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Will vs. Trust: Is One Better Than the Other?
Pretax, Roth, or After-Tax Contributions: Which Should You Choose?
Are You Ending 2016 Healthy, Wealthy, and Wise?
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Will vs. Trust: Is One Better Than the Other?

When it comes to planning your estate, you might be wondering whether you should use a will or a trust (or both). Understanding the similarities and the differences between these two important documents may help you decide which strategy is better for you.

What is a will?

A will is a legal document that lets you direct how your property will be dispersed (among other things) when you die. It becomes effective only after your death. It also allows you to name an estate executor as the legal representative who will carry out your wishes.

In many states, your will is the only legal way you can name a guardian for your minor children. Without a will, your property will be distributed according to the intestacy laws of your state. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next.

What is a trust?

A trust document establishes a legal relationship in which you, the grantor or trustor, set up the trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust most often used as part of a basic estate plan. "Revocable" means that you can make changes to the trust or even end (revoke) it at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs.

A living trust is created while you're living and takes effect immediately. You may transfer title or "ownership" of assets, such as a house, boat, automobile, jewelry, or investments, to the trust. You can add assets to the trust and remove assets thereafter.

How do they compare?

While both a will and a revocable living trust enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. Here are a few important ones.

- A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.
- In order to exclude assets from probate, you must transfer them to your revocable trust while you're living, which may be a costly, complicated, and tedious process.
- Unlike a will, a trust may be used to manage your financial affairs if you become incapacitated.
- If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.
- A trust can be used to manage and administer assets you leave to minor children or dependents after your death.
- In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

Which is appropriate for you?

The decision isn't necessarily an "either/or" situation. Even if you decide to use a living trust, you should also create a will to name an executor, name guardians for minor children, and provide for the distribution of any property that doesn't end up in your trust. There are costs and expenses associated with the creation and ongoing maintenance of these legal instruments.

Whether you incorporate a trust as part of your estate plan depends on a number of factors. Does your state offer an informal probate, which may be an expedited, less expensive process available for smaller estates? Generally, if you want your estate to pass privately, with little delay or oversight from a probate court, including a revocable living trust as part of your estate plan may be the answer.

Pretax, Roth, or After-Tax Contributions: Which Should You Choose?

When choosing between pretax and Roth contributions, the general rule is to consider whether you think you will benefit more from the tax break today than you would from a tax break in retirement. Specifically, if you think you'll be in a higher tax bracket in retirement, Roth contributions may be more beneficial in the long run.

Generally, non-Roth after-tax contributions should be considered after reaching the maximum contribution amount for pretax and Roth options.

Keep in mind that distributions of earnings on non-Roth after-tax contributions will be subject to regular income taxes and possibly penalty taxes if not rolled over to a traditional IRA. IRS Notice 2014-54 clarifies the rules regarding rollovers of non-Roth after-tax plan contributions to a Roth IRA.

For more information specific to your situation, consult a qualified tax professional. (Working with a tax or financial professional cannot guarantee financial success.)

If your employer-sponsored retirement savings plan allows pretax, after-tax, and/or Roth contributions, which should you choose?

Pretax: Tax benefits now

With pretax contributions, the money is deducted from your paycheck before taxes, which helps reduce your taxable income and the amount of taxes you pay now. Consider the following example, which is hypothetical and has been simplified for illustrative purposes.

Example(s): *Mark earns $2,000 every two weeks before taxes. If he contributes nothing to his retirement plan on a pretax basis, the amount of his pay that will be subject to income taxes would be the full $2,000. If he was in the 25% federal tax bracket, he would pay $500 in federal income taxes, reducing his take-home pay to $1,500. On the other hand, if he contributes 10% of his income to the plan on a pretax basis--or $200--he would reduce the amount of his taxable pay to $1,800. That would reduce the amount of taxes due to $450. After accounting for both federal taxes and his plan contribution, Mark's take-home pay would be $1,350. The bottom line? Mark would be able to invest $200 toward his future but reduce his take-home pay by just $150. That's the benefit of pretax contributions.*

In addition, any earnings made on pretax contributions grow on a tax-deferred basis. That means you don't have to pay taxes on any gains each year, as you would in a taxable investment account. However, those tax benefits won't go on forever. Any money withdrawn from a tax-deferred account is subject to ordinary income taxes, and if the withdrawal takes place prior to age 59½ (or in some cases, 55 or 50, depending on your plan's rules), you may be subject to an additional 10% penalty on the total amount of the distribution.

