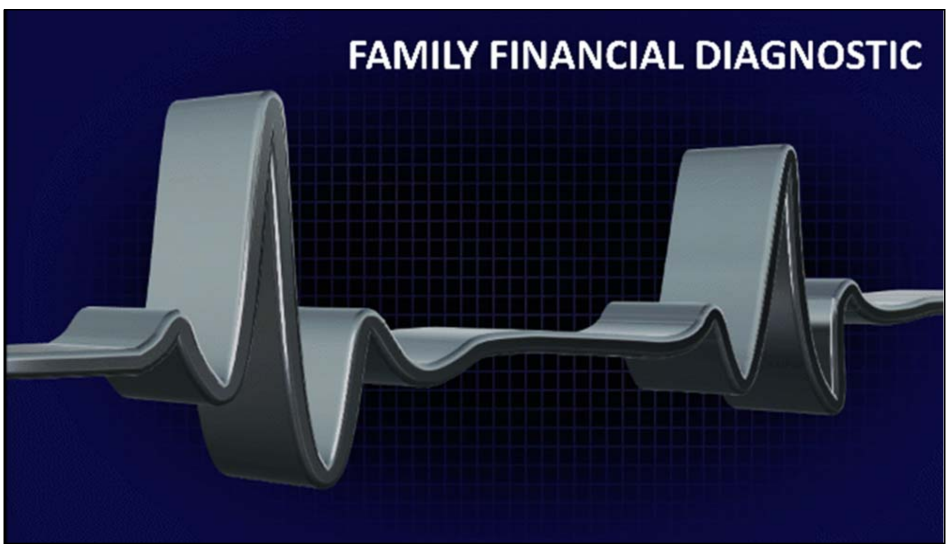
The
FINANCIAL UPDATE
DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

Third Quarter 2020 NAPFA - Registered Financial Advisor (478) 474-7480

A Five-Point Covid Diagnostic For Family Wealth Management

A terrible truth of the Covid pandemic is that families are at greater risk of losing a matriarch or patriarch. Whether you're a beneficiary or grantor, here's a five-point diagnostic for managing family wealth; issues to consider that might require urgent action due to the unusual times we are living through:

When did you last update your will? Wills should be reviewed annually.



Do you need a revocable trust to avoid probate? State laws vary, so there are no hard and fast rules, but the Covid crisis has made the use of revocable trusts a more popular estate planning vehicle, preferable to a Will. Courts were recently shuttered across the country. It's prudent to continue expecting delays in the probate court process. If a family patriarch is intubated and can no longer manage family financial matters, a revocable trust facilitates the transition in the management of family assets. Whoever is named as successor Trustee may present the trust document to the bank (which should have a copy of it already) and the management of assets can then be assumed by the successor.

GRATS and other trusts should be reviewed, and they are expected to be recommended more often in managing family assets in the months ahead. Grantor retained annuity trusts (GRATS) are a way to freeze the value of an estate, to reduce estate taxes. For many years, GRATs have been set up based on the IRS's mid-term Applicable Federal Rate (AFR). However, with the AFR dropping in mid-August to 40-basis points (0.40%), trusts may need to be updated to use the long-term IRS AFR. With higher taxes expected, due to the weakening U.S. balance sheet, locking in the long-term AFR on a GRAT is worth considering.

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Meet Our New Team Members

Day & Ennis is happy to welcome Lizzie Reed and Autumn Griffith to our firm. Lizzie is our Financial Advisor Associate and has a BBA in Finance from Auburn University, where she graduated Summa Cum Laude. Autumn, our Office Coordinator/Support Advisor, has a Bachelor of Science in Financial Planning from the University of Georgia.

While in college, both Autumn and Lizzie pursued their interest in financial planning. Autumn interned as a Financial Counselor for people in Athens, Georgia. Lizzie spent time while at Auburn working for a local brokerage firm.

Lizzie and Autumn are currently preparing to become Certified Financial Planners. They add depth to our team and assure continuity of service for our clients. You'll find more about them on the "Who We Are" page of our website at **https://dayandennis.com/about/**

Sincerely,
Day & Ennis, LLC

Financial And Tax Planning For The Long Run

After paying a terrible price in lost lives, suffering, and grief, the Covid economic crisis will pass, along with emergency tax relief in the history-making $2.2 trillion CARES Act of 2020. The tax law with us permanently, and the rules that will be affecting you every year for years to come, is the SECURE Act.

