



**Higher Interest Rates and Their See-Saw Effect on
Wealth Transfer Strategies:
Determining What's Best for Your Clients**


November 14, 2023

Agenda

1. Rising AFR Rates 2000 – 2023
2. Complicated by the 2025 Tax Cliff
3. Impact on Misc. Planned Giving Strategies
4. SECURE Act 2.0 Changes
 - a. QCD's to Charitable Gift Annuities
 - b. CRT's as Beneficiary of IRA's / Qualified Plans
5. Observations & Conclusions

1. Rising AFR Rates

FEB AFR Rates 2008 - 2023



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
ST Annual	6.20%	5.18%	2.74%	1.65%	1.62%	2.92%	4.39%	4.93%	3.11%	0.60%	0.72%	5.10%
MT Annual	6.56%	5.07%	4.63%	3.27%	3.44%	3.83%	4.40%	4.69%	3.51%	1.65%	2.82%	2.33%
LT Annual	6.77%	5.48%	5.60%	4.85%	4.92%	4.72%	4.61%	4.86%	4.46%	2.96%	4.44%	4.15%
7520 Rate	8.00%	6.20%	5.60%	4.00%	4.20%	4.60%	5.20%	5.60%	4.20%	2.00%	3.40%	2.80%
S&P 500 Index*	-9.10%	-11.89%	-22.10%	28.70%	10.90%	4.90%	15.80%	5.50%	-37.00%	26.50%	15.10%	2.10%

* S&P 500 Index 1 Year Returns ending December 31

November AFR 2023

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023#
ST Annual	0.19%	0.21%	3.00%	0.48%	0.81%	1.04%	1.81%	2.57%	1.59%	0.12%	0.59%	5.30%
MT Annual	1.12%	1.01%	1.97%	1.70%	1.82%	2.10%	2.31%	2.63%	1.75%	0.56%	1.40%	4.69%
LT Annual	2.58%	2.52%	3.56%	2.41%	2.62%	2.81%	2.66%	2.91%	2.15%	1.46%	1.92%	4.83%
7520 Rate	1.40%	1.20%	2.40%	2.00%	2.20%	2.60%	2.80%	3.20%	2.20%	0.60%	1.60%	5.60%
S&P 500 Index*	16.00%	32.40%	13.70%	1.40%	12.00%	21.80%	-4.40%	31.50%	18.40%	28.70%	-18.10%	6.02%



Avoid the 2025 Tax Cliff !!

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Are You Ready?

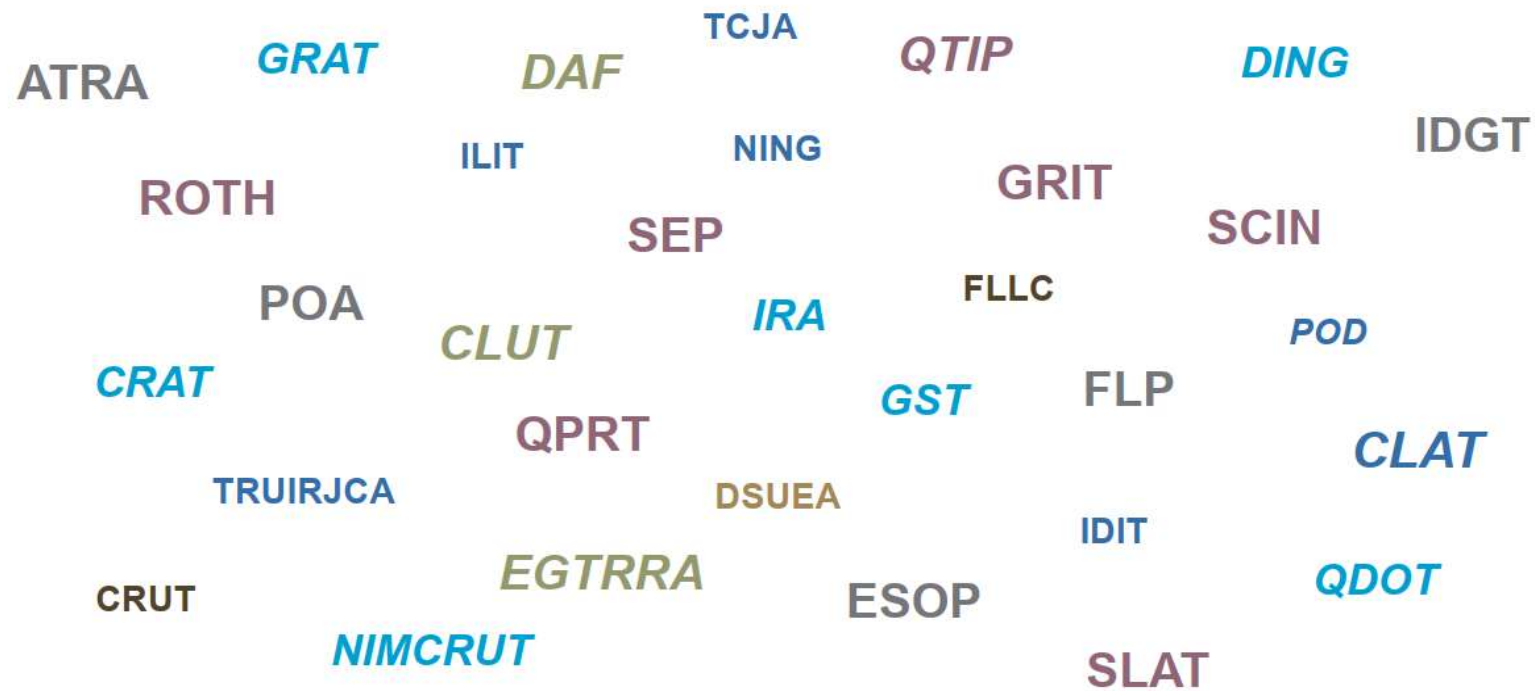
Estate & Gift Tax Cliff – December 31, 2025

Federal Gift and Estate Tax Exemptions and Rates				
	2017	2018 - 2025 ¹	2023	2026 & Beyond ²
Gift Tax Exemption ²	\$5,430,000	\$11,200,000	\$12,920,000	\$6,855,404
Estate Tax Exemption ^{2,3}	\$5,430,000	\$11,200,000	\$12,920,000	\$6,855,404
GST Tax Exemption ²	\$5,430,000	\$11,200,000	\$12,920,000	\$6,855,404
Annual Exclusion Gifts ^{2,4}	\$14,000	\$15,000	\$17,000	\$17,000
Estate, Gift & GST Tax Rates	40%	40%	40%	40%
¹ Increased by Tax Cut and Jobs Act 2017; expires after 2025. ² Indexed for inflation after 2011. ³ Less any gift tax exemptions used during life. 'Portable' between spouses after 2011. ⁴ Per donee per year. Gifts of 'Present Interests' Only.				

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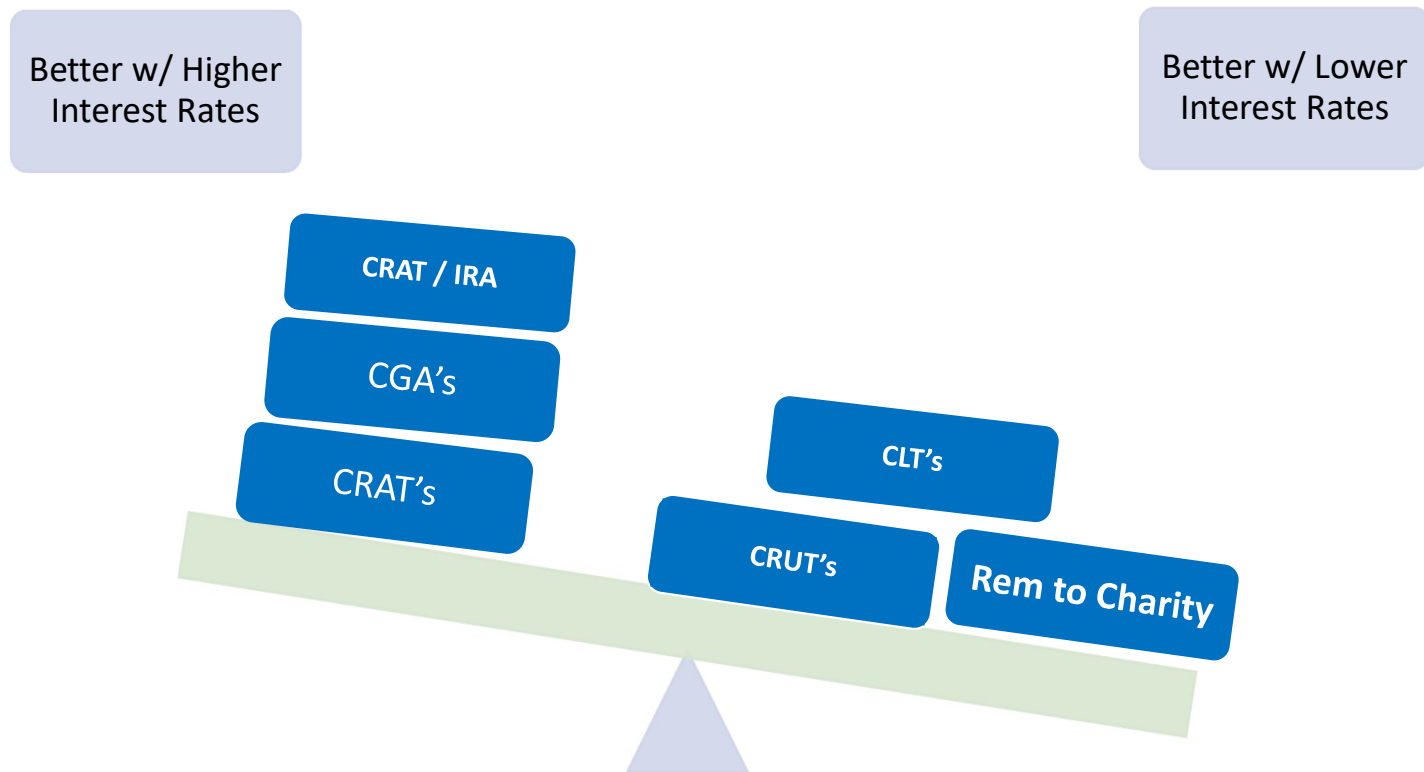