Roth: Tax benefits down the road

On the other hand, contributing to an employer-sponsored Roth account offers different benefits. Roth contributions are considered "after-tax," so you won't reduce the amount of current income subject to taxes. But qualified distributions down the road will be tax-*free.*

A qualified Roth distribution is one that occurs:

- After a five-year holding period and
- Upon death, disability, or reaching age 59½

Nonqualified distributions are subject to regular income taxes and a possible 10% penalty tax. However, because Roth contributions are made with after-tax dollars, a distinction is made between the portion of the distribution that represents contributions versus earnings on those contributions. If at some point you need to take a nonqualified withdrawal from a Roth 401(k)--due to an unexpected emergency, for example--only the proportion of the total amount representing earnings will be taxable.

Example(s): *In order to meet an unexpected financial need of $8,000, Tina decides to take a nonqualified hardship distribution from her Roth 401(k) account. Of the $20,000 total value of the account, $18,400 represents after-tax Roth contributions and $1,600 is attributed to investment earnings. Because earnings represent 8% of the total account value ($1,600 ÷ $20,000 = 0.08), this same proportion of Tina's $8,000 distribution--or $640 ($8,000 x .08)--will be considered earnings subject to both income taxes and a 10% penalty tax.*

However, keep in mind that tapping your account before retirement defeats its purpose. If you need money in a pinch, try to exhaust all other possibilities before taking a distribution. Always bear in mind that the most important benefit of a Roth account is the opportunity to build a nest egg of tax-free income for retirement.

After-tax: For those who are able to exceed the limits

Some plans allow participants to make additional after-tax contributions. This plan feature helps those who want to make contributions exceeding the annual total limit on pretax and Roth accounts (in 2016, the limit is $18,000; $24,000 for those age 50 or older). As with a traditional pretax account, earnings on after-tax contributions grow on a tax-deferred basis.

If this option is offered (check your plan documents), keep in mind that total employee and employer contributions cannot exceed $53,000, or $59,000 for those 50 and older (2016 limits).

Another benefit of making after-tax contributions is that when you leave your job or retire, they can be rolled over tax-free to a Roth IRA, which also allows for potential tax-free growth from that point forward. Some higher-income individuals may welcome this potential benefit if their income affects their ability to directly fund a Roth IRA.[1]

[1] In addition to rolling the proceeds to a Roth IRA, participants may also (1) leave the assets in the original plan, (2) transfer assets to a new employer's plan, or (3) withdraw the funds (which in some cases could trigger a taxable event).

Are You Ending 2016 Healthy, Wealthy, and Wise?

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Although the year is drawing to a close, you still have time to review your finances. Pausing to reflect on the financial progress you made in 2016 and identifying adjustments for 2017 can help you start the new year stronger than ever.

How healthy are your finances?

Think of a year-end review as an annual physical for your money. Here are some questions to ask that will help assess your financial fitness.

- Do you know how you spent your money in 2016? Did you make any progress toward your financial goals? Look for spending habits (such as eating out too much) that need tweaking, and make necessary adjustments to your budget.
- Are you comfortable with the amount of debt that you have? Any end-of-year mortgage, credit card, and loan statements will spell out the amount of debt you still owe and how much you've been able to pay off this year.
- How is your credit? Having a positive credit history may help you get better interest rates when you apply for credit, potentially saving you money over the long term. Check your credit report at least once a year by requesting your free annual copy through the federally authorized website annualcreditreport.com.
- Do you have an emergency savings account? Generally, you should aim to set aside at least three to six months' worth of living expenses. Having this money can help you avoid piling up more credit-card debt or shortchanging your retirement or college savings because of an unexpected event such as job loss or illness.
- Do you have an adequate amount of insurance? Your insurance needs may change over time, so it's a good idea to review your coverage at least once a year to make sure it still meets your needs.

How wealthy are you really?

It's easy to put your retirement savings on autopilot, especially if you're making automatic contributions to a retirement account. But market swings this year may have affected your retirement account balances, so review any statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relation to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions*?

Finally, look for ways to save more. For example, if you receive a pay increase this year, don't overlook the opportunity to increase your employer-sponsored retirement plan contributions. Ask your employer to set aside a higher percentage of your salary.

How wise are you about financial matters?

What you don't know can hurt you, so it's time to honestly assess your financial picture. Taking into account your income, savings and investments, and debt load, did your finances improve this year? If not, what can you do differently in 2017?

What are your greatest financial concerns? Do you have certain life events coming up that you need to prepare for, such as marriage, buying a home, or sending your child off to college? You can't know everything, so don't put off asking for assistance. It's a wise move that can help you prepare for next year's financial challenges.

