Insights Live: Financial planning for life's many changes

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TRANSCRIPT

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Jonathan Lamothe: Hello, everyone, and welcome to the latest *Insights* Live: "Financial Planning for Life's Many Changes." My name is Jonathan Lamothe, vice president of webinars here at Fidelity, and today, we're going to take some time to talk about how to navigate what we often call life events, or those big changes and curveballs that life will inevitably throw at all of us.

We have a lot to get through today, and we truly want to thank you for taking some time out of your busy days to join us. Our panelists are really eager and ready to begin today's discussion, but before we do, I do have some disclosures to go through, and I'd like to mention that Fidelity does not give legal or tax advice, and nothing we discuss today should be interpreted as legal or tax advice.

The information we're going to be providing is going to be general in nature, and it may not apply to your situation. If you do have legal, or tax questions about your specific situation, we do encourage that you reach out to your tax professional or your attorney.

So with that, I'd like to turn it over to our official moderator today, Stacey Watson. Stacey, it's all yours.

Stacey Watson: Thank you, Jonathan. Great to be here. And thanks to all our viewers for tuning in and for submitting your questions during registration, as they really helped us to shape today's discussion.

We're going to do a deep dive on how to prepare for and manage your finances during some of life's big changes, including career transitions, caregiving, losing a loved one, and adding a new family member. And there's a lot to cover, so let's dive in.

First, I'd love for the panelists to introduce themselves and the perspective that they bring to this discussion. So Meredith, could you start us off?

Meredith Stoddard: Sure thing. I've worked in financial services for the last 23 years, and I've had a number of roles during that time, including focusing on strategy, working directly with clients in a few different branches and phone centers, and leading teams. More recently, I led research and strategy around how Fidelity could offer more comprehensive help for people as they go through more than a dozen life events, including marriage, divorce, caregiving, home buying, and more.

STACEY: And Chris?

Christopher Dodd: Sure. Chris Dodd here, a financial consultant based in the Houston market, but work with clients all around the country. I've been with Fidelity for more than 23 years, hold the certified equity professional and certified financial planner certifications, and my day to day job is to provide in-depth planning for retirement, asset allocation, have those family and estate planning discussions, and just go through considerations, some food for thought to improve things for the future.

STACEY: Excellent. And Derek?

Derek Thain: My name is Derek Thain. I am a former estate planning attorney, and I joined Fidelity to be part of our advanced planning team to help our clients think through their own estate plans to answer questions about their wealth transfer needs. I work closely with financial consultant representatives here to help our clients think through those planning and meet with them personally.

STACEY: Great. So let's start with a life change that will happen to many of us at some point, which is stepping out of the workforce, either temporarily or permanently. And sometimes those career breaks are unplanned, such as if you're laid off or if you have a health issue. Meredith, what are some of the steps that people can take when they're going through a career transition?

MEREDITH: Yeah. As someone who was laid off unexpectedly more than two decades ago, I'll never forget just how jarring that can be, and how it really rattles your sense of identity, and your contributions, and suddenly you're faced with, how do I pay for my mortgage and my bills?

It can really create a wide range of emotions and logistical and tactical financial challenges. It's OK to take a little bit of time to process it. Really, the best thing you can do is share what you're going through with those who know you so that they can help you.

I know I found it really hard to just say the words and ask for help, and people are generally going to be there and willing to support you. What I'd say is really tactically, you want to do things like make sure your resume is up to date, make sure your LinkedIn profile is up to date. Reach out to

your network and tell people what happened so that they can help you navigate and introduce you to different people.

Assess your budget. So you do want to make sure that even if you're not one of the people who track everything on a spreadsheet, that you at least have a general sense, Without my income, do I have an emergency savings? Moves in the short term in order to stay afloat.

You also want to take advantage of everything offered by your employer. It can be hard to want to do that—to do with them, but the reality is a lot of employers do offer job placement assistance, health insurance continuation. It's an opportunity to apply for unemployment in some cases, so you do want to read through those materials as painful as it may seem.

What I learned from my experience is in hindsight, it was one of the best things that could have happened to me. Honestly, it's how I landed in financial services. I started temping just to get on my feet again and got placed in a financial company, and it ended up being the first chapter of the rest of my career.

STACEY: Yeah, I couldn't agree more from my own experience. But sometimes, it takes a while to find a new job that'll work for you, and having a cushion to fall back on really helps. And at Fidelity, we believe that everybody should have that rainy day fund. So Chris, what do you suggest in terms of emergency savings?

