BEACH CiTiES ESTATE LAW

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INSIDE

A NEW ERA FOR ERISA

The Final Rule Transforms What It Means to Be a Fiduciary

For more than 14 years, the U.S. Department of Labor has been trying to determine a new definition of a "fiduciary" under the Employee Retirement Income Security Act (ERISA). A fiduciary provides investment advice for a fee to employee benefit plans. Under ERISA, someone is a fiduciary if they have control over managing

or using a plan's assets, provide investment advice for a fee, and have responsibility for managing the plan.

Since 1975, these discussions were only considered "investment advice" if they adhered to a five-part test. However, this past September, the Department of Labor released new regulations called the Final Rule that redefines what it means to be an investment advice fiduciary.

With this recent change, the five-part test goes out the window. The Final Rule expands the definition of who can be considered a fiduciary. Someone is a fiduciary if they regularly provide investment recommendations and advice to retirement investors for a fee. That advice must be based on the investor's needs and reflect expert judgment that serves the investor's best interests. They must also state that they are acting as a fiduciary when giving advice; however, if you've previously received one-time advice, that could now be considered fiduciary advice.

That's a lot of information to swallow, and by now, you're probably wondering how this will affect the average person. In most cases, these changes will only affect those acting as fiduciary advisors and retirement investors, including participants, beneficiaries, IR owners (Ingersoll Rand Inc.), and anyone else involved with an ERISA plan. Through the Final Rule, you should receive better advice that puts your interests first, providing more transparency about recommendations and any fees involved. It should also create greater accountability for advisers, brokers, insurance agents, and anyone else acting as a fiduciary.

All in all, this is a great change for those who interact with fiduciaries. You can rest assured knowing the advice you receive will benefit you and your investments.

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MARCH 2025

TAX SEASON IS HERE

What You Need to Know About 2025 Updates

While tax updates might not be the most exciting topic, they can significantly impact your estate planning and financial future. So, let's take a look at what's changed for 2025.

Estate and Gift Tax Exclusion Increases Starting Jan. 1, 2025

The estate and gift tax exclusion increased from $13.6 million to $13.99 million per person. That means a married couple can now shield nearly $28 million from estate taxes if they plan correctly. The annual gift tax exclusion also increased from $18,000 to $19,000 per recipient. If you plan to make financial gifts to loved ones, it's a good idea to do so earlier in the year rather than waiting until December. That way, the money is out of your estate, no matter what happens during the year.

The Effect of Higher Interest Rates on Estate Planning

Interest rates have risen since 2022. Since certain estate planning techniques work better in higher interest rate environments, we've shifted to using strategies that take advantage of these higher interest rates.

Qualified Personal Residence Trust (QPRT): A great way to transfer a residence to your heirs while minimizing estate taxes.

Charitable Remainder Annuity Trust (CRAT): If philanthropy is part of your plan, you can donate assets while still receiving income from them during your, or your beneficiaries', lifetimes.

Upcoming Deadline for 'Use It or Lose It' Estate Planning

The Tax Cuts and Jobs Act of 2017 (TCJA) provided for the doubling of the prior $5 million per person estate tax exemption. However, since the TCJA did not receive enough votes to become a permanent law, it is only effective for 10 years. Therefore, unless Congress passes new legislation to extend the higher exemption, the current almost $14 million exemption will be cut in half to about $7 million per person on Jan. 1, 2026, ***less than one year from now.***

If you have a large estate, consider using your exemption now. Making gifts today locks in the current higher exemption, ensuring the future growth of those assets happens outside your taxable estate and that the amount you pass to your beneficiaries is not eroded by estate taxes.

How to Make the Most of Gifting Without Changing Your Lifestyle

Not everyone feels comfortable giving away large amounts of money during their lifetime. If you're concerned about how gifts will affect your lifestyle, consider gifting assets you don't rely on to maintain your lifestyle, such as vacation homes, growth stocks, or valuable personal property such as jewelry and artwork.

IRS Notice 2024–2035 and Inherited IRAs

A recent IRS notice made some crucial clarifications regarding inherited IRAs. Under the SECURE Act,

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Crack the Code

Benefits and Drawbacks of the Latest College Aid Forms

Applying for college financial aid has been a moving target recently amid changes in federal rules. One new loophole is good news for families, however. For the first time, grandparents can set aside money in tax-sheltered accounts to help pay a grandchild's college expenses without jeopardizing the student's eligibility for other financial aid.

The benefits could be significant for families planning, saving, and working together toward college-funding goals.

The primary tool to qualify for federal aid and other sources of help is the Free Application for Federal Student Aid (FAFSA). The latest version of FAFSA does not require students to report distributions from grandparent-owned 529 college savings plans. In the past, those distributions could reduce a student's financial aid by half of a grandparent's contribution.

Family members, including grandparents, are playing a growing role in covering soaring college costs. Undergraduate students cannot borrow more than $5,500–$12,500 a year in federal subsidized and unsubsidized loans, depending on their school year and whether they rely on their families. This nearly always falls short of the average annual public university tuition of $11,000 for in-state students, $24,500 for out-of-state students, and $43,500 for private college students. Parents are shouldering an increasing share; 11% take out federal parent PLUS education loans, borrowing an average of $40,000 per parent as of 2020.

