# Trust NEWS

*A newsletter for customers and friends of CBI Bank & Trust*

*Fall 2024*

## If You Dont Have a Will Yet, Why Not?

A will is a fundamental estate planning document. It outlines how you wish your property to be distributed, who should handle matters related to settling your estate, and who you want to care for your children after you pass, among other things.

If you don't yet have a will, you're not alone. According to a recent survey by Caring.com, 64% of Americans think having a will is important, but only 32% have one.1 There are many reasons people put off drafting a will — here are four that you might relate to.

### 1. Just haven't gotten around to it

It's easy to procrastinate when it comes to drafting a will. Even if it's something you think you should do, it's probably not high on the list of things you want to do. Perhaps you're uncomfortable thinking about your own mortality, or maybe you're worried about how complicated or costly the process will be.

Focusing on some of the benefits of having a will might give you the motivation you need to get started. A will is a way to make sure your loved ones are cared for and that your last wishes are honored. A legally binding will gives you more control over what happens to your property and helps ensure that your treasured possessions end up in the right hands. You can name an executor or personal representative who you believe will responsibly handle the details of settling your estate. And having a will is especially important if you have minor children and want to protect them by naming a guardian who will best be able to handle the responsibility of raising them.

If making these decisions sounds daunting, there's help available. An estate planning attorney can help address your concerns and guide you through the process.

### 2. It's not the right time

Too young? Not married? Childless? In good health? Not wealthy enough? People often think it's not the right time to draft a will, but there's no better time than now. Most adults have money or possessions that they would like to leave to someone and waiting until the circumstances seem perfect is risky. Health problems may come on suddenly, and trying to draft a will at that time can be stressful. Even worse, if you suddenly become incapacitated, it may be too late.

Your life will inevitably change as the years pass, and any will drafted now can (and should) be reviewed and revised occasionally to account for family and financial changes.

### 3. Don't think it's important

Unless you have personal experience with settling an estate, you may underestimate the consequences of dying without a will (called dying intestate). Decisions will be made by the court on your behalf, and your property will be distributed according to the laws of your state. Who is entitled to your assets will depend on those laws, and handling that when there is no will can be especially complicated, time-consuming, stressful, and expensive for your family.

### 4. Family dynamics are complex

Putting off drafting a will might seem logical when you are facing deep-rooted family issues or complicated situations. Why not just leave it to others to sort out after you're gone? Unfortunately, not having a legal document that outlines your specific intentions can make an already difficult situation worse. Leaving the disposition of your assets up to the court to decide may have unintended consequences for family members and lead to irreparable rifts or even litigation.

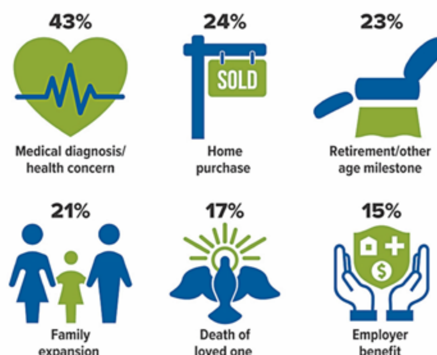
### A will is only part of an estate plan

Finally, as important as a will is, it's just one component of your estate plan. You may need other legal documents such as trusts, powers of attorney, and advance medical directives to fully address your needs. Ask an estate planning attorney to evaluate your individual situation and help you put a plan in place.

1) 2024 Wills and Estate Planning Study, Caring.com

## Motivating Situations

Almost one out of four Americans without a will say that nothing would motivate them to get one. Here are the percentages of those without a will who say these situations would motivate them.




*Source: 2024 Wills and Estate Planning Study, Caring.com (multiple responses allowed)*

## Required Distributions: Changes You Need to Know

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) changed the rules for taking distributions from retirement accounts inherited after 2019. The so-called 10-year rule generally requires inherited accounts to be emptied within 10 years of the original owner's death, with some exceptions. Where an exception applies, the entire account must generally be emptied within 10 years of the beneficiary's death or within 10 years after a minor child beneficiary reaches age 21. This reduces the ability of most beneficiaries to spread out, or "stretch," distributions from an inherited defined contribution plan or an IRA.

In 2022, the IRS issued proposed regulations that interpreted the revised required minimum distribution (RMD) rules. Final regulations have now been issued and are generally applicable starting in 2025.

### RMD basics

If you own an individual retirement account (IRA) or participate in a retirement plan like a 401(k), you generally must start taking RMDs for the year you reach your RMD age. RMD age is 70½ (if born before July 1, 1949), 72 (if born July 1, 1949, through 1950), 73 (if born in 1951 to 1959), or 75 (if born in 1960 or later). If you are still working for the employer that maintains the retirement plan, you may be able to wait until the year you retire to start RMDs from that account. Failing to take an RMD can be costly: a 25% penalty tax (50% prior to 2023) generally applies to the extent an RMD is not made.

The required beginning date (RBD) for the first year you are required to take a lifetime distribution is no later than April 1 of the next year. After your first distribution, annual distributions must be taken by the end of each year. (Note that if you wait until April 1 to take your first-year distribution, you would have to take two distributions for that year: one by April 1 and the other by December 31.)

