



Good Financial Planning Begins With a *Conversation*

Bert Languet, CFP®

Most people think of January 1st as the time to set resolutions for the New Year. When it comes to making financial resolutions, the best time has typically been from New Year's Day to the Maine April 19th tax filing deadline. With the Covid-19 crisis extending the tax filing deadline to July 15th, now can still be a good time to reflect on your goals.

If you work with a financial advisor, accountant, attorney or all three, then think of this period of collecting your income tax information as a perfect time to update or confirm your current strategies with them. If you are starting a relationship with a new financial advisor, consider what questions he or she should ask as part of your initial interview.

What is important to you about your money? This is probably my favorite question and most times it involves security and freedom. If you dig a little deeper, you might find that there are goals you want to accomplish beyond those basics. If you can assure yourself that you and your family are financially secure, is there some charity you would like to fund or some travel adventure you want to plan? Spending time to uncover your dreams is the starting point for a good financial plan. Your advisor can help you decide if they are realistic or need to be adjusted.

Do you have a will and when was the last time you looked at your current estate planning documents?

Most attorneys will counsel you to have at minimum a will, medical and financial powers of attorney, and a Living Will. It is also a good time to review your beneficiary designations for your retirement plans and insurance contracts. You should discuss whether there is a need for a trust to handle more complicated matters such as a child that is disabled, a second marriage, or if you are not married to your partner. Estate taxes affect individuals that have over \$11,580,000 in assets. Prior to January 1, 2016, Maine estate taxes kicked in at \$2,000,000. A married couple using proper planning can now pass up to \$23,160,000 without paying estate taxes in Maine. The annual gift limit to not have to file a gift tax return is \$15,000 per person and a couple can pass \$30,000 to any one person per year. (source: IRS.gov)

If you were to pass away today, will your spouse, significant other, or children be financially viable?

Do you have enough assets and income for your spouse/significant other to continue living as you do currently? What amounts from Social Security, your pension, or other income source will be available to your survivors? If you have dependent children, are there enough assets to fund their living expenses until they are independent? If you have a disabled child, will the assets last for his or her lifetime? Your financial advisor may recommend purchasing a life insurance policy to cover any shortfalls.

When was the last time you reviewed your property and casualty insurances (home and auto)?

Reviewing your home and auto insurances with your agent can help detect any liabilities that may not be covered. It also might save you some money to do some comparison shopping. Many times, an insurance agent can recommend an umbrella policy that may not cost much more but could cover gaps that are missing in your current coverage. An annual review of your property and casualty insurance coverage should become routine.

Funeral Arrangements. How do you want your remains handled? Do you want a large ceremony or no ceremony at all? Do you want a traditional burial, or do you want to be cremated? Where do you want to be buried or have your ashes scattered? Do you prepay and arrange your funeral or not? While no one wants to think about dying – it is important to have a plan and let your loved ones know your wishes in advance.

Long-term Care Planning. Long-term care expenses can significantly impact an investment portfolio with the average cost of a nursing home stay here in Maine being \$10,038 per month (\$120,456 per year) for a semi-private room according to the Genworth 2019 Cost of Care Survey. A private room averaged \$10,494 per month (\$125,928 per year) in the State of Maine according to the same Genworth Study. Do you purchase a long-term care insurance policy, allocate enough money from your portfolio to cover the expenses, or wait and see what happens? The state-run Maine Care program expects long-term care patients and their spouses to use their personal assets up to certain limits before they cover any costs. In Maine, a spouse of a person needing care can remain in the home and retain \$128,640 in assets. The patient can have up to \$10,000 in assets. There is currently a 'lookback' period of five years that allows the state to examine all financial statements to see if assets were transferred during that time. If assets were transferred during the five-year period, then they may be required to come back into the estate. Often an eldercare attorney can assist with planning along with your insurance agent and financial advisor.

Investment Assets. How much risk do you want to take with your portfolio? In 2008, balanced portfolios of 60 percent stocks and 40 percent bonds typically saw negative returns in the low to mid-twenties while the stock market as measured by the S&P 500 dropped 37%. You need to be able to ride through volatile times and keep enough money in less volatile places to cover your income needs. If your portfolio is not a retirement account, then you may want to have it managed to limit your tax exposure depending upon your current tax bracket. What type of investments do you want in your portfolio? “ESG investments” incorporate environmental, social & governance factors in their research process. Municipal bonds are a tax-favored investment in non-retirement accounts for investors in high marginal tax brackets; they may also be an option. Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

These are just a few of the questions a good conversation with your advisor should cover. Financial planning is about more than numbers and dollar signs. As you put your financial plan together or update it annually, consider communicating your dreams with your loved ones and share the experience. Subjects like death, money, and taxes are not the most popular topics for family dinners, but not speaking about them does not make them go away.



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