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FIRE: Four Things You Need to Know About This Hot Retirement Movement

Estate Planning: Consider the Tax Basis of Gifted or Inherited Property

What can I do with old or unwanted gift cards?

What are the new HRA options that will be available to employers in 2020?

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What to Do After the Death of a Loved One

Losing a loved one can be a difficult experience. Despite the emotional trauma involved, you may also be responsible for handling a variety of financial, legal, and administrative tasks. You may find yourself unsure of where to begin and what to do.

However, do not be hasty when settling your loved one's estate. Important decisions need to be made regarding distributions, which must be made in compliance with the will and applicable laws. Seek an experienced estate planning professional for advice. The following suggestions may provide a roadmap to help you navigate through the process.

Initial tasks

Note: *Some of the following tasks may have to be completed by the estate's personal representative.*

- Upon the death of your loved one, call close family members, friends, and clergy first because you'll need their emotional support.
- Arrange the funeral, burial or cremation, and memorial service. Hopefully, your loved one will have made arrangements ahead of time. Then notify family and friends of the final arrangements and place an obituary in the local paper (often the funeral home will handle this for you).
- Obtain certified copies of the death certificate (again, the funeral home should be able to get copies for you).
- Find and review your family member's finances, and look for relevant documents such as a will and trusts, deeds and titles to motor vehicles.
- Report the death to Social Security. If your loved one was receiving benefits via direct deposit, request that the bank return funds received for the month of death and thereafter to Social Security. Do not cash any Social Security checks received by mail. Return all checks to Social Security as soon as possible.
- Make a list of assets and debts. Be on the lookout for pension plans, IRA, 401(k), and other retirement plans owned by the deceased, as well as life insurance policies, bank accounts, and investments. Notify those named as beneficiaries of assets such as life insurance and retirement plans.
- Make sure mortgage and insurance payments continue to be made while the estate is being settled.
- Contact all credit card companies and let them know of the death. Cancel all cards unless you're named on the account and wish to retain the card.

Within 1 to 3 months of death

- File the will with the appropriate probate court. If real estate was owned out of state, file ancillary probate in that state. If there is no will, contact the probate court for instructions or contact a probate attorney for assistance.
- Notify creditors by mail and by placing a notice in the newspaper. Claims must be made within the statute of limitations, which varies from state to state (30 days from actual notice is common). Insist on proof of all claims. Notify heirs named in the will. Often, the probate process will require formal notification to heirs and others named in the will.

Within 6 to 9 months of death

- Federal and/or state estate tax return(s) may need to be filed, usually within nine months of death, although state laws may vary.
- Also, federal and state income taxes are due for the year of death on the normal filing date, unless an extension is requested. If there are trusts, separate income tax returns may be necessary.
- Update your own estate plan if your loved one was a beneficiary or appointed as an agent, trustee, or guardian.

See disclaimer on final page

FIRE: Four Things You Need to Know About This Hot Retirement Movement

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

Although there is no assurance that working with a financial professional will improve investment results, doing so can help you focus on your overall financial objectives, identify sound strategies, and consider opportunities that could have a substantial effect on your long-term financial situation.

Many workers look forward to the day they can finally retire, and for some, an early retirement would be a dream come true. Others are turning this dream into a reality by retiring in their 30s or 40s. But how are they able to do it?

A hot retirement trend called Financial Independence, Retire Early (FIRE) has gained momentum among younger workers who are taking steps to leave traditional career paths and enjoy an early retirement. While an early retirement sounds ideal, it requires careful planning, savvy saving and investing habits, and potentially big sacrifices.

1. FIRE means implementing an aggressive retirement plan

The goal of FIRE is to save and invest aggressively so that retirement is possible at a younger age — even decades earlier than the traditional retirement age. Individuals who pursue FIRE aim to increase their income as well as keep expenses extremely low. The higher an individual's income is and the lower his or her expenses are, the faster that person may be able to accomplish FIRE. Typically, the following steps are part of the process.

