Podcast Transcript: How do you Navigate Financial gifts?

Kim Insley:

I'm Kim Insley. Thanks for joining us for Navigating Life Transitions, a podcast where we bring together advisors, experienced in financial life planning to talk about ways to navigate life's biggest challenges and changes, opportunities, and decisions. From growing a family to losing a loved one, promotions to retirement, marriage to divorce. We discussed these pivotal moments that could benefit from the guidance that a financial advisory team can provide. Today, we're talking about financially gifting to the next generation. How do you navigate that opportunity to gift money as your children age, and then as your family a with grandchildren? Joining me are two advisors from JNBA Financial Advisors, serving clients in Minnesota, Florida, and throughout the U.S., Elise Huston and Chris Mastley who worked with people who are facing this question. Elise, we've had podcast episodes that have kind of touched on this topic, but we're going to devote an entire discussion to it right now. So, let's start with the why, why do people gift in this way?

Elise Huston:

Yeah, so there's a lot of motivations for an individual or a couple to decide they want to make financial gifts to their children or grandchildren during their lifetime. For one, maybe as they've been working with their financial advisor, they've come to the realization that they do have more than enough, more than sufficient assets for their own lifetime, for their own needs that they're anticipating at this point. So, there's excess and there's room to maybe give more to family during your lifetime. Maybe, also they have come to realize they've accumulated such wealth that they actually have some estate tax considerations that they need to plan around. Right now, under the current law, a person can die, an individual can die with about $12.9 million in their name at the Federal level and not have to pay any estate tax. But in Minnesota, that level is $3 million.

So, between the two of you, as a couple, each having $3 million, could pass in your own name free of estate tax, there may be some opportunities depending on your wealth to do some gifting during your lifetime to try to stay under those limits. But also, for a lot of people it's probably just the fact that they want to be able to see their kids and grandkids enjoy some of these funds while they're living versus just giving it to them at their passing. Maybe it's even an opportunity to create ease for your kid or grandchild through: maybe it's giving them some money to put towards their first home down payment or a car, or maybe even gifting them some money that they can use towards student loan payments that they have at this point. But ultimately, that decision to make those gifts really should be because it not only aligns with your goals and values, what's important to you, but also because you know that it's within your resources to do so.

Kim Insley:

That is huge. So Chris, you've worked with some families, a lot of them, and you've helped them navigate gifting to their children, to their grandchildren while they're still alive, so they can enjoy seeing this impact that it has on the lives of those people. What would you add to that?

Chris Mastley:

Thanks, Kim. I think it really starts with just an underlying goal of why are you giving in the first place. Is it one of those reasons Elise mentioned? Maybe reducing your taxable estate, maybe doing it in a spot now where you're meeting all of your own financial goals that you have for your own retirement, or maybe it is that you just want to help out that next generation, whether that's your own kids, whether that's grandkids. And so really, we like to start and understand what the goal is in the first place and making sure the structure of the gift is set up in a way that really meets those goals that you have for the next generation. You probably often hear about it, but as financial advisors, we say "It's important to save for your own retirement first." Right? So, if you're not on track for your own retirement, saving for your own goals, gifting probably isn't in the cards for you today. We would much prefer waiting until those goals are met and maybe gifting later in life. Now, that doesn't mean you can't do anything, but we just want to make sure you're on track for your own retirement first.

I remember working with one family and they really wanted to give to their grandkids and education was really a number one priority for them. And I remember talking quite extensively to them about what it is about education that they wanted to do; and they didn't want to just pay a hundred percent of the grandchild's tuition, but they really wanted to make sure that that grandchild had skin in the game. And that for them didn't mean that they didn't want to pay for a hundred percent of it, but they just didn't want the grandchild to be able to go into it knowing that they were going to come out of college a hundred percent debt-free. One of the things that was important to them is not for the grandchild not to know that they were actually going to be paying a hundred percent of it, but they went into it saying, "*Hey, if you are able to keep up a certain grade point average throughout your four-year degree*," then the grandparents would then pay that next semester tuition for them. But the interesting part about it is with the way the 529 Plan works, right? You have to have a qualified expense withdrawn from the 529 Plan in the year that it occurs. While that might work out one semester, it might not work for every semester. And so, it was for them, it was really kind of tailoring that plan. How do we maximize the dollars, be most tax efficient with them, but then also live out your values for where we're not assuming that you can actually do it most tax efficiently every year.