3. Impact on Misc. Wealth Transfer Strategies



* J. Miller, *Estate Planning Paralysis: Getting Your Clients to Act in 2023*, Evercore - Wealth Management and Trust Company, January 2023

3. Impact on Misc. Wealth Transfer Strategies



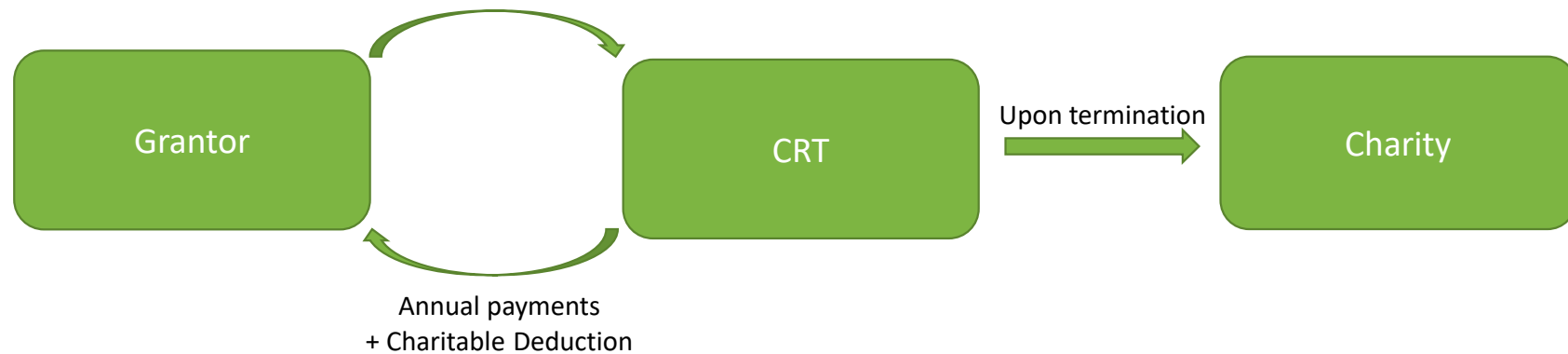
3. Impact on Misc. Wealth Transfer Strategies

Following Examples Compare Impact of Low vs High AFR's Assuming:

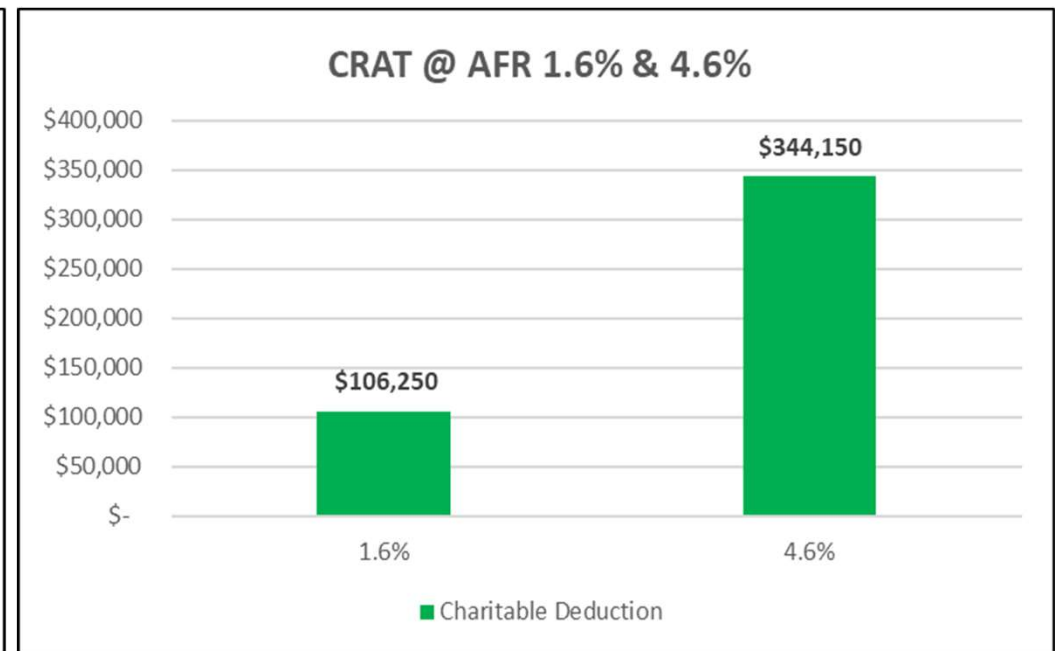
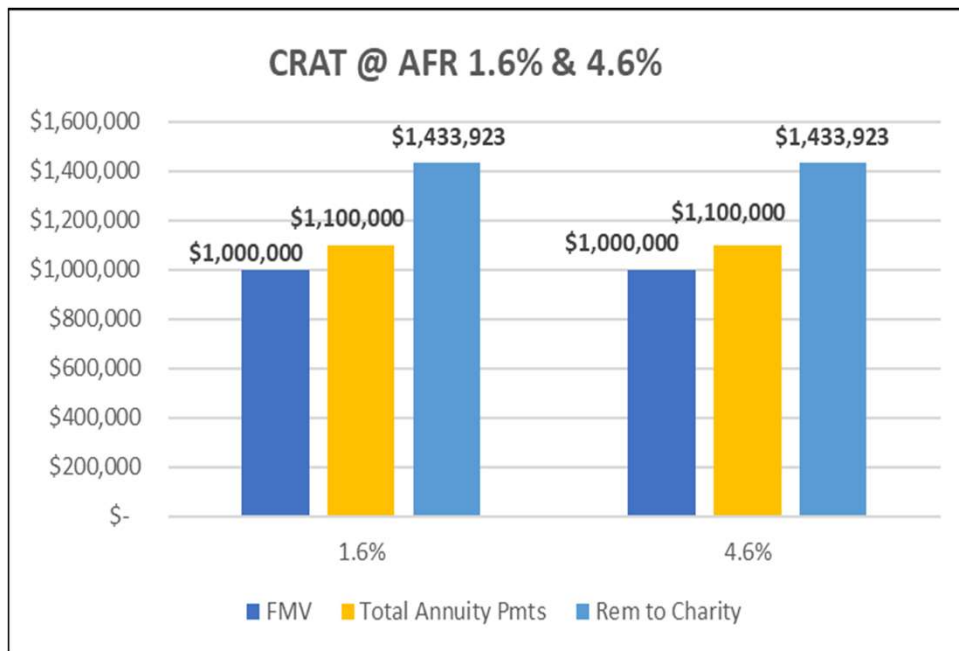
- Low AFR Rate = 1.6% (Feb 2022)
- High AFR Rate = 4.6% (Feb 2023)
- FMV of Property = \$1,000,000; Basis = \$350,000
- Rate of Return on Assets = 6%
- Married Couple age 68 and 68
- Joint Life Expectancy = 22 years

Calculations using Brentmark Estate and Charitable Planner LIVE

Charitable Remainder Trust (CRT)