- **Calculating estimated retirement expenses.** A general guideline of FIRE is to save 25 times the annual amount the individual will spend in retirement. This number comes from the 4% rule, which suggests an annual withdrawal rate of 4% from an individual's savings. It sounds simple, but this formula doesn't account for a number of different factors, such as existing debt and inflation.
- **Cutting expenses.** This often means making major lifestyle changes. Some FIRE followers give up owning a car or move to an area with a lower cost of living. Others practice a number of frugal habits, such as cooking at home instead of dining out, shopping at discount stores, and cutting cable and mobile phone services.
- **Saving and investing wisely.** FIRE followers carefully monitor their portfolios and update them periodically. They might also increase savings by maximizing contributions to applicable retirement plans.
- **Boosting income.** Selling unneeded/unwanted items and pursuing a side hustle/additional part-time work are some ways FIRE followers might try to increase monthly income.

2. It has fervent supporters...

The main ideas behind the FIRE movement originated in the 1992 book *Your Money or Your Life* by Vicki Robin and Joe Dominguez, as well as the 2010 book *Early Retirement Extreme* by Jacob Lund Fisker. In the years since, many blogs, podcasts, and online forums have cropped up to share information about FIRE and popularize the concept as a whole.

Many FIRE supporters are attracted to the movement because they dislike their jobs or feel that they work too much. Those who follow FIRE believe that it encourages a more meaningful life because it provides freedom to pursue true passions. FIRE creates flexibility in retirement because people can still work and/or earn a passive income, but with the luxury of determining what type of work to do, when it's done, and for how long.

3. ...as well as outspoken critics

Many vocal critics have expressed doubts about the FIRE movement. Some believe it's an unrealistic approach to retirement because it's impossible to know how an individual's financial needs will change over time. Life (and the markets) can be unpredictable, and critics argue against embracing the unknown.

Other critics maintain that FIRE simply isn't attainable for the average worker. Those who don't earn a large enough income may struggle to save so aggressively, particularly if they are caring for one or multiple dependents.

4. There's more than one way to practice FIRE

There are multiple approaches to FIRE. Some may choose to abide by Fat FIRE rules, which means living a more traditional lifestyle but saving more than the average retirement investor. Conversely, others stick to minimalist living and extreme saving, resulting in a much more restricted lifestyle in a practice known as Lean FIRE. Other styles include Barista FIRE (quitting a traditional 9-to-5 job in favor of part-time work to help boost income as well as obtain health insurance or other benefits) and Coast FIRE (working part-time to cover expenses after having saved enough to fund retirement).

No matter how FIRE is practiced, it requires a long-term commitment that might not be suitable for everyone. A financial professional can help you review all your options for pursuing an early retirement.

Estate Planning: Consider the Tax Basis of Gifted or Inherited Property

An asset's tax basis can be important when deciding whether to make gifts now or transfer property at your death. When you make a gift of property during your lifetime, the recipient generally receives your basis in the property. When you transfer property at your death, the recipient generally receives a basis equal to the fair market value of the property as of the date of your death. The difference can substantially affect the amount of taxable gain when the recipient sells the property.

Tax basis can be important when deciding whether to make gifts now or transfer property at your death. This is because the tax basis of the person receiving the property depends on whether the transfer is by gift or at death. This, in turn, affects the amount of taxable gain subject to income tax when the person sells the property.

What is tax basis?

The tax basis of an asset is used when determining whether you have recognized a capital gain or loss on the sale of property for income tax purposes. (Gain or loss on the sale of property equals the difference between your adjusted tax basis and the amount you realize upon the sale of the property.) When you purchase property, your basis is generally equal to the purchase price. However, there may be some adjustments made to basis.

What is the tax basis for property you receive as a gift?

When you receive a gift, you generally take the donor's basis in the property. (This is often referred to as a "carryover" or "transferred" basis.) The carryover basis is increased — but not above fair market value (FMV) — by any gift tax paid that is attributable to appreciation in value of the gift. (Appreciation is equal to the excess of FMV over the donor's basis in the gift immediately before the gift.) However, for the purpose of determining loss on a subsequent sale, the carryover basis cannot exceed the FMV of the property at the time of the gift.

Example: *Say your father gives you stock worth $1,000 and the gift incurs no gift tax. He purchased the stock for $500. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is $500. If you sold the stock for $1,000, you would have gain of $500 ($1,000 received minus $500 basis).*

Now assume that the stock is only worth $200 at the time of the gift and you sell it for $200. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is still $500, but your basis for determining loss is $200. You do not pay tax on the sale of the stock. You do not recognize a loss either. In this case, it would have been better if your father had sold the stock (and recognized the loss of $300 — his basis of $500 minus $200 received) and then transferred the sales proceeds to you as a gift.

