SPRING 2023

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

The Index Bogeyman . . 1

President's Word . . . 2-3
Using Charitable Remainder Trusts to "Stretch" Your Beneficiary's Inherited Options

Personal Umbrella Insurance for Risk Management 3

Highlights of The SECURE Act 2.0 4

The Index Bogeyman

Some claim the increased use of index funds may be distorting market prices. The premise is index investing reduces the efficacy of stock-price valuation. Should the rise of index funds cause concern for investors? Let's examine this assertion.

While the popularity of indexing has been increasing over time, index-fund investors still make up less than 50% of overall mutual-fund and ETF investors. Most fund assets are still managed by active mutual funds. Additionally, index funds are a long way from dominating the stock market. U.S.-focused index equity funds make up approximately 14% of the American stock market, according to the Investment Company Institute's 2021 Fact Book. According to the ICI, index funds generally contribute about 5% of U.S. stock-market trading. Despite the increased prevalence of index funds, annual equity market trading volumes have remained at similar levels for the past 10 years. This indicates investment markets continue to facilitate stock-price valuation.

Though historical evidence suggests the rise of indexing is unlikely to distort market prices, let's consider the argument that indexing does distort markets and causes prices to become less reliable. In this scenario, we would expect active stock managers who are attempting to capture mispriced stocks to have an increased rate of success over time, but annual SPIVA research shows little evidence this has been the case. The percentage of active managers who survive and beat their benchmarks remains relatively low. Additionally, we would expect to see evidence of such an impact across an index fund's holdings as inflows drive security prices up uniformly (and outflows drive prices down). However, looking at the S&P 500 Index as an example, this has not been the case.

Despite the increased popularity of index-based approaches to investing, the data shows markets are working. Annual trading volume remains in line with prior years, indicating market participant transactions are still driving stock-price valuation. Most active mutual-fund managers continue to underperform, suggesting the rise of index investing has not made it easier to outguess market prices. Prices and returns of individual holdings within indices are not moving in lockstep with asset flows into index funds. Lastly, index funds are still a small percentage of investor types. Markets are still functioning; willing buyers and sellers continue to meet and agree upon prices at which they desire to transact stock trades. It is also important to remember that while indexing has been a great financial innovation for many, it is only one of many investment options.

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JENTNER WEALTH MANAGEMENT

THE PRESIDENT'S WORD

Using Charitable Remainder Trusts to "Stretch" Your Beneficiary's Inherited Options

Bruce Jentner, CFP®, Chairman

With the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act in 2020, Congress removed the ability for most non-spouse beneficiaries of qualified retirement accounts (like IRAs and 401(k)s) to stretch out the required distributions from those accounts over the beneficiary's lifetime. From now on, most individuals must draw down the account by the tenth year following the original account owner's passing. There are limited exceptions to this rule:

- Chronically ill or disabled non-spouse beneficiaries
- Non-spouse beneficiaries not more than ten years younger than the account owner who died
- A minor child of the account owner but only until that child reaches age 21

Barring the above-referenced circumstances, beneficiaries generally would divide the inherited qualified retirement account's value by ten and take a taxable distribution each year for that amount. It would not be uncommon for some beneficiaries to have $100,000 or more taxable income flow into their reportable income, forcing them into the higher tax brackets. As you can imagine, large inherited qualified retirement accounts have become a potential ticking tax bomb for your children.

There is a tool that allows the distribution of qualified retirement accounts to be taken over a much longer period of time and has the added benefit of using some of your wealth to support causes and organizations you care about most. It is a Charitable Remained Trust (CRT).

Let's start with some CRT basics.

1. **Income stream:** You place money in a CRT, which then provides an annual income stream. You can designate yourself or other people to receive that income. The income stream can last for your life or the lives of your beneficiaries.
2. **Tax-deferred growth:** The assets in the CRT grow tax-deferred. You are taxed only on the income you receive from the CRT.
3. **Charitable impact:** Once the term of years is up or the last beneficiary dies, the income stream stops, and the assets that remain in the trust go to one or more charities you selected.
4. **Estate tax charitable deduction:** When the CRT is funded, you get a tax deduction, the size of which is based on the actuarial value of the remainder that the charity should receive.

The income stream can be generated in two ways:

1. **Charitable remainder annuity trusts:** With a CRAT, you or your designated recipient receives a fixed dollar amount from the trust every year. However, once you set the amount, it cannot be changed. Additionally, you cannot add assets to a CRAT once it's established and funded.
2. **Charitable remainder unitrusts:** With a CRUT, you or your designated recipient receives a percentage you set of the current value of the assets in the CRUT. Every year, the assets are reappraised, and you get the percent of that amount. Another difference: You can add more assets to a CRUT.

As an example, you could establish a 6% CRUT as the beneficiary of your qualified retirement account after your passing instead of passing it outright to your heirs. The CRUT payment is now based on 6% of the qualified retirement account's balance over the lesser of your recipient's lifetime or 20 years. This could dramatically reduce the taxable liability for your non-spouse heirs.

continued on page 3

Personal Umbrella Insurance for Risk Management

At Jentner, we are dedicated to advancing our client's values, goals, and dreams by protecting and enhancing their resources. It is our mission statement. Part of our planning processes includes analyzing the financial implications of losing a lawsuit. Being sued can be serious for anyone. For high-net-worth individuals, the risks are even greater. One unexpected event can result in long-term litigation, legal fees, medical bills, and a liability judgment against you, which can wipe out your assets.