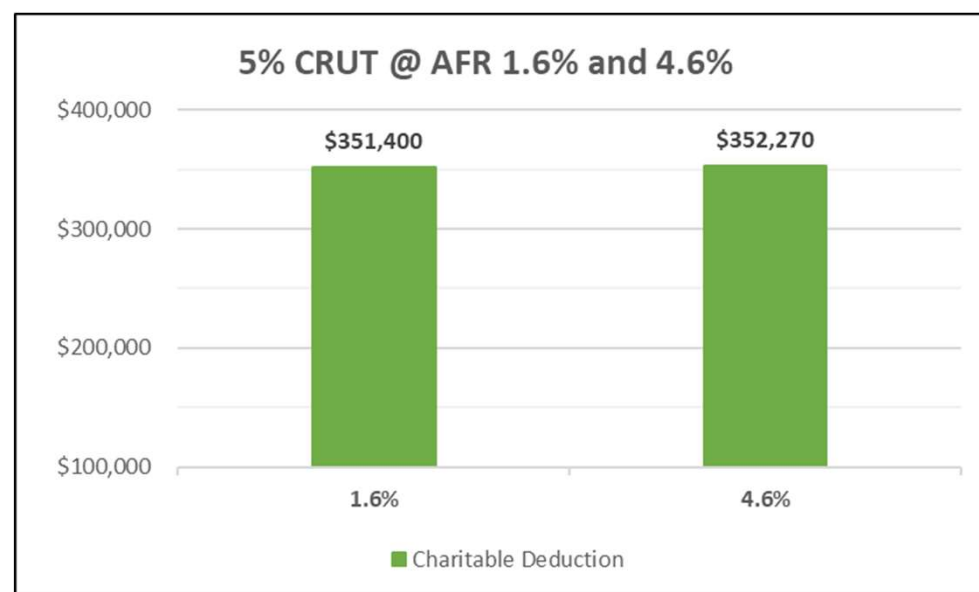
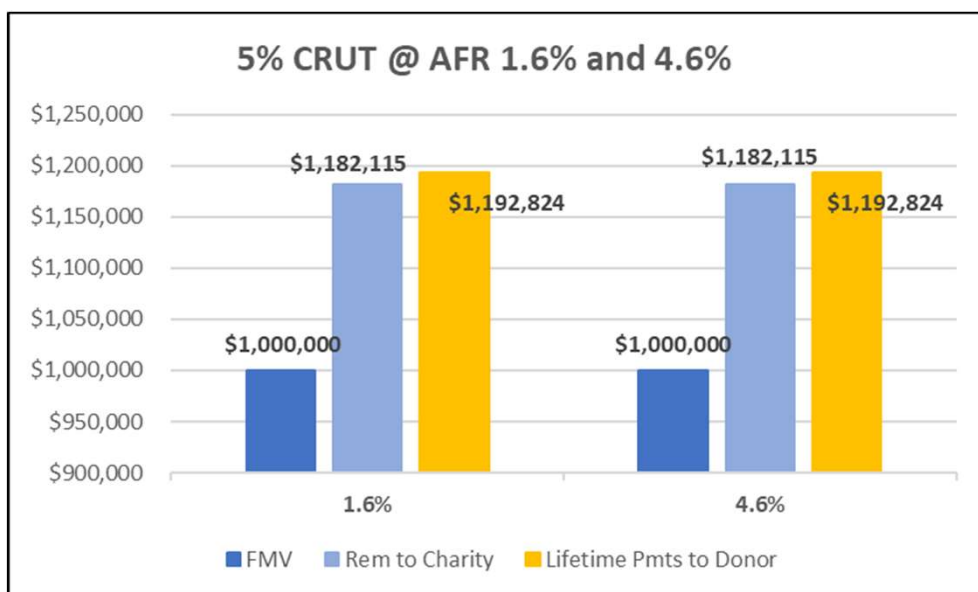


Charitable Remainder Annuity Trust (CRAT)



CRAT Lifetime Payouts = 5%

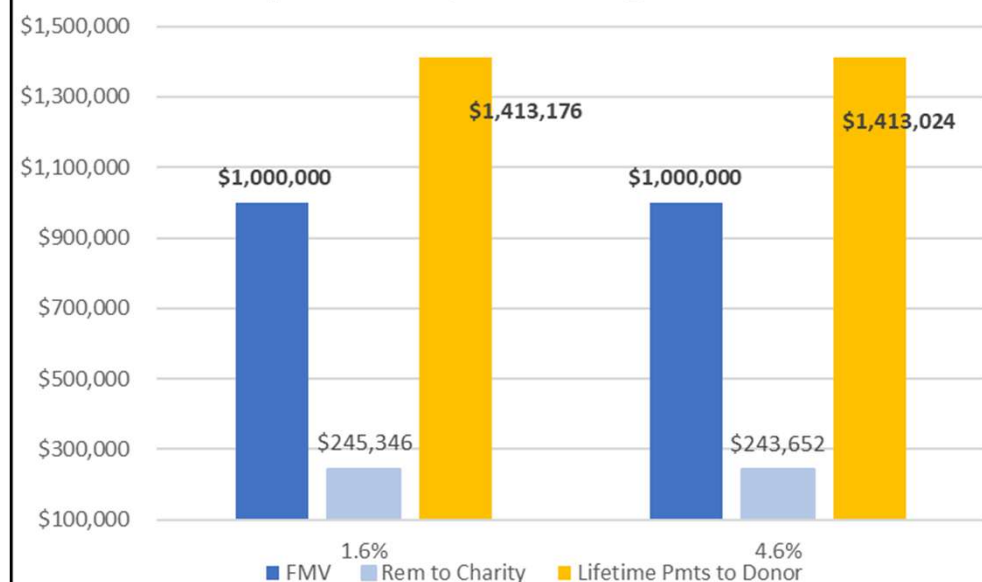
Charitable Remainder Unitrust (CRUT)



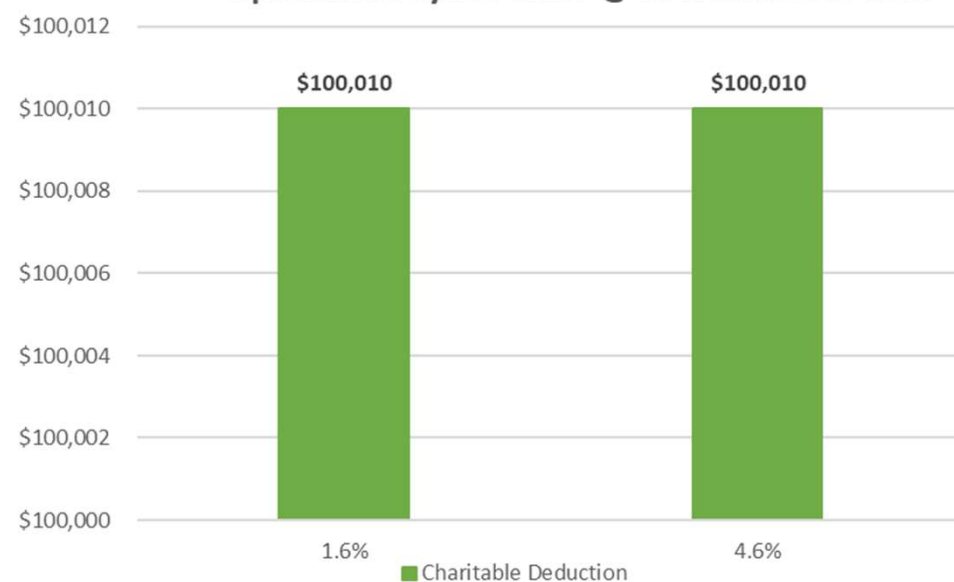
CRUT Lifetime Payouts = 5%

Charitable Remainder Unitrust (CRUT)