Signed by President Donald J. Trump on December 20, 2019 the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE) Act mandates non-spouse beneficiaries of IRAs deplete their accounts within 10 years of inheriting a federally qualified retirement account. A non-spouse beneficiary may be your child, grandchild, nephew or niece, or other family members you want to support after you're gone.

New Retirement Income Planning Choices. SECURE Act encourages using more lifetime income annuities to secure retirement. While this may be good generally, there is one huge caveat: annuities can be expensive. Lifetime income backed by an insurance company's creditworthiness makes for a great sales pitch but are best advised on by a professional who places your best interest above all else, including the sales commissions they will earn.

Business Owner Tax Breaks. SECURE Act also makes it less expensive and easier for business owners to establish and administer "safe harbor" retirement plans, including, boosting the "gig economy," and making part-time workers eligible for employer retirement plans.

Delaying Distributions Until Age 72. Postponing required minimum distributions (RMDs) 18 months is another idea you may want to consider. The SECURE Act lets you delay RMDs on IRAs, effectively extending the benefit of compounding. Instead of requiring you to begin depleting your retirement account at age 70½, you can now delay it until age 72. This small change can amount to big bucks because your IRA can compound without being taxed for an extra 18 months. Deferring taxes for 18 months on a large IRA is a no-brainer, if you can afford it. Implementing this step in your retirement income plan should be part of your overall strategy to outlive your money and create a legacy for your family.

The SECURE Act and other tax reforms passed before the CARES Act make tax and financial planning more important to individuals who are about to retire or who recently retired. Weighing SECURE Act's sweeping tax implications as well as Covid-19 emergency tax relief provisions in CARES Act making Roth IRA conversions more attractive requires detailed knowledge of your personal situation. Please contact us with your questions. ●

Confronting Mortality's Details

The Covid pandemic is causing families unimaginable suffering, worry, and grief. It is forcing many individuals to confront mortality, to consider, in very real terms, perhaps for the first time, what will happen when their life comes to an end. Here, in less than 300 words, are key facts about documents that govern what happens to you at the end of your life.

A health care proxy and living will name someone to make medical decisions if you're unable to express your wishes and contain instructions about end-of-life care. This is understandably top-of-mind for a lot of people now.

A durable power of attorney (POA) permits someone else to manage financial and other matters while you're alive. The POA empowers someone you appoint to pay bills, write checks, or sell and purchase assets on your behalf should you become incapacitated.

Your last will and testament provides the details which take effect at your death for distributing your property. It should be reviewed annually so that

Covid, The Fed & American Exceptionalism

The Coronavirus financial crisis is being compared to the near collapse of the global financial system in 2008 and The Great Depression from 1929 to 1939, but there is one big difference this time: The Fed. The Federal Reserve Bank is using innovative new tools to contain the financial damage of the Coronavirus epidemic.

In the financial crisis of 2008, the chairman of the Fed at the time, Ben Bernanke, an academic who had spent decades studying previous financial crises, repeatedly deployed a technique called quantitative easing (QE). QE expanded the Fed's balance sheet to buy back U.S. Government bonds on the open market, thus, lowering long-term interest rates.

Never before had the tactic been used by a central bank in a major economy. It worked, however, and QE was one of the reasons the U.S emerged successfully from The Great Recession of 2008 and 2009. The Fed's present response to the Coronavirus crisis is literally 10 times more powerful.

Under the $2.2 trillion Coronavirus Aid, Relief, and. Economic Security (CARES) Act enacted March 27, 2020, the U.S. Government allocated $454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thus enabling it to lend up to $4.54 trillion to companies in financial distress.

That sum is reportedly more than all U.S. commercial and industrial loans outstanding at the end of 2019, plus all the new corporate bonds issued during 2019 combined! Although the expansion of the Fed's power has been criticized as a step toward a centrally planned economy, this government action limits the risk of potentially massive corporate bond defaults and corporate bankruptcies.

The U.S. led the worldwide economic recovery following the global financial crisis of 2008, in part because of the Fed's innovative approach. And now, this most recent display of Yankee ingenuity -- in the form of the Fed's new tools -- is at play once again in fighting the Coronavirus-induced financial crisis.