What is the tax basis for property you inherit?

When you inherit property, you generally receive an initial basis in property equal to the property's FMV. The FMV is established on the date of death or on an alternate valuation date six months after death. This is often referred to as a "stepped-up" basis, since basis is typically stepped up to FMV. However, basis can also be "stepped down" to FMV.

Example: *Say your mother leaves you stock worth $1,000 at her death. She purchased the stock for $500. Your basis in the stock is a stepped-up basis of $1,000. If you sold the stock for $1,000, you would have no gain ($1,000 received minus $1,000 basis).*

Now assume that the stock is only worth $200 at the time of your mother's death. Your basis in the stock is a stepped-down basis of $200. If you sold the stock for more than $200, you would have gain.

Make gift now or transfer at death?

As the following example shows, tax basis can be important when deciding whether to make gifts now or transfer property at your death.

Example: *You purchased land for $25,000. It is now worth $250,000. You give the property to your child (assume the gift incurs no gift tax), who then has a tax basis of $25,000. If your child sells the land for $250,000, your child would have taxable gain of $225,000 ($250,000 sales proceeds minus $25,000 basis).*

If instead you kept the land and transferred it to your child at your death when the land is worth $250,000, your child would have a tax basis of $250,000. If your child sells the land for $250,000, your child would have no taxable gain ($250,000 sales proceeds minus $250,000 basis).

In addition to tax basis, you might consider the following questions:

- Will making gifts reduce your combined gift and estate taxes? For example, future appreciation on gifted property is removed from your gross estate for federal estate tax purposes.
- Does the recipient need a gift now or can it wait? How long would a recipient have to wait until your death?
- What are the marginal income tax rates of you and the recipient?
- Do you have other property or cash that you could give?
- Can you afford to make a gift now?

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What can I do with old or unwanted gift cards?

If you're holding on to old or unwanted gift cards, consider the many ways you can help ensure they don't go to waste.

Sell them. Search online for sites that allow you to exchange or sell your gift cards. You may wind up having to pay a small fee to complete the transaction, but at least you can trade in your unwanted gift card for one that you will actually use.

Donate them. Donating unused gift cards can be a great way to contribute to your favorite nonprofits. Plus, your donation may be tax deductible.

Reuse them. Before you throw away any gift cards you might have that carry a low or zero balance, check to see whether it's possible for you to add value back on to them. Many retailers offer customers the ability to reload store-issued gift cards in exchange for rewards and/or discounts.

Gift them to someone else. Did you receive a gift card for a store you dislike or where you never shop? Simply regift it to someone else who may actually shop there. You'll please the gift card recipient as well as save yourself from having to spend money on a future gift for that individual.

Return them. Have realistic expectations before initiating a return: Some retailers might not exchange the full value of the card for cash. You may be refunded only a percentage of the face value of the card, or you could end up receiving an in-store credit (which won't do you much good if you don't shop at the store in the first place). Other retailers might even refuse to accept a gift card return unless you have the purchase receipt. As a result, check the return policy of a gift card's issuer before attempting to return it.

Upcycle them. Most gift cards are made of a plastic called polyvinyl chloride (PVC). This particular type of material is recyclable, but few curbside programs are able to accept this form of plastic because it may contaminate other recyclables in a given batch. You can still do your part to reduce waste, though, by upcycling your empty gift cards. Find creative project ideas online that can help you transform your old gift cards into something useful.

What are the new HRA options that will be available to employers in 2020?

Health reimbursement arrangements (HRAs) are employer-sponsored accounts that help employees pay for health-care expenses on a tax-advantaged basis. An employer establishes HRA accounts on behalf of employees and allocates a certain amount of money to them each year. Funds accumulate tax-free and are used to reimburse employees for qualified medical expenses such as health insurance premiums, routine medical bills, deductibles, and prescription drugs. Beginning in January 2020, employers can offer two new types of HRAs — an Individual Coverage HRA and an Excepted Benefit HRA.

Individual Coverage HRA (ICHRA). Employees can use funds allocated by their employer to buy their own health insurance on the individual market, subject to certain conditions. ICHRAs can also satisfy the Affordable Care Act (ACA) employer mandate as long as they provide sufficient funding to be considered "affordable." (Per the ACA, employers with 50 or more full-time employees are required to offer affordable health coverage that meets certain minimum standards.)