Year-End Financial Checklist	
✓	Review your benefits during your employer's open enrollment season, and make any necessary changes before your employer's deadline.
✓	Use up any contributions to your flexible spending account (FSA) before the use-it-or-lose-it deadline (this may be the end of the year–check with your employer).
✓	Update estate planning documents such as wills, trusts, and health-care directives to account for life changes.
✓	Review and update beneficiaries for your financial accounts and insurance policies.
✓	Make year-end donations to charity. If you itemize, these may help reduce your taxable income for 2016.*
✓	Consider gifts to family members. For 2016, you may give up to $14,000 to each individual without owing gift taxes.*
✓	Begin organizing your financial records for tax time.
✓	Check your Social Security Statement at ssa.gov to find out about future benefits.
	*Talk to a tax professional for help with your individual situation.

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Do I need to make any changes to my Medicare coverage for next year?

During the Medicare Open Enrollment Period that runs from October 15 through December 7, you can make changes to your Medicare coverage that will be effective on January 1, 2017. If you're satisfied with your current coverage, you don't need to make changes, but you should review your options before you decide to stay with your current plan.

Your Medicare plan sends two important documents every year that you should review. The first, called the Evidence of Coverage, provides information about what your plan covers and its cost. The second, called the Annual Notice of Change, lists changes to your plan for the upcoming year that will take effect in January. You can use these documents to evaluate your current plan and decide whether you need different coverage. You should also review the official government handbook, *Medicare & You 2017,* which is available electronically or through the mail. It contains detailed information about Medicare that should help you determine whether your current plan is right for you.

As you review your coverage, here are a few points to consider:

- What were your health costs during the past year, and what did you spend the most on?
- Will your current plan cover all the services you need and the health-care providers you need to see next year?
- Does your current plan cost more or less than other options? Consider premiums, deductibles, and other out-of-pocket costs such as copayments or coinsurance costs; are any of these costs changing?
- Do you need to join a Medicare prescription drug plan? When comparing plans, consider the cost of drugs under each plan, and make sure the drugs you take will still be covered next year.

If you have questions about Medicare, you can call 1-800-MEDICARE or visit the Medicare website at medicare.gov. You can use the site's Medicare Plan Finder to see what plans are available in your area and check each plan's overall quality rating.

What changes can I make during this year's Medicare Open Enrollment Period?

Each year, current Medicare beneficiaries can make changes to their Medicare coverage for the following year during the Medicare Open Enrollment Period that starts on October 15 and runs through December 7. Because this period is the only time during the year that *all* people with Medicare can make changes to their health and prescription drug plans for the following year, you should carefully consider your options. During this annual enrollment period, you can:

- Change from Original Medicare to a Medicare Advantage Plan
- Change from a Medicare Advantage Plan back to Original Medicare
- Switch from one Medicare Advantage Plan to another Medicare Advantage Plan
- Switch from a Medicare Advantage Plan that doesn't offer prescription drug coverage to a Medicare Advantage Plan that does offer it
- Switch from a Medicare Advantage Plan that offers prescription drug coverage to a Medicare Advantage Plan that doesn't
- Enroll in a Medicare Part D prescription drug plan if you didn't enroll when you were first eligible (a late enrollment penalty may apply)
- Switch from one Medicare Part D prescription drug plan to another
- Drop Medicare prescription drug coverage

Your new coverage, or changes to your existing coverage for the new year, will take effect on January 1.

If you're currently in (or join) a Medicare Advantage Plan, you have another opportunity to leave your plan and switch to Original Medicare (with or without a Part D prescription drug plan) during the Medicare Advantage Disenrollment Period that occurs every year from January 1 to February 14. However, if you have Original Medicare you cannot make any changes during this period. In certain circumstances, if you're enrolled in a Medicare Advantage Plan or Part D prescription drug plan, you may also qualify to make changes during Special Enrollment Periods. Visit medicare.gov for more information.

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Internet Participation Rates

Pretty much everybody has access to the Internet. Don't they? The actual global median of all countries is 67% of citizens, but access is not evenly distributed. In the U.S., 89% of adults use the Internet at least occasionally, according to the Pew Research Center. Only South Korea (94%), Australia (93%) and Canada (90%) report higher figures, and the UK (88%), Spain (87%), Israel (86%) and Germany (85%) are comparable.

Internet access is much lower in places like Ethiopia (just 8% of adults accessing the Internet), Uganda (11%), Pakistan (15%), and even India (22%), Mexico (54%) and China (65%) are surprisingly low. Russia, at 72%, actually ranks as one of the world's leaders, although Internet access is not yet ubiquitous as it is in the more developed nations.

The research found, as you might expect, a very strong correlation between country wealth (as measured by per-capita GDP) and internet access. A separate part of the study shows that some of the world's poorer countries are rapidly increasing their internet usage. In Turkey, Jordan, Malaysia, Chile and Brazil, the percentage of adults using the internet increased by double digits from 2013 to 2015.

And not surprisingly, the study found that everywhere they looked, younger people age 18-34 were more likely than people over age 35 to say they use the internet or own a smartphone. Some things are consistent across cultures.