CHRISTOPHER: Yeah, it's a great question. You know, Meredith hit on it. 6 months, 12 months, what's the right number? Everyone's a little bit different, but for a health event, setting aside money is always good, right?

You never know when that accident or event may happen out there, so whether you put that aside in your checking, savings, money market account, a health savings account, or now a lot of companies have retiree credit or reimbursement accounts depending on your age when you leave a company, or potentially transferring the risk through long-term care insurance or life insurance. We'll talk a little bit more about that later in the session here.

But in general savings, 6 to 12 months of living expenses in cash is generally what we suggest with a minimum of three to six months. If there's an unexpected loss, you may not get back on your feet in that six month cycle, so having a little bit more of a cushion there is suggested.

Even for clients with plenty of assets, the challenge that I usually run into when planning is that there's plenty of accounts or assets out there, but from an age standpoint, maybe you're not eligible to take money out of a 401k or IRA without a penalty, or there's a huge capital gain event, or your assets are in real estate, and you can't sell that readily.

So having that cash on hand is important, and if you are leaving a company, some companies do offer loan provisions on 401k's that can carry forward after you leave the company, but it's very important to read through the plan documents. Some companies force you to pay off that loan right after you leave. Others will let you carry it forward, so it's all about understanding what you have access to and what the plans are.

401k, as I mentioned earlier, 59.5 is typically the age at which you can take money out of a 401k or IRA without a penalty. There are some exceptions there with retirement. If you leave a company after age 55, you can access funds without a penalty, and then there's some other strategies we can talk through to get access to funds to hopefully avoid penalties as well.

STACEY: Yeah, and as Meredith mentioned, leaving your job can sometimes be an opportunity to pursue something new and really follow a dream, and for some, that might be starting your own business or being self-employed, maybe semi-retirement or permanently working part time. So Meredith, what are some of the considerations for someone who is thinking about taking that route?

MEREDITH: Yeah, you're absolutely right. A lot of people do use the opportunity to try to see what other interests they have and how they might be able to apply their skills differently. What I'd say is start with your skill set.

So there are a lot of transferable skills like leadership, leading teams, budget management, strategy. There's a lot of things that can translate over, and so just because you haven't directly worked in a certain area doesn't mean you can't do it.

The other thing to keep in mind is that the world has evolved a lot. It's not like it was a generation or two ago where you picked a career and you're just stuck with it to retirement. A lot of people have change and many changes. I know for myself, I've worked in four different industries since graduating from college, and I certainly wouldn't have guessed I'd be a life events lead at some point.

For those who are looking to make the leap to hang their own shingle, we did create a becoming your own boss life event in order to help you understand what are the tax considerations, health insurance, what sort of business structures, how do I create a business plan? So there's a lot of practical things that you can do as you're pondering your ideas.

The other thing is about half of retirements are unplanned, so you might be somebody who thinks it's just an opportunistic way to segue into retirement. One of the things that you do want to think about as you're going into retirement, obviously the financial piece is critical and our professionals like Chris and others can help you through that, but a lot of people do need to take the time to have conversations—if you have a spouse, have conversations with your spouse around what the expectations are.

What income level do you want to live at? How do you want to spend your time? Where do you want to live? There may be other family considerations like caregiving to think through, so don't navigate it blindly. Have some upfront conversations, and that can really set you up for success.

STACEY: Yeah, and that communication is so important. And Chris, what are some of the other financial considerations?

CHRISTOPHER: Yeah, one of the biggest financial considerations or concerns for most people when they lose a job or retire is health care, dental, vision, coverage for spouse, or partner, or children, right? If they're under 26 years of age or—you're trying to make sure you've got all your ducks in a row.

Health care coverage before Medicare, age 65 is different than after 65, so understanding, education, reading up on your company's plans, or your spouse or partner's plans. If you have a life event or a job change, you have some leeway. There's usually 30 days after an event that you can make some changes and move on to another plan outside of the annual open enrollment window, so it's just understanding that.

If it is an untimed exit from a company, usually there is some outsourcing internally through HR, or benefit fairs, or sessions to talk you through that. Sometimes they're not, and it's a quick leave. It's a layoff, and go figure it out yourself, and that's where we come in to help you figure it out.

So you may be able to transition to a retiree medical plan if you qualify. Some companies still offer that. Not all do. Usually it's dependent on your years of work history. Your age, it's a point system, so you may hear something along the lines of a 70 point or 80 point. That's usually age plus years of service, but that's all spelled out in your company's summary plan descriptions.

