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Plan For Retirement At Different Stages Of Life

No matter how old you are, retirement planning can be crucial to your overall financial health. However, your current stage of life can make a big difference in how you plan for retirement. Here are some general guidelines:

The early years: If you're just starting your career, chances are you'll have other financial priorities besides retirement savings, such as paying off college loans, your monthly rent, and car payments. But that doesn't mean you should move retirement planning completely off your agenda. For instance, if your company offers a 401(k) plan, try to defer as much salary as possible, especially if your employer will match some of your contributions.

While it may be hard to see from this vantage point, the long-term benefits of tax-deferred compounding within a retirement account such as a 401(k) or an IRA can be substantial. Suppose you contribute $10,000 a year to your 401(k), including matching contributions, beginning with the first year you enter the workforce. Then assume you earn a 7% annual return on your investments in the account. After 40 years you will have accumulated $2,136,096 without paying a penny of tax! (You will be taxed when you withdraw that money during retirement.)

Marriage and family: For many people, the next stage of life involves getting married and starting a family. On top of those financial pressures, you may buy a house and then replace it later with a bigger place. Suffice to say, your regular salary could be stretched thin, plus you have to think about paying for the college education of your children.

The trick at this stage is to stay the course as well as you can. Even if you and your spouse both have been working, one now may take some time off or cut back to part-time to help raise the kids. But you still can find a way to save money for retirement. For example, if you've both been contributing a total of $10,000 a year to a 401(k) and one of you stops working full-time, the other might try to boost 401(k) contributions to make up part of the difference.

Peak earning years: If you're a working couple, the next stage of life might offer a little more flexibility. Although you'll probably be paying for college, the mortgage may be paid off, or close to it, and your salary typically still will be rising. It only makes sense that you should be able to save more for retirement when you're earning the most.

Because even the best-laid plans can go astray, however, you now may need to make up for some lean years when other financial concerns took

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Five Key Factors In Funding A Child's Education

The Tax Cuts And Jobs Act (TCJA) changed funding a child's education significantly. Here are five factors to consider.

1. You can now pay tuition for kindergarten through 12th grade at private, public or religious schools with money saved in tax-advantaged 529 college savings accounts.

2. You can now draw up to $10,000 federally tax-free per student from a 529 plan to fund K-12 tuition expenses. There is no ceiling for distributions from a 529 plan for qualified college expenses. While contributions are not deductible, earnings grow free of federal income tax on withdrawals used for qualified school expenses.

3. You are not only limited to 529 plans sponsored by your state and can choose from a long list of 529s sponsored by other states.

4. The TCJA axed taxes on alimony payments, so custodial parents should have it easier qualifying for need-based aid.

5. Tax deductions for interest on home equity loans and lines of credit were eliminated. These were major sources of education funding, and losing their deductibility may require a change in your college funding plan.

Education tax breaks were boosted overall by the TCJA, but you almost must be a financial professional to navigate the complexities confidently. We are here to answer questions and help you create a strategic approach.

Kim Scott, CFP®
Senior Financial Advisor

Give To Charity From An IRA To Lower Your Tax Bill

To keep your tax bill down, if you are over 70½, consider a qualified charitable contribution, which makes donations of up to $100,000 from an Individual Retirement Account (IRA) to a fully deductible charity.

A qualified charitable distribution (QCD) lets you donate from a traditional or inherited IRA, provided you meet the age requirements.

A QCD can help you eliminate, or at least reduce, taxes owed on your required minimum distribution (RMD). That's the amount you are required to take out of your IRA account annually after turning 70½.

Example: Your yearly RMD is $20,000, which counts as taxable income. But if you donate that amount directly from your IRA to a charity, it is not counted as income, which may drop you into a lower tax bracket.

Moreover, you don't have to itemize to take this tax deduction. That's good news for Americans no longer itemizing deductions on their returns. To be sure, some taxpayers are hurt by the Tax Cuts and Jobs Act's $10,000 cap on state and local tax deductions, so a qualified charitable distribution can make sense.

You don't have to donate the entire amount to a single charity. You can divvy up a QCD among multiple IRS-eligible charities, within the $100,000 annual limit. You don't have to use 100% of your RMD for the donation, of course, and can keep what you need to pay for your living expenses and donate the rest.

