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Five Estate Planning Steps to Benefit Your Elders

Estate planning normally involves strategies to preserve wealth for a family's younger generation. But it may also involve elderly relatives—your parents and in-laws or maybe an aunt or an uncle—who could use your assistance. Indeed, this older generation might need your help even more than your offspring who are already making their way in the world.

Consider these five steps to help your older relatives.

1. Have "the talk." As difficult as it can be to sit down with a parent to talk about money and end-of-life decision-making, there's really no alternative to having a candid discussion of these sensitive matters. Your mom and dad may not like what you have to say, but if you start by really listening, giving them the opportunity to provide their point of view, it could launch a productive discussion. Try to address tough issues such as the possibility of relocating to an assisted-living facility or a nursing home, and don't be surprised if things get heated and emotional. Including other family members, such as your siblings, in this discussion will also be helpful, and whenever possible, have the family meetings in person rather than over the phone.

2. Create a contact list. You've probably already done this for yourself, but compiling all of the names, addresses, phone numbers, and email addresses of crucial contacts for your older relatives can be particularly important. These could include financial advisors, attorneys, accountants, insurance agents, physicians, and dentists. These days, creating a digital version of the list and storing it on multiple computers makes the most sense.

3. Gather financial information. Along with a contact list, information about the relative's financial affairs and investment holdings is also essential. You'll want to know about bank and investment accounts, 401(k) or other retirement plan accounts and IRAs, life insurance policies, etc. Note current balances, account numbers, passwords, and information on Social Security benefits. You may find out that your relative has more assets than you'd thought. Use this information to formulate a plan for the future.

4. Create the necessary documents. Once everyone agrees on how to move forward, you may need to complement a will or other existing legal documents with new ones. And those your relative has may need to be revised or updated. Such documents may include:

- A will: The centerpiece of an estate plan controls how most worldly possessions—a house, cars, jewelry—will be distributed. A will also specifies an executor of the estate. This

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COVID-19 Tax Break Suspends Required Minimum Distributions

Federal emergency aid legislation suspends required minimum distributions (RMD) for 2020. If you do not need the income from your IRA or retirement plan, here are tips to maximize the benefit and build your retirement income portfolio.

Background: Before 2020, individuals were required to take withdrawals annually from federally qualified retirement accounts at age 70½. After the SECURE Act was passed in 2019, the RMD age was changed to 72. The amount of your distribution is based on an actuarial calculation of life expectancy published by the IRS.

What's New. CARES Act, which became effective March 27, 2020, waives RMDs for 2020. If you don't need the distribution to pay expenses or debt, you may elect to skip your distribution for 2020.

Roll It Over. Rolling over the distribution into your plan defers the taxes and extends effectively tax-free compounding of a distribution that otherwise possibly could have been taxable income. But there is a better idea.

Roth It! Since you can waive your RMD this year, consider doing a Roth conversion. The Roth allows for tax free growth whereas a traditional IRA allows tax deferred growth.

In this period of social distancing, many individuals 65 and older are staying home and their expenses are lower than expected. Optimizing the 2020 waiver on RMDs from IRAs and qualified plans, such as 401(k)s, 403(b)s, and defined benefit (DB) plans, may require further planning. We welcome your questions about how to evaluate your personal situation.

Stay safe and healthy!

Jim Joseph, CFP®
President

Act by the End of 2020 for a Major Retirement Income Tax Break

A confluence of events has suddenly aligned to create a major tax planning opportunity for individuals who are currently taking IRS-mandated required minimum distributions (RMDs) from an individual retirement account or are about to start taking RMDs.

A provision of the CARES Act — the COVID crisis emergency aid law in effect since March 27, 2020 — lets you skip your required minimum distribution in 2020. Since many individuals of RMD-age (72 and above) have been remaining homebound during the COVID crisis and are spending less, skipping all or part of an RMD is easy and often makes sense over the long term. Skipping an RMD in 2020 would leave that money in the IRA to compound tax-deferred over a longer time period.

Here's where the unusual alignment of factors takes a special twist. Instead of skipping your 2020 RMD and simply leaving it in your retirement account , you can withdraw all or part of it, pay the income tax on the withdrawal amount, and use that amount to fund a tax-free Roth IRA!