For the plans that Fidelity administers, that's typically on our website, but a lot of companies put that on their internal benefit web pages so it's just reading through what those documents tell you, and they're all different, right? They're all company specific, so very, very key to read through that.

If you don't qualify for a company-sponsored plan, having access to healthcare.gov or commercial plans that are out there. Again, checking with spouse or partner's plans to see if you can come on board, but if you don't have those, the government does offer COBRA, continuation of health care coverage, usually at a higher cost, so you may not want to stay on it for a long period of time. In most cases, you can stay on it for up to 18 months after a life event or a short change, but the cost is higher.

And then the last method, commercial plans to bridge the gap maybe to 65 if you're under 65. So just reading up, understanding what all those rules are, or certainly reaching out and asking those questions of us.

STACEY: And good to know there are options. So Derek, I want to bring you in here. What do you talk to clients about who may be considering self-employment or early retirement?

DEREK: Yes, self-employment, early retirement can bring some really fun opportunities for people to engage in their own business to, as you say, be their own boss, but there are some risks that are associated with that move. And I will frankly talk with people who start a business in a new career, get into real estate investing, consulting is a big one.

Many people I talk to consult in the same field or industry that they had worked in previously, but consider that when you are on your own, you lose some of the protections that you may not have even realized you had when with an employer. Oftentimes, there's liability insurance, like errors and omissions insurance, that you were receiving and maybe even didn't know about.

So when you're on your own, think about protecting yourself in the event of liability or alleged liability. You might consider umbrella insurance policies if you haven't already, and you can even try to isolate your business activities and business structures, like limited liability corporations, LLCs, or limited partnerships.

Something else that comes to mind as well as you consider self-employment is it's a great time to reassess your insurance situation. When you leave an employer, you likely lose some of those group life insurance benefits. That may be all right, but you need to think about other options. And if you're in retirement, it may be that life insurance as a form of income replacement is no longer needed, and so that could be a cost savings for you as well.

STACEY: Great things to think about. Another major life event that can cause people to stop working is caregiving, often for an aging parent or other relative, and what are some of the potential financial and emotional costs of taking care of a loved one?

MEREDITH: Yeah, caregiving is a huge one. As of last year, there were over 53 million Americans caregiving for a loved one or someone in their life. It is something that can crop up in a lot of different scenarios, so it could be caregiving for someone through an injury or an illness, aging, dementia, a new child, or a relative with special needs as their needs evolve.

Many people get pulled in without knowing exactly what they're signing up for or just how all consuming it can become. It's one thing to have the idea that, of course I'll take care of you, or of course I'll step up, but the day to day reality can get rather intense. It doesn't mean that you don't want to do it still, but it's helpful to be prepared, to understand what to expect.

That's why having some upfront conversations can be really valuable, and doing a little bit of research. We did put together a fidelity.com/caregiving to try to help you navigate that, and understand what kind of aspects you're committing to, and making sure that you speak to your loved ones.

So provided they're of reasonably sound mind, you do want to have some conversations around what are their wishes? What is their financial situation? What sort of—what's their health directive? Do they wish to continue life at all costs when it comes to end of life decisions? We did put together an aging well guide in the context of the caregiving life event to help people through some of these topics around financial aspects, health, wellness, housing options, or what kind of modifications might be appropriate to enable people to stay in their house.

That said, one thing to consider for those who are thinking about leaving the workforce because it can really be tough to balance all three. Just as an example, I have my parents. My dad has Alzheimer's here today, and my kids—my son was kicked out of camp for a day because he was having a hard time focusing, so this morning was a drama of keeping my dad from chasing my son and everything else. It's a lot to juggle, and when you're thinking about it, you're thinking, gosh, I've just got to quit my job and focus on this.

There are a couple of things that you want to think about when you are thinking about leaving your workforce. One that's really important is some employers have been really stepping it up here in this space to help people with care coordination, concierge services, time off, paid or unpaid, in-home care, flexibility with work hours. Even if you don't think your company is one of them, it's worth taking some time to double check and see what might be out there for you.

The other thing to think through is we put together a true cost of leaving the workforce calculator that can be really valuable in understanding what am I trading off in terms of not only my current salary, but future salary increases, Social Security earnings, retirement savings, retirement contributions, and retirement earnings growth if I leave the workforce.

Now that doesn't mean it's a purely financial decision. Essentially, the numbers might be huge and you still feel passionate that you're going to do it anyway. That's OK, but what it does do is give you a number so that you can use that in your conversations.