Optimized Payout CRUT @ AFR 1.6% and 4.6%



Optimized Payout CRUT @ AFR 1.6% and 4.6%

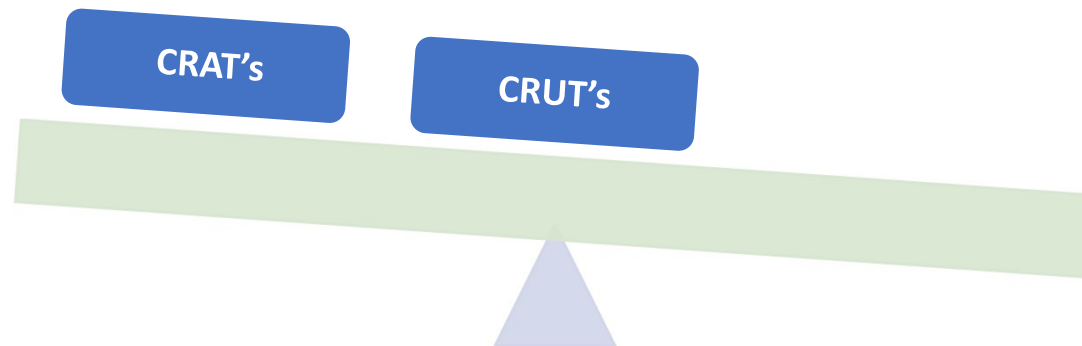


**CRUT Optimized Lifetime Payouts =
11.56% and 11.61%**

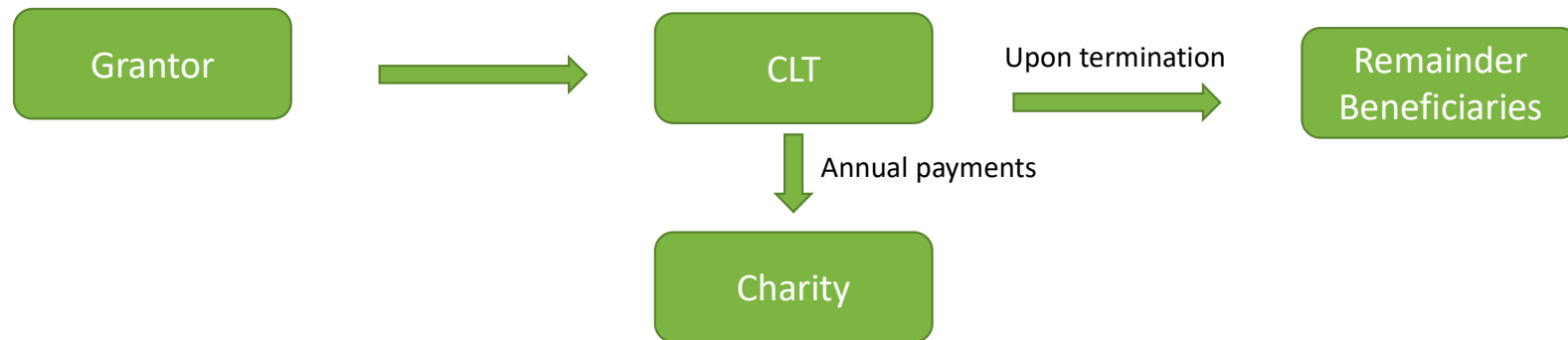
3. Impact on Misc. Wealth Transfer Strategies

Better w/ Higher
Interest Rates

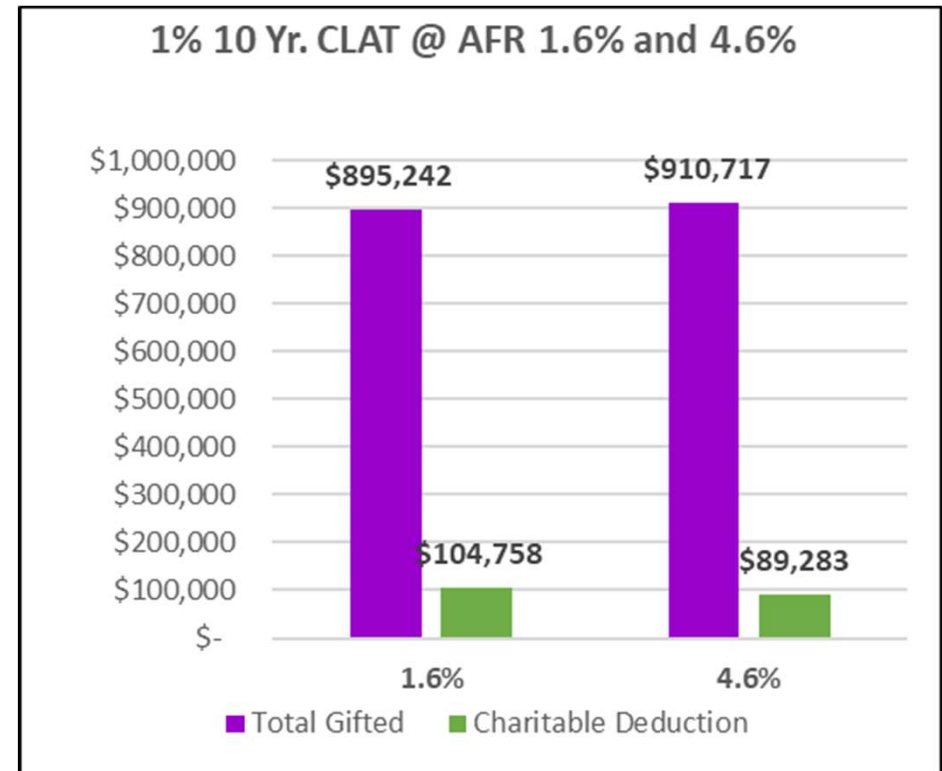
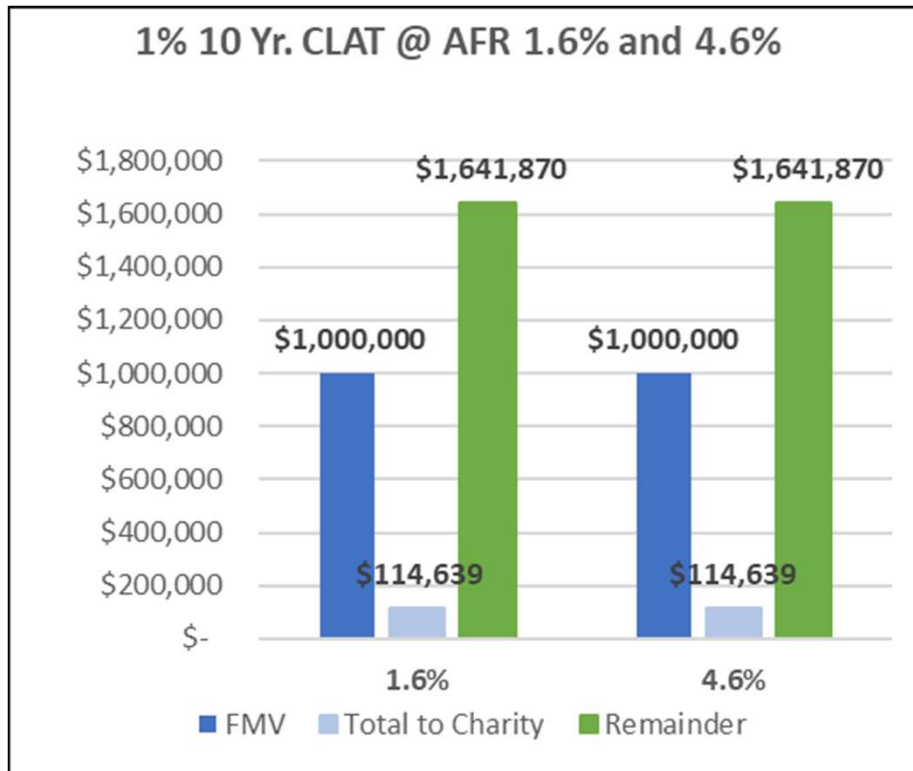
Better w/ Lower
Interest Rates



Charitable Lead Trust (CLT)

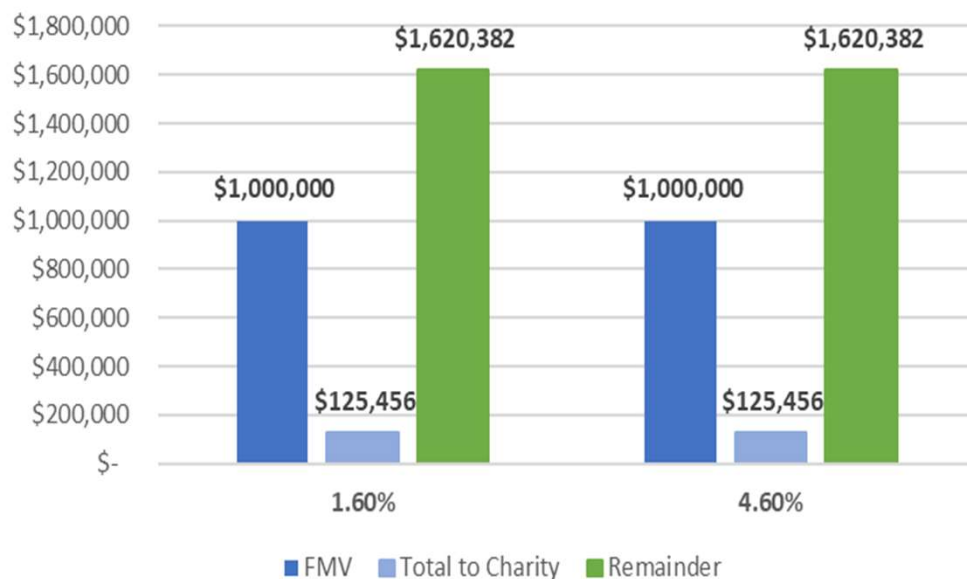


Charitable Lead Annuity Trust (CLAT)

