Digest

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

BAIRD

Spring 2024

Make the Most of Your Home

5 Strategies To Take Advantage of Your Most Valuable Asset

In this issue...

Tax Planning: A Year-Round Affair

While tax season might only come once a year, effective tax planning requires a longer-term mindset.

IN OUR LAST ISSUE, we recommended some strategies to help you take some of the stress out of tax season. Now that Tax Day has come and gone, you might be ready to put taxes out of mind until next spring. However, as a critical part of wealth management, tax planning warrants year-round attention, and we know the best advice and plans consider your tax exposure over multiple years. Here are just some of the ways taxes inform the solutions we offer:

- **Tax return reviews.** Now that you've completed your tax return for 2023, put it to work by sharing your return with your Financial Advisor. Together you can explore if there are opportunities to mitigate your future tax burden while fine-tuning your existing plans.
- **Tax-smart investment platforms.** We continue to invest in the tools you need to maximize your portfolio's tax efficiency – including dynamic investment solutions that offer greater flexibility and personalization while efficiently capturing losses and managing risk.
- **Tax planning opportunities.** There are key provisions from the 2017 Tax Cuts and Jobs Act that are set to sunset at the end of 2025. On page 2, we discuss why the estate tax provision is especially timely and how it can support your plans for building a legacy.

Wealth management is never set-it-and-forget-it, and that's especially true for taxes. Your Financial Advisor stands at the ready to help you make informed, forward-looking tax decisions.

Mike Schroeder
Chairman
Private Wealth Management

Erik Dahlberg
President
Private Wealth Management

Chris Russell
PWM Executive
Market Director

> "Just about every investment or planning decision you make will have some impact on your taxes. Choices you make today can have a major impact on your returns both next April and years into the future – that's something we can help you plan for."

An Opportunity for a Timely Wealth Transfer

A looming drop in the estate tax exemption sparks a wealth transfer opportunity.

IN 2017, CONGRESS PASSED THE TAX CUTS AND JOBS ACT, increasing the amount of money you can transfer from your estate during your lifetime or at death without incurring the standard 40% gift and estate tax. This amount, called the lifetime gift & estate tax exemption, is $13.61 million per person, or $27.22 million per married couple, in 2024.

However, that exemption amount is scheduled to fall to less than half on January 1, 2026. As a result, a single individual could end up paying more than $3 million in additional estate tax, and a married couple could pay more than $6 million extra. When it comes to this opportunity, our planning varies across three scenarios:

SCENARIO 1
Individual Net Worth: Under $7 million
Married Net Worth: Under $14 million

If you fall into this category, you fall in line with 99% of American households. Even if the exemption amount does fall to around $14 million, you should have little concern over the federal estate tax. However, while estate tax planning may not be important, estate planning is still vital for securing a strong financial future. Your Baird Financial Advisor can help review your existing estate plan to ensure it still meets your family's needs.

SCENARIO 2
Individual Net Worth: Between $7 million – $15 million
Married Net Worth: Between $14 million – $30 million

If your net worth falls somewhere between these amounts, you have the most to discuss with your Baird Financial Advisor. While today you have no estate tax issues, you could be facing a multi-million-dollar tax cost if the sunset does occur. Talk with your Baird Financial Advisor to discuss what planning strategies make most sense for you.

SCENARIO 3
Individual Net Worth: Above $15 million
Married Net Worth: Above $30 million

If your net worth falls into this category, it is unlikely the lifetime exemption will ever be large enough to eliminate your need for estate tax planning. Because of this, you should already be in contact with your estate attorney, Baird Financial Advisor and other advisors to ensure your estate plan is up to date with current tax laws.