ICHRAs may be especially appealing to small employers that want to offer health coverage but have found traditional group plans to be cost-prohibitive. The U.S. Departments of Health and Human Services, Labor, and the Treasury, which issued the new rules in June 2019, estimate that approximately 800,000 small businesses will offer ICHRAs to their employees.

Excepted Benefit HRA (EBHRA). This type of HRA must be offered in conjunction with a traditional health plan. It allows employers to set aside a limited amount of funds ($1,800 per employee in 2020) to help pay for qualified medical expenses, including premiums for vision and dental insurance, COBRA coverage, and short-term, limited-duration insurance (not offered in all states). It is available even if the employee declines to participate in the primary plan.

Employees cannot be offered both an ICHRA and an EBHRA. Certain rules (including nondiscrimination rules), requirements, and conditions apply. For more information, review the new rules carefully and visit the FAQ page on the IRS website.

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Crypto Legitimacy

A tweet from President Donald Trump in July of last year, suddenly revealed his apparent dislike for cryptocurrencies because it is unregulated and based on "thin air."

These reasons are also why most investment managers and financial planners will stay away from cryptocurrency investments. The idea of it being unregulated relates to the fact that transactions are virtually impossible to trace, which means that people often use the currency for illegal activity.

The reason Trump may have said it's based on thin air is because the currency isn't backed by anything, which means it has no intrinsic value. No government or asset is used to maintain the value. Instead, computers solving complex algorithms are how cryptocurrencies are "made". Cryptocurrency has proven to be very volatile and hard to predict. Over the last few years, the price has ranged from $1,000 to $20,000. It's about $6,000 now.

While the President's tweet may have created some publicity, don't expect that to result in financial advisors investing in cryptocurrencies any time soon - they still prefer investments based on more than 'thin air'.

Getting Together Online

A recent study by Professors Michael J. Rosenfeld, from the Department of Sociology at Stanford University, shows that young people are finding their romantic matches through the internet more than any other method.

It used to be that most heterosexual couples would find their romantic partner through the intermediary of friends or family. However, this has slowly been declining since the creation of online dating websites and apps.

According to the study, "In 2009, meeting through friends was by far the most common way heterosexual couples met, and this had been true for 60 years since the immediate post World War II period. Since 2009, however, meeting through friends has declined sharply, and meeting online has continued to grow."

The study compares the use of online dating to cut out the intermediary to other areas in which the internet has removed the middleman. "Human travel agents used to be necessary to book hotel and airline flights until the internet travel brokers disintermediated the human travel agents."

Meeting online finally took over as the most popular way to meet a partner as of 2017, meaning that you'll likely start hearing more people name Tinder as the way they met- rather than a physical venue.

Fixing Social Security- Once and for All

It's becoming increasingly more evident that we have a Social Security issue in this country. According to Carolyn Colvin, acting commissioner of Social Security, "Social Security is fully funded until 2034, and after that, it is about three-quarters financed." However, there are options for changes to make now, so that Social Security will remain in our future.

The issue is that Social Security runs on a pay-as-you-go system, or simply put, workers are getting their payroll taxed while at the same time, others are receiving benefits. This tax is about 10.6% of earnings. For years, payments into the system were greater than benefits paid. However, a few years ago, that changed. Benefits paid out now exceed money coming in by about 3.7%. That shortfall is made up by the Social Security trust fund – which accumulated years of payroll tax surpluses. Much like our bank account, the trust fund will not last forever if money withdrawn is greater than deposits.

Once the trust fund is depleted, Social Security recipients would receive whatever is collected by current workers. Guesstimates are that if nothing is done, in around 2035, recipients would start to receive 25% less than promised.

A brief published by the Center for Retirement Research at Boston College, provides alternative measures that would solve this issue. The brief suggests one solution is to raise the payroll tax rate or eliminate the payroll tax cap or some combination of the two.

The paper estimates that if just payroll tax rates are increased, the top quartile of workers would pay for 54% of restoring the system to solvency. If tax rates are increased and the wage cap is eliminated, the top quartile would be responsible for nearly two-thirds of the cost to restore solvency.

Social Security has always been considered the "third rail" of politics. Touch it and your political career is over. However, the current path is not sustainable. The longer we wait to take action, the more severe the corrective action will be.

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