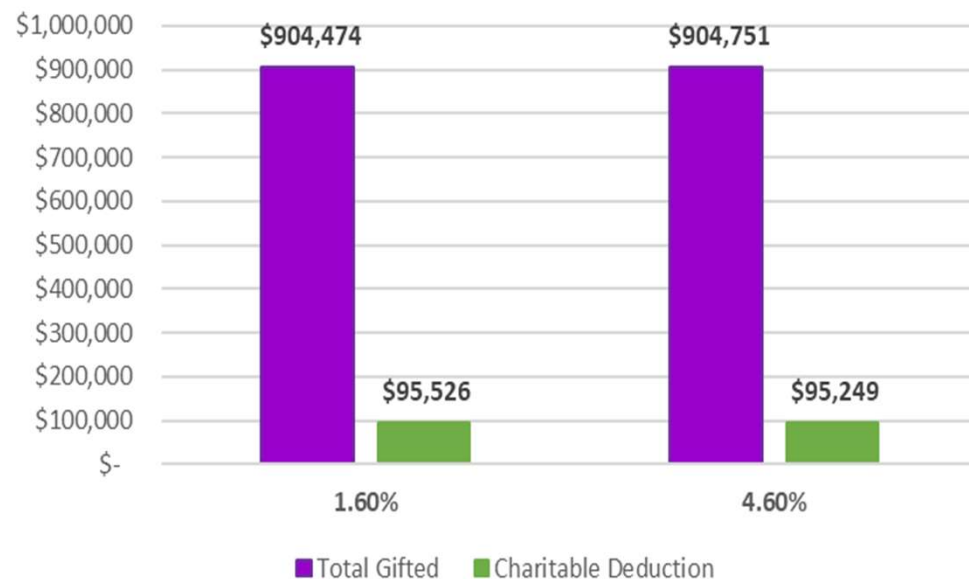


Charitable Lead Uni-Trust (CLUT)

1% 10 Yr. CLUT @ AFR 1.6% & 4.6%



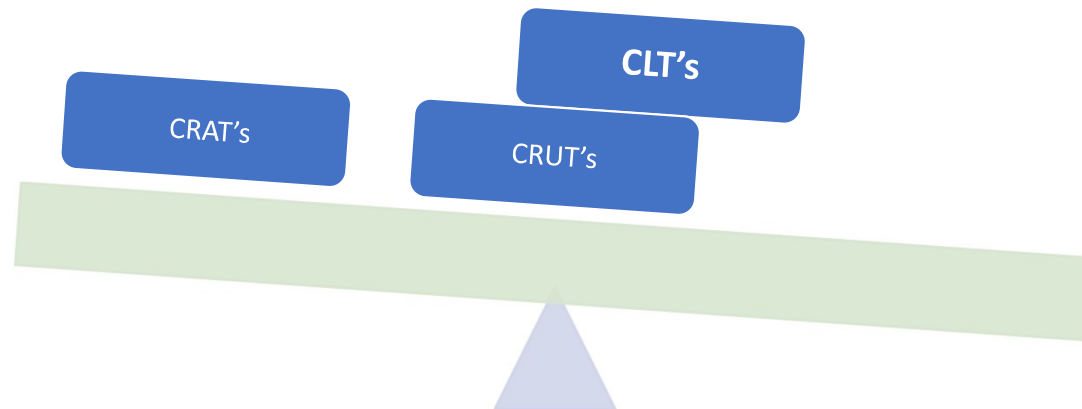
1% 10 Yr. CLUT @ AFR 1.6% & 4.6%



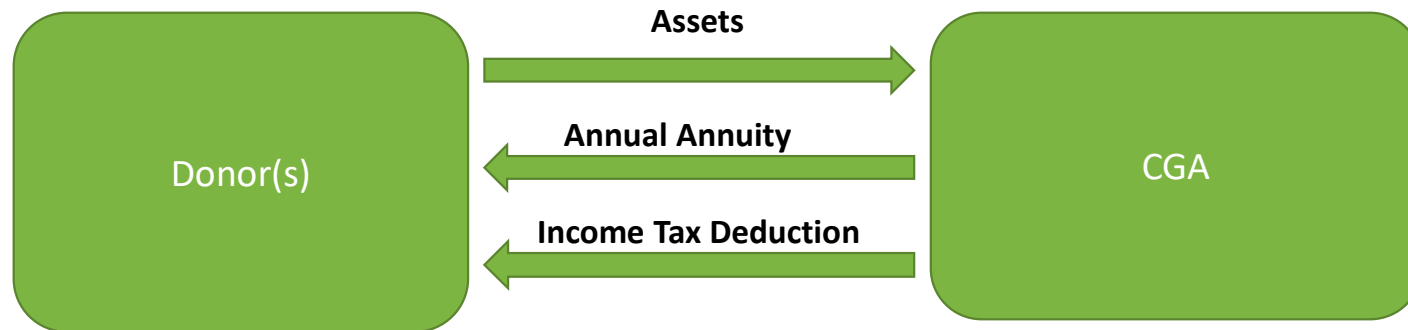
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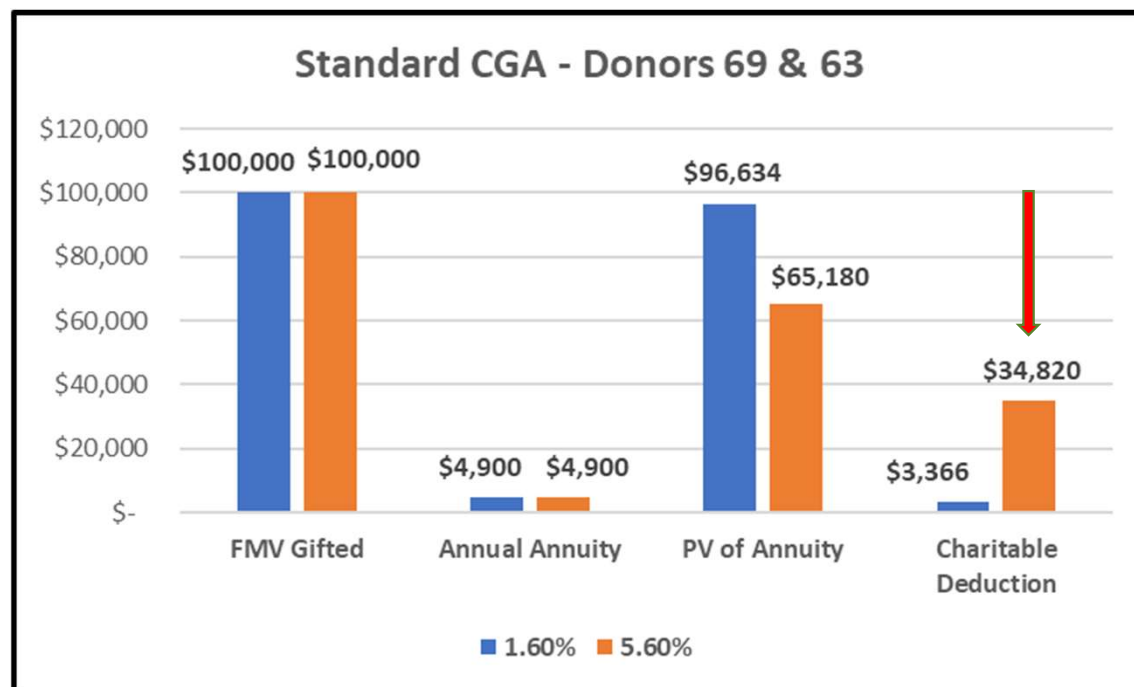


Standard Charitable Gift Annuities (CGA's)



Standard Charitable Gift Annuity (CGA)

- FMV of Gift = \$100,000
- Donor's Ages 69 & 63
- Life Expectancy 23.7 years
- Recommended Rate = 4.9%*

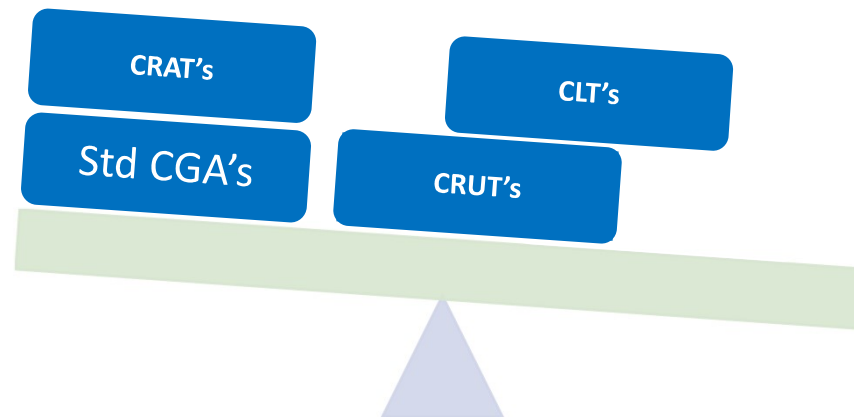


* Recommended Annuity Rate from American Council on Gift Annuities Uniform Gift Annuity Rates

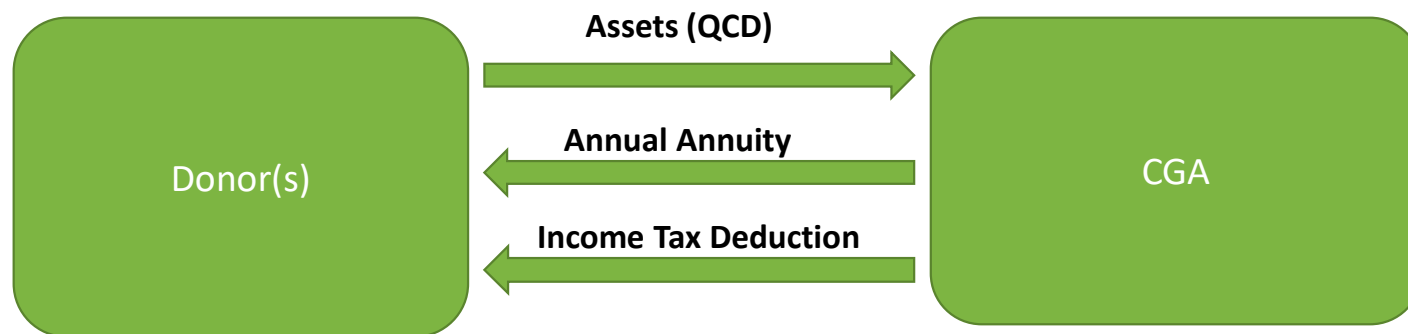
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QCD's to CGA's – *SECURE Act 2.0 Changes*

