

# Israelite Group Insights



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Inflation showed signs of slowing in October and the market responded with a significant uptick. The current consensus is a rate hike of 0.5% in December which will coincide with the final inflation report for the year. The Fed notes suggest the aggressive rate hike period is coming to an end and 2023 will see a few, smaller increases.

This should provide some tailwinds for investors going into the New Year. However headwinds due to Chinese lockdowns and civil unrest, the war in Ukraine and a slowing global economy will keep volatility high for a while longer.

To finish out the year we will look for strategic ways to minimize taxes and complete any required minimum distributions.

This year has been quite difficult for many reasons, after two challenging years prior. We are hopefully starting to see a light at the end of the tunnel with 2023 retuning to calmer markets and a continuation of a reopening of society across the world.

We hope you have a safe, healthy holiday season.

## What's Causing the Consumer Blues?

Each month, researchers at the University of Michigan interview hundreds of consumers about their opinions on current economic conditions, as well as their personal finances, buying intentions, and expectations for the future. Survey results are captured in the Index of Consumer Sentiment, which is a closely watched economic indicator because household spending accounts for about two-thirds of U.S. gross domestic product.

Despite a strong labor market, the index fell to an all-time low in June 2022, before starting to improve in the third quarter. High inflation, the specter of rising interest rates, and stock market declines are some of the reasons consumers have felt pessimistic about their economic prospects.



Source: University of Michigan, 2022 (data from January 1978 through September 2022)

# Three Stretch IRA Alternatives

The passage of the SECURE Act in 2019 effectively eliminated the stretch IRA, an estate planning strategy that allowed an inherited IRA to continue growing tax deferred, potentially for decades. Most nonspouse beneficiaries, including children and grandchildren, can no longer stretch distributions over their lifetimes. Moreover, proposed IRS regulations require most designated beneficiaries to take annual required minimum distributions (RMDs) within the 10-year distribution period if the original account owner died on or after his or her required beginning date. This shorter distribution period could result in unanticipated and potentially large tax bills for nonspouse beneficiaries who inherit high-value IRAs.

You may be looking for alternative ways to preserve your wealth and pass it on to your beneficiaries. Here are three options you might consider.

## Roth Conversion

If you are willing to pay income taxes now instead of your beneficiaries paying them later, you could convert your IRA to a Roth IRA. Anyone can convert a traditional IRA to a Roth IRA. However, you generally have to include the amount you convert in your gross income for the year converted. Not only would you have to pay taxes on the amount converted, but the beneficiaries of your Roth IRA will generally have to liquidate the account within 10 years of inheriting it, although they won't pay federal income taxes on the distribution(s).

## Life Insurance

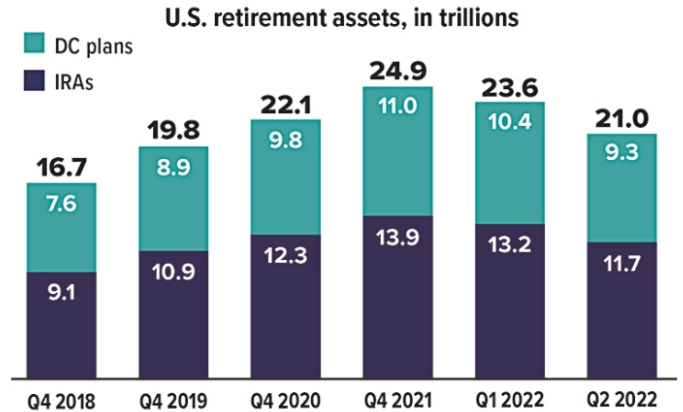
You could take distributions from your IRA and use them to buy life insurance on your life. The beneficiaries you name in the life insurance policy will receive those proceeds tax-free at your death. The policy beneficiaries could use the tax-free proceeds of the life insurance to pay any income taxes they would owe on the balance of the IRA they inherit from you. Or, if you've been able to liquidate or spend down your IRA during your lifetime, the tax-free life insurance death benefit would replace some or all of the taxable IRA that otherwise would have been inherited by the beneficiaries.

## Irrevocable Trust

You could create an irrevocable trust and fund it with non-IRA assets. An irrevocable trust can't be changed or dissolved once it has been created. You generally can't remove assets, change beneficiaries, or rewrite any of the terms of the trust. Often, life insurance is used to fund the irrevocable trust. You can direct how and when the trust beneficiaries are to receive the life insurance proceeds from the trust after your death. In addition, if you have given up control of the property, all of the property in the trust, plus any future appreciation on the property, is removed from your taxable estate.

## Wealth Cache

Assets held in individual retirement accounts (IRAs) and defined-contribution plans such as 401(k)s dipped in the first half of 2022 to \$21 trillion. Even so, that total was up more than 25% from year-end 2018.



Source: Investment Company Institute, 2022

*While trusts offer numerous advantages, they incur upfront costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax professionals before implementing such strategies.*

*As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. In addition, if a policy is surrendered prematurely there may be surrender charges and income tax implications. Any guarantees are subject to the financial strength and claims-paying ability of the insurer.*

*To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet the five-year holding requirement, and the distribution must take place after age 59½ or due to the owner's death, disability, or a first-time home purchase (\$10,000 lifetime maximum). Under current tax law, if all conditions are met, the Roth IRA will incur no further income tax liability for the rest of the owner's lifetime or for the lifetimes of the owner's heirs, regardless of how much growth the account experiences.*

# Famous People Who Died Without Proper Planning

The importance of proper estate planning cannot be overstated, regardless of the size of your estate or the stage of life you're in. Nevertheless, it's surprising how many American adults haven't put a plan in place.

