

# Captain's Log

Guiding Your Financial Journey



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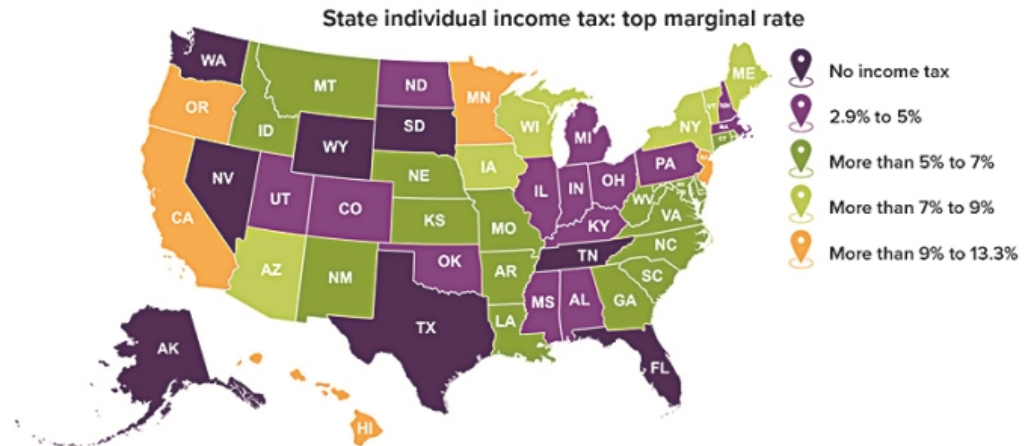
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Number of states that don't have a state or local sales tax: Delaware, Montana, New Hampshire, and Oregon.

Source: Tax Foundation, *Fiscal Fact No. 737*, January 2021

## State Income Tax: Depends on Where You Live or Work

Eight states have no state income tax. Of the 42 states with a state income tax (and the District of Columbia), the top marginal income tax rate ranges from 2.9% to 13.3%. Most states (and D.C.) with an income tax have multiple tax brackets with graduated rates; nine states have only a single tax rate.



Source: Tax Foundation, *Fiscal Fact No. 750*, February 2021

# Tips for Managing an Inheritance

As the beneficiary of an inheritance, you are most likely to be faced with making many important decisions during an emotional time. Short of meeting any required tax or legal deadlines, don't make any hasty decisions concerning your inheritance.

## Identify a Team of Trusted Professionals

Tax laws and requirements can be complicated. Consult with professionals who are familiar with assets that transfer at death. These professionals may include an attorney, an accountant, and a financial and/or insurance professional.

## Be Aware of the Tax Consequences

Generally, you probably will not owe income tax on assets you inherit. However, your income tax liability may eventually increase. Any income that is generated by inherited assets may be subject to income tax, and if those assets produce a substantial amount of income, your tax bracket may increase. This is particularly true if you receive distributions from a tax-qualified retirement plan such as a 401(k) or an IRA. You may need to re-evaluate your income tax withholding or begin paying estimated tax.

You also may need to consider the amount of potential transfer (estate) taxes that your estate may owe, due to the increase in the size of your estate after factoring in your inheritance. You may need to consider ways to help reduce these potential taxes.

## How You Inherit Assets Makes a Difference

Your inheritance may be received through a trust or you may inherit assets outright. When you inherit through a trust, you'll receive distributions according to the terms of the trust. You may not have total control over your inheritance as you would if you inherited the assets outright.

Familiarize yourself with the trust document and the terms under which you are to receive trust distributions. You will have to communicate with the trustee of the trust, who is responsible for the administration of the trust and the distribution of assets according to the terms of the trust.

Even if you're used to handling your own finances, receiving a significant inheritance may promote spending without planning. Although you may want to quit your job, or buy a car, a house, or luxury items, this may not be in your best interest. Consider your future needs, as well, if you want your wealth to last. It's a good idea to wait at least a few months after inheriting money to formulate a financial plan. You'll want to consider your current lifestyle and your future goals, formulate a financial strategy to meet those goals, and determine how taxes may reduce your estate.



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*Receiving a significant inheritance may promote spending without planning, but don't make any hasty decisions.*

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## Develop a Financial Plan

Once you have determined the value and type of assets you will inherit, consider how those assets will fit into your financial plan. For example, in the short term, you may want to pay off consumer debt such as high-interest loans or credit cards. Your long-term planning needs and goals may be more complex. You may want to fund your child's college education, put more money into a retirement account, invest, plan to help reduce taxes, or travel.

## Evaluate Your Insurance Needs

Depending on the type of assets you inherit, your insurance needs may need to be adjusted. For instance, if you inherit valuable personal property, you may need to adjust your property and casualty insurance coverage. Your additional wealth from your inheritance means you probably have more to lose in the event of a lawsuit. You may want to purchase an umbrella liability policy that can help protect you against actual loss, large judgments, and the cost of legal representation. You may also need to recalculate the amount of life insurance you need because of your inheritance. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

## Evaluate Your Estate Plan

Depending on the value of your inheritance, it may be appropriate to re-evaluate your estate plan. Estate planning involves conserving your money and putting it to work so that it best fulfills your goals. It also means helping reduce your exposure to potential taxes and creating a comfortable financial future for your family and other intended beneficiaries.

