WEALTH STRATEGIES

Paul DeLauro
Senior Vice President &
Manager of Wealth Planning
City National Bank

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Loreen Gilbert
President & Founder
WealthWise Financial Services

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Laila Pence, CFP®
President & Co-Founder
Pence Wealth Management

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Timothy McElfish
Senior Partner
Ferruzzo & Ferruzzo, LLP

FERRUZZO

Patti Thompson-Derry
Senior Director Market Executive, Private Banking
Banc of California

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Wealth Strategies at Year End with Loreen Gilbert, CIMA®, AIF®, CRC®, CLTC®

Insights With the Experts

We are now officially going into the fourth quarter of 2019 and what a year it has been. From tax reform going into full effect to trade war talks dominating the financial headlines, it is now time to think about year-end financial planning. We will hear from the experts in wealth management, estate planning and banking as to what they suggest you think about before the end of the year.

So whether you own a business, are a key executive or are considering retirement, consider the following topics as you are thinking about your finances.

To start our conversation, we turn to **Laila Pence**, CFP®, president and co-founder of Pence Wealth Management to discuss the concept of using a Donor Advised Fund.

Laila Pence

Loreen: Why is a Donor Advised Fund (DAF) a win-win for clients and charities?

Laila: With the tremendous appreciation in the market in the last few years, clients are overweight in some specific stocks that they would like to reduce or rebalance, but the tax on capital gains prevents them from doing so. By donating a portion of the stock, the client can avoid paying capital gains, is able to diversify their portfolio, get a charitable tax deduction on their income taxes, and create a bucket to donate to whomever they want, whenever they want and how much they want.

Loreen: Can you give a specific example of how you have used a Donor Advised Fund to help a client?

Laila: We have a client who doesn't have major charitable intent, and with standard deductions there's no benefit to give. He had a stock with a cost basis of $1 per share, that is now worth $50 per share. We recommended he donate 2000 shares (approximately $100,000) of stock into the DAF, which provided him with approximately $50,000 in tax savings, and kept him from paying capital gains taxes on $98,000, which was an approximate $30,000 in Federal and State taxes. If you think about it, he saved approximately $80,000, by giving $100,000 to charity. The client now has a DAF worth $100,000 that will continue to grow, since it is still invested in the market

Loreen: What other year-end tax strategies are you using?

Laila: There are two other charitable strategies we often use. The first is, if the client is 70 ½ and cannot itemize, they can give a portion of their required minimum distribution (RMD) directly to their favorite charity, and reduce their income by the amount given. The second strategy is for clients who have highly appreciated assets and want more income. In this scenario, we recommend creating a Charitable Remainder Trust (CRT), with them as the trustee so they remain in control of the assets. By gifting the appreciated stock, no capital gains are owed and income can be set up to take 5 or 6 % of the value of the CRT – and get a charitable tax deduction for a portion of the value of the stock. Most clients do not realize they can remain in control of their assets and, as the assets grow in value, their income grows.

Timothy McElfish

To discuss successful exit strategies, we tap **Timothy McElfish**, Senior Partner, Ferruzzo & Ferruzzo, LLP for his expertise in working with business owners.

Loreen: What are some misconceptions about succession planning?

Tim: Succession planning does not have to be focused solely on retirement planning. As with any well-run business organization, planning is key to success. Also, business owners have to realize that market forces may have a role in implementing a succession plan. A downturn in the economy or a change in technology could have a substantial effect on the valuation of the business. So, an owner should be prepared to exit at a time that the business will sell at the best value, instead of waiting for a specific retirement date.

Loreen: What are some of the best practices in wealth preservation strategies post sale?

Tim: First, working with a good financial planner is important to establish a plan for investing the proceeds. Next, would be to have a complete review of your estate planning goals and documents. In some instances, gifting to the next generation may achieve the business owners' goals. Lastly, enjoy and recognize the success of completing your business succession.

Loreen: What things should a business owner consider when contemplating a straight sale versus a business succession to family members or key employees?

Tim: When selling to an outside individual or organization, it will be important to understand the required roles post-closing. Typically, as part of the sale, the owner will be required to sign an employment agreement for a period of time to ensure a smooth transition. It can be difficult for a business owner to watch others run the business that you built. As to any business succession plan that contemplates a sale to a family member or key employee, the selection of the future leader will need to be carefully considered. If not handled properly, it could disrupt the business and risk its future success.

