

## ESTATE PLANNING

# Sudden Windfall Planning: Managing Tax, Financial and Estate Planning Implications

## NEEDS

A corporate executive in his early 60s did well during his career and amassed a net worth of roughly \$13 million. Married with an adult child and a new grandchild, the executive was eager to retire but concerned about taxes and income.

## CHALLENGES

Upon the client's retirement, he'd receive a payout from his employer of \$4.6 million, a substantial sudden windfall that would bring both opportunities and challenges.

1. The lump sum payment came with a \$1.9 million tax liability, which threatened to reduce the retirement payout by 40%.
2. The transition from earned income to retirement income would fundamentally change the client's financial landscape and possibly his estate plan.
3. The client was planning to begin a new home construction project, for which he'd need sufficient liquid capital.
4. The client had a very conservative investment philosophy with low risk tolerance which could slow growth. However, he wanted his investment gains to be large enough to support his retirement lifestyle as well as recurring income needs.

## SOLUTIONS

Choreo advisors developed a comprehensive and diversified wealth strategy aimed at accomplishing the client's goals, taking into account the client's conservative nature and his need for long-term financial security.

## SOLUTIONS (continued)

To do so, they needed to evaluate nearly every aspect of the client's financial situation. Once that evaluation was complete, the Choreo team was able to begin identifying solutions:

1. Coordinated with the client's employer to eliminate withholding on the payout, allowing him to receive the full \$4.6 million in hand.
2. Created a dedicated tax liability account containing the \$1.9 million needed to cover the taxes.
3. Allocated \$800,000 to a municipal money market fund earmarked for the home construction project, ensuring the funds remained liquid and easily accessible.
4. Implemented a rolling purchase strategy of short-term U.S. Treasury bills, allowing the client to earn interest on the funds until the tax payment was due.
5. To address the client's concerns about market volatility, implemented a dollar-cost averaging approach for equity investments, gradually investing over time to mitigate market timing risk.
6. Using Choreo Tax Advantage™, created a municipal bond portfolio to provide ongoing, tax-efficient income as well as a separately managed account, allowing for further tax-efficiency and ongoing tax-loss harvesting.
7. Finally, developed a tax-efficient withdrawal strategy to provide reliable income streams in retirement, coordinating distributions across various account types to minimize the tax burden.

## OUTCOMES

The comprehensive plan and portfolio simplified the client's overall financial picture, decreasing his concerns about his retirement lifestyle and income needs.

1. The gradual investment approach helped ease the client's concerns about market volatility.
2. Ongoing tax-loss harvesting through Choreo Tax Advantage™ enhanced after-tax returns in a way that will compound over time, setting the stage for future growth.
3. Utilization of the tax liability account yielded approximately \$100,000 in gains, by investing the funds before the payment was due.
4. The client was able to begin his home improvement project and his retirement without financial worries.

## THE BOTTOM LINE

Choreo advisors were able to reassure the client, maintain adherence to his investment philosophy, and address both his short- and long-term needs. The comprehensive and creative strategy devised by the Choreo team helped turn what could have been a stressful and overwhelming financial windfall into a well-managed transition to retirement, decreasing the client's anxiety and helping him feel more confident that he can enjoy his retirement for years to come.

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