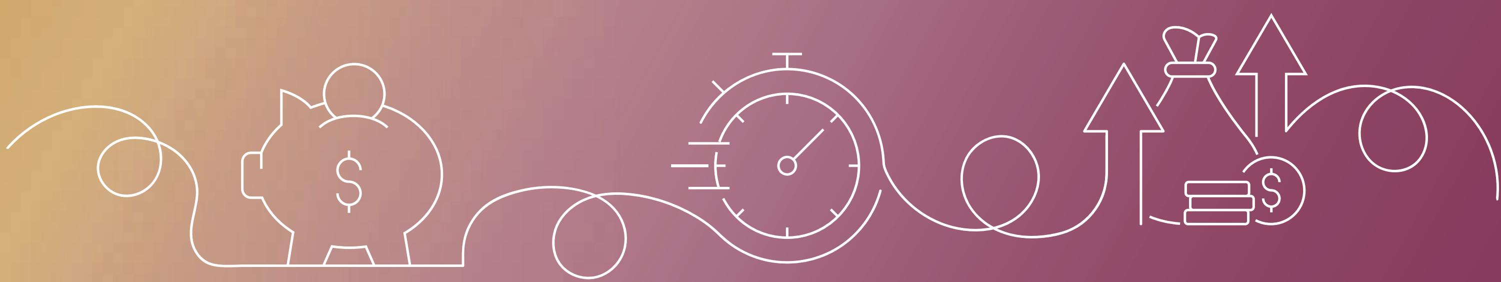
IS THERE ANY CHANCE THE EXEMPTION COULD CHANGE? While there is a possibility that the provision could be extended or modified by Congress, there's no guarantee that it will. Tax laws are never permanent, and with an upcoming presidential election, it's impossible to predict where this might land. It's important to talk with your Baird Financial Advisor to explore what strategies are available, even if you ultimately decide not to take advantage of this increased exemption.

HOW YOUR BAIRD FINANCIAL ADVISOR CAN HELP Your advisor has access to resources and specialists like our advanced wealth, tax and estate planning teams, along with our trust strategists and Business Owner Solutions group – making them well-equipped to discuss and analyze any options available to you. And by working with your other tax and legal advisors, they can help develop a plan that is best tailored to your overall situation. Whether you are facing potential estate tax liability now or think you might in the future, or if you just need to review your existing plan to ensure it still meets your family's needs, please know your Baird Financial Advisor and a team of planning specialists are ready to help.

If you're interested in learning more about legacy planning, including tax implications, family dynamics and charitable giving, consider watching our recent webinar, "Passing the Torch: Thoughtful Strategies for Wealth Succession" at **bairdwealth.com/passingthetorch**.

Wondering why you should start planning now?

In our video, "Planning for a Timely Wealth Transfer Opportunity," Director of Advanced Planning Tim Steffen breaks down this opportunity in more detail, including an explanation of why the timing is a crucial component of this wealth transfer.



What Happens When the Robots Take Over?

Will automation and artificial intelligence revolutionize society as we know it? Absolutely. But maybe that's okay – as Strategas Chief Economist Don Rismiller reminds us, we've been here before.

THE STORY OF THE U.S. ECONOMY has always been one of perpetual advancement and reimagination. As our lives evolve through human ingenuity and technology, our economy evolves as well – often in ways that are hard to predict.

Take farming as an example. In the early 1800s, to feed a country of 5.3 million people, roughly 80% of the labor force needed to be involved in agriculture. Since then, the U.S. has grown many, many times over (to over 330 million people!) – yet farms employ only 1% of the workforce today. Why? Because we got better at farming – we have bigger combines, genetically engineered seed and fertilizer, improved distribution networks and better weather forecasts. Even our tractors are equipped with GPS.

But what happened to the old agriculture jobs? As society evolved, the economy evolved with it – in this case, to the service sector. Moving goods around a large, interconnected country requires a large, diverse workforce – in trades, manufacturing, transportation, retail and much more. We still had farmers growing and harvesting crops – but those food products also needed to be shipped and sold in grocery stores, which needed to be constructed, staffed and maintained. We also employed more entertainers – from football players to poets to television executives – who raise our level of enjoyment and make our lives more meaningful.

Importantly, the migration of agriculture jobs into service and the arts is only made possible through a massive investment in education. Today, more than 90% of working-age adults have a high school education, and the country's 99% literacy rate is among the best in the world. That has contributed to an educated and productive workforce, which in turn has created new jobs and even industries. ▶

Don Rismiller

Chief Economist, Strategas

ARTIFICIAL INTELLIGENCE AND THE WORKFORCE OF TOMORROW

Much like with agriculture in the 19th century, we see a similar dynamic at play today, particularly in manufacturing. Even though advances in supply chain resiliency and cheaper energy have recently led to a "manufacturing renaissance," it takes fewer and fewer people to achieve greater and greater levels of production, much like we saw with farming. (In 1990, the U.S. employed 18 million manufacturing workers – 30 years later, that number has dwindled to about 13 million.) And with advances in automation and, more recently, artificial intelligence, those 13 million workers will only become more productive.

