

QUARTERLY INSIGHTS

Why Cash May Be Riskier Than You Think



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KEY TAKEAWAYS:

- Keeping your assets in cash may seem like the safe route, but it does pose risks.
- Cash can work as a short-term option, but because tomorrow's money market yields won't necessarily be the same as today's, it can become a dicey long-term strategy.
- Inflation, even when it moderates, can cause your purchasing power to slip over time if your money is only in cash.

For the last few years, cash has had its moment. Money market funds and savings accounts have offered yields we haven't seen in quite some time, and for many investors, it has felt like a safe place to park assets while earning a decent return. So, it's no surprise that one of the most common questions advisors are getting today is: "Why shouldn't I just stay in cash?"

CASH ABSOLUTELY HAS A ROLE

The issue with cash is when a short-term solution becomes a long-term strategy. One of the biggest risks of staying in cash is something called reinvestment risk. Today's money market yields won't last forever. If the Federal Reserve eventually

begins cutting interest rates, the income generated by cash balances will likely decline as well. The 4 or 5 percent yield investors have become accustomed to could look very different.

INFLATION ALSO POSES A RISK

Even when inflation moderates, the cost of living tends to rise over time. If your money is sitting in cash earning less than the rate at which prices increase, your purchasing power can gradually erode. That's why it's important to think beyond today's headline yield.

For investors with longer-term goals, this may be an opportunity to consider locking in attractive yields through high-quality fixed income investments. Whether it's Treasury securities, investment-grade bonds, municipal bonds, or a laddered approach, extending out modestly on the maturity spectrum may allow investors to preserve income even if short-term rates move lower. The goal isn't to eliminate cash entirely. Emergency reserves and short-term needs should absolutely remain liquid. But if excess cash has quietly become a permanent allocation, it may be worth asking whether that money is truly working as hard as it could be.

THE BOTTOM LINE

Cash can feel safe because the value doesn't fluctuate day to day. But there are risks to staying in cash, too—particularly reinvestment and inflation risk. And in today's market, investors have an opportunity to lock in yields that may not be available forever.

If you have any questions about the benefits of investing compared with staying in cash, please don't hesitate to reach out to your advisor.

Charitable Bequests: Practical Advice for Tax-Efficient Giving

KEY TAKEAWAYS:

- A charitable bequest may allow you to leave assets to a nonprofit as part of your estate plan.
- IRAs are often one of the most tax-efficient assets to give to charity.
- Proper planning helps support your charitable legacy so that it can be fulfilled as you intend.

Charitable bequests are one of the most tax-efficient ways to leave a legacy. By designating a charity as a beneficiary of your IRA or estate, you can maximize the impact of your giving and potentially reduce your heirs' tax burden.

However, as considerate as these strategies may be, real-world implementation can often bring about unexpected complications. Understanding both the benefits and the potential pitfalls of a bequest is essential so that your intentions are carried out smoothly.

WHAT IS A CHARITABLE BEQUEST?

A charitable bequest is a planned gift made through your estate, usually defined in a will, trust, or beneficiary designation. It allows individuals to transfer assets, such as cash, securities, or retirement accounts, to a nonprofit organization upon their death. A bequest can potentially reduce the tax burden on your heirs.

Unlike charitable donations, bequests take effect after death, making them a powerful tool for taxes and philanthropic planning.

COMMON TYPES OF CHARITABLE BEQUESTS

It's important to understand the common types of bequests used in estate planning. Each type offers variable flexibility depending on your personal goals and estate structure.

- **Specific Bequest:** A gift of a specific dollar amount or designated asset
- **Percentage Bequest:** A gift of a certain percentage of the total estate rather than a fixed amount
- **Residuary Bequest:** A gift of all or a percentage of estate assets remaining after specific bequests have been fulfilled and debts paid
- **Contingent Bequest:** A gift that takes effect only if certain conditions are met, such as the primary beneficiaries predecease you
- **Demonstrative Bequest:** A gift that comes from a specific funding source

BENEFITS OF CHARITABLE BEQUESTS

Charitable bequests may provide both personal and financial advantages. Charitable bequests offer a combination of tax efficiency, flexibility, and long-term impact that makes them a valuable component of many estate plans.