If you, for example, have siblings who aren't stepping out of the workforce, and they're feeling like you get to care for them or get to quit your job, saying it's not just that I get to spend time with the aging parent that we share, but I'm also making a big financial sacrifice to do it. And I'm OK with that, but it does mean that I'm going to need your support in some other areas. For example, to go away for the weekend for an adult child's wedding or whatever the case may be, for example.

So just weighing those decisions with your eyes wide open. It can be really easy to kick the can down the road and just sort of figure you'll cross the bridge when you come to it, but you don't want to be making these major decisions under duress.

STACEY: Yeah, I mean, the conversation is so important as you pointed out, and then also having all that information, having the full picture in front of you so that you can make a good decision

and feel confident Chris, oftentimes people know that they're going to be a caregiver in the future, so what are some steps that people can take to prepare now to be a caregiver in the future?

CHRISTOPHER: Yeah, they can get ahead of it, right? We kind of put it off sometimes and say we'll deal with it when it happens or if it happens, but usually that's the worst time to be learning information, right? So I think research, education, homework. We all had to care or most of us had to care for a child, or a parent, or another family member at some point, and if we haven't, we likely will in the future.

You know, I tell my story with clients quite a bit. My mother passed at 38 of cancer. My father had cancer and strokes in his mid 60s, so unfortunately, I've had to do my homework on long-term care because those things can happen. And I learned a lot with my father's situation where he didn't do a lot of planning, and we did have to step in, myself and my step mother. And being an only child puts a lot of stress, a lot of pressure on you out there.

And we are seeing an increase in elder care issues, whether that's Alzheimer's, dementia, people still cognitively there, but their body is breaking down as they live longer. 20 years ago, it was rare for me to see somebody live into their late 80s or early 90s. Just this month alone, I've had two clients reach 105 and 106.

And one has health issues, one doesn't, and it's just it's amazing to see. That's a good story, right? But the majority of them are not those good stories. So just putting a plan in place, having a roadmap, which we'll help you through as well, kind of talk through what are the choices and what are the options available for you.

STACEY: Yeah, and I think that roadmap can really give you peace of mind and something to keep coming back to. And often, the support network involves other family members, sometimes siblings. What is a good family conversation sound like about caregiving?

MEREDITH: Yeah, we did hear that a lot in our research, that just figuring out what are the actual words to say because it can be really easy to fall into sometimes unhealthy family dynamics, where old resentments can crop up. We did put together some support. There's a whole section on constructive conversations that many people have told us they feel really helpful with specific language.

The other thing I'll reference is Fidelity has a center for family engagement, and they've put out some really great content around framing needs around a wish or a fear. It helps to keep defenses down and enables people to share their perspective in a constructive way.

For example, it can be really easy to say, well, you never help me, or you don't understand, or pointing the finger at somebody else, and generalizing with "nevers" and "always." It can be

really hard to in the heat of the moment to take a step back and use some skills of dialogue, like monitoring your tone.

Even if you're confident that they're doing this to be mean or just—it's inflaming some past things. Just taking a deep breath, monitoring that tone of voice, choosing—making a conscious choice to not personalize it, and then create space for doubt and the benefit of the doubt.

Keep in mind that it can really take many takes to get through everything you need to cover and get it right, and it is likely that many topics will be easier than others. So you may have to try not only different approaches to make the headway need, but you may have to come at it again and again.

I do this for a living, and when my father got diagnosed with Alzheimer's over a decade ago, I tried to have a few conversations, and I remember he tried to dismiss me and say, well, it won't matter. I won't know what's going on anyway.

But the reality is it was really important to me that as we make decisions about his care, that we understand his wishes and what he would have wanted, and so we did have to go back at it a few times, and it turned out there were a few things that we feared that ended up being non-issues because we had that conversation up front. And so for us and many others, it is really time well spent to find a way to navigate those waters.

STACEY: Yeah, and you don't have to tackle it all at once. The important thing is really just to get started and start small. Now not everyone has a partner, or a sibling, or a close relative that can help out, so Chris, what suggestions do you have for those who someday might be facing a caregiving challenge on their own?

CHRISTOPHER: Yeah, it's a great question. I'm starting to run more and more into this as parents age and sometimes are outliving their children, or there's a divorce or a widow situation out there and there are no children or siblings there to help out. So extended family, nieces, nephews, grandkids, even cousins are starting to play a bigger role than they have in the past.