Excess liability insurance or an umbrella policy provide a layer of coverage above the liability coverage in your homeowners, auto, and boat insurance policies. It covers damages you or your family are responsible for when the claim exceeds the limits of your primary insurance policies. Those policies typically pay damages only up to capped amounts, and you would be responsible for any excess. An umbrella policy will cover losses from physical injury to others at your home or in your car, personal injuries (slander, libel, invasion of privacy), and third-party property damage you or your family (including pets) cause.

High-net-worth individuals have more assets at risk and potentially more risks of liability based on their activities and lifestyles if they are sued and a large judgment is awarded against them. Some activities that can leave a high-net-worth individual exposed to potential liability are serving on a board of directors, volunteer activities, renting out properties, holding charitable events at one's home, employing household workers, and having boats and swimming pools.

There are also risks of being named as a defendant and liable for damages in a lawsuit. Some states have joint and several liability statutes where the plaintiff can collect the total amount of the judgment they are awarded in a lawsuit from any one of the parties involved. A high-net-worth individual may be a likely choice for the plaintiff's attorney to go after to collect damages, regardless of who is primarily at fault.

Typical umbrella policies have a $5 million cap, which may not be enough to cover damages if a large judgment were brought against you. There are companies that offer personal umbrella policies with limits as high as $100 million, which are customizable to specific situations.

Excess liability insurance is a component of personal risk management that is often overlooked. We recommend reviewing proper amounts of coverage regularly as your wealth grows. Unfortunately, we live in an increasingly litigious society. Having excess liability insurance is critical to personal risk management. Prudent planning requires assessing risk and preparing accordingly.

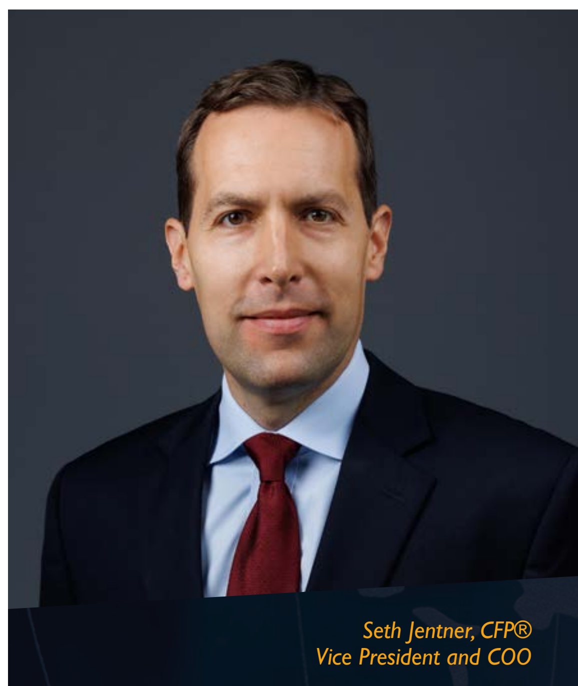
Using Charitable Remainder Trusts to "Stretch" Your Beneficiary's Inherited Options

continued from page 2

Another benefit of a CRT is that it exempts principal amounts from creditors. In contrast, non-spouse Inherited IRAs are not exempt from creditors.

Finally, the remainder of any residual monies in the trust will go to the charity you designated when creating the trust. For many, leaving a legacy that will impact the community is just as important as good tax planning for their heirs.

CRATs and CRUTs can be powerful tools when implemented properly. We recommend you discuss specific strategies to meet your needs with your estate-planning attorney.



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Highlights of The SECURE Act 2.0

The Setting Every Community Up for Retirement Enhancement Act of 2019 made significant changes to RMD (Required Minimum Distribution) rules. The 2022 budget bill also included major retirement-savings legislation. It was dubbed The SECURE Act 2.0. The idea was to encourage workers to save for retirement and allow retirees to keep their monies in tax-deferred accounts a little longer. The following are some highlights from the bill.

Automatic Enrollment in Retirement Plans: Starting in 2025, employers will be required to automatically enroll employees who become eligible to participate in the company's retirement plan. Studies have shown that automatic enrollment increased participation, and employees saved more. Employees will still have the option to opt-out of participating in their company's retirement plan if they choose.

Employer Fund Match for Student Loan Payments: Starting in 2024, the Act will allow employers to make matching contributions to retirement plans based on the participant's student-loan payment amount.

Higher Catch-Up Contribution Limits: Workers who are 50 or older can make additional deferrals into their retirement plans. The SECURE Act 2.0 increased those catch-up amounts to $7,500 annually. Additionally, starting in 2025, workers 60 to 63 will be able to add $10,000 per year, with some limitations on tax deductibility.

RMD Age Delay: Under prior law, you were required to begin taking minimum distributions starting at age 72. With the change, Congress increased the RMD age to 73. Additionally, in ten years, the RMD age will rise to 75.

Generally, the IRS will provide further guidance on many of the provisions of The SECURE Act 2.0. Please seek qualified financial and tax-planning advice before acting on any of the provisions noted above.

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