And therein lies the concern. While many have been quick to embrace AI to simplify laborious or unrewarding tasks, there has been apprehension as well. What will the country do with those displaced workers in manufacturing? And not just manufacturing: We're already checking ourselves in for airline flights and checking ourselves out in grocery stores, and AI has already shown great potential to identify patterns and replicate them in such tasks as writing and design. The service industry, which is where workers turned when agriculture became automated, is also downshifting.

About Strategas, A Baird Company

Strategas, a Baird Company, provides award-winning market and macroeconomic insights and commentary. This article is an example of the perspectives our advisors have access to and are accounting for as part of your plan.

STRATEGAS A BAIRD COMPANY

The answer lies where it has in the past: By becoming increasingly productive as a society, we were able to create entirely new industries and professions (like software engineer or social media influencer) and pursue more luxury-oriented lifestyles and careers. How might we achieve increased productivity today? There are still gains to be made in education, be it by improving on the workforce's bachelor's degree completion rate (currently stuck at around 38%) or adopting more of an apprenticeship model in technical careers. Innovations in medicine will lead to a workforce that's living longer and healthier. Improvements like these alongside developments in artificial intelligence can pave the way for a more productive workforce – and with it a more productive society.

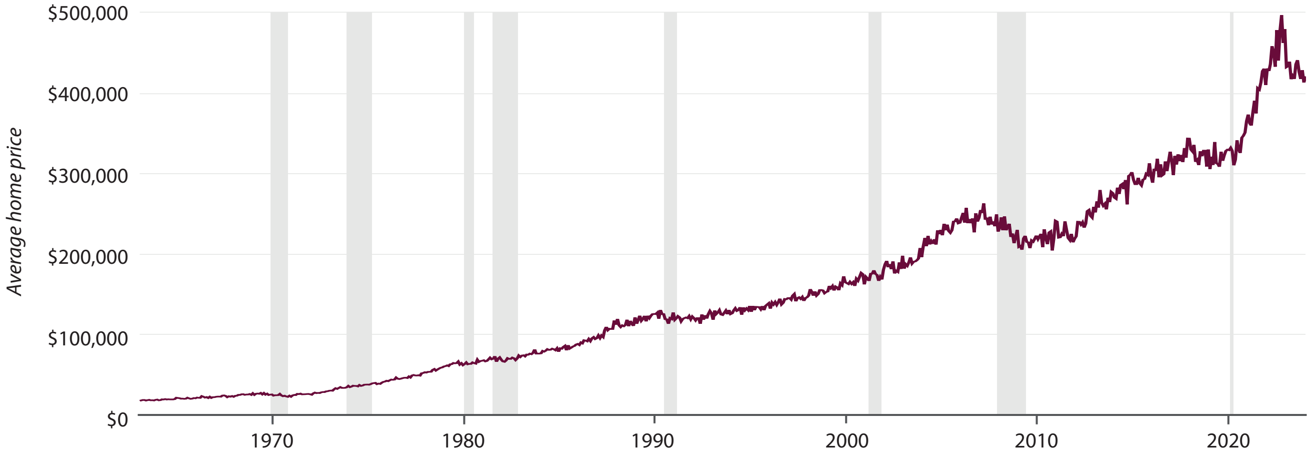
Take Advantage of Your Most Valuable Asset

A home can be many things – a roof over your head, a place to raise your kids, an entryway into a larger community. But your home is also an investment – perhaps your most valuable investment outside your portfolio. Here are five housing decisions you might make over the course of your lifetime, plus planning recommendations to help you make the most of them.

PURCHASING YOUR FIRST HOME There are many long-term benefits to buying a house – but with average home sale prices soaring above $400,000 (see the chart below), be sure to think through every financial aspect of your purchase, from your down payment (can you save enough to keep from paying private mortgage insurance?) to your budget (can you afford the expenses that accompany home ownership?). Sometimes the best advice is to be patient: If buying a home will cause you to lie awake at night stressing about mortgage payments, you might be better served saving for a bigger down payment or reducing your other debt first.

