# SUCCESSFULWOMEN

TIMELY FINANCIAL AND INVESTMENT PLANNING TOPICS — SUMMER 2025



## Generous estate and gift tax exemptions may end soon

### Now's the time to review your estate and gifting plans.

High-net-worth individuals and families who benefit from the historically high federal estate and gift tax exemption may soon see it reduced by about half.

The generous estate and gift tax exemptions enacted by the Tax Cuts and Jobs Act (TCJA) of 2017 are scheduled to sunset at the end of this year. With upcoming tax law changes, now's the time to plan moves to minimize your tax burden and support your financial goals.

### WHAT TO EXPECT

The first question when it comes to pending tax law changes is always whether the provision will actually go into effect. Unless Congress takes action, the exemption for federal estate tax will be reduced to $5 million for individuals and $10 million for couples (from $13.99 million and $27.98 million, respectively, in 2025), indexed for inflation.

While no one can predict the future, experts expect the exemptions to revert to pre-TCJA levels as planned and are advising action to take advantage of the current exemptions. Waiting until the date is upon us, may leave you with limited options.

> It's wise to speak to your advisor about your charitable giving goals to determine how to make the most of your donations.

### WEALTH TRANSFER STRATEGIES

Based on your situation and goals, one or more of these strategies may allow you to take full advantage of the current exemptions, before they're substantially reduced.

Outright gifts are usually the first tactic that comes to mind. This may mean gifting to loved ones ahead of schedule to avoid the greater tax burden later. You can also fund an irrevocable trust with your gift that designates beneficiaries and distributions based on the terms you choose. Any gifts to this trust can take advantage of the lifetime gift and estate tax exemption.

Note that the expiration of TCJA also means a reduction to the limit of cash contributions to public charities. It will be reduced from 60% to 50% of adjusted gross income (AGI), so it's wise to speak to your advisor about

# Generous estate and gift tax exemptions may end soon (cont.)

your charitable giving goals during this time to determine how to make the most of your generous donations.

While gifting is certainly one option, there are other reduction strategies, payment techniques and trust options that you should consider.

A spousal lifetime access trust (SLAT) is a popular option to leverage the high exemption for asset transfer and preserve wealth for heirs. It allows one spouse to create an irrevocable trust for the benefit of the other spouse. The funding spouse contributes assets to the trust, and the non-funding spouse is the beneficiary. SLATs may also provide liquidity for estate taxes

If your gifts use up your gift and estate exemption, an irrevocable life insurance trust (ILIT) holds life insurance policies outside the insured's estate. The trustee purchases life insurance on the grantor, with the trust as the beneficiary. ILITs avoid estate taxes on the policy proceeds, provide liquidity for estate settlement and protect the policy from creditors.

Consider your charitable giving strategy as part of your estate plan as well. A credit shelter trust (CST), also known as a bypass or family trust, allows married couples to maximize their federal estate tax law exemption. When one spouse passes away, a portion of their assets is placed into the trust. These assets, along with any appreciation, are sheltered from estate taxes upon the second spouse's death. It allows you to maintain control over assets while providing a tax-efficient wealth transfer.

There are other trusts that can help in certain situations, including dynasty trusts, survivor standby trusts and qualified personal residence trusts. Discuss your options with your financial advisor, estate attorney and tax advisor.

Even though it's possible that tax legislation will extend or build upon the TCJA provisions, now's the time to review your estate plan and make decisions to limit the impact 2026 is expected to bring. ■



## Social Security survivor benefits: 6 things to remember

Understanding how Social Security benefits apply to a surviving spouse is essential to creating an effective retirement income plan. Here's what you should know:

1. Surviving spouses can claim benefits as early as age 60, unlike spousal benefits, which can't be claimed until 62, however survivor benefits are subject to an earnings test if you are below full retirement age.
2. Generally, you must be married for at least nine months to receive survivor benefits.
3. If you remarry prior to age 60, you'll forfeit your survivor benefits from the prior marriage.
4. Claiming your own benefit or the spousal benefit early will not impact your survivor benefit.
5. Surviving spouses who haven't claimed their own retirement benefit have the option of claiming the survivor benefit and letting their own benefit grow due to delayed retirement credits.
6. Other family members, including some dependents, may qualify for survivor benefits.