Some things you should consider are to whom your estate will be distributed, whether the beneficiary(ies) of your estate are capable of managing the inheritance on their own, and how you can best shield your estate from estate taxes. If you have minor children, you may want to protect them from asset mismanagement by nominating an appropriate guardian or setting up a trust for them. If you have a will, your inheritance may make it necessary to make significant changes to that document, or you may want to make an entirely new will or trust. There are costs and ongoing expenses associated with the creation and maintenance of trusts and wills. Consult with an estate planning attorney for proper guidance.

# Four Reasons to Review Your Life Insurance Needs

You may have purchased life insurance years ago and never gave it a second thought. Or perhaps you don't have life insurance at all and now you need it. When your life circumstances change, you have a fresh opportunity to make sure the people you love are protected.

## Marriage

When you were single, life insurance might have seemed like an unnecessary expense, but now someone else is depending on your income. If something happens to you, your spouse will likely need to rely on life insurance benefits to meet expenses and pay off debts.

The amount of life insurance coverage you need depends on your income, your debts and assets, your financial goals, and other personal factors. Even if you have some low-cost life insurance through work, this might not be enough. Buying life insurance coverage through a private insurer could help fill the gap.

## Parenthood

When children arrive, revisiting your life insurance needs could help you protect your growing family's financial security. Life insurance proceeds might help your family meet both their current obligations, such as a mortgage, child care, or car payments, and future expenses, including a child's college education. Even if you already have life insurance, children are among the most important reasons to review your policy limits and beneficiary designations.

## Retirement

As you prepare to leave the workforce, reevaluate your need for life insurance. You might think that you can do without it if you've paid off all of your debts and feel financially secure. But if you're like some retirees, your financial picture may not be so rosy, especially if you're still saddled with mortgage payments, student loan bills, and other obligations. Life insurance protection could still be important if you haven't accumulated sufficient assets to provide for your family, or you want to replace retirement income lost when you are no longer around.

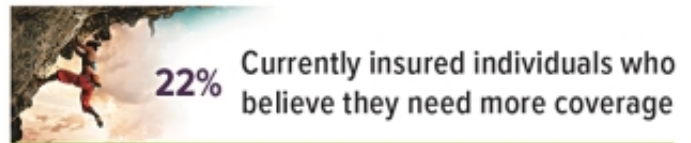
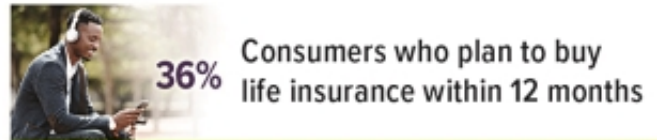
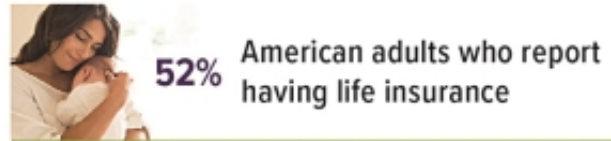
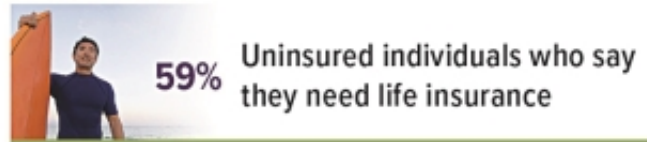
Life insurance can also be an important tool to help you transfer wealth to the next generation. Or perhaps you're looking for a way to pay your estate tax bill or leave something to charity. You may need to keep some of your life insurance in force or buy a different type of coverage.

## Health Changes

A common concern is that life insurance coverage will end if your insurer finds out that your health has declined. But if you've been paying your premiums, changes to your health will not matter.

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## Consumers Understand the Value of Life Insurance



Source: 2021 Insurance Barometer Study, Life Happens and LIMRA

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Some life insurance policies even offer accelerated (living) benefits that you can access in the event of a serious or long-term illness.

You may be able to buy additional life insurance if you need it, especially if you purchase group insurance through your employer during an open enrollment period. Purchasing an individual policy might be more difficult and more expensive, but check with your insurance representative to explore your options.

Of course, it's also possible that your health has improved. For example, perhaps you've stopped smoking or lost a significant amount of weight. If so, you may now qualify for a lower premium.

*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.*

# A Map for Your Family

A will is an essential legal document that describes how your estate should be distributed upon your death. It is the basis for the probate process and can serve as a guide for your heirs.

A letter of instruction — which has no legal status — provides information that can help your loved ones settle your estate and move forward with their lives. You might consider it a map for your family.

Unlike a will, which must follow legal guidelines for your state and may require an attorney, a letter of instruction can be written yourself in any way you choose. Here are some topics you may want to address.

**Financial accounts and account numbers**, including online user names and passwords. If you prefer not to write down user names or passwords, the executor of your estate should be able to access accounts with the account numbers and your Social Security number.

**List of documents and their locations**, including (but not limited to) your will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.

**Contact information** for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant.

Also include others who may be helpful, such as a business partner or trusted friend.

**Bills and creditors**, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.



*A letter of instruction could be just as important as a will to help your heirs settle your estate and move forward with their lives.*

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**Your final wishes** for burial or cremation, a funeral or memorial service, organ donation, and charitable contributions in your memory.

You might also include more personal thoughts or life lessons that you want to pass on, or you could write a separate letter. Keep your letter of instruction in a safe, yet accessible place and tell your loved ones where it can be found. It might be wise to give a copy of the letter to the executor of your estate and other trusted friends or advisers.

Be sure to review the letter regularly and update it as appropriate. Your heirs will thank you for taking the time to prepare.

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