<u>Source:</u>

- http://www.pewglobal.org/2016/02/22/internet-access-growing-worldwide-but-remains-higher-in-advanced-economies/#younger-more-educated-and-higher-income-people-everywhere-have-greater-access-to-the-web

<u>Source:</u>

- http://www.marketwatch.com/story/how-couples-can-make-smart-retirement-decisions-together-2016-03-28

Structural Struggle

Why has the American economy grown so slowly since the Great Recession? This year, GDP growth will fall somewhere in the 1.5% to 1.8% range, below the 3% growth rate that is considered a sign of robust economic health. Critics have blamed everything from China's slowdown to globally outsourced manufacturing to fiscal fights in Washington. But new research from economists at the Federal Reserve Board points to a different—and much simpler—explanation.

The researchers started with a demographic prediction model. The model recognizes that the economy was destined to grow rapidly when the workforce is heavily weighted toward young accumulators, as it was in the 1960s and 1970s when the Baby Boom generation entered the workforce. The good times continued as the labor force matured and the Boomers reached a high consumption stage of their lives.

But then the Fed economists asked: what happens when the Baby Boomers start to retire, as they did starting in 2005, and in increasing numbers since? The boomer generation had fewer children than their parents did, so the research shows that as the workforce aged and retired, there were fewer people in the workforce. Economic output inevitably declined, no matter what happened in China or the manufacturing sector.

Over the past decade, the research shows that what economists call "capital"—machines, factories, roads, buildings, etc.—has become abundant compared to labor, which has depressed the return that investors receive for investing in capital. This doesn't just mean slower economic growth; it also leads to a decline in interest rates. This helps explain why interest rates rose in the 1960s and 1970s, and have gradually declined in the subsequent decades.

Their conclusion? The U.S.—alongside many other developed nations—is experiencing a decline in workers compared with retirees, which happens to coincide with the lingering effects of the financial crisis. The power of demography is like the tide; don't blame the government or the Fed for not intervening, because they don't have the power to overcome the shortage of workers.

Sources:

- http://www.federalreserve.gov/econresdata/feds/2016/files/2016080pap.pdf
- https://www.washingtonpost.com/news/wonk/wp/2016/10/07/theres-a-devastatingly-simple-explanation-for-americas-economic-mess/?tid=sm_tw

Buying A Credit Score on the Cheap

Your kids graduate from college and face an immediate dilemma: they have no credit history, which makes it harder for them to rent an apartment or get a credit card. Is there a way the parents can help them without risking their own credit score?

An article on the website Nerdwallet suggests a solution that will cost just $200. You encourage your child to open a secured credit card, whose credit limit is equal to a deposit that can be as low as $200. You make the deposit on his/her behalf, and presto! The cardholder is now able to make small purchases, pay back into the account, and establish a credit score in about six months. And the transactions weigh more heavily in credit scoring when the adult child is a primary user, rather than an authorized user on the parent's credit card. An added advantage: the child receives his/her own separate bill, and becomes accustomed to paying on time.

Credit experts advise that the child hold spending to 30% or less of the credit limit—which basically means putting no more than $60 on the credit card, and then paying that amount back. Parents can spring for a higher deposit if they think the adult child will be responsible for making higher payments.

Make sure the new credit card holder understands the interest rates, minimum payment and due date on the statements, and help adult children calculate how long it would take to pay off the balance making only minimum payments. Eventually, once the adult child has learned good credit card habits by using a card with training wheels, he or she can transition to an unsecured credit card. At that point, the secured card can be closed and your deposit returned.

<u>Source:</u>

- https://www.nerdwallet.com/blog/finance/buy-your-kid-good-credit-score/

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Global Debt Overhang

You haven't heard much about the U.S. government's debt, in part because, as a percentage of the economy, the growth of our national debt has slowed dramatically. But measured on a global scale, the world's $152 trillion of debt—from consumers, corporations and governments worldwide—is more than double the balance at the start of the century, which worries the International Monetary Fund. That total represents 225% of gross domestic product around the world.

Government debt only accounts for about one-third of the total, and not all countries are contributing their share the total debt burden. The most recent IMF report singles out China as a country at risk of a disorderly wind-down of high debt levels among its corporations, and shows that emerging market economies, with greater access to credit, are among the fastest-growing global debtors.

Why worry? The report suggests that high private debt levels can increase the likelihood of a new financial crisis, which can lead to negative economic growth and another debt spiral. Meanwhile, highly-indebted borrowers are likely to reduce their investment and consumption, dragging down economic growth.

The report doesn't offer any policy prescriptions, except that the world needs to start digging out slowly and carefully, so as not to trigger a global recession, and in years when the economy is growing, there needs to be a policy that pays down debt—both by governments and the companies and individuals that have a little more money in their pockets.

Sources:
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