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2022 Stanley M. Johanson Estate Planning Workshop

Evaluating Estate Planning Techniques in a Rising Interest Rate Environment

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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

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

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Market volatility, inflation and increased rates

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