And if those aren't available, sometimes it's a trusted network of friends or organizations out there to assist. Now there are other options like long-term care or assigning a corporate trustee, a corporation to help out and assist if there isn't an individual in your local group to help out, but certainly reaching out, looking at local facilities. Sometimes it's a senior living facility where you move into a home again, or an apartment complex, where it's more of a social aspect than a care aspect that eventually may turn into a care aspect over time.

But social and community programs are available in many locations. Religious groups, military, volunteering. They're all worth looking into, and again, focus on something that's going to keep you engaged, and certainly mental health. I think that's the other one that we talk through as we've

seen it through COVID, and these are all stressful events as they come up, and trying to get ahead of them, it's taking care of yourself as well.

STACEY: And you mentioned a corporate trustee. So Derek, can you explain what a corporate trustee is, and who should consider getting one?

DEREK: Sure. Like Chris says, not everyone has someone close in their life who is able and willing to take on such a huge responsibility as managing the finances, and as I like to say, keeping the lights on in the event of incapacity. And so you may not have a better choice than to turn to the professional world, and a corporate trustee is essentially a company filled with people, employees, where that is their everyday, all day job is to administer a trust.

So that brings us to the question, well, how do we get this in place? What is this trust? This would require a certain structure, called a living trust, sometimes known as a revocable living trust. This is a document that you create during your lifetime, while you are living. You would take your assets and put them into that trust.

You would manage and control all of your money, just the way you do today. There are no tax implications here. It is really just a setup so that in the event of incapacity, the document that you wrote would have named this company, a trust company, to step in and take control of the finances for you to use that money for your care or to pay bills, oversee investments, make sure tax returns are prepared.

And then upon death, that same trustee could pick up the document you wrote, which describes how the assets are to be disposed, and send that money to your beneficiaries. So that can be an option if you don't have someone else in your life who would do that for you.

STACEY: Yeah, that's great to know that that's an option. And then Derek, can you also explain what other documents people should have in place to ensure that their loved ones can make essential decisions on their behalf?

DEREK: Of course, and there really is a lengthy list of documents that come into play during incapacity, and while they all deal with incapacity, they do different things. And so a lot of these you're probably already familiar with, but I'll go through them quickly to give you my two cents.

The first one here is power of attorney. Someone can step into your shoes to make financial decisions for you. You get to pick who that person is. The document identifies backups, so if it's not the first person, it can then turn to the second person. The financial power of attorney should be distinguished from the next one, the medical power of attorney. While the same concept applies, if you can't make health care decisions for yourself, you can name someone to do that for you.

These are different responsibilities, and so you might look at the players in your life and figure different people are better suited to those two roles. So it doesn't have to be the same person.

The living will, not to be confused with the living trust I just mentioned, this document authorizes the removal of life support. Not something we much care to think about, but it is so important that your family knows your wishes when it comes to the end of life decision, and this document is one of the ways to express your intentions.

Don't overlook HIPAA. That is our federal privacy law that prohibits your health care providers from disclosing anything about your care to the world. You can get around HIPAA, which is a road block, to be sure that your loved ones can speak openly with your providers and access your health care records by signing a HIPAA release form, where you've identified everyone in your circle of trust who could do so.

You might also—this is optional, but you might also approach Fidelity by adding a trusted contact. So if we learn or believe that there might be an issue, manipulation, dementia, abuse, duress, any of these concerns that sometimes come up, we would know who to contact in your life that you would want to be informed in the loop about what's going on, so please approach us if that's something you're interested in.

And the last one—I got to say this one's optional because not everyone does this, not every attorney suggests it, but in the unlikely event that there's a judge involved in your life where you are deemed incapacitated, you have a say when it comes to who would be appointed by that judge to oversee your care, both financial and medical called a guardian. Some states call this a conservator, but you can sign a document expressing who you hope to be that person. And again, we can always list backups.

STACEY: Yeah, all important documents, and a really good way to make sure that your wishes are known. So moving on, another common, unexpected life event that we haven't discussed yet is the loss of a loved one. And for an adult who loses a parent, what do they need to be thinking about?

CHRISTOPHER: Yeah, I mean, I'll take that one here. I think back to my situation I mentioned with my father, and he's still with us, but he's had some close calls, right? Cancer, two strokes, he's now in his mid 70s, and before that first stroke, he wasn't organized. It was trying to figure out where documents are. Do you have a will? Where is your power of attorney?

