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Ten Year-End Tax Tips for 2017

Five Myths About Group Disability Insurance

How much money should a family borrow for college?

How can families trim college costs?

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What You Can Do with a Will

A will is often the cornerstone of an estate plan. Here are five things you can do with a will.

Distribute property as you wish

Wills enable you to leave your property at your death to a surviving spouse, a child, other relatives, friends, a trust, a charity, or anyone you choose. There are some limits, however, on how you can distribute property using a will. For instance, your spouse may have certain rights with respect to your property, regardless of the provisions of your will.

Transfers through your will take the form of specific bequests (e.g., an heirloom, jewelry, furniture, or cash), general bequests (e.g., a percentage of your property), or a residuary bequest of what's left after your other transfers. It is generally a good practice to name backup beneficiaries just in case they are needed.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property in which you have already named a beneficiary passes to the beneficiary (e.g., life insurance, pension plans, IRAs).

Nominate a guardian for your minor children

In many states, a will is your only means of stating who you want to act as legal guardian for your minor children if you die. You can name a personal guardian, who takes personal custody of the children, and a property guardian, who manages the children's assets. This can be the same person or different people. The probate court has final approval, but courts will usually approve your choice of guardian unless there are compelling reasons not to.

Nominate an executor

A will allows you to designate a person as your executor to act as your legal representative after your death. An executor carries out many estate settlement tasks, including locating your will, collecting your assets, paying legitimate creditor claims, paying any taxes owed by your estate, and distributing any remaining assets to your beneficiaries. As with naming a guardian, the probate court has final approval but will usually approve whomever you nominate.

Specify how to pay estate taxes and other expenses

The way in which estate taxes and other expenses are divided among your heirs is generally determined by state law unless you direct otherwise in your will. To ensure that the specific bequests you make to your beneficiaries are not reduced by taxes and other expenses, you can provide in your will that these costs be paid from your residuary estate. Or, you can specify which assets should be used or sold to pay these costs.

Create a testamentary trust or fund a living trust

You can create a trust in your will, known as a testamentary trust, that comes into being when your will is probated. Your will sets out the terms of the trust, such as who the trustee is, who the beneficiaries are, how the trust is funded, how the distributions should be made, and when the trust terminates. This can be especially important if you have a spouse or minor children who are unable to manage assets or property themselves.

A living trust is a trust that you create during your lifetime. If you have a living trust, your will can transfer any assets that were not transferred to the trust while you were alive. This is known as a pourover will because the will "pours over" your estate to your living trust.

Caveat

Generally, a will is a written document that must be executed with appropriate formalities. These may include, for example, signing the document in front of at least two witnesses. Though it is not a legal requirement, a will should generally be drafted by an attorney.

There may be costs or expenses involved with the creation of a will or trust, the probate of a will, and the operation of a trust.

See disclaimer on final page

Ten Year-End Tax Tips for 2017

Deductions may be limited for those with high incomes

If your adjusted gross income (AGI) is more than $261,500 ($313,800 if married filing jointly, $156,900 if married filing separately, $287,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2017 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

IRA and retirement plan contributions

For 2017, you can contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2017 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2017 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2018, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2018, could make a difference on your 2017 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2017, prepaying 2018 state and local taxes probably won't help your 2017 tax situation, but could hurt your 2018 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2017 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately, $200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.

Five Myths About Group Disability Insurance

[1] Social Security Administration, The Facts About Social Security's Disability Program, SSA Publication No. 05-10570, January 2017

[2] Beyond the Numbers: Pay and Benefits, vol. 4, no. 4 (U.S. Bureau of Labor Statistics, February 2015)

[3] Council for Disability Awareness, The Average Duration of Long-Term Disability Is 31.2 Months. Are You Prepared? January 18, 2016

You may think that the chances of becoming disabled during your working years are slight, and even if you did get hurt or had to miss time at work, you could get by because you have group disability insurance. Unfortunately, you may be in for a big surprise. Here are some myths and misunderstandings about group disability insurance.

Myth 1: It won't happen to me.

You're not really worried about your group disability insurance coverage because you're sure you won't suffer a disability. In fact, your chances of being disabled for longer than three months are much greater than you may realize. Even the healthiest and ablest can become disabled. According to the Social Security Administration, one in five Americans lives with a disability, and more than one in four 20-year-olds becomes disabled before reaching retirement age.[1] So maybe you could miss work for an extended period of time due to a disability. But you have group disability insurance to cover all your income, right?

