



The Impact of a High-Interest Rate Environment on Your Estate Plan

Despite the Federal Reserve's last rate cut, the persistent high-interest rate environment - combined with record-breaking stock market levels and looming uncertainty around the 2025 sunset of the Tax Cuts and Jobs Act - has many people reassessing their estate planning strategies.

According to Bank of America's 2024 Trends in Trust and Estate Planning report, 76% of high-net-worth individuals are actively reviewing their estate plans, with particular focus on tax efficiency and wealth preservation strategies.

YOU SHOULD REVIEW YOUR ESTATE PLAN

Your long-term financial picture deserves regular attention, regardless of your net worth or life stage. The current interest rate environment makes this an especially important time to take a look at your plan to confirm it still aligns with your goals.

A review is necessary if you:

- Haven't updated your plan in the last 5 years.
- Recently experienced a major life event (marriage, divorce, birth, career change).
- Are between 40-59 years old and building your career and family wealth.
- Want to protect young children or care for aging parents.
- Recently started or sold a business.
- Received an inheritance or significant assets.
- Have moved to a different state.
- Hold cryptocurrency or digital assets.
- Are concerned about rising healthcare costs.

It's important to note: Estate planning isn't just for the wealthy.

If you own a home or have assets under \$3 million, then a review is also imperative.

KEY CONSIDERATIONS

Increased Cost of Borrowing and Financing Implications

Higher interest rates substantially impact estate planning financing, particularly:

- Intra-family loans now require higher applicable federal rates (AFRs).
- The cost of leveraging debt for trust funding has increased significantly.
- Estate tax payment deferrals under IRC Section 6166 carry higher interest charges.

Valuation Dynamics

The elevated Section 7520 rate, which serves as a crucial benchmark for estate planning valuations, has created a shifting landscape for various planning tools like these trusts:

- Grantor Retained Annuity Trusts (GRATs) require higher annuity payments to achieve zero-gift tax treatment.
- Charitable Lead Trusts (CLTs) may offer reduced charitable deductions.
- Charitable Remainder Trusts (CRTs) may offer significant tax benefits, including estate tax savings.
- Qualified Personal Residence Trusts (QPRTs) might become more attractive due to higher remainder interest calculations.

Investment Strategies

The high-rate environment necessitates strategic adjustments to investment approaches within estate planning vehicles:

- Trust investment policies may need rebalancing toward fixed-income securities.

- Private foundation investment strategies require reassessment to maintain distribution requirements.
- Perpetual trust investment allocations need review to ensure long-term sustainability.

Tax Planning Implications

Interest rate changes create ripple effects across various tax planning strategies:

- Gift tax planning may require new approaches to valuation discounts.
- Income tax planning within trusts becomes more complex.
- Charitable giving strategies may need restructuring to optimize tax benefits.

WE'LL WALK YOU THROUGH:

Wealth Transfer Optimization

Consider implementing or adjusting the following strategies:

- Explore short-term GRATs to capitalize on market volatility.
- Evaluate the potential benefits of installment sales to intentionally defective grantor trusts.
- Assess opportunities for strategic gifting of depreciated assets.

Alternative Planning Approaches

Investigate emerging opportunities in the current environment:

- Consider premium financing for life insurance policies with long-term guaranteed rates.
- Evaluate split-interest charitable trusts that benefit from higher rates.
- Explore qualified opportunity zones as tax efficient deferral of capital gains.

Regular Review and Adaptation

Together, we'll implement a systematic review process to:

- Monitor interest rate trends and their impact on existing strategies.
- Assess the performance of trust investments and wealth transfer vehicles.
- Adjust strategies in response to changing market conditions and tax laws.

NEXT STEPS

Get in touch! Our team can help you:

- Conduct a thorough review of your existing estate planning documents.
- Analyze the impact of current rates on existing planning structures.
- Develop strategies that align with the current environment.

Like any approach, your estate plan requires careful consideration and a collaborative effort with your estate planning attorney. Together, we'll implement a proactive plan with the flexibility to adapt as your life and the interest rate environment continue to evolve.

Are you interested in a comprehensive review of your existing estate plan? Simply call or email today to get started.



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