***Tim Says:** A larger down payment can also mean qualifying for a better rate on your home loan. A smaller loan with a lower interest rate can make a huge difference in your monthly mortgage payment.*

Home prices have increased by roughly one-third in the past five years.



Source: The Federal Reserve.

REMODELING Besides choosing the right financing vehicle, one of the most significant home ownership decisions you could face is what to upgrade. Some improvements, like landscaping and kitchen updates, tend to get a better return on investment when it's time to sell, as do renovations that incorporate new technology. Be forward-looking too: You don't want to deplete your financial resources on more ornamental updates just ahead of a major undertaking like replacing a roof.

> ***Tim Says:*** *If you're looking to maximize your home's value ahead of a sale, know that the U.S. tax code distinguishes between "home improvements" and "home repair." Improvements to your home can increase your cost basis, which reduces your capital gain when you sell. Repairs don't provide any tax benefit.*

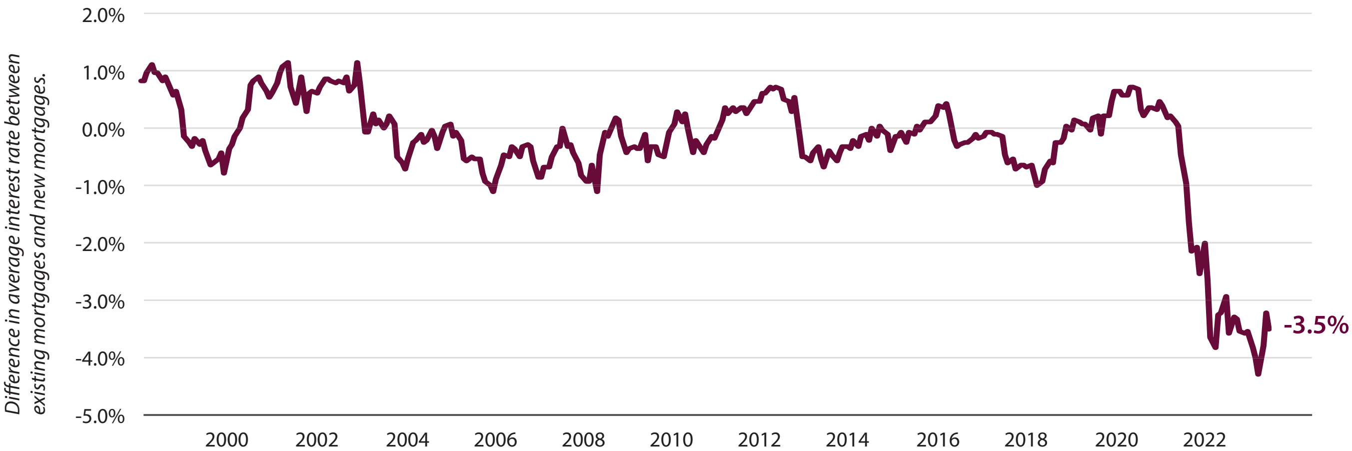
Tim Steffen, CPA-PFS, CFP®, CPWA®

Director of Advanced Planning

DOWNSIZING Selling your house and moving to a smaller one can lead to savings in unexpected ways, like the energy costs to heat and cool your home. But you could also be taking on expenses you haven't had to account for previously. If you decide to take out a new mortgage, expect to pay interest costs that could be much higher than on your current one (see the chart below). Use this opportunity to revisit your basic living expenses and reset your budget.

> ***Tim Says:*** *It's not just about finances: Downsizing may sound like a great idea, but make sure you'll be comfortable living in closer quarters.*

If you're taking out a new mortgage, expect to pay 7% or more in interest – roughly double the 3.5% average interest rate on existing mortgages.



Source: Strategas.