He didn't have any of that, so my stepmother and I were flying blind. He kind of put it off and said, hey, it's not going to happen to me. So after his stroke, I forced him to get organized. You know, where are the bills? Where's your logins? All the documents that Derek mentioned, we went and got them and have multiple copies of them. I've got them, he's got them, my stepmother's got them, and we keep electronic records, too, whether that's in the cloud, or Fidelity has a system

called FidSafe, where you can store documents and open up the safe, either at a need or a timely event happens out there. Or if you just want to, you can open it up to family members or third parties.

But that's becoming more important, too, not only for parents, but for children, right? If you're an adult child, you're going off to college, you still need some of those HIPAA, and power of attorneys, and long-term discussions to have with children. So I've got two adult children in college that I've now had that same conversation with them, and they know where my documents are in case something happens.

So it's really just making sure whoever is going to have to step up in the event of a death or incapacitation, that they know where to go. I've got a binder sitting here right by my desk. It's my estate plan, and the kids know that's where you need to go. So it's just having that information available somewhere, and then communicating it. Just letting folks know that are important to you where do I go to find out what my wishes are if I can't speak for myself.

STACEY: Yeah, and I know when I lost my dad, how big a job it can be to settle an estate. So Derek, what does a potential executor need to be thinking about?

DEREK: Like you say, it is a big job, and an emotionally difficult job, and so first thing to keep in mind is you're not alone. You have support from family, and you can always get professional support as there are different responsibilities that can pop up. I call it the trifecta, but you can turn to an accountant to help with any of the tax issues that typically come up upon death.

Obviously financial advisors and different people representatives here at Fidelity that can be of help, too, as you think about the wealth transfer part, and then any estate planning attorney that you approach and hire to help with the paperwork, understanding and interpreting the documents like the will, and holding your hand through the court process.

But ultimately, the responsibility does fall on the executor to get the job done, and this can include a long list of responsibilities. First thing to keep in mind is that a probate is required for a will to be, what I say, activated. There is no executor until a judge appoints one, so if you think you're the executor, you're not. Not until a judge says so.

So there is a process to go through, and again, the attorney will help you. But once appointed as the executor, there's all sorts of work. Final bills, expenses, and funeral costs that have to be covered. Typically the sale of real estate is involved, and as you've seen in your own lives, that can be pretty detailed and can involve maybe repairs to the property.

And then don't overlook taxation. Just because somebody dies, the IRS hasn't forgotten about the tax bill. And so as an executor, you may be on the hook here to prepare the return to be sure

that the IRS gets their money. And then there are some other things. Utilities, and credit cards, and what have you, they have to be closed out.

All this is typically done before the final responsibility of the executor, which is to pick up the will and read how the assets are to be divided among the beneficiaries on a percentage or dollar basis. And eventually, the job does end. So it is big, but you're not going it alone.

STACEY: And Derek, you mentioned taxes. Can you talk a little bit more about some of the potential tax implications of inheriting different kinds of assets?

DEREK: Sure. They get us every which way, right? The tax question is multifaceted. There are various taxes, or at least possible taxes, to keep in mind. For many people, the taxes that are relevant at death don't apply, and I'll give you an example.

The first one worth mentioning is the federal estate tax, sometimes called the death tax. I call this one the final insult, but the idea here is that upon someone's death, we have to take a look at their net worth. And if the net worth exceeds what is called the exclusion amount, then an estate tax would apply. But if the deceased person's net worth is below the exclusion amount, then there would not be an estate tax.

And right now, the federal estate tax exclusion amount is just a hair under $13 million. And if you're married, you and your spouse combined, if you both died the same year, that's almost $26 million in estate tax exclusion. I hope you all have a tax problem. One of those good problems, right?

But we have to keep in mind that this is a moving target. Congress loves to play with this dollar amount, and it's become political somehow, and so we see it changing from time to time. We know that it is scheduled to drop. Come year 2026, we see what they call a sunset in our tax law.

What a pleasant image, right? But it just means that everything rolls back to the way things were back in 2017, if you can think back with me. The exclusion amount was much lower. We don't know the exact dollar amount because we have to factor in some inflation, but the so-called experts are saying that the exclusion amount will be somewhere around $7 to $8 million per person at that time, and that assumes Congress doesn't pull the rug out from under us meanwhile.

So just keep that in the back of your minds. It may not be an applicable tax in your situation, but it could become one in the future, so keep an eye on it.

The other tax worth mentioning is capital gains tax. I don't need to tell you about capital gains, right? Buy low, sell high, you pay capital gains tax on the difference, but what if somebody is holding on to an appreciated asset, securities, real estate, you name it, and then dies?

