



Planning strategies in a rising interest rate environment.

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Planning Tool

	Impact	Comment
Crummey Gifts		Inflation vs. asset growth. Inflation leads to higher increases in exemption amount. Fed hikes rates, which may negatively impact economy and assets values.
Lifetime Exemption		Inflation vs. asset growth. Inflation leads to higher increases in exemption amount. Fed hikes rates, which may negatively impact economy and assets values.
Life Insurance		Good for general account and dividends.
Annuities		Higher payouts. But also means the excludable amount of each annuity payment is reduced (more of each annuity payment is subject to income tax).
Grantor Retained Annuity Trust		Higher rates mean higher 7520 rate. Harder to zero-out a GRAT. Depends on client's hurdle rate and asset gifted (securities portfolio may not work, but family business or real estate may be fine). Zeroed-out vs. pay some gift tax. Ladder GRATs offer flexibility. If rates continue to climb, can lock in. If rates begin to decrease can reset as terms end.
Qualified Personal Residence Trust		Lower gift cost to move property to children. Value of donor's retained interest higher. Value of remainder interest lower.
Sale to a Grantor Trust		Higher interest payments may be offset by cash flow from business assets. Inflation vs. asset growth. Inflation leads to higher increases in exemption amount. Fed hikes rates, which may negatively impact economy and assets values.

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Comment

Economic Benefit Split Dollar



Economic benefit rates become more attractive with higher interest rates, especially survivorship rates.

Loan Regime Split Dollar



Higher interest rates mean higher AFRs. Inflation vs. asset growth. Inflation leads to higher increases in exemption amount. Fed hikes rates, which may negatively impact economy and assets values.

Switch Dollar



Switch dollar becomes more important. Use economic benefit rates until interest rates fall. Need to consider gain and FMV issues.

Inter-Generational Split Dollar



Higher rates mean higher interest payments. But leveraging G1's estate for G2 or G3 should more than compensate for higher rates.

Private Finance



Higher rates mean higher interest payments. Consider lending an asset's cash flow rather than cash.

Premium Financing



Higher rates mean higher interest payments. Consider client's own lender. Compare interest cost to paying premiums. Higher rates may be good for industry. Flight to quality programs & designs and away from overly aggressive illustrations.

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Gift of Remainder to Charity



Value of donor's retained interest higher.
Value of charitable remainder interest lower.
Charitable deduction lower.

Charitable Gift Annuity



Higher rates mean higher charitable income tax deduction.
Excludable amount is reduced — increasing amount subject to income taxes.

Charitable Annuity Remainder Trust (CRAT)



Higher charitable deduction for remainder interest.

Charitable Annuity Lead Trust (CLAT)



Lower charitable deduction for lead interest.
Higher annuity payment to charity to zero-out CLAT.

CRUTs and CLUTs (unitrusts)



Generally not interest rate sensitive.



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