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In addition to planning for a business succession strategy, families also need to think about preparing your heirs for a wealth transfer. **Paul DeLauro**, SVP and Manager of Wealth Planning at City National Bank discusses planning well for the next generation of wealth.

Paul DeLauro

Loreen: What are some examples of how you help parents and grandparents prepare their heirs for their inheritance?

Paul: In general, heirs are unprepared to inherit wealth and grantors are unprepared to transfer wealth. It is impossible to prepare an heir to inherit wealth if the grantor is unprepared to transfer wealth. Thirty-one percent of parents say their own lack of readiness prevents them from teaching their children.

The most effective way to help grantors prepare their heirs to inherit is to start with re-educating the grantors about proper wealth planning. If the grantor is not willing or able to provide her or his heirs with financial literacy education, someone else has to.

Proper wealth transfer should begin with wealth transfers during life so that a grantor can prepare an heir to be a good beneficiary of a small estate before the heir is handed a very large inheritance.

Loreen: You discuss setting up children's gifting trusts managed by unrelated third-party professional trustees. What are the pros and cons of entrusting a professional trustee with the administration of an heir's gifting trust?

Paul: The benefits of hiring a professional trustee are legion. One of the primary reasons to engage a professional trustee is that parents do not know the nuances of administering a complex estate or the relationship a trustee must maintain with the beneficiaries pursuant to the terms of the trust agreements.

There are few negatives in hiring a professional trustee. Unfounded negative assumptions are that professional trustees cost too much. In reality, a professional trustee combines elements of trust administration, accounting, asset protection, and beneficiary consulting that separately would cost much more than entrusting the estate to a professional trustee.

Loreen: What are some best practices you can share for someone who receives an inheritance?

Paul: First, spend a good deal of time learning the details about the estate plan that the grantor put in place. There are many reasons a plan was designed, some tax related, some related to asset protection, and others related to behaviors the grantor wanted to encourage. Always ask what would the grantor have wanted me to do or accomplish with this wealth? Is my spending need in line with the desires of my ancestor who transferred this wealth? Third, focus on the establishment of your own personal budget. Most inheritances, regardless of their size, are lost very quickly to the beneficiary's own spending. The number one enemy of an inheritance is the beneficiary himself or herself.

Patti Thompson-Derry

Finally, we have insights on business banking from **Patti Thompson-Derry**, Senior Director Market Executive, Private Banking, Banc of California.

Loreen: What are some year-end banking strategies that non-profit entities should consider?

Patti: Non-profits should review their liquidity disclosure. New accounting standards require nonprofits to provide additional transparency on their liquidity and ability to meet their ensuing year expenses. A bank revolving line of credit can be a component of an entity's liquidity for purposes of their liquidity disclosure.

Loreen: In today's world of cyber threats and potential fraud, businesses want to know their bank has fraud protection services. What are some fraud protection services that Banc of California offers to clients?

Patti: We offer a number of fraud protection services including Positive Pay on checks and ACH transactions, as well as ACH debit blocks, and wire notifications. In addition, clients upload their issue file and any exception items need to be decisioned by 11:00 am. Banc of California will make efforts to follow up on any outstanding exception items.

Loreen: One of your specializations is to assist charter schools. What unique services do you provide for charter schools?

Patti: We understand the unique needs of charter schools and we address those needs through courier services to pick up cash and checks from a school to safely and discretely get cash off campus and into the bank. Our couriers are discrete, and insured to carry cash.

At WealthWise Financial, we are currently talking to clients who are 70 ½ about the required minimum distributions that need to be taken out by year end. There are strategies that can be put in place to mitigate the tax implications on those assets. It is also a good time to review the beneficiaries of those retirement assets to make sure income and estate tax implications are thoroughly vetted.

In closing, as you think about your year-end finances, consider how you can implement these financial strategies and how our panelists can assist your business and your family make good financial decisions.

Loreen M. Gilbert is a Registered Representative with and Securities offered through LPL Financial, Member FINRA/SIPC.

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Handling Cash? Handle With Care

By Patti Thompson-Derry

The right banking services can help mitigate the risk of handling cash.

Why so much cash?

