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NB
PRIVATE WEALTH

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Key Planning Considerations Before Year-End

The coming months could provide a valuable window to assess portfolios and planning strategies.

The past year has been rewarding for many investors, but questions remain as to economic growth, equity valuations and the pace of central bank easing. Adding to uncertainty is the presidential election, which involves very different policy views as to taxes and other issues. With year-end approaching, we believe this is a vital time to assess portfolio positioning and planning strategies, and to consider taking action where appropriate prior to the arrival of 2025.

Manage Risk and Taxes

For investors, a key part of managing risk is assessing whether portfolios are effectively diversified across the capital appreciation potential of equities, the income opportunity of fixed income (especially given still-attractive yield levels) and the noncorrelated returns of private markets. However, risk may extend beyond asset allocation to the presence of concentrated holdings.

The typical rule of thumb is to keep any individual security below 10% of your portfolio, which means that it may be prudent to trim some holdings. Realized gains may be offset by losses, so it is important to connect with your wealth or portfolio manager to clarify your potential gain/loss picture for the calendar year. Select loss "harvesting" may be appropriate: You can offset realized capital gains and up to $3,000 of ordinary income with losses, whether realized in 2024 or carried over from previous years. Be sure to abide by wash sale rules, which apply if you purchase the same or substantially identical securities (or acquire a contract or option to do so) within 30 days before or after the sale resulting in a loss.

As the year-end approaches, it is an ideal time to consult with your tax advisor to review your income tax projections for the current and upcoming years. It may be beneficial to assess the advantages of either accelerating income this year or deferring it into 2025. Additionally, strategic planning regarding the timing of deductible expenses—such as making an extra mortgage and property tax payment or charitable donation—may be prudent.

Organize Your Charitable Gifts

Year-end is an active time for making charitable donations, but the checkbook giving that many of us employ can be time-consuming and inconvenient. Taking a more organized approach can help to streamline this process and potentially make giving more effective.

Along these lines, a donor-advised fund (DAF) can serve as a single tax-free charitable account to support multiple nonprofits, and to also track your giving. If desired, you can pair DAF funding with tax-efficient investing, as donating appreciated marketable securities (e.g., stocks and mutual fund shares) held for over a year can serve as a tax-free way to reallocate your portfolio as part of your annual investment review. Note that with such long-term holdings, you can take a deduction of their market value up to 30% of adjusted gross income (AGI). (For short-term appreciated holdings, you can only deduct the purchase price. Cash donations can be up to 60% of AGI.)[1] In some cases, you may prefer to "bunch" donations in a given year to maximize tax benefits beyond the standard deduction.

Be sure to allow sufficient lead time given the year-end deadline of transferring certain assets. For instance, it can take up to six weeks to process a mutual fund donation, suggesting the need to initiate the transfer by mid-November. In addition, nonprofit organizations vary in their ability to process noncash gifts in a timely manner. This is an opportune time for your NB Private Wealth team to review your balance sheet and work with your tax advisor to identify optimal assets to transfer, and then execute your philanthropic objectives for the year.

Capitalize on Today's Estate Tax Regime

The clock is ticking on the generous estate tax rules enacted as part of the 2017 tax reform. Specifically, the current (2024) lifetime federal exemption of $13.61 million per person (or $27.22 million per married couple) from estate and gift tax is set to revert to past levels after 2025. Depending on the outcome of the election, more changes may be on the table. Where feasible, we believe gifting above the historical exemption amount of $5 million (indexed from 2010) per person could be an effective way to move assets out of your estate on a gift-tax-free basis. For added flexibility, you may wish to employ certain trust vehicles.

Gifting on a smaller scale may also be in order. Under current law, you can give up to $18,000 ($36,000 as a married couple) gift-tax-free to as many individuals as you like in 2024 without using your lifetime federal gift tax exemption. However, all of your gifts, including those made directly to children via taxable investment accounts and/or UTMAs, 529 college savings accounts and, indirectly, to life insurance trusts to cover annual premiums, must be coordinated to ensure you don't inadvertently exceed the annual gifting limits for any one person. Also, you can pay your children's (or anyone else's) tuition directly to an educational institution, or medical expenses/health insurance premiums directly to the service providers, in unlimited amounts without dipping into the annual exclusion or lifetime gift exemption.

Capitalize on Tax-Advantaged Accounts

Retirement Accounts

Use of retirement savings vehicles can provide significant opportunities for investment growth potential over time. The limit on annual employee 401(k) plan contributions is $23,000 for 2024 (plus an additional $7,500 for those age 50 or older); and you can contribute up to $7,000 to a traditional individual retirement account (IRA) in 2024 ($8,000 if you are 50 years of age or older), though the tax deductibility of your IRA contribution may be reduced or disallowed if you also participate in a retirement plan at work and your earnings exceed certain thresholds. Your nonworking spouse can use your earnings to contribute to an IRA, in which case income-based phaseouts take place at higher levels than those for the working spouse. Moreover, you and/or your spouse can still contribute to a nondeductible IRA or convert a traditional IRA to a Roth IRA.

[1] Any excess above these thresholds is carried forward to the subsequent five tax years. You should consult with your tax advisor as to the timing and types of donations, especially in regard to larger gifts such as business interests.