Kim Insley:

Yeah. The other thing too, you talk about saving for your own retirement is important, and maybe you don't have that huge gift you can give right now, but a grandparent if you start a 529 Plan when the child is born and you don't have to put that much money into it to have it grow to really be a significant amount. So, it is possible to do life-changing things with just a small amount of money to start with.

Chris Mastley:

Absolutely. Absolutely, it is.

Kim Insley:

So Elise, let's say you figured out that you can afford to gift to the family or whoever, and then the next question is, what is the best way to do this?

Elise Huston:

So, there's probably an infinite amount of ways to gift to people during your lifetime, but for the sake of today's conversation, I'll focus on maybe some of the most common ones that we see people explore, utilize during their lifetime. So, Chris has already talked about this a bit here, but gifting for education is a fairly common wish. We hear that quite a bit from the individuals and families we work with. So, a great way to support education is through a 529 Plan, an education fund. So, some things we've seen people do is maybe a grandparent matches contributions to a 529 Plan that a parent was already planning to make, just really kind of stretching their dollars even further. And then again, to your earlier point, that compound growth over the life, that young life of the kid all the way till they're age 18, it can have a big impact on the amount of money that's available to them when they go to school. But at times maybe the parent or the grandparent wants some more flexibility in how the funds could be used for that child.

Maybe they don't want it to just be an education resource. So, that's where maybe even exploring something like a custodial or a minor's account can be a worthwhile option. There's pros and cons to really all of these structures. If you're using a 529 Plan and you take money out that's not for a qualified education expense, there's going to be different penalties or tax owed. Where if you're working within a custodial or a minor's account, then you're working with that age of majority where once the child reaches, most commonly it's age 18 or 21, they kind of have unrestricted access to the funds at that point. So, while you are liking the flexibility with that, maybe they could take it out to pay for a car while they're at school or things like that-

Kim Insley:

Suddenly they're backpacking around Europe and you didn't quite plan on that.

Elise Huston:

Yes, they have a little bit more access to funds than maybe you had initially intended. Another kind of interesting, and I guess I would say attractive option is if you have a younger child or grandchild whose maybe just starting off in their working years, be it high school or college, and they're earning income now, you could even help fund Roth IRAs for them.

Kim Insley:

I love that idea.

Elise Huston:

So, that they're saving in a tax-free vehicle for their own retirement. They can start to see early on the benefits of, again, that compound growth and accumulation of wealth as a young person. So, that can be really motivating.

Kim Insley:

There's a huge education piece in that. I love that.

Elise Huston:

Completely. Otherwise, too of course, general, just using cash or even appreciated securities or stock from your own portfolio is another great way. If you know you want to gift money to your grandchild this year for their down payment on a home to help contribute towards that, certainly just a one-time gift of cash or even stock at that point in time is a worthwhile option to explore as well.

Kim Insley:

Lots of things to think about. So Chris, you've decided you want to make the gift and you've figured out how you want to do it. So, how do you decide on the amount each year when you're thinking about gifting to family members?

Chris Mastley:

Yeah, a lot of times when we are working with an individual or family, they kind of come to the table with an amount in mind. Maybe we can crunch the numbers behind the scenes where, hey, if it is you want to fully fund a four-year tuition, well, we can run the numbers and say, *“what does that look annually?”* Sometimes it's a one-time event that the family says, *"Hey, we want to gift $5,000 to each of our kids for the holidays,"* and it's kind of cut and dry. The limits that we want to pay particular attention to is what's referred to as the annual gift tax exclusion. And every year usually that amount goes up with inflation, and here in 2023, it's $17,000 per person. So, any person can give another person $17,000 without any tax ramifications.

Kim Insley:

For you or that other person.

Chris Mastley:

Correct.

Kim Insley:

Okay.

Chris Mastley:

If you're married, a couple can then give $34,000. And then things really start to compound from there, because if you're married, you can gift. If your child's married, well, then you can gift your child $34,000. You can give their spouse $34,000, then all of a sudden you're up to $68,000. And the annual gift tax exclusion, I would say 90% of the families we talked to really satisfies what they want to do, whether that's gifting cash, appreciated stock as Elise mentioned, gifting property, buying vehicles, or transferring vehicles. And so, I do think those limits really do encompass most of the planning work that we talk to clients about.

