

2022 Stanley M. Johanson Estate Planning Workshop

Evaluating Estate Planning Techniques in a Rising Interest Rate Environment



Kelly M. Perez, J.P. Morgan Private Bank

Friday, December 2, 2022

1

Please keep in mind

This is for educational purposes. The author does not represent J.P. Morgan Chase & Co. and its affiliates and/or subsidiaries in a legal capacity.

This material is intended to help you understand the financial consequences of the concepts and strategies discussed here in very general terms. However, the strategies found herein often involve complex tax and legal issues. Only your own attorney and other tax advisors can help you consider whether the ideas illustrated here are appropriate for your individual circumstances.

J.P. Morgan Chase & Co. and its affiliates and/or subsidiaries do not practice law, and do not give tax, accounting or legal advice, including estate planning advice. The tax-related material contained herein has been prepared for informational purposes only, and is not intended to provide, and should not be relied on, for tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any financial transaction. We will, however, be pleased to consult with you and your legal and tax advisors as you move forward with your own planning. Additionally, please read the Important Information pages at the end of this presentation.

2

Agenda

Interest rates are on the rise. Interest rate fluctuation is a key factor in determining not only what wealth transfer techniques to consider, but also when it makes the most sense to engage in such planning.

1

Discuss market conditions leading to the Federal Reserve System's decision to increase federal funds rates

2

Review the relationship between interest rates and transfer tax planning

3

Examine several interest rate sensitive wealth transfer techniques

4

Assess the efficacy of such planning techniques in a rising interest rate environment

5

Review how increased rates may affect valuation discounts – a silver lining for closely-held businesses

6

Review of best practices and practical tips for planning in a rising interest rate environment

3

Top Three Takeaways

1

Though the AFR and, correspondingly, the 7520 rate will continue to rise (some are predicting through 2025/2026), rates are still historically low, comparatively

2

The estate planning objective is to beat the hurdle rate - smart planning can still be effective in transferring wealth to the next generation in a tax-efficient manner

3

Depressed asset valuations present a golden opportunity for gifting for those who own interests in closely-held businesses

4

1

Market volatility, inflation and increased rates

5

Market volatility and inflation

Key Dates:

1. **February 19, 2020** – S&P closed at a record high
2. **February 24, 2020** – S&P fell 3.35%, first Covid related decline and its worst day in two years (erased YTD gain)
3. **March 12, 2020** – U.S. quarantine and global stock market crash, Kelly's daughter, Helen, born



Other Key Market Factors:

- Various government stimulus packages signed into law as a result of resulting economic turmoil
- Fed's response to pandemic:
 - The Federal Reserve System (Fed) chaired by Jerome Powell **initially cut the federal funds rate** ("benchmark rate") by .5% in March 2020, then by another 1% later that month
- Federal funds rate:
 - The Fed's primary instrument used to achieve market stability
 - It is the rate that financial institutions borrow and lend their excess reserves to each other overnight
 - Also, when this is raised, banks will change the lowest rate at which they can offer consumers (e.g., mortgages)
 - When federal funds rate is changed, it creates a domino effect on other rates that rely on it such as the Applicable Federal Rate (AFR)
- Resulting inflation:
 - Pandemic, resulting consumer behavior from lower rates and increased saving, global supply chain disruptions, geopolitical factors = increased rate of inflation through the pandemic and into early 2022
 - **Inflation June 2022 = 9.1%**; the **highest** since "Hi Infidelity" by REO Speedwagon was the best-selling album
 - **Inflation September 2022 = 8.2%**; Oct. inflation rate expected Nov. 10, but anticipated that it will go down due to increased unemployment rate

6

Find the full text of this and thousands of other resources from leading experts in dozens of legal practice areas in the [UT Law CLE eLibrary \(utcle.org/elibrary\)](https://utcle.org/elibrary)

Title search: Evaluating Estate Planning Techniques in a Rising Interest Rate Environment

Also available as part of the eCourse

[2022 Stanley M. Johanson Estate Planning eConference](#)

First appeared as part of the conference materials for the
2022 Stanley M. Johanson Estate Planning Workshop session

"Evaluating Estate Planning Techniques in a Rising Interest Rate Environment"