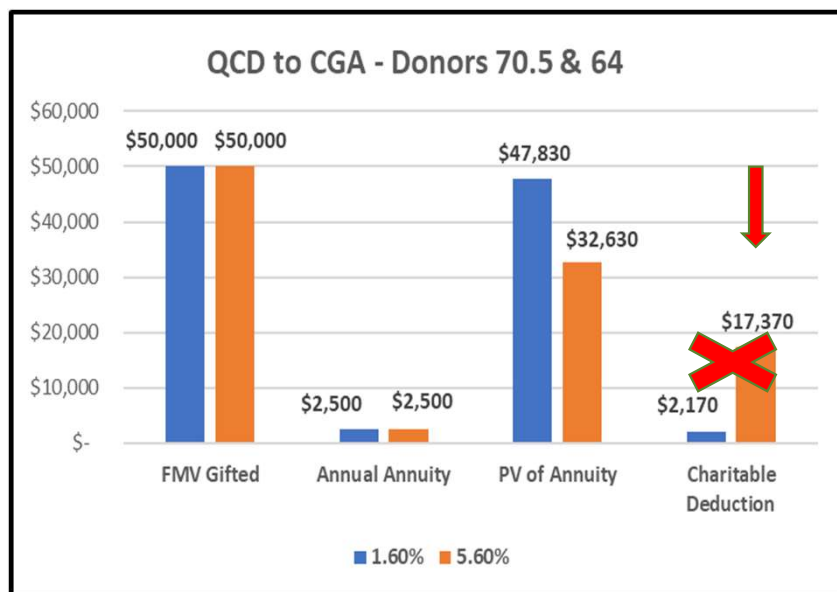


** SECURE Act 2.0 Passed March 29, 2022*

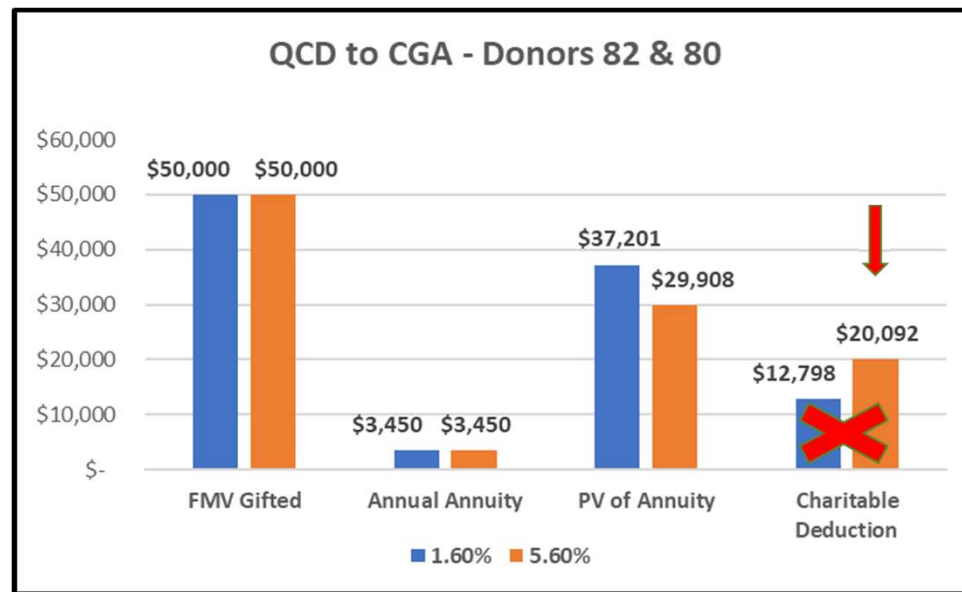
QCD's to CGA's – *SECURE Act 2.0 Changes*

- One-time ability to fund split-interest entity
 - Effective 2023
 - Charitable Remainder Unitrust (CRUT), Charitable Remainder Annuity Trust (CRAT), or Charitable Gift Annuity (CGA)
 - Limited to maximum of \$50,000
 - Split-interest entity may be funded *only* by QCDs
 - Income beneficiaries limited to owner and spouse
 - CRUT/CRAT distributions will all be ordinary income
 - CGA distributions must begin within one year of funding and be $\geq 5\%$
- Maximum QCD amount indexed for inflation
 - Effective 2024

QCD's to CGA's – *SECURE Act 2.0 Changes* *



Recommended Rate = 5.0%



Recommended Rate = 6.8%

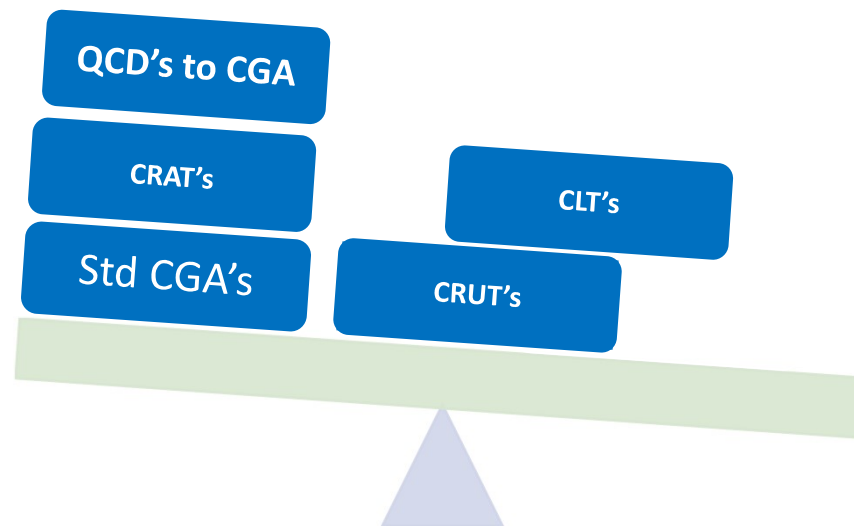
* *SECURE Act 2.0 Passed March 29, 2022*

Steve Leimberg's Charitable Planning Email Newsletter - Archive Message #327
 Date: 08-Feb-23
 From: Steve Leimberg's Charitable Planning Newsletter
 Subject: Paul Hood on Section 307 of The SECURE Act of 2022 & Extending the Use of Regular IRA QCDs to Fund Split-Interest Vehicles: Where's the Beef?