Other changes in the FAFSA form have subtler implications for families. The government no longer considers the number of students one family has in college simultaneously to determine eligibility. This is bad news for families with multiple children who want to attend college at the same time.

> *"The latest version of FAFSA does not require students to report distributions from grandparent-owned 529 college savings plans."*

In another change, the latest FAFSA substitutes a new measure, the Student Aid Index (SAI), for the Expected Family Contribution measure used in the past. The SAI ranges from -1500 to 999999, and the lower it is, the greater the likelihood a student will get need-based financial aid.

States' 529 plans, named for Section 529 of the Internal Revenue Code, function like a kind of 401(k) account for education by deferring taxes on investment gains on savings for designated educational purposes. States began to develop these plans in the 1980s to encourage families to save for college, and all states now sponsor some version of a 529 plan.

Other changes include expanding the number and potential size of Pell Grants. The maximum Pell Grant will rise to $8,145 in the 2025–2026 academic year from $7,395 in 2024–2025. While the SAI is calculated based on a student's family size, income, and assets, eligibility for Pell Grants also considers a family's financial standing according to federal poverty guidelines.

In other changes, the revised FAFSA relies on federal tax information provided by the IRS rather than answers provided by applicants. It also asks fewer than 50 questions, compared with 108 in the previous form.

While many people labor over the form's detailed questions, the most common mistake is not filling out the FAFSA at all. This omission excludes students from eligibility for numerous subsidized loans and grants, scholarships, and other aid from the college or university they attend.

Many students wrongly assume they won't be eligible for aid because they or their parents make too much money or their grades aren't high enough. Plenty of circumstances can qualify applicants for grants and awards, from being the first in their family to attend college to being in the military, being unemployed, or planning to major in a specific in-demand subject.

With numerous sources of financial aid in play, the potential rewards of completing the FAFSA are well worth the time invested!

... continued from Cover

most non-spouse beneficiaries must withdraw all inherited IRA funds within 10 years from the participant's death.

Many beneficiaries thought they could wait and take all of the IRA funds in year 10. However, the IRS has now clarified that distributions are required annually, even within the 10-year period. Thankfully, in 2024, the IRS waived penalties for missed required distributions.

If any of these updates affect you, let's talk. We're here to help you maximize the opportunities available under current tax laws. Contact our office today! After all, the best way to prepare for the future is to plan while you still have time!

– Angela Klenk

Banana Pudding Cheesecake Mashup

Inspired by Delish.com

Ingredients

- 1 (8-oz) block cream cheese, softened
- 1/3 cup granulated sugar
- 1 cup heavy cream
- 1 tsp vanilla extract
- 1 (3.4-oz) package instant vanilla pudding mix
- 1 cup whole milk
- 1 prepared graham cracker crust
- 3 bananas, sliced
- 20 Nilla Wafers
- Whipped topping and crushed Nilla Wafers, for garnish

Directions

1. In a large bowl of a standing mixer, add softened cream cheese and beat until fluffy and free of clumps.
2. Add sugar and beat until combined, then add heavy cream and vanilla extract and beat until medium-stiff peaks form. Set aside.
3. In a medium bowl, whisk together milk and pudding mix and refrigerate for 3 minutes until thickened. Pour pudding mixture into cream cheese mixture and fold until combined.
4. Into the graham cracker crust, pour half the filling and spread evenly. Add a single layer of sliced bananas and Nilla Wafers, then pour remaining filling over and smooth the top.
5. Refrigerate until firm, at least 6 hours, or overnight. Top slices with whipped cream, crushed Nilla Wafers, and any additional banana slices as desired.

All Paws on Deck

Keeping Pets Safe in Emergencies

When a disaster strikes, it's not just your home and immediate family you need to protect; your furry family members also need you to keep them safe. By preparing for the unexpected and ensuring you have the right supplies, lines of communication, and arrangements, you can help reduce the stress and uncertainty for you and your furry companions. Get ready to be all paws on deck with these tips to keep your pets safe during emergencies.

Be Purr-pared With a Plan

Make sure you include your pet in your household's overall emergency plan. You will avoid stressful scrambling at the last minute when a disaster occurs. If you need to evacuate, account for all pets so they don't get hurt or lost in the chaos. Not all public shelters and hotels allow animals to stay, so determine a safe place to take them. It's also important to assign a friend, neighbor, or family member to care for your pets if you cannot. If you have not microchipped your pet, now is a great time. Shelters can scan microchips to determine a lost animal's home and owner's contact information.

Pack for Your Pets

Create an emergency kit for your pets that includes supplies they need to survive a disaster. You should have a few days' supply of food, water, and any medications your pet needs. Ensure you have a backup leash and collar and copies of your pet's registration. Include grooming items and sanitation tools like pet litter and paper towels. Items like favorite toys or your pet's blanket can comfort them in stressful situations like an evacuation.

Travel-Ready Tails

Make sure you are ready to transport your pet in a travel carrier quickly. Place their carrier open in an area your pet is comfortable with, like a favorite napping spot. You can add a familiar blanket and toy inside to reduce their stress and use treats to encourage them to go inside. Make a mental note of your pet's behavior during stressful times so you know where their go-to hiding spots are.

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