Source: Social Security Administration

# How rebalancing helps keep your portfolio on track

## Keeping your financial plan aligned with your goals, risk tolerance and time horizon.

When you start investing, your advisor builds a portfolio aligned with your personal investment objectives. Your target allocation takes into consideration your goals, risk tolerance and time horizon, among other things. Unless something in your life changes, your portfolio should continue to align with your objectives. However, this means revisiting your allocation and rebalancing when necessary to ensure you have a healthy mix of performance and risk level that align with your near-term and long-term goals for your wealth.

### OUT OF BALANCE

First, rebalancing is a regular part of maintaining a portfolio. The investments in your portfolio each grow at different rates. Typically, best-performing asset classes will grow at a faster rate, therefore taking up a larger proportion of your portfolio over time. This alone can skew a portfolio to carry more risk than you originally intended.

Sometimes, market fluctuations can cause your portfolio to become imbalanced. When certain style investments are in favor relative to others (whether they're riskier or not), your portfolio allocation may start to drift and require rebalancing to restore the appropriate mix to achieve the diversification benefits initially designed.

### REBALANCING METHODS

There are several ways to rebalance your portfolio. Integrating factors such as personal preferences, tax implications and costs associated with monitoring and trading is the best way to determine which method fits with your investment style.

**Buy and hold** is one way to approach portfolio rebalancing. Once your assets are invested, you make no changes and allow them to move freely with the markets. This means the assets with the highest returns (most likely those with the highest risk) will take up a higher percentage of your portfolio. This may mean the overall risk of your portfolio increases over time and is more prone to momentum reversing at times of market shifts.

**Time-based or constant mix** calls for asset class proportions to be brought back in line at regular intervals, most commonly annually or semi-annually. Rebalancing more frequently, like monthly or quarterly, may reduce the unwanted portfolio shifts but also lead to more transaction costs, paying taxes on short-term capital gains and a potential loss of returns if an asset class is not given sufficient time to appreciate.

**Drift-based or contingent** sets a threshold, known as a tolerance band, around each of the asset classes in your portfolio and rebalances whenever a threshold is breached. Bands can be relative or absolute. For example, setting a 10% relative band around a 40% allocation would trigger a rebalance at weights above 44% or below 36%, while a 10% absolute band would allow the allocation to drift up to 50% or down to 30% before rebalancing.

### COMMON PITFALLS

Following a rebalancing process will keep your investment goals at the forefront and help you avoid common behavioral investment tendencies. Three common behavioral finance flaws include:

**Herd mentality:** This is when you follow what everyone else is doing, which means selling assets that are underperforming and buying those outperforming. This is usually counterproductive to achieve the optimal performance of the portfolio as the price of assets might be distorted the most with crowded positionings.

**Loss Aversion:** Investors tend to fear losses more than they value gains. This can lead them to hold onto losing investments for too long, hoping they will recover, rather than rebalancing the portfolio to cut losses and reallocate funds more effectively.

**Overconfidence:** Investors can sometimes overestimate their ability to predict market movements. This can result in frequent and unnecessary adjustments to the portfolio, increasing transaction costs and potentially reducing overall returns over the long term.

**Mental accounting:** A portfolio should be viewed as a whole, instead of compartmentalizing each piece. This can cloud an investor's judgement when it comes to making risk reduction decisions and prioritizing the portfolio's long-term performance.

To avoid falling victim to common behavioral tendencies and help ensure your portfolio is set up for long-term success, speak to your advisor about how and when to rebalance and which method matches your investment style. ■