TAKE ADVANTAGE OF YOUR MOST VALUABLE ASSET

Continued from page 7

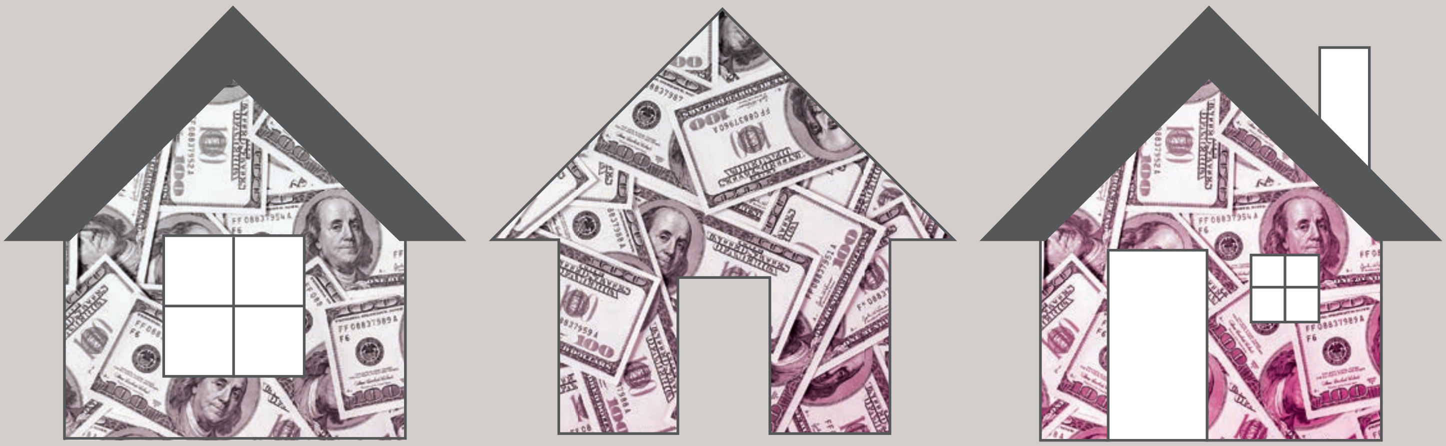
PURCHASING A VACATION HOME When considering a vacation home, be realistic about who will use it, for what and how often. If you have a large family that doesn't like to cook, maybe you trade kitchen and dining room space for an extra bedroom and bathroom. If you're planning on making it a rental property, you might need a more traditional setup – as well as a property manager to maintain it while you're away, which is an extra cost.

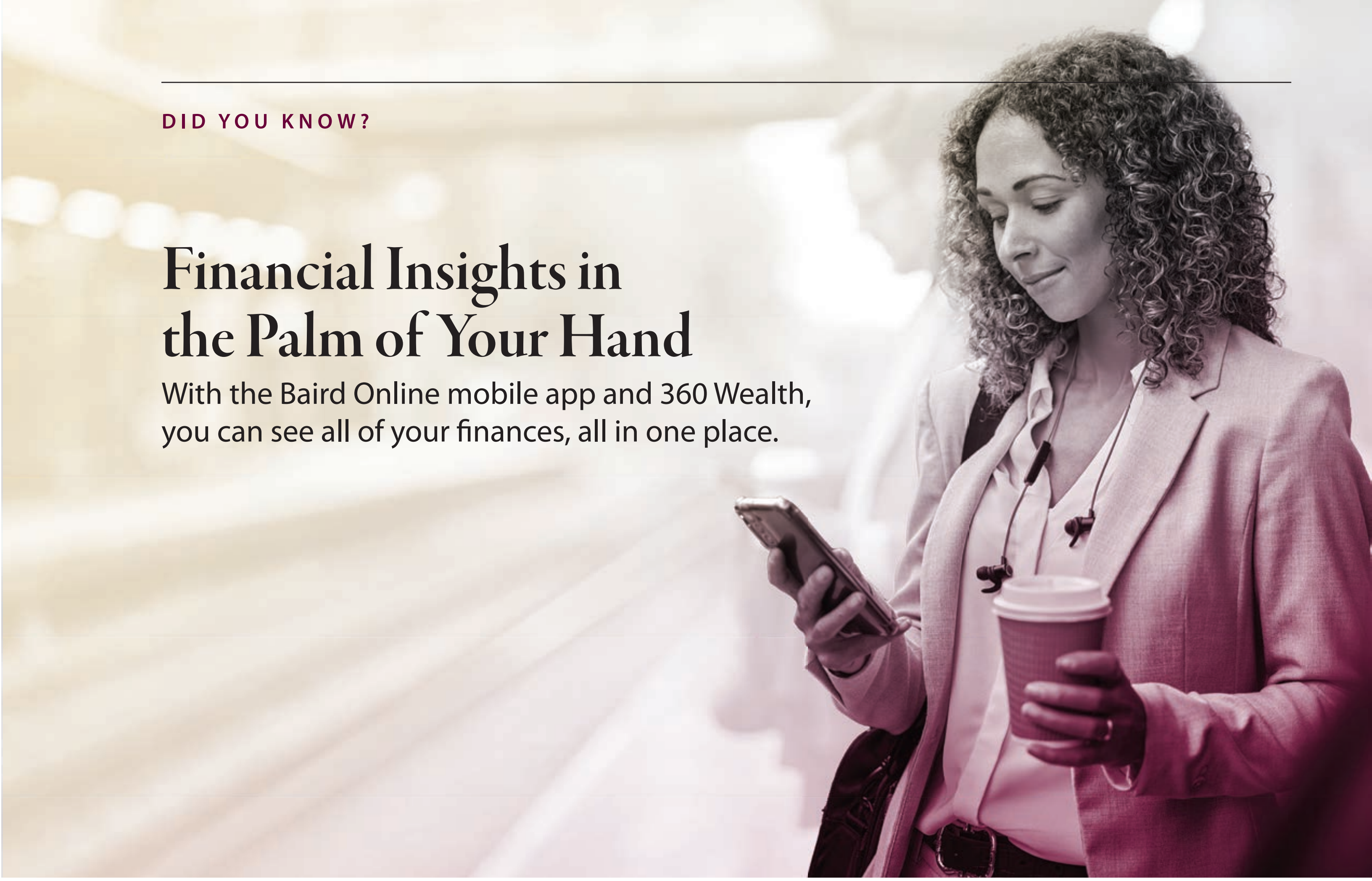
Tim Says: *Are you someone who likes to travel to new destinations? Owning a second home may make it hard to justify traveling and seeing new things.*