QCDs require careful attention to ensure your donation is made from an individual retirement account — not a 401(k) or 403(b). In addition, you may not make a QCD and also itemize charitable deductions. You must pick one. Plus, the charity must not be a private foundation or a donor-advised fund. These technical details are crucial.

Another QCD tip: Make the contribution straight from your IRA. The RMD money must never be in your personal, non-IRA account. Send your IRA custodian instructions to send the check directly to the charity, with the organization's name on the check. Be sure to save the statements you receive from your IRA custodian and charity.

Finally, be sure to make the QCD donation before you take your RMD. Should you take the RMD first, you can't give the money back to the retirement account and will be ineligible to deduct it.

The QCD is a fairly complex solution to lower taxes and requires the advice of a qualified tax professional. ●

Five Steps When You Inherit Assets

During the next 30 years or so, an estimated $30 trillion is expected to change hands, and many offspring of older Baby Boomers may inherit a small fortune. Here are five practical suggestions for handling the windfall:

1. Give yourself time to grieve. If you're like most people, the loss of a loved one will come at an emotional cost. So you're probably not going to run out and buy a luxury car or book a cruise the day after the funeral. Allow yourself enough time for your grief to pass before you make any major decisions. Don't let your heart overrule your head.

2. Consider the limitations. Just because you've come into some money doesn't necessarily mean you'll be living on Easy Street. So try to resist the impulse to splurge on items you still can't afford. You might consider using some of the money for a one-time "treat" for your family and use the rest to invest for long-term goals.

3. Pay down debt. If you owe a lot of money, this could be a good opportunity to pay off some of your obligations. While you don't have to rid yourself of *all* of your debt—you might decide to keep your mortgage and perhaps a car loan—it could make sense to retire credit card and other debt that has high interest rates.

4. Set goals. In considering how to use your windfall, you might divide your objectives into short-, medium-, and long-term goals. For instance, in the short term you may decide to move to a bigger home. A medium-term goal might be to save money for a child's college education through a Section 529 plan. And a long-term objective for many is to secure a comfortable lifestyle in retirement.

5. Create an estate plan. If you haven't done this already, your

As A Final Act of Love, Plan Thoughtfully

"Everybody wants to go to heaven," according to a classic blues song, "but nobody wants to die." Nor does anyone like to think about dying. And that must be why some people don't put much thought into estate planning, much less in drawing a schematic for distributing one's earthly possessions to those you love the most.

But this is important. It's something you want to do diligently. It's something you want to get right.

Your heirs and the executor of your estate — the person you choose to oversee that your wishes are carried out — will remember you kindly for your clarity of purpose; it's good for all involved. Otherwise, you risk setting off a family feud. Resolving not to leave your property open to legal dispute, here are three key rules for further planning your estate:

Name Beneficiaries Correctly. Putting someone's name in your will may not be enough, of course. It's wise to name who gets what in documents filed with your insurer, annuity provider and retirement fund sponsor, usually for individual retirement accounts. To be clear, if you want your daughter to get your ABC stock 500 fund from your retirement account, naming her in the will does no good. It must be on file with a custodian. Moreover, listing multiple beneficiaries of real estate often is an invitation to a quarrel. What if you give your home to your three children? Maybe one wants to keep it for old time's sake, and the other two want to unload it and pocket the money. Or perhaps they all want to sell but can't agree on a broker or a fair selling price. In the meantime, they would need to chip in to maintain the house, which can cause further disputes.

Keep Estate Plans Current. Years or decades may pass between when an estate plan is devised and your death. Lots can change. Like spouses. If you divorced and never updated your will afterward, your ex could end up inheriting your worldly possessions. And what about your nephew, who was so delightful as a kid but grew up to be someone you don't really want to help financially. What's more, the tax laws could have changed, and old plans may be totally out of sync with current rules. Reviewing your will annually makes sense.