In these frightening times, the Fed's new toolset is likely to become a mere footnote in history books that will be written about the pandemic in the decades ahead. Ever since Alexander Hamilton established the first U.S. central bank in 1791 to respond to the financial crisis that followed the Revolutionary War, the uniquely American central bank has enabled the progress of civilization through financial crises. The U.S. Government response to the Coronavirus financial crisis is a shining example of what makes America exceptional among the nations of the world. ●

the trustee, executor, and guardians of minor children you have appointed still conform to your current wishes. It's best to speak with whomever you're appointing about your wishes so that they're aware of your intentions.

A revocable trust can also provide for the disposition of your property after you die while avoiding the probate court process. Because courts across the country were shuttered for a time, they must now deal with a surge in filings due to the pandemic. In times like these, it's advantageous to have a revocable trust to avoid probate court delays. Setting up a revocable trust requires changing the titling of bank and brokerage accounts, real estate, and other assets, and may require signing documents with a witness or notary present, which is now complicated due to social distancing. Fortunately, remote signings can be properly executed via online meeting such as Zoom.

Finally, and most importantly, you will want to be certain that the beneficiary designations on both your retirement plans and your life insurance policies are up to date, as circumstances change over time. As a financial advisor, creating legal documents is beyond the scope of our work, but we can refer you to experienced professionals who can create these documents so they can be properly integrated into a comprehensive financial planning strategy. ●

Business Owner Alert: Main Street Lending Program Offers Covid Aid

Business owners who were unable to qualify for federal Covid-crisis emergency assistance from the Payment Protection Program (PPP) need to know about the Main Street Lending Program (MSLP).

Enabled by the CARES Act on March 27, 2020, MSLP is administered by the Federal Reserve Board, which is not a normal function of the Fed. The program makes available $600 billion in federal aid to small businesses demonstrating sound financials before the Covid outbreak.

Like PPP, MSLP aid takes the form of loans with favorable terms. A very important difference from the PPP loan program, however, is that MSLP loans are not forgivable.

MSLP is intended to ease credit conditions for small business suffering from the Covid crisis. Some businesses may find its terms advantageous.

The minimum loan size is $250,000 and the term of each loan is five years. Significantly, no principal repayment is required for two years.

Ninety-five percent of the loan principal is advanced by the government. Your lender provides just 5% but receives a 1% annual fee on the full loan amount.

Despite offering an interest-free loan for one year and requiring nothing to be repaid for two years, requiring 70% of the loan be repaid at maturity – known as a balloon payment – carries a risk that must be considered in evaluating an MSLP loan. Other borrowing options should be considered in lieu of the MSLP loan program.

The Main Street Lending Program is new, and it was launched amid the Covid crisis. New terms governing MSLP loans were released on June 6, 2020, and are subject to change by the Federal Reserve Board at any time. The Fed released a lengthy FAQ about the program on June 26.

Proper evaluation of taking an MSLP loan requires an understanding of your personal financial and tax situation, your business' financial condition and other factors beyond the scope of this financial planning alert. Please contact us with questions. ●

A Five-Point Covid Diagnostic

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To be clear, higher taxes on inheritances are a likely target for generating new revenue, which makes it wise to consider 10-year GRATs instead of the traditional two-year GRAT.

Intrafamily loans are also pegged off the IRS's AFR, and this may also be a way of transferring wealth. While direct loans to children might expose assets to divorce settlements or claims by business creditors, loans made through trusts are more compelling tax-wise. They allow you to loan some money to the trust at a 40-basis-point interest rate for a mid-term loan of up to nine years, or you can even go out 20 years, with the rate at 1.2% here in August 2020. Any earnings beyond that 40 basis-point hurdle rate is shifted over to the trust tax-free.

Don't wait until the end of the year to do any of this. Don't wait until after the election. Estate and trust lawyers are already overwhelmed with work, and may not be able to get everything done before the end of the calendar year, before higher tax laws could potentially be retroactively applied. And it's not simply a matter of just drafting a trust. You also must get the Grantor and the Trustee to execute it. Or, if you have an institutional trustee, you must determine, "OK, what am I going to transfer to the trust? Am I going to need appraisals?" All of these decisions take time. It's therefore best to start now, just in case you run into problems.

Tax and financial management for private wealth requires highly personal advice beyond the scope of this article. ●

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