At the beginning of the school year, you're likely to have a lot of cash on hand, for which you are responsible. Students are buying gym clothes, prepaying for senior activities, starting work on the yearbook and organizing fundraisers for various clubs and athletics.

As the year progresses, there are other occasions where large amounts of cash are exchanged. These include sporting events where, in addition to admission, fans and supporters are buying everything from food to swag, and supporting their teams. It starts with ten weeks of football but extends into basketball, baseball/softball and other competitive sports.

Beyond sports, there are clubs – everything from robotics to academic clubs like the ACADECA (Academic Decathlon), and every subject from English to various foreign languages, from theater to band, from mathematics to the sciences – all conducting their own fundraising activities.

Also, on-campus testing can generate a significant amount of cash in a weekend.

What banking services can help reduce the risk?
A bank's treasury management products and services can help you manage cash and cash flow, and prevent fraud.

For most schools, including public, private and charter schools, there is a significant risk in simply taking that cash to the bank. Also, the travel time to the bank and back takes an employee away from other duties. For these schools, many banks offer custom depository services, including online and mobile remote deposit of checks and bonded courier services for cash. Many schools, and other institutions favor courier services over armored trucks because they are more discreet.

As an added measure of financial security, many banks offer Fraud Prevention Services designed to protect your account information.

One concern that schools occasionally raise is that they may not be on site during the summer months. But the solution is simple; most schools suspend cash pick up services for the summer then reinstate them in the fall. If you have concerns about handling cash during the school year, you should establish a treasury management service relationship with a bank that provides a Relationship Manager.

Patti Thompson-Derry, Senior Director Market Executive/Private Banking at Banc of California, has been lending to both site-based and nonclassroom-based charter schools since 2009. She has financed multiple district-to-charter school conversions, tenant improvements, equipment, working capital needs created by the ongoing monthly/quarterly funding lags, and working capital needs created by past state deferrals, all at competitive bank interest rates.
To learn more, please contact Patti at (424) 903-2614.

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Four Ways to Pass Along Inter-Generational Financial Wisdom

By City National Bank

Wonderful as it may be to pass along wealth to your children, it's just as important to share your financial values, philosophy and know-how with the next generation.

Whether your children are in preschool, high school or beyond, it's likely neither too early nor too late to teach your kids about money, financial management, saving, investing and giving.

Many high-net-worth parents, however, don't prepare their children for large inheritances, neglecting to provide guidance or to arrange the wealth transfer in ways that will protect both offspring and nest egg.

Preparing Your Family for Wealth Transfer

"Generally there's an inverse relationship between wealth and passing on knowledge and values. It's the reverse of what everyone would think," said Paul DeLauro, manager of wealth planning at City National Bank.

Families of modest means, motivated by fear of not having enough money, often do pass along financial knowledge, he said. That fear "teaches you how to save, how to invest, how not to be taken advantage of ..."

In contrast, DeLauro said, many multi-millionaires — uneasy about discussing money — haven't taught their offspring about finances or given them an "inheritance education" in interacting with portfolio managers, wealth advisers and lawyers. The children may inherit wealth in their 50s or 60s with little clue about how to handle it.

"They're rather ill-equipped to go out in the real world when they're called upon to manage and house those monies," DeLauro added, noting that financial advisers often see families implode after wealth transfers to the next generation.

In his experience working with family wealth transfer, the average inheritance life span is about 18 months, he said. "You're looking at a massive loss of wealth immediately after the inheritance occurs."

Money conversations are important, as U.S. heirs are expected to inherit more than $3.2 trillion within a generation, according to RBC Wealth Management's 2017 Wealth Transfer Report, which is based on a survey of more than 1,200 Americans with average investable assets of $4.3 million.

"Most inheritors say they were largely unprepared, unsupported and uninformed about the inheritance process," RBC Wealth Management reported.

While wealthy parents may shy away from discussing finances with their children, the silence can backfire. A $20 million bequest for someone who has never made a budget can become a personal catastrophe, leading to dangerous lifestyles, bad marriages and other wrong turns, DeLauro said.

"What if the wealth itself is what destroys them emotionally?" he said. DeLauro asks clients whether they want to leave money or a healthy person — power and peace of mind, or a time bomb.

"You have to prepare these children long before your passing," DeLauro said.

Van Pate, an RBC Wealth Management vice president and wealth strategist, said he's seen family financial education done "in very different ways" and at different ages.