Lifetime distributions are not required from Roth accounts and, as a result, Roth account owners are always treated as dying before their RBD. Prior to 2024, these two special rules for Roth accounts applied to Roth IRAs, but not to Roth employer retirement plans.

When you die, the RMD rules also govern how quickly your retirement plan or IRA will need to be distributed to your beneficiaries. The rules are largely based on two factors: (1) the individuals you select as beneficiaries of your retirement plan, and (2) whether you pass away before or on or after your RBD.

### Who is subject to the 10-year rule?

The SECURE Act still allows certain beneficiaries to "stretch" distributions, at least to some extent. These eligible designated beneficiaries (EDBs) include your surviving spouse, your minor children, any individual not more than 10 years younger than you, and certain disabled or chronically ill individuals. Generally, EDBs are able to take annual required distributions based on remaining life expectancy. However, once an EDB dies, or once a minor child EDB reaches age 21, any remaining funds must be distributed within 10 years.

Significantly, though, the SECURE Act requires that if your designated beneficiary is not an EDB, the entire account must be fully distributed within 10 years after your death.

### What if your designated beneficiary is not an EDB?

If you die before your RBD, no distributions are required during the first nine years after your death, but the entire account must be distributed in the 10th year.

If you die on or after your RBD, annual distributions based on remaining life expectancy are required in the first nine years after the year of your death, then the remainder of the account must be distributed in the 10th year. Annual distributions after your death will be based on the greater of (a) what would have been your remaining life expectancy or (b) the beneficiary's remaining life expectancy.

### What if your beneficiary is a non-spouse EDB?

After your death, annual distributions will be required based on remaining life expectancy. If you die before your RBD, required annual distributions will be based on the EDB's remaining life expectancy. If you die on or after your RBD, annual distributions after your death will be based on the greater of (a) what would have been your remaining life expectancy or (b) the beneficiary's remaining life expectancy.

After your beneficiary dies or your beneficiary who is your minor child turns age 21, annual distributions based on remaining life expectancy must continue during the first nine years after the year of such an event. The entire account must be fully distributed in the 10th year.

### What if your designated beneficiary is your spouse?

There are many special rules if your spouse is your designated beneficiary. The 10-year rule generally has no effect until after the death of your spouse, or possibly until after the death of your spouse's designated beneficiary.

### What life expectancy is used to determine RMDs after you die?

Annual required distributions based on life expectancy are generally calculated each year by dividing the account balance as of December 31 of the previous year by the applicable denominator for the current year (but the RMD will never exceed the entire account balance on the date of the distribution).

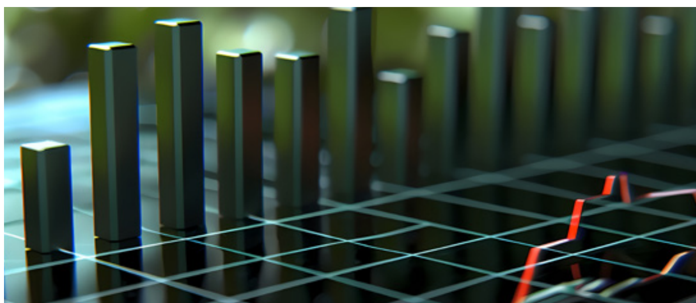
When your life expectancy is used, the applicable denominator is your life expectancy in the calendar year of your death, reduced by one for each subsequent year. When the non-spouse beneficiary's life expectancy is

used, the applicable denominator is that beneficiary's life expectancy in the year following the calendar year of your death, reduced by one for each subsequent year. (Note that if the applicable denominator is reduced to zero in any year using this "subtract one" method, the entire account would need to be distributed.) And at the end of the appropriate 10-year period, any remaining balance must be distributed.

### Relief for certain RMDs from inherited retirement accounts for 2024

The IRS has announced that it will not assert the penalty tax in certain circumstances where individuals affected by the RMD changes failed to take annual distributions in 2024 during one of the 10-year periods. (Similar relief was previously provided for 2021, 2022, and 2023.) For example, relief may be available if the IRA owner or employee died in 2020, 2021, 2022, or 2023 and on or after their RBD and the designated beneficiary who is not an EDB did not take annual distributions for 2021, 2022, 2023, or 2024 as required (during the 10-year period following the IRA owner's or employee's death). Relief might also be available if an EDB died in 2020, 2021, 2022, or 2023 and annual distributions were not taken in 2021, 2022, 2023, or 2024 as required (during the 10-year period following the EDB's death).

The rules relating to required minimum distributions are complicated, and the consequences of making a mistake can be severe. Talk to a tax professional to understand how the rules, and the new regulations, apply to your individual situation.