RETIRING Any conversation about retiring will need to include a decision on your house. If you decide to stay put, you'll likely want to have the mortgage paid off – and perhaps even explore taking out a home equity line of credit for additional liquidity in retirement. If you want to pass it down to your kids, there are vehicles that let you do that (such as a trust or transfer-on-death deed) – but make sure you talk with them first and make sure they have the interest, and means, to insure and maintain it.

Tim Says: *If you plan to retire in your home, make sure it will accommodate your needs as you get older. A larger, multistory home may not be realistic as you slow down later in life.*

As you think about the ways your home can be an investment, remember that its greatest value might not be financial at all. For many people, a home is where they raised their kids, laughed with loved ones around a kitchen table and joined a community of neighbors. Your Baird Financial Advisor can help you sort through these sentiments and make the most of your most significant asset.





DID YOU KNOW?

Financial Insights in the Palm of Your Hand

With the Baird Online mobile app and 360 Wealth, you can see all of your finances, all in one place.

TODAY'S INVESTORS have all kinds of electronic tools to help them manage their finances, including ones that let them track all their assets and expenses. As a Baird client, you already have that functionality through Baird Online's 360 Wealth – and now you can see it all through the Baird Online mobile app.

WITH 360 WEALTH, YOU CAN:

- **Access all your Baird and non-Baird accounts in one place by linking checking and savings accounts, investments, credit card balances, mortgage loans and much more.**
- **Track your spending and income with customized net cash flow tools.**
- **Keep your private information private with features like end-to-end encryption, biometric authentication and 24×7 security monitoring.**

The best benefit is one you won't find in another platform: Because 360 Wealth is already tied to your Baird account, you and your advisor can use the tool to make more informed planning decisions. 360 Wealth doesn't let you just see your accounts – it lets you and your advisor take action.

Check out 360 Wealth for yourself – scan the QR code now to visit our Baird Online mobile demo site.

Tips for the Empty Nester Investor

As your kids become independent, how can you use your newfound financial freedom?