Myth 2: I work for a good employer, so I'm sure it provides disability insurance.

Well, you better get something in writing confirming that you're covered under your employer-sponsored group disability insurance. According to the Bureau of Labor Statistics, 39% of private industry workers took part in employer-sponsored short-term disability insurance, and 33% were covered by group long-term disability insurance. Workers in service occupations, such as waiters/waitresses, hair stylists, and dental hygienists have the lowest access rates, about 20% for short-term disability insurance and only about 10% for long-term group coverage. On the other hand, 54% of workers in management, professional, and related occupations have access to short-term disability coverage, and 59% are covered by long-term group disability insurance.[2]

Myth 3: Group disability insurance will replace my income.

Actually, group disability insurance replaces some of your income — typically about 60% of income if you become disabled and can't work. And most coverage has a monthly income cap of roughly $5,000 to $8,000, which may be less than 60% of your income. Also, the income used to calculate your disability insurance benefit usually applies only to your base salary and doesn't include bonuses and commissions.

Myth 4: I won't be taxed on my disability insurance benefits.

You won't be taxed on your disability insurance benefits if premiums are paid from your income with after-tax dollars. However, most employers pay the premium for group policies, which means any benefits you receive are likely taxable to you as ordinary income.

Myth 5: As long as I'm with the company, I'll have coverage.

Generally, group disability insurance is a voluntary benefit offered by the employer, which is under no compulsion to maintain coverage or pay for its cost. The employer can switch plans to a policy that doesn't offer the same coverage options, or the employer can stop offering coverage altogether. Sometimes, if the company has an unusually high number of expensive disability claims, the insurer may exercise its right to significantly increase the premium or terminate the coverage.

Okay, so what are my options?

First, verify with your employer that you do, in fact, have group disability insurance coverage. Then review your plan to see how much income it actually would pay. Also, understand the group policy's definition of disability. Not every injury or illness that causes you to miss work may be covered.

Once you know how much you'd receive from the disability insurance, estimate whether it would be enough to cover your monthly expenses. If there's a shortfall, do you have other sources of income (e.g., investment income, spouse's income) to cover the difference, or would you have to access your savings? If you'll be using savings to supplement your disability income, you'll want to gauge how long your savings will last. The average duration of long-term disability is 31.2 months.[3]

You could consider purchasing supplemental disability coverage to help pay for some of your lost income not covered by your group disability policy. For instance, if your group plan pays 60% of your salary, a supplemental disability plan may increase your total benefit to 80% of your income. In any case, disability income policies contain certain exclusions, waiting periods, reductions, limitations, and terms for keeping them in force. Individual disability income insurance policies provide disability income insurance only. They do NOT provide basic hospital, basic medical, or major medical insurance.

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How much money should a family borrow for college?

There is no magic formula to determine how much you or your child should borrow to pay for college. But there is such a thing as borrowing too much. How much is too much? Well, one guideline for students is to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned by taking out larger mortgages than they could afford (even though lenders may have told them they were qualified for that amount), students can get burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years or longer. A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car payments come into play? What if a borrower steps out of the workforce for an extended period to care for children and isn't earning an income? There are many variables, and every student's situation is different. Of course, a loan deferment is available in certain situations, but postponing payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently $27,000 for four years of college. Over a 10-year term with a 4.45% interest rate (the current 2017/2018 rate on federal student loans), this equals a $279 monthly payment. Borrow more by adding in co-signed private loans, and the monthly payment will jump: $40,000 in loans (at the same interest rate) equals a monthly payment of $414, while $60,000 in loans will result in a $620 monthly payment. Before borrowing, students should know *exactly* what their monthly payment will be.

As for families, there is no one-size-fits-all rule on how much to borrow. Many factors come into play including, but not limited to, the number of children in the family, total household income and assets, and current and projected retirement savings.

How can families trim college costs?

Trimming college costs up front can help families avoid excessive college borrowing and the burdensome student loan payments that come with it. Here are some ideas.

1. Pick a college with a lower net price. You can use a college's net price calculator (available on every college's website) to estimate what your net price (out-of-pocket cost) will be at individual colleges. A net price calculator does this by estimating how much grant aid a student is likely to receive based on a family's financial and personal information. Colleges differ on their aid generosity, so after entering identical information in different calculators, you may find that College A's net price is $35,000 per year while College B's net price is $22,000. By establishing an ideal net price range, your child can target schools that hit your affordable zone.