## Should You Worry About Market Volatility?

On August 5, 2024, the S&P 500 Index dropped 3% from its previous close, the largest single-day loss in almost two years. This continued a three-week slide that saw the benchmark index — generally considered representative of the U.S. stock market — decline by 8.5%. The tech-heavy NASDAQ Composite Index dropped even further, losing 3.4% on August 5 and more than 13% over a four-week period.1

The final losses for the day were not as bad as they might have been. In the early morning, the CBOE Volatility Index — often called the fear gauge — reached the third-highest level in its history, eclipsed only by the 2008 global financial crisis and the 2020 pandemic crash. By the end of the day, however, it had settled to a more normal level for a down day.2 And the market rebounded quickly. Two weeks later, the S&P 500 was just 1% off its all-time high, while the NASDAQ was about 4% down from its peak and riding an eight-day winning streak.3

### Tuning out the noise

If you were paying close attention to the market on August 5, it would have been natural to be concerned. But as the subsequent bounce back illustrates, it would have been unwise to panic and change your investment strategy in response to the temporary volatility. Selling when the market declines is the surest way to lock in losses, and you may miss out when the market rebounds.

Most individual investors are best served by building a diversified portfolio appropriate for their goals, time frame, and risk tolerance, and letting the portfolio ride market swings and pursue growth over time. Over the last 30 years — a period that included three recessions — the S&P 500 has returned an annual average of about 10.7%, assuming reinvestment of dividends.4 Of course, returns have varied widely from year to year, but pursuing long-term growth is at the heart of being an investor versus a speculator.

### Jobs and high-risk trading

The market slide was caused in part by concerns that the U.S. economy might be slowing and that the hoped for "soft landing" from the Fed's inflation-fighting interest rate policy might be harder than expected, possibly even ending in a recession. This concern was increased by a disappointing jobs report released on Friday, August 2. The S&P 500 dropped 1.8% that day, and the NASDAQ dropped 2.4%, sending it into correction territory (a decline of more than 10% from a previous high).5

While these were genuine concerns about the U.S. economy, there was also a web of complex high-risk trading strategies coming unraveled and driving the volatility. These strategies depend on borrowing or "leveraging" that magnifies the potential gain while also magnifying the potential loss.

### More to come?

While much of the early August volatility was caused by high-risk trading strategies, the jury is still out on the U.S. economy. Investors will closely watch upcoming economic data and events, including the August employment and inflation reports to be released on September 6 and 11, respectively, and the Fed meeting on September 17–18, where central bankers are widely expected to reduce interest rates. The November election, regardless of the outcome, is also likely to stir markets. However, as recent volatility illustrates, it's generally wise to tune out the noise and stay the course of your own investment strategy.

1, 3, 5) Yahoo Finance, S&P 500 Index for the period 9/1/22 to 8/19/24, NASDAQ Composite Index for the period 7/1/24 to 8/19/24, Nikkei 225 Index for the period 8/2/24 to 8/5/24

2) The Wall Street Journal, August 6, 2024

4) London Stock Exchange Group, S&P 500 Composite Total Return Index for the period 8/15/94 to 8/15/24

# Quarterly Market Review: July-September 2024

Wall Street got off to a good start to begin the third quarter of 2024 and continued to rally for much of the quarter. Investors spent the quarter watching inflation and economic data, trying to gauge whether the Federal Reserve might lower interest rates. Each month of the quarter provided solid evidence that inflationary pressures had been curbed. Both the personal consumption expenditures (PCE) price index and the Consumer Price Index (CPI) declined over the last three months, with the 12-month rate for the CPI ending the quarter at 2.5%, and the PCE price index closing the quarter at 2.2%. In response, the Federal Reserve cut the federal funds target rate range by 50.0 basis points, marking the first-rate reduction since March 2020 in the midst of the COVID-19 pandemic.

Several indexes reached new records throughout the quarter. The S&P 500 is off to its best nine-month start since 1997, while the Dow and the NASDAQ also hit new highs in the third quarter. Rising bond prices weighed on yields, with the yield on 10-year Treasuries closing lower in each month of the quarter. The yield on the 2-year note ended the quarter at 3.65%, a decrease of 84.0 basis points from the beginning of the quarter. Corporate earnings enjoyed a solid quarter, with 80.0% of S&P 500 companies reporting actual earnings per share (EPS) above the five-year average of 77.0%. The S&P 500 further reported growth in earnings of 11.3%, marking the highest year-over-year growth since the fourth quarter of 2021.

Gold rose nearly 14.0% in the third quarter and nearly 28.0% in 2024 as anticipated interest rate cuts by central banks supported trading precious metals. In addition, higher demand for gold by several Asian central banks, particularly the People's Bank of China, helped lift the price of gold, which reached a record high of $2,685.15 per ounce at the end of September. Crude oil prices fell about 16.0% in the third quarter as China's economic struggles, rising supplies, weak demand, and escalating tensions in the Middle East took their toll. The U.S. dollar ended the quarter down nearly 5.0%. Home mortgage rates averaged 6.2% as of September 12, about 0.57% percent lower than the July 18 rate and down from 7.18% a year ago.

### Contact a Trust Department Staff Member at CBI Bank & Trust

As estate planning and investment management can be complex and influenced by a number of factors, we like to start with a personal appointment where we get to know you and your needs. Contact any of the CBI Bank & Trust Trust Department staff members to arrange an appointment today.

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