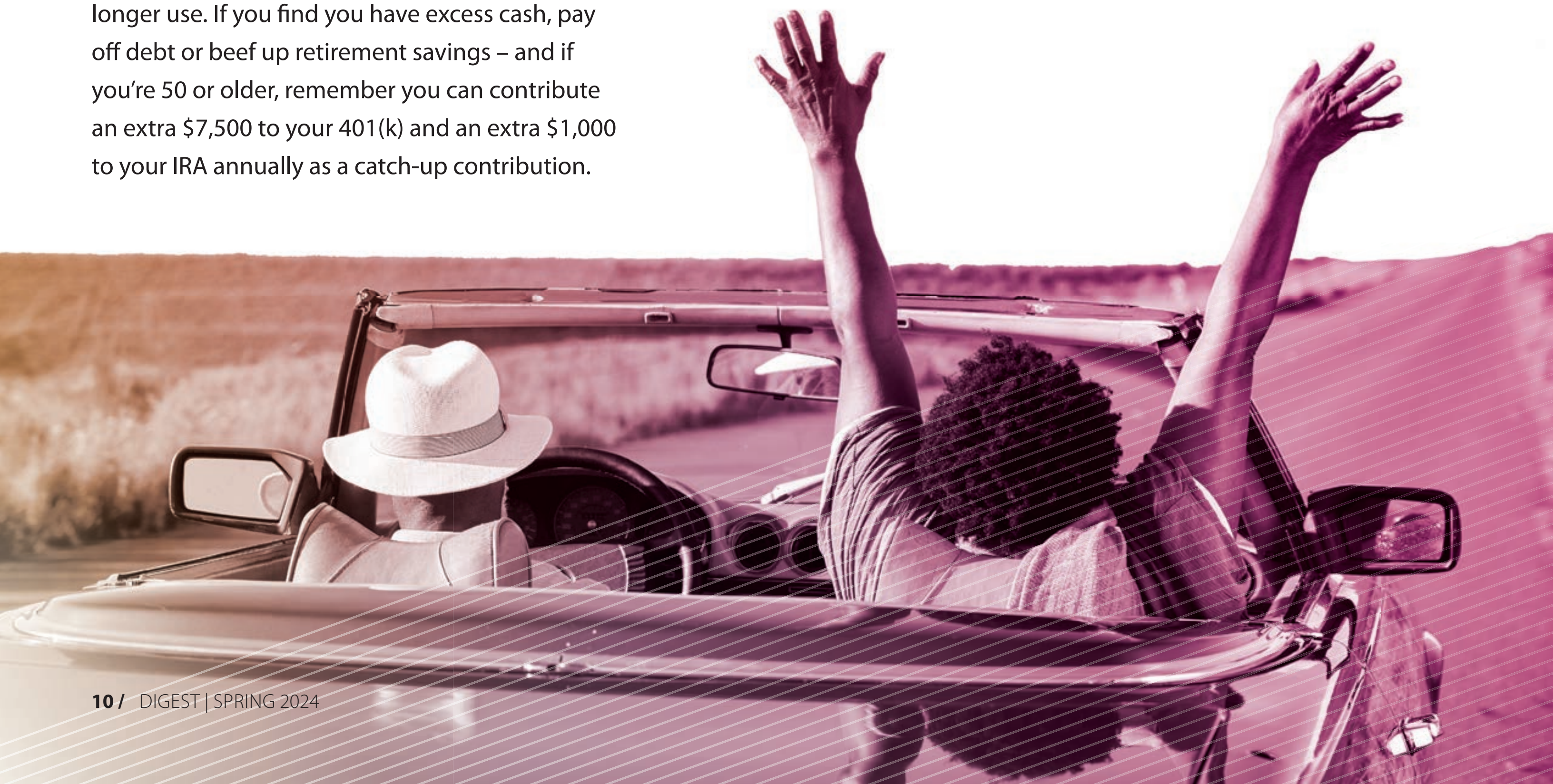
WHILE IT MAY FEEL like the end of an era, becoming an empty nester can mean exciting changes await. Take this time of transition to review your finances with your Baird Financial Advisor and explore the following strategies.

REVISIT YOUR GOALS Now that your kids have flown the coop, it's a key time to reflect on your own goals. You may want to consider when you want to retire, what you want to accomplish before retirement and whether your kids or grandkids will need ongoing support.

CREATE A NEW BUDGET To start, try tracking your spending habits for a few months by using tools like Baird Online's 360 Wealth budgeting feature. You might find you're now spending less on meals, or that you're still paying for other expenses like streaming services that you no longer use. If you find you have excess cash, pay off debt or beef up retirement savings – and if you're 50 or older, remember you can contribute an extra $7,500 to your 401(k) and an extra $1,000 to your IRA annually as a catch-up contribution.