Distributions taken as RMDs from pre-tax retirement accounts are always taxable whereas ddistributions from a Roth IRA are not taxable. Converting assets to a Roth IRA in this manner could provide tax-free income for years and, when you die, to your spouse and your IRA beneficiaries.

2020 could be a good year to convert assets fro a traditional pre-tax retirement account to a Roth IRA. Why? Because when you withdraw assets held in a traditional IRA or other qualified pre-tax retirement account, you will owe income tax on the withdrawals. The unusual confluence of events making it possible for you to live on a lower income during the COVID crisis creates this unique tax saving opportunity for long-term investors who act before December 31, 2020.

When stock prices dip and reach lows, selling stocks in your retirement account and converting the proceeds into a Roth IRA is an option. In addition to selling these stocks when they are relatively cheap, you would also be realizing the taxable income from the retirement account at a time when the COVID crisis has kept your expenses low.

The unusual events of 2020 creates the opportunity to skip your required minimum distribution and possibly converting it to a tax-free Roth IRA. This is a great topic to discuss with your tax advisor before year end. ●

Six Ways to Close the Retirement Gap

According to a recent article in *The Washington Post*, 71% of Americans aren't saving enough for retirement. If you're in this predicament, what can you do to close the gap? Here are six practical suggestions.

1. Bolster your 401(k). Much as it may pain you, try to allocate more of your paycheck to your 401(k) account or similar retirement plan. In addition, to supplement an employer-based plan, you might contribute to an IRA. The tax law allows generous contribution limits. Contributions grow and compound tax-deferred until you're ready to make withdrawals.

2. Invest wisely. If you can, investing additional money outside your retirement accounts can be very helpful. For taxable accounts, you want to be aware about taxable events. Taxes can put a drag on the portfolio if not taken into consideration. At FSA, we keep taxes in mind when trading in taxable accounts. Although if the market starts to take a turn for the worse and our FSA Safety Nets® are triggered, we will sell positions and head to safety.

3. Don't squander your tax refund. The IRS says that the average tax refund received in 2020 (for the 2019 tax year) was about $2,700. What did you do with your refund? Instead of spending most or all of it each year, you might plow part of it back into savings earmarked for your retirement years. This money, along with some of your periodic pay raises, can help you fund your 401(k), IRA, and taxable accounts.

4. Get your tax money faster. Of course, money that's refunded to you after you file your taxes was really yours all along, and adjusting your withholding can reduce the size of your interest-free loan to the government. For example, rather than getting a $5,200 refund, you could take home an additional $100 each week. It's easy to fill out a new W-4 for your employer.

5. Bank the raise. Salary increases may be needed to help you keep up

Pre-Retirees to Convert IRAs More Often

The tax burden of Americans was already among the lowest in the world, even before the tax cut that went into effect at the start of 2018. But the cost of Social Security, Medicare, and borrowing are likely to force the U.S. government to raise tax rates in the years ahead.

Analysis from the non-partisan Congressional Budget Office shows the interest on the U.S. debt will become unsustainable in the mid-2020s. Also, as the $24+ trillion U.S. debt continues to surge and interest owed on that debt accelerates, the risk of default increases.

As a result, if you're nearing retirement or already retired, this could be a good time to consider converting a traditional individual retirement account into a Roth IRA. However, there are plenty of assumptions to consider.

With a traditional individual retirement account, taxes on gains reinvested are deferred. An IRA grows with no taxes owed. When you retire, withdrawals are taxed as income.

A Roth IRA is different. You pay income tax up front, and Uncle Sam currently promises tax-free withdrawals when you're retired.

Inflation has been low for many years. While it is not expected to rise sharply, the real cost of the federal debt would be reduced if inflation rises.

Also, many surviving spouses don't realize that the income tax rates for a single person are higher than filing a joint tax return. For example, a couple with $170,000 of adjusted gross income is in the 24% bracket, but after one spouse dies, the survivor would fall into the 32% bracket.

Retired married couples generally have an advantage of converting a traditional IRA to a Roth account over those of a single taxpayer due to the lower tax brackets of a joint filer.

Coming up with the cash to pay the one-time conversion tax is not for everyone. Converting makes no sense unless you have cash on hand to pay the income tax on withdrawals from your traditional IRA. Withdrawing a larger amount to pay the taxes usually is a bad idea.