Working With Professionals

Financial advisers, private bankers and wealth managers often are the best teachers, especially since they're the ones heirs may turn to later, DeLauro said. "It truly takes a financial village and learning those skill sets early on," he said.

Indeed, Pate recalled, there have been times when parents have asked him to join family meetings so that he could share some financial knowledge with their children.

Families that successfully transfer wealth often set up children's trust accounts with third-party trustees, DeLauro said. Beneficiaries need to learn about the trusts — including budgeting and living within their means — at an early age, DeLauro said.

Work and Allowance

Structured financial guidance typically doesn't start until age 28, according to RBC's report, however financial education can start years earlier, as soon as a child is old enough for an allowance.

Business owners often excel at passing along financial know-how and values, as they tend to involve even their young children in the business, Pate said. The

youngsters may start by taking out the trash or otherwise getting their hands dirty.

Putting a child on the payroll can also help them learn to put money aside, he said. An allowance for younger children, often with chores as part of the arrangement, is another way to teach kids about money, spending, saving and charitable giving.

Saving Money

"We also see parents who are aware of the power of compounding, and so they will encourage their children to save, and a lot of parents — we did this with our children — will match dollar for dollar," Pate said.

Pate's two children were about eight or nine years old when they started receiving matches. "It made a difference for both of them for things that they wanted to do," he said, noting that his daughter paid for a $10,000 semester-at-sea program with her savings. Now in their late 30s, Pate said, "they're both very committed savers."

Philanthropy

Well-thought-out charitable giving is another way to pass along family values. Pate described a woman who started a fund that she named Grandma's Foundation.

"All the grandchildren are on the board of the foundation and they all make contributions to the foundation," he said. At Saturday morning meetings at Grandma's house, the young board members get together, look at investment results and present grant proposals to the other grandchildren.

"You can't go on the board until you're seven years old, but once you're seven you're on the board," Pate said. "And they get lunch at Grandma's house, too."

Paul DeLauro, J.D., CTFA

Paul E. DeLauro serves as Wealth Planning Manager for City National Bank. Paul provides comprehensive financial planning services to City National clients, including entrepreneurs, professionals, their businesses and their families.

For more information contact DeLauro at (949) 223-4047 or Paul.DeLauro@cnb.com.

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BUSINESS TRANSACTIONS We work closely with you, your business, and your trusted advisors to set and achieve strategic plans. From start-ups to business operations, expansion to acquisition or sale, and devising an exit strategy, our transactional attorneys bring powerful expertise in the areas of tax planning, deal structure, real estate transactions, and asset protection.

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BUSINESS SUCCESSION: NOT JUST RETIREMENT PLANNING

An entrepreneur who starts a business does not endure the risk, sacrifice, and hard work involved in the new business venture, without maintaining a vision that it will succeed. As the business grows, many times that vision gets clouded when implementing business succession strategies. In some instances, succession planning can be disruptive, uncertain, and cause conflicts that impact future success. But, by incorporating business succession strategies earlier, the success of the company can be achieved. After all, business succession is not just retirement planning, it is also about the preservation of a legacy for the future.

<u>Multi-Discipline Business Succession</u>
A successful business succession plan draws upon many business disciplines. The planning includes review and analysis of business entity structure, determination of the value, recognizing future leaders, preservation of the owner's wealth, and sustaining a legacy.

Strong Foundation. The beginnings of a succession plan require a strong foundation. Analysis of the business entity structure is necessary to ensure that the succession goals can be achieved. Many business owners start their business with a vision and stay focused on the growth of that business without realizing that the initial formation of their business entity has tremendous future tax implications. Owners that began as a limited liability company, C-corporation, or S-corporation should have their corporate governance documents periodically reviewed to ensure that they are aligned with their succession plan. All too often the corporate formalities are not followed, which could subject the business owners to personal liability, or even result in disputes between co-owners. These disputes may cause the company irreparable harm even where the business has become successful or after the owners have worked together for a number of years.