What happens is that the cost basis, typically the purchase price of the asset, we just ignore that going forward. The cost basis becomes what we call the fair market value, whatever the asset could have been sold for on the date that individual died. So we reset the cost basis. This is sometimes called a step up in cost basis.

Essentially, the beneficiary could sell the asset and pay no capital gains tax if it sold that day. If it's not sold that day, we just know what the cost basis is going forward for a later time when it eventually is sold.

The third tax, and this one tends to be the most relevant tax, is income tax, specifically as it relates to any retirement accounts, like a 401k, or an IRA. You know all about this. You have not yet paid taxes on that IRA. That's the whole point. Tax deferral.

And so upon death, whether that's you or maybe a loved one, the beneficiary who inherits that account is the one who then pays the income tax bill. It's not a question of if, it's a question of when, and the rules now say that we have a whopping 10 years to pull all of that inherited IRA money out, and as you know, pulling money out triggers the income tax bill. Ordinary income taxes, the beneficiary stacks them on top of his or her other income and wages to pay the tax bill.

As an FYI, Roth IRA money, when that is inherited, say you inherit some Roth from your folks, that follows the same 10-year distribution period. The Roth money must come out. That gravy train must end, but there's no tax bill. That's the benefit of the Roth is tax-free distributions.

And then just as another one to mention, life insurance, the death benefits that pay out to a beneficiary. If you receive a death benefit or your children, there's no income tax bill on death benefits for life insurance, so that's an easy one as well.

STACEY: Well, switching gears here a little bit, another life change that often creates the need to revisit your plan is the addition of someone to your family, either by birth, adoption, or marriage. So Chris and Derek, what are some steps that you recommend for clients who have a new family member?

CHRISTOPHER: Yeah, I'll take it first here. When there's a new life, a new marriage, new family members, the plans need to be updated, right? It's kind of like your doctors and dentists visits. You go once or twice a year, or as needed. When there's a life event, that's an as needed review. You need to update it.

So it could be an update to your budget. Do you need to put more savings aside because now you've got more mouths to feed? Is it less splurging because you don't have the disposable income? Do you need to increase potentially life insurance to cover that job loss for income needs going forward? Are there more health costs?

And then you get into just the administrative. Do you need to update account registrations, or titles of real estate, or beneficiary designations? That's a big one as well. And then that all works together with your will potentially, because beneficiaries, and this is where Derek mentioned the trifecta, right? Is making sure, does your will match your beneficiaries, or is there something different?

Beneficiaries, if you have them, supersede what's in your will. So what we tend to see in a lot of cases is somebody updated their documents, but they didn't update their beneficiaries, and it's out of whack. So coordination. Just reading through and making sure you know what those nuances are before something unintended happens.

And that's where just sitting down, listing out all those changes. You know, what are these things we need to be thinking about out there? It just helps the conversation between not only family members, but those trusted parties, whether it is the CPAs, or financial planners, or accountants out there. Excuse me, or estate lawyers. So just making sure you're keeping people informed, but you've got to put that all pen to paper first so that when you come to somebody for help or for guidance, that we know what we're looking at.

And I do see sometimes you miss pieces, and we uncover it after the fact. Sometimes good outcomes, sometimes not so good outcomes. So it's again, planning ahead of time is where we suggest. Derek, any other thoughts there?

DEREK: Yeah. It's been my observation that most grandparents leave their assets to their children, the second generation, rather than skipping and going to their grandchildren. That's typically the case and the expectation is that the second generation would use those assets for the care of the third, but that's not always the case.

And occasionally, I'll talk with grandparents who want to provide a little bit to their grandchildren. My thoughts are work with your children to coordinate your efforts. It's sometimes the case that a well-meaning grandparent by circumventing their children and giving money to the grandchildren, shall I say oversteps the parenting approach of their own children.

Your children, for example, may have a certain idea in mind when it comes to money and how to encourage the children to be financially independent and responsible, working, whatever the case may be, so it's important that you are coordinating your efforts to help the grandchildren achieve your own children's parenting goals, so just keep that in mind.

Even well-meaning grandparents can do this better or worse.

STACEY: Well, and if—go ahead.

DEREK: No, no, no, please.

STACEY: What are some strategies to do that, Derek?

DEREK: Oh, yes. One of the big issues is that these grandchildren are often young, right? And not necessarily ready to manage a significant inheritance or a gift, and even if a grandchild is above the age of 18, it doesn't necessarily mean that you feel that they are ready to manage such a large amount of money.