Kim Insley:

There are exclusions too, right? There are carve outs.

Chris Mastley:

Yeah, that's a good point, Kim. The few that really come up, first and foremost, back to tuition again. If a grandparent or parent pays the university or college directly I.E. it doesn't go through the student's pockets, then any amount of money is completely excluded from that. And so, that's a really great way to fund a college expense without having to be limited to these annual gifting exclusion limits. The other one is medical payments, and so if you know of someone who went through cancer or other medical treatments, unfortunately sometimes people don't have coverage or their coverage excludes certain things, and all of a sudden it's not uncommon to hear of someone having $10, $20, $30,000 of uncovered medical expenses. Well, that's where you can step in and again, give straight to the clinic, the doctor's office, the hospital. If you pay the bill directly, that amount of money does not hit that $17,000 a year max.

Kim Insley:

And doesn't affect your taxes in any way?

Chris Mastley:

It does not. No. Correct, correct. Now, sometimes family can feel like a charitable organization, but when we're talking about gifting to individuals, paying tuition, paying medical bills, those are not deductible expenses either.

Kim Insley:

Noted. But these are huge hurdles in people's lives, so those gifts are amazing.

Chris Mastley:

They definitely are. Yeah, there's two more that I'll quick talk about. Two that I think are kind of funny. Well, one in general, I remember going, doing my college for financial planning classes way back when I was going to get my Certified Financial Planning™ designation, and I remember kind of laughing out loud at this, and it was about political contributions, right? So, most candidates you gift to, it's not a charitable deduction, and so typically you'd be limited by that $17,000. But our politicians, they made sure to add a disclaimer in there where they're exempt as well. So, your favorite politician, you can always gift as much as you want.

Kim Insley:

Gift directly there. (laughing)

Chris Mastley:

Exactly. (laughing)

Kim Insley:

Okay. Well say you find yourself wanting to financially gift to your child or your grandchild, is there, Elise, a best time of year that one would do this?

Elise Huston:

So again, kind of timing for these gifts really depends on you personally and your goals for the gift. I work with a family who they really do want to gift that annual amount to their kids and grandkids every year, but for her, it's really important that that's done around the holidays. She likes to include a note with it, encouraging them to go do something special or fun with the money in the year ahead. Oftentimes, she'll include a little story about something fun that she and her husband got to do during their lifetime. So, there's a lot of meaning in that to her. So, time of year for her is important, and the end of the year is that time that she really wants to be making those gifts. But really no wrong time to have this conversation. No wrong time to make these gifts.

I would say if you know want to open that 529 Plan and have it fund a large portion of your child or grandchild's education, again, starting when they're young is important because then you do benefit from that compound growth and just continue to maximize those dollars and those contributions you've made to that account for the child or grandchild. But I would say to the points that Chris has raised before too, we can help to model a lot of that out for the individuals we work with. How much do they need to save? How much can they give comfortably each year without fear of running out of money for themselves? But yeah, no wrong time to have that conversation.

Kim Insley:

And I just want to say, I love, love, love that you brought up the idea of gifting for a retirement fund because so many people don't think about that because we're talking about babies here, right? But for the future generations, that's just going to become more important and the education that that person gets from seeing that grow, and then it becomes a habit. So, there are gifts where you just write a check, but there are gifts that go beyond that. The notes to your clients' family members about the things that they would spend their time on, that's a gift too. So, there are ways to give that aren't just the check.

Elise Huston:

Yeah. And it has a little more meaning than just the money. It's instilling some of your own values and things you've learned onto the next generation as well.

Kim Insley:

Yeah, I love that. Well, I want to thank both of you, Chris, and Elise for the conversation today, and thank our listeners as well, and we hope that you'll listen to our other Navigating Life Transitions podcasts. You can get the full list of available episodes online, at JNBAnavigatinglifetransitions.com. It's all one word. I'll say it again, JNBAnavigatinglifetransitions.com. And you can of course help yourself to a number of free resources available on JNBA's website jnba.com. If you have questions about financial gifting or you want to learn more about how JNBA can help you with your financial life goals, give them a call at 952-844-0995, or you can use the contact form on jnba.com to schedule a complimentary, no obligation call with their experienced multi-generational team. Thank you again for listening.

I'm Kim Insley and I look forward to navigating more life transitions with you on our next podcast.

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