3. Impact on Misc. Wealth Transfer Strategies

Better w/ Higher
Interest Rates

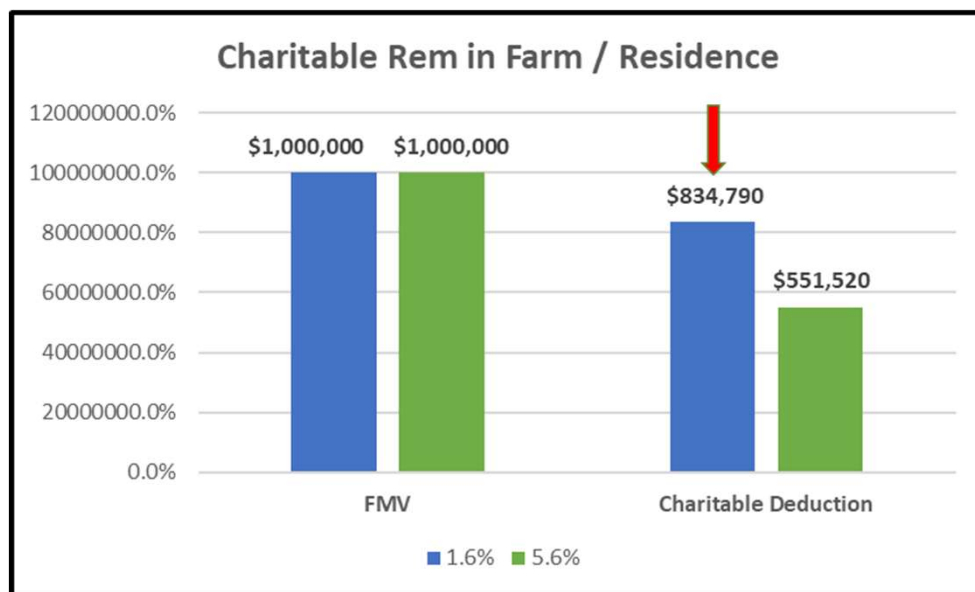
Better w/ Lower
Interest Rates



Charitable Remainder in Farm or Residence



Charitable Remainder in Farm/Residence



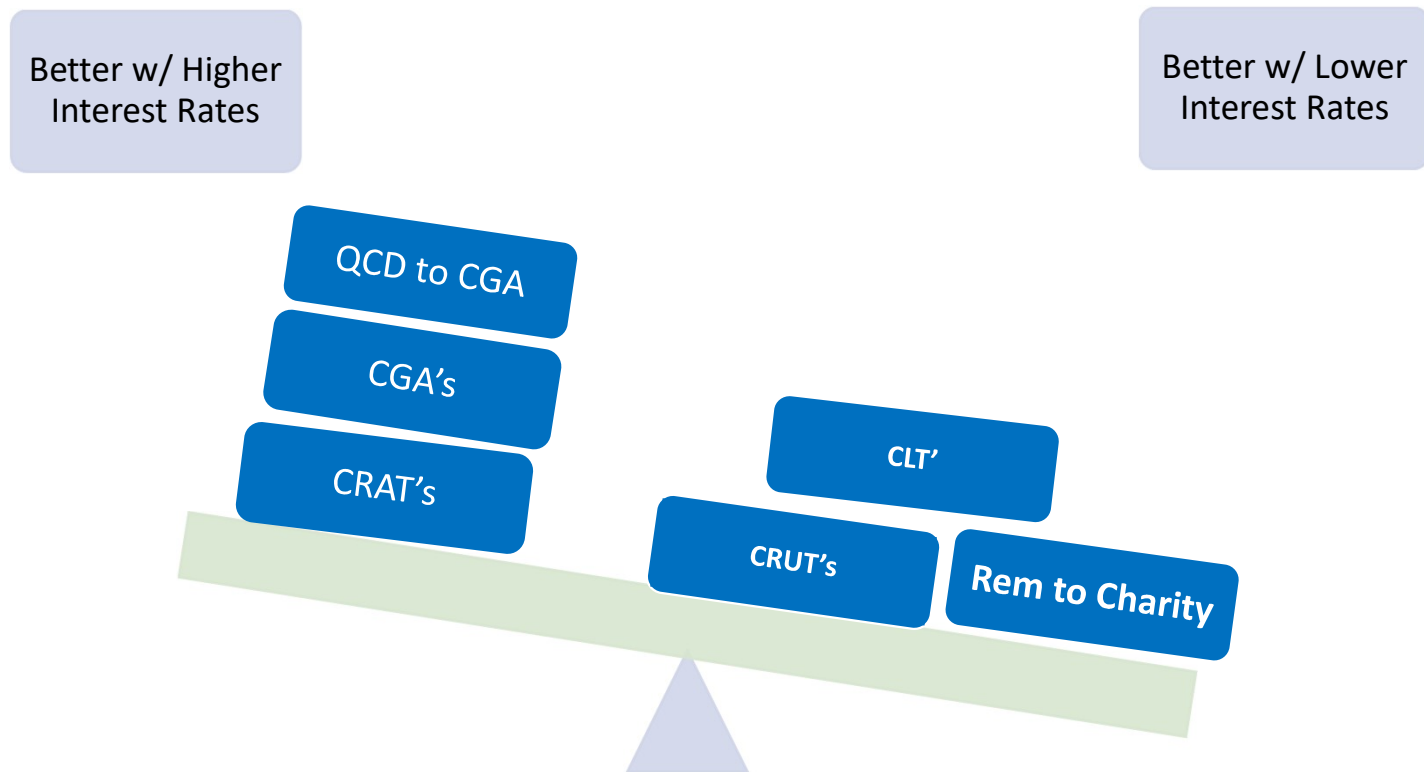
Income Tax Savings

Capital Gains Tax Savings: \$180,000

Year	Deduction Taken	Remaining Deduction	Tax if No Deduction	Tax With Deduction	Tax Savings
2023	\$100,000	\$451,520	\$27,511	\$8,560	\$18,951
2024	\$100,000	\$351,520	\$27,046	\$8,547	\$18,499
2025	\$100,000	\$251,520	\$26,560	\$8,534	\$18,026
2026	\$100,000	\$151,520	\$28,771	\$8,512	\$20,259
2027	\$100,000	\$51,520	\$28,329	\$8,497	\$19,832
2028	\$51,520	\$0	\$27,872	\$16,868	\$11,004

AFR = 5.6%

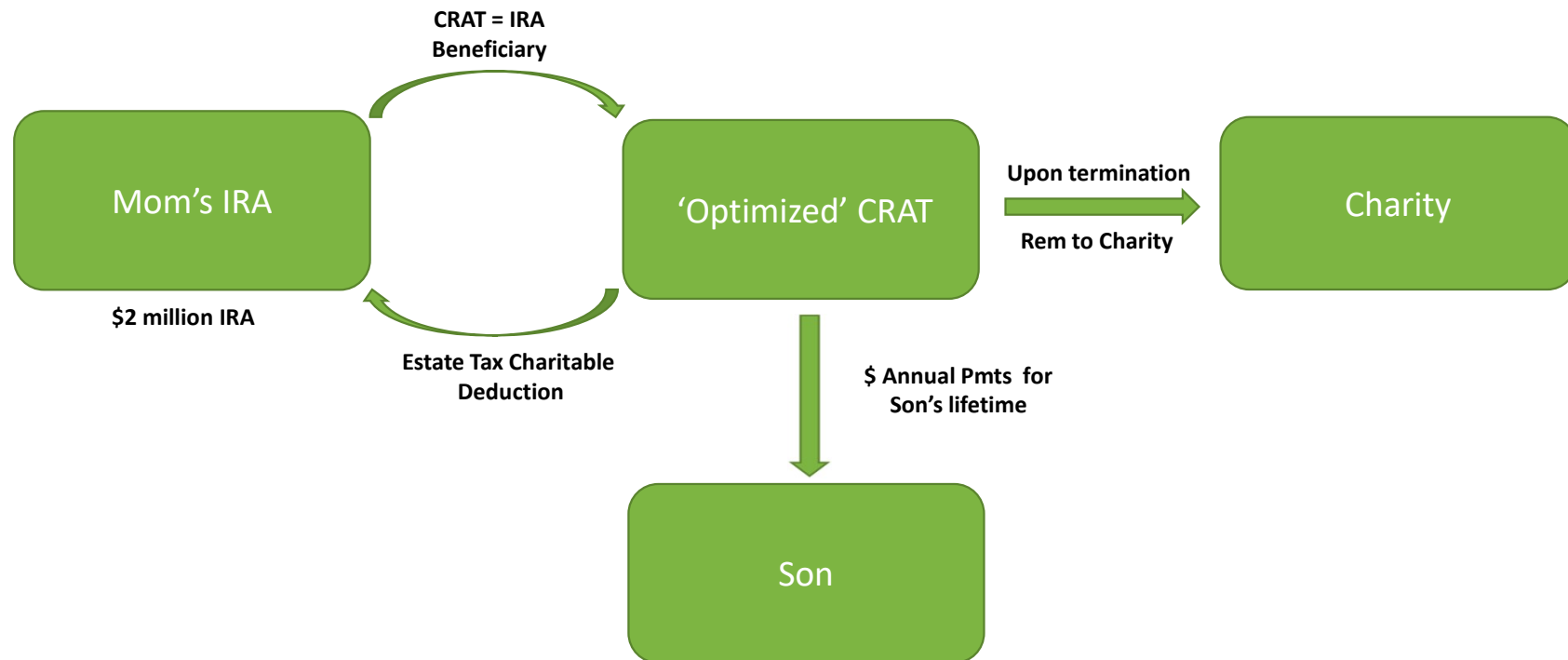
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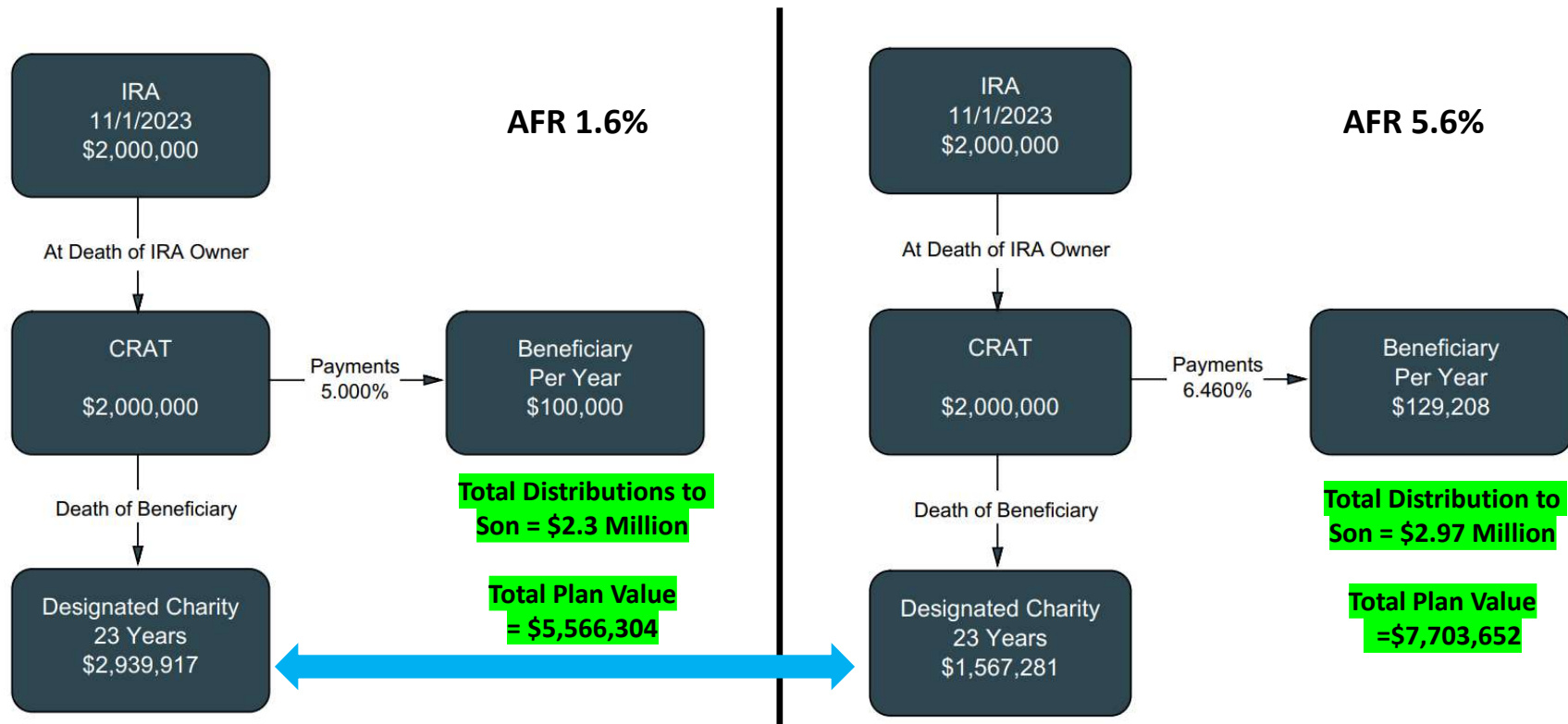
CRAT as Beneficiary of IRA / Qualified Plan