Tax-sensitive investing tactics like this could reduce a tax bill all throughout a surviving spouse's lifetime.

Your tax advisor can help you analyze the costs, benefits, and assumptions of a Roth conversion.

Please contact us with any questions about your personal situation. ●

with inflation. But to the extent you can, set aside some of your raise. Again, that could go to increase your 401(k) contributions. If you get a 3% raise, say, you might use a third of it to boost your salary deferral by a percentage point—maybe from 12% of your salary to 13%. Some of the money might also go to bolster the emergency fund that's there to tide you over if you have a big expense or lose your job. Year-end bonuses can be helpful in a similar way.

6. Reduce monthly expenses. Finally, don't assume that your monthly budget is fixed in stone. If you take time to examine how and where you're spending your money, you might find some expenses that could be pared back almost painlessly. Costs for cable television, mobile phones, and other electronics can be good candidates for reductions, and you might also be able to reduce dining expenses.

These odds and ends add up over time and can help you come from behind to achieve real retirement security. ●

Coronavirus Tax-Breaks for Individuals; Details Emerge from IRS

The new Coronavirus federal aid package, the CARES Act, expands options for distributions from IRAs and qualified retirement plans.

If you've been harmed by the pandemic and need income right now, the early withdrawal penalty on those under age 59½ is waived.

The maximum amount you can withdraw penalty-free is $100,000, but you still will be required to pay income taxes on the withdrawal. Fortunately, you have the option to spread out those tax payments over the next three years.

Another special rule to help those harmed during the Coronavirus pandemic expands your ability to take distributions from your IRA and loans from retirement plans. The amount you can borrow has been doubled from $50,000 to $100,000.

Taking a loan from a 401(k), 403(b), or other qualified retirement plan before you retire is an option, but is not highly recommended. Withdrawals that are never paid back are an even worse idea. It's a giant financial step backward. However, if you have no other choice, tapping your retirement savings under the new law requires careful planning and forethought. Planning to pay back a 401(k) loan requires special attention.

The favorable tax treatment is empowered under Section 2202 of the Coronavirus Aid Relief & Economic Security (CARES) Act on March 27, 2020. To qualify for a waiver of the early withdrawal penalty, according to the IRS, you must meet the following requirements:

- diagnosed with SARS-CoV-2 or COVID-19,
- spouse or dependent is diagnosed with SARS-CoV-2 or COVID-19,
- experienced adverse financial consequences as a result of being:
  - quarantined
  - furloughed
  - laid off or having work hours reduced
  - being unable to work due to lack of childcare
  - closing or reducing hours of a business owned or operated
  - other factors determined by the Secretary of the Treasury

This is a new tax law, and more IRS pronouncements are anticipated interpreting these special tax rules. Making an early withdrawal from an IRA or a loan from a retirement plan requires an analysis of your situation and proper planning. We are happy to work alongside with your tax advisor to accomplish your needs. ●

Steps to Benefit Your Elders

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might be you, another relative, or a professional you trust.

- Power of attorney: This document authorizes someone to act on behalf of the elderly person. The most common version is a durable power of attorney that will remain in effect if the person is incapacitated. This is a vital component of most estate plans.
- Living trust: A living trust can serve as a supplement to a will. The assets transferred to a living trust don't have to go through the probate process that may be required for possessions transferred through a will and that can be drawn out and expensive. In addition, assets in a living trust are shielded from public inspection.
- Living will/health care directives: These documents provide guidance for end-of-life decisions. You'll want to make sure your relative's doctors and others also have copies so they can act according to your loved one's wishes.

Finally, don't forget about beneficiary designations for retirement plans, IRAs, and life insurance policies—they supersede provisions in a will and are important to keep up to date.

5. Look for ways to minimize estate and gift taxes. Assets transferred to relatives or friends are shielded from federal estate and gift taxes both by unlimited marital deduction for gifts to spouses and a unified estate and gift tax exemption of $11.58 million in 2020, covering transfers to anyone who's not a spouse. Your older relative can also make yearly gifts of as much as $15,000 to multiple recipients.

Estate planning for an elderly relative will inevitably be intertwined with your own plan, so don't do things in a vacuum. Your professional financial advisor can steer you in the right direction. ●

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