Provide Vital Information. Another problem is not furnishing your executor and heirs with a thorough up-to-date list of accounts and how to get access to them. Account titles, user names, and passwords — along with security questions — must be stored. Encrypting and saving this information is best. Writing it down and storing it in a safe deposit box is next best. However, not everything should be stored digitally. Mortgage documents, the deed to your home, your last mortgage payment and paperwork on your car are best kept in a safety deposit box, which requires a key and a photo I.D. to access. So, remember to arrange access for your executor with the bank. In leaving an item of sentimental value, consider who among your heirs would most appreciate its significance. Your Facebook, Instagram and Amazon account can be managed from the grave using online services such as Mylennium. It's wise to have a master list with all user names and passwords for financial holdings. This can be in your safe deposit box or in a secure place in your home. Trouble is, keys tend to get lost. Encrypting it and storing it online or on secure media you keep in your home is better.

Making your final wishes easy on loved ones is a thoughtful act that your heirs will greatly appreciate. ●

windfall could provide an excellent opportunity to prepare for the eventual transfer of your own wealth, including the assets you've just inherited, to other family members. You might decide to establish a trust for the benefit of minors or make other arrangements to help ensure financial security for a surviving spouse or grandchildren.

Fortunately, you don't have to do all this on your own. With the help of experienced professionals, you can develop a plan that makes sense. Don't hesitate to contact us for assistance. ●

The New Math Of Renting Out A Vacation Home

If you've ever thought about becoming a landlord, here's an update on recent tax breaks that changed the equation for weighing whether to rent a property or be the sole tenant throughout the year.

If you bought a home in 2018 or 2019, only the first $750,000 of the mortgage interest is deductible, down from $1 million under the old rules. But a rental property is not subject to these limits.

While the math of renting out your place may not have worked before, you may want to look at it again. Your mortgage could be several million dollars, but you'd still be able to deduct *all* of the interest on it — just as you did before the new law. If you live in the residence for part of the year and rent it out for the rest, you're entitled to a partial break.

Another advantage for rental property owners is that you can now deduct only $10,000 in state and local income tax and property tax annually on a home if you are not renting it out. But if you rent out a property for at least 15 days a year, you can take a deduction on part of the property taxes paid.

A homeowner who pays $12,000 in property levies annually, for example, may deduct only the first $10,000. Renting out that property for three months qualifies you for a deduction on 25% of property taxes paid, or $3,000, and you could separately deduct the other $9,000 in property taxes paid.

Rental property owners also get a break on making home improvements. Under tax reform, landlords may immediately deduct capital spending on equipment and machinery. Gone is the requirement to take the break over many years. If you install a new kitchen in a rental property, for instance, it's deductible all at once.

Becoming a landlord is fraught with issues beyond finances, chief among them: privacy. Letting others invade your personal space literally is no small decision and a very personal one. However, the economics of renting out a vacation home have changed, and you may want to reconsider your options.

In the era of Airbnb, deciding to rent a vacation home requires advice from a professional who understands the strategic tax and financial planning as well as your personal situation. Please give us a call if you have any questions. ●

Plan For Retirement

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precedence. For example, if you failed to reach your target for annual 401(k) contributions while one of you was out of the workforce, hiking contributions could help make up lost ground. Even though deferrals to a 401(k) are limited by law ($19,000 for 2019), once you turn 50 you're allowed to make extra annual catch–up contributions ($6,000 for 2019).

Approaching retirement: Once you're in the home stretch, don't hold back. Making maximum contributions to your 401(k) now only makes sense. This is also the time to review your overall financial situation with an eye toward retirement.

For instance, you can tweak plans for sustaining a comfortable retirement, based on the health status of your family, whether you'll be downsizing to a smaller home, the income tax ramifications of your investments, your retirement accounts, and your estate plan. Furthermore, you might consider adjusting your portfolio to emphasize asset protection as well as growth.

Now also would be a good time to get familiar with the rules for required minimum distributions (RMDs). Generally, you have to start taking RMDs from your 401(k) and IRAs after you turn age 70½.

Finally, think about other possible financial moves, such as converting some or all of your IRA funds into a Roth IRA, whose future payouts would be tax-free—you'll be taxed now on the amount you convert. Also try to prepare for current or future financial or health problems affecting your lives. Of course, family-related events such as divorces, weddings, births, and deaths also may have an impact on your retirement picture.

What's your stage right now? We can help develop a plan tailor-made for you and your family. ●

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