- **Tax Efficiency:** Certain assets, such as traditional IRAs, can be significantly more effective when left to charity rather than taxable heirs.
- **Maximized Impact:** Charities typically receive the full value of the gift, allowing more of your wealth to support the causes you care about.
- **Flexibility:** Bequests can be structured in multiple ways and updated as your circumstances evolve.
- **Legacy Planning:** Align your wealth with your values and create a lasting charitable impact.

WHY TAX-DEFERRED ACCOUNTS ARE OFTEN THE BEST ASSETS TO LEAVE FOR CHARITY

IRAs, 401(k)s, 403(b)s, and other tax-deferred retirement accounts are often some of the most effective assets to leave to charity. If individuals inherit these accounts, distributions are taxed as ordinary income. Under the SECURE Act of 2019, most non-spouse beneficiaries must fully distribute inherited traditional retirement accounts within

10 years of the original owner's death. This change eliminated the stretch IRA, which previously allowed heirs to spread taxable distributions over their lifetime.

As a result, heirs may be forced to recognize significant taxable income over a compressed time frame. Charitable organizations, by contrast, can receive distributions from these accounts income-tax free, allowing the full value of the asset to support philanthropic goals.

ADMINISTRATIVE CONSIDERATIONS FOR AN IRA CHARITABLE BEQUEST

A recent client's passing left an unexpected challenge. She had thoughtfully designated several charities as beneficiaries of her IRA, a strategy that is generally tax-efficient and aligned with her philanthropic goals. However, the process of transferring her assets ended up being more administratively complex than anyone anticipated.

While account establishment procedures vary by custodian and continue to evolve, some custodians may require beneficiaries to establish an inherited IRA before receiving assets. While this is typically routine for individual heirs, it can create complications when the beneficiary is a charitable organization. In this case, officers at the designated charities were understandably hesitant to provide personal information and establish accounts with the custodian. After months of back-and-forth, responsibility for administering the assets was ultimately transferred to the custodian's retail team, an outcome no one had anticipated.

This experience highlighted a gap between charitable intentions and practical implementation, underscoring the value of careful planning and coordination among donors, advisors, and charitable organizations. Importantly, this was not a flaw in the charitable beneficiary strategy itself, but rather an administrative challenge tied to a specific custodian's process. Although many custodians have adopted more efficient processes, thoughtful planning can further reduce administrative burdens and support your charitable intentions so that they are carried out smoothly for both your loved ones

and the organizations you support.

DONOR-ADVISED FUND

One way to proactively address these potential administrative challenges is through a donor-advised fund (DAF). A DAF can be established during your lifetime and used for ongoing charitable giving, or it can be structured as a testamentary DAF that remains unfunded until death. You can name the DAF as either a primary or contingent beneficiary of your IRA, creating a streamlined path for your charitable intentions.

Because the DAF sponsor receives the IRA assets and handles that step, the charities you ultimately support are spared the burden of opening inherited IRAs themselves, simplifying the distribution process considerably. To manage the DAF's distributions, you can appoint a successor who can direct funds to charities after your passing and specify your chosen charities in advance.

DEDICATED CHARITABLE IRA STRATEGY

Another effective approach to charitable giving at death through an IRA is to divide the account into separate segments, reserving one exclusively for charitable beneficiaries. This strategy simplifies estate planning by creating a dedicated charitable IRA distinct from the portion intended for family members. Naming a DAF as the beneficiary of the charitable portion of the IRA can simplify administration, streamline the transfer of assets, and preserve flexibility in how charitable distributions are ultimately made.

FINAL THOUGHTS ON CHARITABLE BEQUESTS

Charitable bequests focus specifically on honoring your legacy after death. They are a powerful way to create meaningful impact while optimizing tax efficiency.

Thoughtful planning must involve not only strategy, but also execution. When considering what assets to leave to charity, consult with your financial advisor and estate planning attorney to implement these strategies and help carry out your charitable legacy smoothly.

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