quality opportunity for those people looking for a new advisor relationship. Please consider attending an upcoming seminar in your neighborhood with a friend. You may register for a seminar by calling 716-662-4361 or through our website at www.moldenhauerassociates.com.

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