

## PLOTT AND FRENCH IN THE COMMUNITY

We've been busy the past few months...

We sent 140lbs of high quality, individually portioned cat and dog food to the **New River Valley Agency on Aging**. For seniors and other individuals who have trouble affording to pay their own expenses and also care for their beloved animal companions, the Agency on Aging runs a food pantry specifically for pets.

We gave **Our Daily Bread** in Radford, our local food pantry, 300lbs of potatoes. Recently, Our Daily Bread expressed a need for potatoes as a carbohydrate source in their daily meal preparation. Our Daily Bread provides comfort and nourishment to many and we are always happy to support them in all the ways we can.

2024 will mark our third year of supporting **Toys for Tots** both through our own donations and also as serving as a designated drop-off location. The Toy for Tot boxes will be set out at our Radford and Blacksburg location from December 2<sup>nd</sup> – 20<sup>th</sup> if you want to bring gifts by for the program. We all look forward to brightening as many Christmas mornings as we can.

Remember, if you see a need in our local community where we can help make a positive difference, let us know on Facebook or by calling the office. We are always looking for opportunities to help out those around us.



### RADFORD

104 Wadsworth Street  
Radford, VA 24141



(540) 639 – 2139

[www.PlottAndFrench.Com](http://www.PlottAndFrench.Com)

### BLACKSBURG

2401 South Main Street, Suite C  
Blacksburg, VA 24060

## INTEREST RATES FINALLY RELENT

In September, the Federal Reserve finally made the decision to cut interest rates by half a percent, signaling the start of a cutting cycle and beginning of a trend towards lower rates: welcome relief to those seeking mortgages to buy a home, but potentially disappointing for savers who like keeping lots of money in CDs and savings accounts.

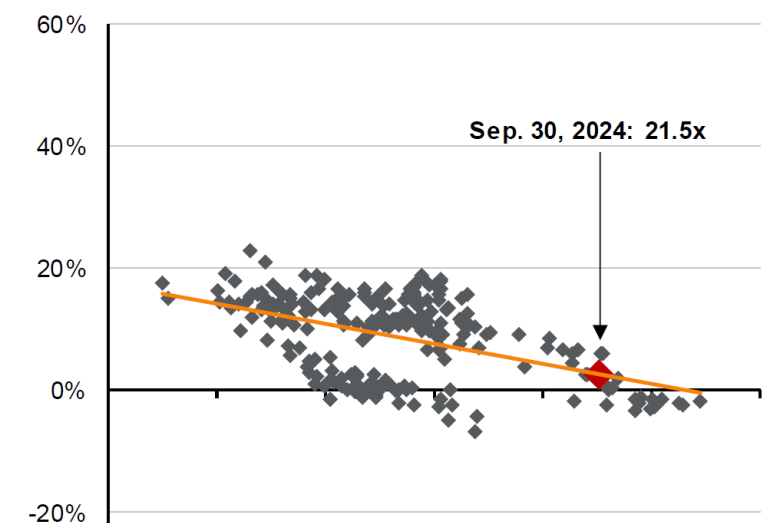
Many expected the rate cutting cycle to start earlier in the year, but stubbornly high inflation delayed that process until some signs of weakness showed up in the economy.

The winners of the rate cut decision were bonds and real estate, asset classes which have been stuck at the starting line all year, waiting for the expected rate decreases that never came. Assuming that rate cuts continue, as the Fed has signaled they expect to implement, these asset classes, which have felt more than their fair share of pain over the past couple years, should continue to build on the 3<sup>rd</sup> quarter's performance.

Despite the clear benefits to corporate earnings from lower interest rates, we continue to be cautious about large cap US stocks, given their high forward price-to-earnings of 21.5x, a level well above normal and historically connected to lower returns over the subsequent five year period. Given this, we continue to prefer small/mid-cap and value stocks over the Large Cap Growth dominated S&P 500. Like bonds, these asset classes struggled with higher rates and should benefit from the fall in rates that has happened.

	1 <sup>st</sup> Half 2024	3 <sup>rd</sup> Quarter 2023
International Stocks (EAFE)	+5.8%	+7.3%
Gold (GLD)	+12.5%	+13.1%
US Stocks (S&P 500)	+15.3%	+5.9%
Agg Bonds (AGG)	-0.7%	+5.3%
Real Estate (VNQ)	-3.2%	+17.3%
Cash (Money Market)	+2.7%	+1.3%

Forward P/E and subsequent 5-yr. annualized returns  
S&P 500 Total Return Index



Source: Standard and Poors, J.P. Morgan

All data sourced from Ycharts.com as of 9/30/2023. Stocks refers to S&P 500 Index. International Stocks refers to the MSCI EAFE index. US Corp Bonds refers to the Bloomberg US Corporate Bond Index. Interest Rates are upper limit of Fed Funds Overnight Rate. Inflation is Year-over-Year Consumer Price Index. Indices are unmanaged and unavailable for direct investment. Past performance is not a guarantee of future results. Securities and Advisory Services offered through Geneos Wealth Management. Member FINRA/SIPC.

# BENEFICIARY DESIGNATIONS: BENEFITS AND PITFALLS



So, you and your spouse have gone to an Estate attorney to put your affairs in order. You both sit down, explain your needs and concerns to your lawyer, and she recommends a Will, to direct the disposition of your property when you die, a Power of Attorney (POA) to appoint someone to handle your financial affairs if you are unable to do so, and an Advanced Medical Directive (also called a Living Will) to name someone to make healthcare decisions when you cannot. You and your spouse agree and have the documents drawn up and properly witnessed.