2. Investigate in-state universities. Research in-state options and encourage your child to apply to at least one in-state school. In-state schools generally offer the lowest *sticker* price (though not necessarily the lowest *net* price) and may offer scholarships to state residents.

3. Research colleges that offer generous merit aid. All colleges are not created equal in terms of how much institutional aid they offer. Spend time researching colleges that offer generous merit aid to students whose academic profile your child matches.

4. Graduate early. Earn college credit in high school by taking AP/IB classes and then graduate a semester or two early. Or look at colleges that specifically offer three-year accelerated degree programs.

5. Seek out free room and board. There are two ways to do this: The first is to live at home (though transportation costs might eat into your savings), and the second way is to become a resident assistant (RA) on campus, a job that typically offers free room and board.

6. Work during college. Working during college and contributing modest amounts to tuition along the way — say $1,500 to $3,000 a year — can help students avoid another $6,000 to $12,000 in loans.

7. Combine traditional and online courses. Does the college offer online classes? If so, you may be able to earn some credits at a lower cost over the summer or during breaks.

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Common Estate Planning Mistakes

The most common way to transfer assets to your heirs is also the messiest: to have a will that is so out of date that it doesn't relate to your property or estate, to have your records scattered all over the place, to have social media, banking and email accounts whose passwords only you can find—and basically to leave a big mess for others to clean up.

Is there a better way?

Recently, a group of estate planning experts were asked for their advice on a better process to handle the transfer of assets at your death, and to articulate common mistakes. The list of mistakes included the following:

Not regularly reviewing documents. What might have been a solid plan 15 or 20 years ago may not relate to your estate today. The experts recommended a full review every three to five years, to ensure that trustees, executors, guardians, beneficiaries and healthcare agents are all up-to-date. You might also consider creating a master document which lists all your social media and online accounts and passwords, so that your heirs can access them and close them down.

Using a will instead of a revocable trust. This relates mostly to people who want to protect their privacy. When assets pass to heirs via a will, the transfer creates a record that anybody can access and read. A revocable trust can be titled in your name, and you can control the assets as you would with outright ownership, but the assets simply pass to your designated successor upon death.

Failing to fund the revocable trust. You've set up the trust, but now you and your team of professionals have to transfer title to your properties out of your name and into the trust, with you as the trustee. If you forget to do this, then the entire purpose of the trust is wasted.

Having assets titled in a way that conflicts with the will or trust. You should always pay close attention to the beneficiary designations, because they—not your will—determine who will receive your IRA assets. Meanwhile, assets (like a home) owned in joint tenancy with rights of survivorship will pass directly to the surviving joint tenant, no matter what the will or trust happens to say.

Not using the annual gift exemption. People can gift $14,000 a year tax-free to heirs without affecting the value of their $5.49 million lifetime gift exemption. That means a husband and wife with four children could theoretically gift the kids $112,000 a year tax-free. That can reduce the size of a large estate potentially below the gift exemption threshold, and in states where there is an estate tax, it can help there as well.

Not understanding the generation-skipping transfer tax. A husband and wife can each leave estate values of $5.49 million to any combination of individuals. But if there's anything left over, there's a 40% federal estate tax on those additional assets left to heirs in the next generation (the children), and an additional 40% on assets left to the generation after that (the grandchildren). Better to transfer $5.49 million out of the estate before death (tax-free, since this fills up the lifetime gift exemption) into a dynastic trust for the benefit of the grandchildren. You can also transfer that annual $14,000 to grandchildren.

Not taking action because of the possibility of estate tax repeal. Yes, the Republican leadership in Congress includes, on its wish list, the total repeal of those estate taxes. But what if there's no action, or a compromise scuttles the estate tax provisions at the last minute? Federal wealth transfer taxes have been enacted and repealed three times in U.S. history, so there's no reason to imagine that even if there is a repeal, the repeal will last forever. Meanwhile, dynastic trusts and other estate planning tactics provide tangible benefits even without the tax savings, including protecting assets from lawsuits and claims.

Leaving too much, too soon, to younger heirs. Nothing can harm emerging adult values quite like realizing, as they start their productive careers, that they actually never need to work a day in their lives. The alternative? Create a trust controlled by a trusted family member or a corporate trust company until the beneficiaries reach a more mature stage of their lives, perhaps 30-35 years old.