Valuation. A major component to succession planning is the valuation of the business. The valuation will impact the overall succession planning, compensation, retirement plans, gift and estate tax issues, shareholder agreements, and the debts of the business. Measuring the value of the business will typically be determined by using one of the following three methods: (a) fair market value; (2) investment value; or (3) liquidation value. The fair market value approach is the price that the forces of supply and demand determine to be the value of the business. The investment value approach is calculated based upon what an investor would have to potentially invest to achieve a similar company. Lastly, a liquidation value approach determines the value based on a forced or immediate sale. Each one of these valuation methods can be integrated into a succession plan, and depending upon the future of the company, would have a huge impact to the business owner.

After the valuation method is decided, a valuation expert will need to be retained to calculate the value. A business valuation expert will typically use three means to determine value. First, the valuation expert will engage the income-based approach, which values the business based on the present value of expected future income. Second, the cost-basis approach will be analyzed, which determines the value of the company assets, less the liabilities of the business. Third is the market-based approach, which typically estimates the value of the company by comparing the market price to comparable companies. Then, after arriving at the value of the company, any succession planning will have to include an analysis of any valuation discounts that may be applied to a particular scenario.

Future Leaders. Identifying the business owner's exit strategy will require selecting the future leaders of the company. Considerations for selecting a particular exist strategy should be completed years before any exit. If the owner's strategy is to merely sell off the company, depending upon the deal terms the owner will want to ensure that the buyer will successfully continue the business, or it could have a profound effect on the owner's payout. Alternatively, if the business owner wants to sell to a family member or employees, the future leaders will need to be carefully selected to ensure future success. Selecting a future leader when family dynamics are involved could rip a family apart. Birth order, emotions, and favoritism may all play into the selection process when the owner wants to transfer a business to children. Similarly, identifying key employees to take on the role of future leaders could also have an impact on the business. The future leaders will need sufficient experience in every aspect of the business and be motivated to continue the business and ensure its success. Also, they should have a successful track record within the business organization. The future leaders should have each of the traits and qualities at the time the succession plan is implemented, and business owners need to be cautioned against selecting a key employee or family member based on their longevity at the company rather than on their business acumen.

Preservation of Family Wealth. The funds that flow from the sale of the business have profound effects on retirement and the future for the business owner. Any owner will want to use the money to provide an income stream for retirement and ensure that wealth is preserved for future generations. If the business owner is ending his or her working career, the monies will need to be properly invested to create sufficient cash flow to allow the owner to live comfortably. Also, a successful estate plan will need to be crafted to ensure that the business owner is taking advantage of the available estate and gift exemption, including use of generation-skipping transfer exemptions that will maximize wealth transfer to the next generation. The use of trusts in business succession planning may assist in managing assets, providing privacy, special needs planning, and also protect the transfer of wealth to the next generation. Further, the tax planning that goes into an estate plan can also provide for huge tax savings for the owner.

Trusted Professional Advisors. The implementation of any business succession planning begins with aligning with trusted professional advisors to assist in guiding owners through this process. The professional advisors should be able to recognize the business owner's goals and the goals of the business. Often a succession plan is sidetracked as a result of the professional advisor's own goals. After a qualified professional advisor is identified, it is also important to select an advisor that is a good fit personally.

At Ferruzzo & Ferruzzo, LLP, we focus on our clients' goals and provide strategic planning to business owners. Our Corporate and Real Estate Practice Group concentrates on the business owners' needs through the business succession process, to ensure that each of our client's objectives are exceeded.

TIMOTHY J McELFISH, Esq. is a Senior Partner and chairs the Firm's Corporate and Real Estate Practice Group. His practice group dedicates themselves to representing business owners and entrepreneurs. Mr. McElfish also handles all aspects of Corporate Governance, Merger and Acquisitions, Real Estate Acquisition and Dispositions, and Business Succession Planning.