EVALUATE YOUR HOUSING SITUATION If your kids are settling into homes of their own, it might be time to downsize. This could decrease utilities and insurance expenses, require less upkeep and even give you a chance to live in a place that better fits your new lifestyle. Just keep in mind that moving to a new home could mean taking on a mortgage with a higher interest rate. For additional downsizing considerations, see "Take Advantage of Your Most Valuable Asset" on page 6.

CONSIDER YOUR LIQUIDITY NEEDS
In retirement, banks can be reluctant to give out loans due to a lack of consistent income. By taking out a securities-backed line of credit (offered for qualifying clients at Baird) or a home equity line of credit before you reach retirement, you can secure another source of emergency cash post-retirement. ▶



REVIEW YOUR INSURANCE You might find your insurance needs have changed over the years. For example, life insurance policies you took out to cover a mortgage or the expenses of raising children may no longer be necessary, while long-term care insurance is just now becoming a major consideration. Your Baird Financial Advisor can conduct an insurance plan review that can determine the coverage that's right for you.

PLAN FOR HEALTHCARE If you're eligible, maxing out your contributions to a Health Savings Account can reap many benefits. Plus, if you're 55 or older, you can contribute an extra $1,000 per year to them as a catch-up contribution. And as you plan for healthcare, don't forget about the kids – they can stay on your health insurance until age 26, which may be more cost-effective for them than going on their own policy.

RE-VISIT YOUR ESTATE PLAN Generally, re-visiting your estate plan every three to five years (or at every milestone life event) is a good rule of thumb. And now that you have adult children, you might take this time to consider them for power of attorney, beneficiary or executor roles in your estate.

HELP YOUR KIDS GAIN FINANCIAL INDEPENDENCE You may consider giving some extra support to your kids on their journey to financial independence. In a period of elevated inflation and housing prices, jumping into adulthood isn't an easy feat. Maybe encourage them to open their own credit card and take on an auto insurance policy. Then, you can help them consider the impact of larger expenses like a down payment on a house or car.

Our downloadable checklist provides a step-by-step guide to navigating this change. When you're ready, fill it out and share it with your Baird Financial Advisor who can help you plan for this next chapter.

Planning Calendar

May

Amended Form 5498s issued for those who contributed to an IRA for 2023 in 2024 and for those who need to amend a previous form.

May 29

529 College Savings Day – review your education savings plans with your advisor.

June 17

Federal estimated income tax payments for Q2 2024 are due.

June 30

FAFSA submissions for the 2023-2024 academic year are due.

June's Wealth Strategies webinar: Wealth + Wellness = WHealth

Scan the QR code to access our *Wealth Strategies* webinar series

Meet the Team Around the Team

Your relationship with your Financial Advisor team is sacred bond – a trusted relationship with experienced professionals who are dedicated solely to your best interests and goals. But they aren't doing it alone. They have a whole team of experts – many of whom you might never meet – who are just as committed to seeing you succeed.

WEALTH, TAX AND ESTATE PLANNERS

Experts who can collaborate on solutions and multigenerational planning that support you and your family

MARKET ANALYSTS

Portfolio analysts, equity and fixed income analysts and investment strategists, as well as award-winning macroeconomic analysis from Strategas' policy experts

TECHNOLOGY EXPERTS

Specialists who make sure you can communicate seamlessly and securely with your advisor while investing in cutting-edge tools to provide actionable and tailored insights

PORTFOLIO MANAGERS

Analysts who employ unique strategies to investment research to give you a wide range of portfolios to support your investing preferences

INVESTMENT SPECIALISTS

Experts who support a robust platform that includes a broad range of investments – including advisory solutions, trusted asset managers, alternative investments and more – to address your unique goals

CASH AND LENDING SPECIALISTS

Lending and liquidity solution consultants to help you maximize your flexibility while ensuring your cash is working as hard for you as possible

OUR WEALTH MANAGEMENT PARTNERS

Baird experts in businesses outside of wealth management who can partner with you for specialized guidance on business valuations, trust solutions, private equity opportunities and much more

Reach out to your Baird Financial Advisor to learn more about their extended team, and how they support your goals.

Want More?

Additional information is available at **bairdwealth.com/digest**, or contact a Baird Financial Advisor at **800-79-BAIRD**.

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