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How Do You Stop Yourself From Overspending?

The urge to splurge is one of the toughest challenges to a monthly budget, and leads to unhappy encounters with the credit card statement. But psychologists say there are solutions for the chronic overspender.

The first thing to understand is that overspending is viewed as a way to boost our self-esteem or overcome sadness—and if you consider it rationally, an extra pair of boots or a stylish pair of wireless headphones is not likely to provide that comfort for more than a minute or two.

So, before you buy, create some space between the spending impulse and the action by asking yourself how you're feeling. Bored? Sad? Irritated about something at work?

That gets you closer to understanding the nature of the urge. Then ask yourself: do you really need whatever you're holding n your hand? If the answer is not an immediate yes, then put it back on the shelf. What if you wait? Is there any risk to waiting a day or two to make sure it's a good buy?

Finally, an overspender can ask: how will I pay for it? Is this item in my monthly spending budget? Do I even have a place to put it? Often the urge to spend will pass after a few minutes, and might go away altogether for people who pass a 24-hour rule for purchases: if you still feel like you need it, you'll come back tomorrow and get it.

This won't cure the urges, but it might cure the most destructive consequences of them.

Source:

- https://www.nerdwallet.com/article/crush-impulse-buying-with-these-4-jedi-mind-tricks?utm_campaign=ct_prod&utm_source=syndication&utm_medium=wire&utm_term=lizlizweston-com&utm_content=448090

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The Economic Myth-Destroyer Gets His Due

Imagine a person who always, in every circumstance, makes rational decisions with his money. He saves when he ought to and spends exactly as he should spend, in order to maximize the "utility" of whatever wealth he happens to possess. He defers gratification with ease. When he invests, he has instant and total access to all possible information related to every item in his, including the details of every company's financials and any impactful world events, even if they haven't reached the news media yet. If he found a $100 bill on the sidewalk, he would immediately go out and invest it in a steel mill.

Most of us have never met a person like that, but this is how most economists, when they build their models, assume that normal humans behave. All of us—and especially professional financial planners—know that these assumptions are far from what we see in the real world, which makes us question whatever economists tell us about group behavior like the financial and economic markets, laws and regulation, or what consumers will do next.

All of this is why a silent cheer went up around the professional investing world when University of Chicago economist Richard Thaler was awarded the 2017 Nobel Prize in Economics by the Royal Swedish Academy of Sciences. Thaler spent his entire career exploring the differences between these unrealistically idealized economic assumptions and actual human behavior. He demonstrated that people take mental short-cuts—called "heuristics"—when they make what they believe to be logical decisions. He showed that in the real world, their decisions are often impulsive, and self-control is more of an aspiration than a reality.

Thaler also developed a theory of "mental accounting," which explained how people make financial decisions by creating separate accounts in their minds—one for college funding, say, and another for retirement, and still another for vacations or a new car. He explored those mental short-cuts and found that people tend to expect more in the future of what they've recently experienced (recency bias) and uncomfortably often they believe themselves to have more knowledge about their decisions than they actually do.

An experiment with a lost ticket uncovered the "sunk cost" effect. Thaler found that if people purchased a $100 opera ticket and lost it on the way to the show, they would be unlikely to buy another ticket, reasoning that $200 was too much to pay. But if we were perfectly logical, the only choice upon approaching the ticket counter should be whether it was actually worth $100 to hear the opera, and we had already made that decision when we bought the first ticket.

This is actually the second time that the Nobel Prize in Economics has been awarded to behavioral theorists who strayed from the economic party line. Daniel Kahneman won the prize in 2002 for his work with fellow psychologist Amos Tversky on human behavioral biases and systematic irrational behaviors.

In the models that economists produced out of their assumptions of perfectly rational, all-knowing investors and consumers, we could never have market bubbles or market crashes, since every market price is right and fair at every moment. In that strange world, nobody would ever pay more than anybody else for a product or service. Thaler's prize—and Kahneman's before him—suggest that the world of economics is starting to catch on to the messy decision-making that really goes on in the real world.

Source:

- https://www.washingtonpost.com/news/wonk/wp/2017/10/09/richard-thaler-won-the-nobel-prize-for-making-economics-more-human-and-more-real/?tid=sm_tw&utm_term=.492f43ca28d1