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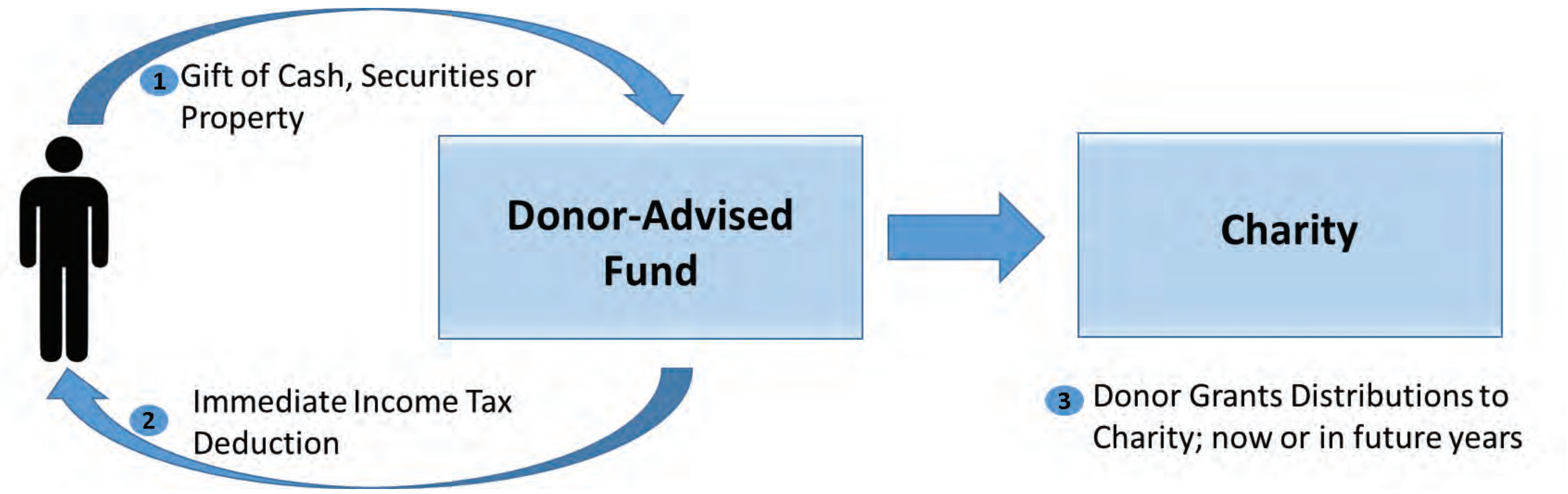
Charitable Giving Wealth Strategies using Donor Advised Funds

As a Financial Advisor, one of the largest client issues uncovered is that people are making charitable contributions with after-tax money and not receiving a tax deduction. That is, they are taking cash out of their savings or checking and donating directly to their favorite charity, religious group, or other non-profit. This is one of the least tax-efficient methods in making charitable contributions given the recent changes to federal tax laws under the Tax Cuts and Jobs Act of 2017 (TCJA).

Under the new tax law, most people will now use the Standard Deduction versus the Itemized Deduction on their tax forms. For 2018, the Standard Deduction for a single person under the age of 65 is $12,000 and doubles to $24,000 if married. This means the taxpayer will need to exceed the Standard Deduction to obtain a higher tax break. It is projected the majority of taxpayers will not exceed the Standard Deduction and therefore, will not receive a tax break for their charitable giving.

Donor-Advised Funds

However, there are methods to ensure you are able to still receive a tax break and continue your philanthropic giving by using a Donor-Advised Fund (DAF). Clients can donate assets today, receive a tax deduction now, and allow those donated assets to be granted to the chosen charity at some point in the future. The key to understanding the DAF is the type of asset used to fund the account to get the maximum tax deduction.



***Example 1**, Bob and Susie Smith are married and file a joint tax return. Bob is a Boeing director with an annual salary of $220,000 and is in the 24% federal tax bracket and 9.3% California state tax bracket for a combined top marginal bracket of 33.3%. Bob has been working at Boeing for over 30 years and has acquired Boeing stock since he began working there. Bob owns 1,000 shares of Boeing stock at a cost of $25 per share (cost basis) and with a current market value of approximately $350 per share. Bob has a Long-Term Capital Gain of $325 per share or $325,000.*

Bob wants to make an annual $6,000 cash charitable contribution and wants to know if he will obtain a tax deduction. Their current deductions include $6,500 in state and local taxes, $8,000 in interest, and $6,000 to their favorite charity for a total of $20,500 in Itemized Deductions. Since the Standard Deduction of $24,000 exceeds their Itemized Deductions of $20,500, there are no tax savings and they will choose the Standard Deduction.

Given Bob has a savvy financial advisor, the advisor discussed the use of a Donor-Advised Fund to meet all his charitable giving and reduce his concentrated position in Boeing. Bob is very intrigued and asks his Financial Advisor to explain.