So as you think about transferring wealth in life or in death to your grandchildren, think about different structures that exist out there to put some parameters, some restrictions even, on the use and access of that money. There are a few that come to mind that are used most commonly, and I'll run through them, a few pros and cons.

The first one that I see often is a 529 education plan. This is simply an account. You can open up one of these at Fidelity, and name the grandchild as that beneficiary. The biggest advantage to a 529 education plan, like the name suggests, is to help pay for education because all of the growth inside of that account grows tax free. Not tax deferred, but tax free if it is ultimately used for education qualifying expenses. So pretty awesome benefit there.

So you might expect, we need time for us to realize that benefit of tax free growth. So the earlier that this is created and funded, that allows us the most time to see some of that growth. Now, the negative is that it's being used for education, and so if the money is not being used for education, there can be penalties and taxes associated. There are some nuances here, and Congress keeps changing the rules on us a little bit to make these more attractive, so read up on it.

The other option out there is a custodial account, sometimes called a UTMA account. This is also an easy set up. Just an account you would open at Fidelity, and you can transfer funds to this. It's considered a completed gift. There's no take backs, and the benefit here is that you decide who's in charge, and you can decide who's in charge after you. If you had picked yourself, you can name the second generation, say a child of yours or someone else, and the money can be used for things other than education.

So it's a little more flexible in its application. However, the money is taxable as it grows. Just like any other brokerage account, there might be interest and capital gains that are taxed to the child. But the other hang up here is that they're governed by state law, and typically end at 18 or 21 years of age, and that may be too young, which brings us to the third option, which is leave it in a trust.

So you can name a grandchild as a beneficiary of the trust, transfer funds into there during your lifetime or upon your death, and then you would decide in the document how that money should be used, and the big one here is you pick who's in charge. The trustee who would oversee the investments and disbursements to that child, and this could be for any purpose, and go well beyond age 21. So it is very flexible, but it does come with perhaps more complexity than the

other two options.

STACEY: OK, lots of options. And then as we wrap up here today, can each of you just share a few takeaways that you'd like to leave our viewers with?

CHRISTOPHER: Yeah, I'll start off. Have the conversations. We've been talking a lot today about being open. Just don't—waiting until something happens. Let's talk about it ahead of time. So have it with loved ones, have it with your trusted advisors out there, revisit the plan regularly.

We touched on a lot of topics today, but there's so much more in depth on those. We really didn't get into charitable planning with IRA withdrawals, or that 10 year rule that Derek mentioned. There's some benefits for children to be maybe named as an IRA beneficiary to extend that 10 years out.

There's all kinds of nuances, so remember these topics we've talked about, act on all or some of them here in the short term, but it's going to probably evolve into other things to be thinking about. So just reach out, ask those questions, and just let us know what those questions are, but treat your financial plan just as important as your health plan. Once or twice a year, as needed, make sure you're reviewing.

MEREDITH: Well said, Chris. I couldn't agree more. I'll say a couple of things to add. One is that sometimes just the fear of tackling these things can have people wait for months, years, or even decades before they tackle some of these things, and just making small, incremental improvements here and there and over time can really make a difference.

And so like Chris was saying, if you plan on tackling this annually or quarterly, whatever cadence works for you, if you make a little bit of progress, give yourself the win and allow yourself to celebrate it. You are not alone in any of the life events that you go through.

Literally tens of millions of people go through this, and there's a lot of resources, so don't go it alone. Many people have walked this path before and many others will follow, so being prepared can make a huge difference, and that's why we put together resources to help you on your journey.

DEREK: And I'll jump in here. Communication is key. Estate plans work best when the players know their roles and responsibilities, expectations.

So while it may not be appropriate or necessary to disclose the extent of your wealth or for your family members to disclose theirs to you, it is important that everyone, all the relevant players here, know how the structure is set up and what the responsibilities and expectations are because failure to communicate can often lead to confusion, hurt feelings, and worst case, contention and litigation, and that's the most common reason for the contention is failure to open one's mouth

and say, hey, what's going on. So be mindful of being open and get everyone on the same page.

STACEY: Great takeaways. I want to thank all of our panelists for such great information on all these topics, and on behalf of *Insights from Fidelity Wealth Management*[SM], thank you all for joining us. If you have any questions about anything that we touched on today, reach out to your Fidelity representative, and we look forward to seeing you again soon.

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