First off, congratulations! By consulting with an attorney and completing her recommendations you have already done more than most... but have you done everything?

There's still a lot that can be done to enhance your Estate Planning. In this article we're going to discuss Beneficiary

Designations on accounts and how they can work in tandem (and sometimes in conflict) with your Will.

When you die with a valid Will, most of your assets will enter your Estate. An Executor who you name in your Will must first qualify at the local circuit court. Then, your Executor will make a catalogue of your assets, pay expenses, taxes, and debts, then distribute the rest of the funds out of the Estate in accordance with the directives in your Will.

This time-consuming process (called Probate) is a matter of permanent public record. Anyone who wishes to do so can look up the terms of your Will during and after Probate. Additionally, these assets are usually subject to Probate taxes and can be further diminished by the expenses of administering the Estate.

Thankfully, many investment and financial accounts allow for the naming of Beneficiaries. A Beneficiary is a person (or an entity, like a trust or a charity) designated on an account to receive the proceeds of the account upon the account owner's death. Beneficiary designations also generally allow the assets to bypass the Estate. What does that mean in practice?

**Transfers to beneficiaries are discrete.** Unlike disposition under a Will, the names of beneficiaries and the assets they receive are not public record and are covered by privacy laws.

**Transfers to beneficiaries are generally not subject to Probate taxes.**

**Transfers to beneficiaries can minimize Federal and State taxes.** In the case of a retirement account like a 401(k) or an IRA that passes through the Estate, generally all Federal and State taxes must be realized within a 5-year period. Conversely, most Beneficiaries of retirement accounts can stretch their tax obligation over a 10-year period. Some can stretch their tax liability over their life expectancy. Other factors that can affect beneficiary distributions include whether the account owner died before or after 2020 and if the original account owner had already started taking Required Minimum Distributions. And a spouse can usually assume a retirement account as his or her own, potentially legitimately avoiding paying taxes for years if not decades.

Indeed, if you have correctly and intelligently selected your Beneficiaries and paired them with the correct investment accounts, you should be able to discretely and confidentially transfer the assets you select to the people and causes you care about, with a minimum of red tape, while legally paying a minimum of taxes to the State and Federal government. Sounds pretty great! But what are some of the **pitfalls** of beneficiary designation?

**Beneficiary designations bypass Probate.**

That means if you have an old 401(k) from your mid-twenties with your best friend Ernie Stickmeyer as Beneficiary and you die in your 80s with a Will that leaves everything to your beloved wife, your wife is not getting a penny from that 401(k). It will all go to Ernie, if he's still alive. Beneficiary designations bypass Probate so it won't matter what your Will indicates

**Beneficiary designations might leave your Estate without liquidity.**

Okay, you've named Beneficiaries on every retirement, brokerage, mutual fund, or even bank account and when you die, all those accounts transfer to the Beneficiaries cleanly and quickly. The only thing in your Estate is your beautiful home, unencumbered by a mortgage, ready to be listed to sale. But it needs a paint job. And some new blinds. And the appliances are a little old. And someone has to mow the lawn, but your daughter lives in Georgia and your son is in Arkansas. And the county real estate taxes are due. If all the cash and investments have left your Estate, will your executor then have to sell your home as-is and at a discount to its value? Or will your children pump their personal money back into your Estate to fix up or maintain your home.

**Beneficiary rules can be complex.**

Generally, if you leave your spouse as the 100% beneficiary of a qualified retirement account or annuity, your spouse can choose to treat the account as his or her own (Spousal Continuation). But let's say, in discussions with your spouse, you want to leave a small legacy to your adult child, so you make your spouse the 95% beneficiary and your daughter 5% beneficiary. In many cases, your spouse can now no longer choose Spousal Continuation and will most likely pay significantly more taxes as a consequence. This is one example of many and sadly, most problems with beneficiary designations are only discovered after death.

**Beneficiary designations can be unintentional.**

In addition to allowing you to name Primary and Secondary (Contingent) Beneficiaries, many accounts have a default designation whereby if all named Beneficiaries pre-decease you, the account proceeds will be paid out to your spouse, children, or parents before going to your Estate. That means, if you name your husband as the only primary beneficiary on your IRA and you both die in a car crash, your children or your parents might become the default beneficiaries. Sounds great, right? But what if your children aren't responsible enough to handle that money yet? A huge, unrestricted windfall in their early twenties might majorly disrupt their career or their lives. How about your parents? Well, what if your parents are receiving means-tested benefits, like Medicaid for health insurance or custodial care, or certain Veterans' benefits? The sudden influx of assets might jeopardize their ability to receive benefits.

**Conclusion**

So, when you have the opportunity to select a Beneficiary for an account, remember that good intentions can have unexpected consequences. And when you have your annual review with your financial advisor, remember that we are here for you, to help you craft a strategy in conjunction with your tax and legal advisors, so that the assets you've worked so hard to accumulate go smoothly to the people and causes you care about.

Bear in mind that this information is based on current IRS and Federal Estate laws and is subject to change. Plott & French does not provide tax or legal advice. Individuals should always seek advice from their own tax or legal counsel.