You might think that those who are rich and famous would be way ahead of the curve when it comes to planning their estates properly. Yet plenty of celebrities and people of note have died with inadequate or nonexistent estate plans.

## Michael Jackson

The king of pop died in June 2009 with an estate worth an estimated \$600 million. Jackson had prepared an estate plan that included a trust. However, he failed to fund the trust with assets prior to his death — a common misstep when including a trust as part of an estate plan. While a properly created and funded trust generally avoids probate, an unfunded trust almost always requires probate. In this case, Jackson's trust beneficiaries had to make numerous filings with the probate court in order to have the judge transfer assets to the trust. This process added significant costs and delays, and made what should have been a private matter open to the public.

*Trusts incur upfront costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax professionals before implementing such strategies.*

## James Gandolfini

When the famous *Sopranos* actor died in 2013, his estate was worth an estimated \$70 million. He had a will, which provided for various members of his family. However, his estate plan did not include proper tax planning. As a result, the Gandolfini estate ended up paying federal and state estate taxes at a rate of 55%. This situation illustrates that a carefully crafted estate plan addresses more than just the distribution of assets. Taxes and other expenses could be reduced, if not eliminated altogether, with proper planning.

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## Americans Are Putting Off Estate Planning



### 2 out of 3

Americans still don't have a will despite the COVID-19 pandemic



### 56%

of Americans said that having a will or a living trust is very or somewhat important



### 40%

of Americans cite procrastination as the main reason they don't have a will

Source: 2022 Wills and Estate Planning Study, Caring.com

## Prince

Prince Rogers Nelson, better known as Prince, died in 2016. He was 57 years old, still making incredible music, and entertaining millions of fans throughout the world. The first filing in the Probate Court for Carver County, Minnesota, was by a woman claiming to be his sister, asking the court to appoint a special administrator because no will or other testamentary documents were filed. Since Prince died without a will, the distribution of his over \$150 million estate was determined by state law. In this case, a Minnesota judge was tasked with culling through hundreds of court filings from prospective heirs, creditors, and other "interested parties." The proceeding was open and available to the public for scrutiny.

## Barry White

Barry White, the deep-voiced soulful singer, died in 2003 without a will or estate plan. He died while legally married, although he'd been separated from his second wife for many years and was living with a long-time girlfriend. He had nine children. Because he had not divorced his wife, she inherited everything, leaving nothing for his girlfriend or his children. Needless to say, a legal battle ensued.

## Heath Ledger

Formulating and executing an estate plan is important. It's equally important to review your documents periodically to be sure they're up-to-date. Not doing so could result in problems like those that befell the estate of actor Heath Ledger. Although Ledger had prepared a will years before his death, several changes in his life transpired after the will was written, not the least of which was his relationship with actress Michelle Williams and the birth of their daughter Matilda Rose. The will left nothing to Michelle or Matilda Rose. Fortunately, Ledger's family later gave all the money to his daughter, but not without some family disharmony.

## Florence Griffith Joyner

An updated estate plan works only if the people responsible for carrying out your wishes know where to find these important documents. When Olympic medalist Florence Griffith Joyner died in 1998 at the young age of 38, her family couldn't locate her will. This led to a bitter dispute between her husband, Al Joyner, and Flo Jo's mother, who claimed her daughter had promised that she could live in the Joyner home for the rest of her life.

# Tips for Safe Online Shopping

According to the National Retail Federation, online sales accounted for over \$1 trillion of total U.S. retail sales in 2021.<sup>1</sup> Online shopping is especially popular during the holiday season, enabling you to avoid the crowds and conveniently purchase gifts using your smartphone or computer. Unfortunately, the popularity of online shopping also means that cyber criminals and online scams are more prevalent than ever. Here are some tips to help protect yourself when shopping online.

**Check your device.** Make sure that all of your devices (e.g., mobile phone, computer, and tablet) are up-to-date and configured to update automatically or notify you when updates are available.

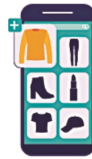
**Maintain strong passwords.** Create strong passwords, at least 8 characters long, using a combination of lower- and upper-case letters, numbers, and symbols, and don't use the same password for multiple accounts.

**Use multi-factor authentication when available.**

Two-factor or multi-factor authentication, which involves using a one-time code sent to your mobile device in addition to your password, provides an extra layer of protection.

**Watch out for phishing emails.** Beware of emails that contain links or ask for personal information. Legitimate shopping websites will never email you and randomly ask for your personal information.

In addition, don't be fooled by fake package delivery updates. Make sure that all delivery emails are from reputable delivery companies you recognize.



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**Beware of scam websites.** Typing one word into a search engine to reach a particular retailer's website may be easy, but it might not take you to the site you are actually looking for. Scam websites often contain URLs that look like misspelled brand or store names to trick online shoppers. To help determine whether an online retailer is reputable, research sites before you shop and read reviews from previous customers. Look for *https://* in the URL and not just *http://*, since the "s" indicates a secure connection.

**Use credit instead of debit.** Credit cards generally have better protection than debit cards against fraudulent charges. In addition, consider using a mobile payment service (e.g., Apple Pay or Google Pay), which doesn't require you to give your credit-card information directly to a merchant.

1) National Retail Federation, 2022

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