***Example 2**, Bob will aggregate the next 5 years' worth of giving not in cash, but in highly appreciated stock. Bob donates 85 shares of Boeing stock with a market value of $29,750 (85*$350) to a Donor-Advised Fund. He will immediately receive a $29,750 charitable deduction. Adding in his other Itemized Deductions of state and local taxes of $6,500 and interest of $8,000, his new total is now $44,250 of Itemized Deductions. In this case, the Itemized Deduction of $44,250 exceeds the Standard Deduction of $24,000, Bob will use the Itemized Deduction.*

Bob was able to maximize his deduction by gifting highly appreciated Boeing stock and receiving market value for his deduction. Bob reduced his taxable income by an additional $20,250 ($44,250-$24,000) compared to the Standard Deduction. Given Bob was in the 33.3% combined marginal tax bracket, he saved an additional $6,643 ($20,250.333).*

Additionally, Bob gets to choose when he makes his charitable contribution, as he controls the Donor-Advised Fund. As long as it is a 501(c)(3) he can make as much or how many donations as he wants in any year or future years.

Four Common Misconceptions about Donor-Advised Funds (DAFs)

1. Donor-Advised Funds are only for the Rich
2. Donor-Advised Funds must all be given away in the same year of contribution
3. Donor-Advised Funds leave me with less control and are less flexible than a foundation
4. Donor-Advised Funds cannot grow in value

#1. In our practice, we see many clients who thought DAFs were only for people with millions in the bank and they were not eligible to set up DAFs. They are amazed that they too can set one up very quickly and operates as their own "foundation" of the sort with minimal cost.

#2. A DAF contribution can be given away in a time period of the client's choosing. It could be a set amount each year and carry forward to future years.

#3. DAFs leave the donor with lots of control. The donor can change or add more charitable groups, as long as they are 501(c)(3) charitable organizations.

#4. When a donor funds a DAF, they can choose to select a type of investment model for their contribution based on their risk tolerance. For example, a donor can select a balanced 50% equity and 50% bond portfolio, thus increasing the likelihood of the investment to grow over time.

Summary

It is imperative one meets with a qualified and reputable financial and or tax advisor. Everyone's situation will be different and one wants to make sure they are getting the best advice to their current situation. The above examples were simplified for illustrative purposes only. Each state may impose their own limitations on how much one can deduct in any particular year against the taxpayers Adjusted Gross Income (AGI). Additionally, the federal government has self-imposed limits on the percentage deductible against AGI above certain levels.

Retirement Account Distributions After Age 70½

Loreen Gilbert, CIMA®, AIF®, CRC®, CLTC®

If you have assets in a qualified retirement plan, such as a company-sponsored 401(k) plan or a traditional individual retirement account (IRA), you'll want to be aware of several rules that may apply to you when you take a distribution.

Required Minimum Distributions During Your Lifetime
Many people begin withdrawing funds from qualified retirement accounts soon after they retire in order to provide annual retirement income. These withdrawals are discretionary in terms of timing and amount until the account holder reaches age 70½. After that, failure to withdraw the required minimum amount annually may result in substantial tax penalties. Thus, it may be prudent to familiarize yourself with the minimum distribution requirements.

For traditional IRAs, individuals must generally begin taking required minimum distributions no later than April 1 following the year in which they turn 70½ and by December 31 every year thereafter. The same generally holds true for 401(k)s and other qualified retirement plans. (Note that some plans may require plan participants to remove retirement assets at an earlier age.) However, required minimum distributions from a 401(k) may be delayed until retirement if the plan participant continues to be employed by the plan sponsor beyond age 70½ and does not own more than 5% of the company.

In accordance with IRS regulations, minimum distributions are determined using one standard table based on the IRA owner's/plan participant's age and his or her account balance. Thus, required minimum distributions generally are no longer tied to a named beneficiary. There is one exception, however. IRA owners/plan participants who have a spousal beneficiary who is more than 10 years younger can base required minimum distributions on the joint life expectancy of the IRA owner/plan participant and spousal beneficiary.

These minimum required distribution rules do not apply to Roth IRAs. Thus, during your lifetime, you are not required to receive distributions from your Roth IRA.

Additional Considerations for Employer-Sponsored Plans
The table below is general in nature and not a complete discussion of the options, advantages, and disadvantages of various distribution options. For example, there are different types of annuities, each entailing unique features, risks, and expenses. Be sure to talk to a tax or financial advisor about your particular situation and the options that may be best for you.