- **SECURE Act 2019** – eliminated ‘Stretch’ provisions for IRA / Qualified Plan Designated Beneficiaries (DB’s)
 - Exceptions – 5 Eligible Designated Beneficiaries (EDB’s)
 - Details and differences are beyond today’s presentation
- Charitable Alternative that simulates the stretch = naming CRAT / CRUT as beneficiary of IRA / QP assets
- **Following Example Assumptions:**
 - Mom’s gross estate = \$15 million; died = 11/1/2023 after Required Beginning Date (RBD)
 - IRA included in estate = \$2 million; growing @ 6% annually
 - Desired beneficiary = 60 year old son and her parish’s foundation
- **Solution: Name Lifetime CRAT as Beneficiary of IRA; Son = current income beneficiary and Mom’s Parish Foundation gets remainder after son’s death.**

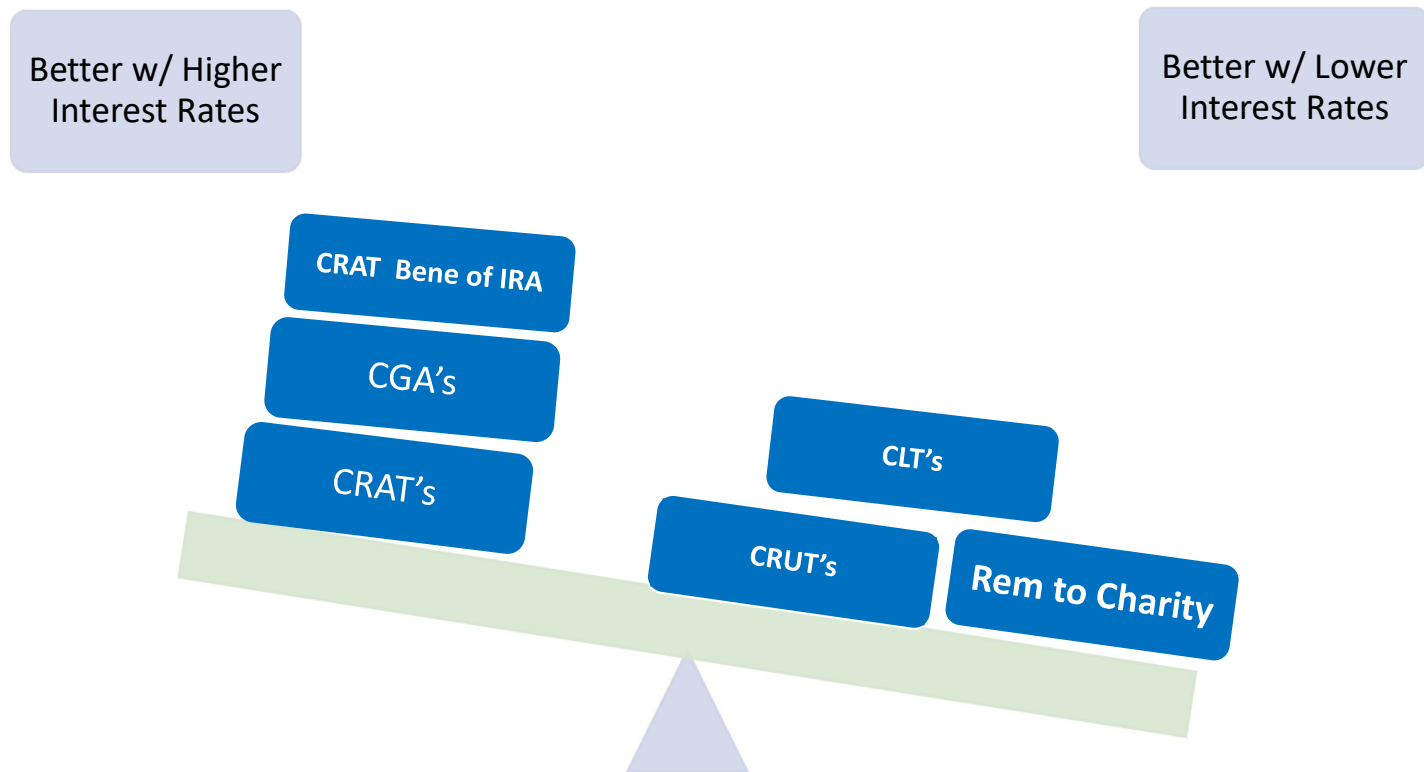
CRAT as Beneficiary of IRA / Qualified Plan



CRAT as Beneficiary of IRA / Qualified Plan



3. Impact on Misc. Wealth Transfer Strategies



5. Observations and Conclusions



**CHARITABLE STRATEGIES STILL WORK
EVEN WITH RISING INTEREST RATES**



**START PLANNING EARLY; TEST VARIOUS
STRATEGIES TO FIND THE RIGHT
COMBINATION; AND AVOID COSTLY MISTAKES**



**THE BEST OPTION(S) MAYBE COMPLEX BUT
NOT HARD-TO-REACH WITH THE RIGHT
PARTNERS**

Thank You

Duane Richardson joined MidWestOne in 2021 as a Vice President – Wealth Planning & Trust Services. In this role, Duane continues the work he’s loved doing for over 40 years, working with successful business owners, executives, professionals, and retirees, structuring and managing investments and their overall wealth to achieve goals for themselves, their families and for many clients, their businesses. Prior to this Duane was with U.S. Bank, N.A. for nearly 20 years in various roles, the last of which was Director of Wealth Planning for Community Banking. Before U.S. Bank, Duane was with American Express Financial Advisors (currently Ameriprise) for over 17 years, also in various roles, all focused on recommending and implementing advanced estate and wealth structuring strategies for clients and their families. Finally, after completing law school, Duane worked as a Tax Specialist with Coopers & Lybrand in Minneapolis for over 2 years doing income tax preparation as well as income, estate and gift tax planning for clients. During his career, Duane has earned his Juris Doctor (JD) degree, Certified Financial Planner® (CFP®), Accredited Estate Planner® (AEP®), and Certified Exit Planning Advisor (CEPA®) designations.

Duane earned a Bachelor’s of Science degree in Chemistry with honors from Wheaton College, IL; a Juris Doctor (JD) degree with honors from William Mitchell College of Law (now Mitchell Hamline School of Law), MN; a Certified Financial Planner® (CFP®) designation from the College for Financial Planning, CO, Accredited Estate Planner® (AEP®) designation from The National Association of Estate Planners & Councils (NAEPC), OH, and the Certified Exit Planning Advisor (CEPA®) from the Exit Planning Institute, OH.

Duane is a member of the Cedar Rapids Area Estate Planning Council.



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