Management of RMDs

Those who have not begun taking distributions from traditional retirement plans may eventually face meaningful required minimum distributions (RMDs). In such cases, it may make sense to take some distributions to tactically "fill up" your existing tax bracket before RMD status begins, rather than expose that income to potentially higher tax rates in the future. Note that under current law, many of those who inherit IRAs must take RMDs based on their life expectancy in each of the nine years following the death of the original account owner and fully distribute the account in the tenth year. The IRS has provided a reprieve from such RMDs for 2024, but in some cases, we believe it may make sense to make a distribution this year to avoid having higher RMDs in the future.[2]

Qualified Charitable Distributions (QCDs)

If you are age 70½ or over, you can donate up to $105,000 from your IRA in 2024 to an eligible charitable organization (other than a DAF sponsor or private foundation) and avoid paying otherwise applicable taxes on the distributions, which are excluded from your gross income. This can apply to the RMDs you may be required to distribute after age 73, providing a valuable method to offset the impact of other income. As part of the SECURE 2.0 Act, you can make a one-time QCD of $53,000 (for 2024) to a split-interest entity, such as a charitable remainder annuity trust, charitable remainder unitrust or a charitable gift annuity. This limit is part of the aggregate limit of $105,000 for the year.

529 Plans

A potentially effective way to use the annual gift exclusion is to contribute to a 529 education account on behalf of a family member or other individual. It is possible to front-load up to five years of exclusions in one 529 contribution. Although the contribution isn't tax-deductible at the federal level, account assets grow tax-free, and withdrawals are also not taxable if they are used for qualified education expenses, including both college and (for expenses up to $10,000 per year) private elementary and secondary school. Many states provide a limited income tax deduction for residents who contribute to a 529. Note that, starting this year, it is possible to convert up to a lifetime limit of $35,000 in 529 account assets to a Roth IRA where the beneficiary and account have been in place for 15 years, subject to Roth contribution limits and the beneficiary's earned income levels.

Assess Your Insurance Coverage

Insurance is a cornerstone of your financial picture that can sometimes be overlooked. Consider reviewing your policies to ensure there are no gaps in coverage should you or your family members be party to a lawsuit or legal judgment. Excess personal liability (or umbrella) insurance can be crucial, providing a backstop in the event you are sued for amounts in excess of the regular liability coverage offered by homeowner and automobile policies. As a general rule of thumb, you should consider coverage of up to your net worth to protect your family's assets.

Property insurance has been a source of sticker shock for many over the past year. Considering the significant increase in residential real estate prices in recent years, coupled with the rise in property losses due to recent catastrophic weather events, it may be prudent to benchmark your coverage levels against a market index.

Also, assess whether you might benefit from coverage for future long-term care, which can be a particularly costly outlay late in life. Individuals typically begin to consider whether or not to have this type of coverage between the ages of 50 and 70. Eligibility and premiums are a function of the applicant's health and age at the time of application, as well as the type of policy and features selected.

Finally, consider reviewing your life insurance coverage to ensure that your loved ones are properly protected. Look closely at death benefits, and, for those with permanent policies (i.e., whole life, universal or variable), make sure

[2] This rule applies to non-spouse beneficiaries where the original owner of the IRA had already begun making RMDs. Although distributions are not required for 2024, this pause does not extend the tolling of the overall 10-year period, so some individuals are choosing to make withdrawals to avoid having to make larger distributions in future tax years. If the deceased owner did not begin making RMDs , the beneficiary can structure the payments as desired as long as the account is fully liquidated by the tenth year after the death of the past owner. Spousal beneficiaries have multiple options on how to approach distributions, including taking distributions over their lifetimes, while special rules apply to certain other categories of beneficiaries. Consult your advisors for more information, including where the beneficiary deferred withdrawals during the development of current regulations under SECURE 2.0.

the policy is performing as projected when originally purchased. In our view, it would be prudent to request in-force illustrations from the insurance carrier every couple of years to make sure there are no surprises down the road.

For those experiencing changing circumstances, it is important to evaluate whether your need for life insurance remains the same as when you initially purchased the policy. If your needs have evolved, several options are available to consider, including an outright surrender, a "1035 exchange" into another insurance product or a life settlement. Consult with your insurance professional to better understand these options.

Weatherproofing Your Plan

The economic and market landscape continues to evolve, making it important to work with your advisors to ensure that your investments effectively balance risk and potential reward in light of your personal needs, and that your planning capitalizes on currently available wealth strategies. Importantly, your financial life can change dramatically over time. Marriage, divorce, the birth of a child and health issues, among others, may require an array of strategies across disciplines, from insurance to estate planning to asset allocation. Working with your NB Private Wealth team, you can develop a plan to help navigate these issues.

Checklist for Year-End

Your late-year financial review may include addressing these questions and more:

- ☐ Are the beneficiary designations correct on insurance and retirement accounts, particularly where you might have designated a trust for planning reasons?
- ☐ Are those named in your estate planning documents, such as trustees, executors or attorneys-in-fact, still appropriate?
- ☐ Do your payroll withholdings need to be adjusted?
- ☐ Are your Flexible Spending Account withholdings realistic, and are you on track to eliminate balances by the deadlines?
- ☐ If you are enrolled in a high-deductible health plan, have you fully funded a health savings account?
- ☐ Have you reviewed your cash management strategy? With short rates at or above 4%, consider maximizing your earned interest rates while ensuring that you adhere to FDIC limits where applicable.
- ☐ Have you taken the opportunity to restructure your debt balances? Rate increases have reset many adjustable-rate mortgages higher, increasing monthly carrying costs.
- ☐ Have your circumstances changed in any way that might require a reassessment of your asset allocation, or a fresh look at your estate planning?
- ☐ Is your home adequately insured, given that valuations and rebuilding costs have increased substantially in many markets?
- ☐ Have you taken steps to protect your personal and financial data? This may include a review of your credit report to address inaccuracies or identify unusual activity.

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