Employer-Sponsored Retirement Plan Distribution Alternatives[1]

	Method	Advantages	Disadvantages
Annuity	A regular periodic payment, usually of a set amount, over the lifetime of the designated recipient. (Not available with some plans.)	Assurance of lifetime income; option of spreading over joint life expectancy of you and your spouse.[2]	Not generally indexed for inflation.
Periodic Payments	Installment payments over a specific period, often 5 to 15 years.	Relatively large payments over a limited time.	Taxes may be due at highest rate.
Lump Sum	Full payment of the monies in one taxable year.	Direct control of assets; may be eligible for 10-year forward averaging.	Current taxation at potentially highest rate.
IRA Rollover	A transfer of funds to a traditional IRA (or Roth IRA if attributable to Roth 401(k) contributions).	Direct control of assets; continued tax deferral on assets.	Additional rules and limitations.

In addition to required minimum distributions, removing money from an employer-sponsored retirement plan involves some other issues that need to be explored. Often, this may require the assistance of a tax or financial professional, who can evaluate the options available to you and analyze the tax consequences of various distribution options.

Lump-Sum Distributions
Retirees usually have the option of removing their retirement plan assets in one lump sum. Certain lump sums qualify for preferential tax treatment. To qualify, the payment of funds must meet requirements defined by the IRS:
• The entire amount of your balance in employer-sponsored retirement plans must be paid in a single tax year.
• The amount must be paid after you turn 59½ or separate from service.
• You must have participated in the plan for five tax years.

A lump-sum distribution may qualify for preferential tax treatment if you were born before January 2, 1936. For instance, if you were born before January 2, 1936, you may qualify for 10-year forward income averaging on your lump-sum distribution, based on 1986 tax rates. With this option, the tax is calculated assuming the account balance is paid out in equal amounts over 10 years and taxed at the single taxpayer's rate. In addition, you may qualify for special 20% capital gains treatment on the pre-1974 portion of your lump sum.
If you qualify for forward income averaging, you may want to figure your tax liability with and without averaging to see which method will save you more. Keep in mind that the amounts received as distributions are generally taxed as ordinary income.

To the extent 10-year forward income averaging is available, the IRS also will give you a break (minimum distribution allowance) if your lump sum is less than $70,000. In such cases, taxes will only be due on a portion of the lump-sum distribution.

If you roll over all or part of an account into an IRA, you will not be able to elect forward income averaging on the distribution. Also, the rollover will not count as a distribution in meeting required minimum distribution amounts.

Periodic Distributions
If you choose to receive periodic payments that will extend past the year your turn age 70½, the amount must be at least as much as your required minimum distribution, to avoid penalties.
This table shows required minimum distribution periods for tax-deferred accounts for

Uniform Lifetime Table for Required Minimum Distributions

Age	70	75	80	85	90	95	100	105
	27.4	22.9	18.7	14.8	11.4	8.6	6.3	4.5

unmarried owners, married owners whose spouses are not more than 10 years younger than the account owner, and married owners whose spouses are not the sole beneficiaries of their accounts.
Source: IRS Publication 590.

Other Considerations
If your plan's beneficiary is not your spouse, keep in mind that the IRS will limit the recognized age gap between you and a younger non-spousal beneficiary to 10 years for the purposes of calculating required minimum distributions during your lifetime.

Qualified Charitable Distributions
A qualified charitable distribution (QCD) is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70½ or over that is paid directly from the IRA to a qualified charity. Your QCD's can satisfy all or part of the amount of your required minimum distribution from your IRA. In addition to the benefits of giving to charity, a QCD excludes the amount donated from taxable income, which is unlike regular withdrawals from an IRA. Keeping your taxable income lower may reduce the impact to certain tax credits and deductions, including Social Security and Medicare.

Also, QCD's don't require that you itemize, which due to the recent tax law changes, means you may decide to take advantage of the higher standard deduction, but still use a QCD for charitable giving.

Conclusion
There are several considerations to make regarding retirement plan distributions and required minimum distributions, and the changing laws and numerous exceptions do not make the decision any easier. It is important to consult competent financial advisors to determine which option is best for your personal situation.

For more information, wealthwisefinancial.com or (949)748-1177.
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