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Microsoft will never call you stating that your computer is infected or in trouble and can be fixed by making a payment right away. The IRS will never call you and request payment over the phone to avoid penalties. Most companies and organizations will never call you stating that your online User ID or Password has been compromised and needs to be reset. To assist, they ask that you confirm your identity by providing your Social Security number. Scammers are getting smarter, and bolder.

If you have an overdue payment or compromised login credentials, most organizations will send an email or mail a letter stating such. Yes, emails can be part of a scam too, so be careful. If you called someone to place an order or update your account information, that's different. Never provide financial or personal identification information over the phone to someone who called you.

Until August…

The SWA Team

July 2018

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The SWA Newsletter

Have You Made Any of These Financial Mistakes?

As people move through different stages of life, there are new financial opportunities — and potential pitfalls — around every corner. Have you made any of these mistakes?

Your 50s and 60s

1. Raiding your home equity or retirement funds. It goes without saying that doing so will prolong your debt and/or reduce your nest egg.

2. Not quantifying your expected retirement income. As you near retirement, you should know how much money you (and your spouse, if applicable) can expect from three sources:

- Your retirement accounts such as 401(k) plans, 403(b) plans, and IRAs
- Pension income from your employer, if any
- Social Security (at age 62, at your full retirement age, and at age 70)

3. Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay, a less-than-ideal situation as you're getting ready to retire.

4. Living an unhealthy lifestyle. Take steps now to improve your diet and fitness level. Not only will you feel better today, but you may reduce your health-care costs in the future.

Your 40s

1. Trying to keep up with the Joneses. Appearances can be deceptive. The nice lifestyle your friends, neighbors, or colleagues enjoy might look nice on the outside, but behind the scenes there may be a lot of debt supporting that lifestyle. Don't spend money you don't have trying to keep up with others.

2. Funding college over retirement. In your 40s, saving for your children's college costs at the expense of your own retirement may be a mistake. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Then sit down with your teenager and have a frank discussion about college options that won't break the bank — for either of you.

3. Not having a will or an advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Your 30s

1. Being house poor. Whether you're buying your first home or trading up, think twice about buying a house you can't afford, even if the bank says you can. Build in some wiggle room for a possible dip in household income that could result from leaving the workforce to raise a family or a job change or layoff.

2. Not saving for retirement. Maybe your 20s passed you by in a bit of a blur and retirement wasn't even on your radar. But now that you're in your 30s, it's essential to start saving for retirement. Start now, and you still have 30 years or more to save. Wait much longer, and it can be very hard to catch up.

3. Not protecting yourself with life and disability insurance. Life is unpredictable. Consider what would happen if one day you were unable to work and earn a paycheck. Life and disability insurance can help protect you and your family. Though the cost and availability of life insurance will depend on several factors including your health, generally the younger you are when you buy life insurance, the lower your premiums will be.

Your 20s

1. Living beyond your means. It's tempting to splurge on gadgets, entertainment, and travel, but if you can't pay for most of your wants up front, then you need to rein in your lifestyle, especially if you have student loans to repay.

2. Not paying yourself first. Save a portion of every paycheck first and then spend what's left over, not the other way around. And why not start saving for retirement, too? Earmark a portion of your annual pay now for retirement and your 67-year-old self will thank you.

3. Being financially illiterate. Learn as much as you can about saving, budgeting, and investing now and you could benefit from it for the rest of your life.

Shopping for a New or Used Car

Should you buy a brand-new car or a used one? Consider these factors.

It's time to replace your current car. But should you buy a new car or a used one? Consider the following advantages and disadvantages of each as you shop around for the vehicle that's right for you.

Buying a new car

Advantages. That new-car smell, a clean interior, and the latest technology and safety features...there's no denying the appeal of buying a new car. Aesthetics aside, there is an additional advantage to buying new: starting with a blank slate. You won't need to worry about how the previous driver treated the vehicle. Ownership of a new car comes with the freedom to decide whether to modify the vehicle, how much to drive it, and how much insurance to carry (although your lender may impose some minimum requirements if you take out a loan to buy the car). Bear in mind that there are also state requirements as to how much insurance you need.

The warranty on a new car is typically much better than a used one, offering you greater protection against any defects that may cause your car to malfunction in the first few years of ownership. A new vehicle also comes with benefits like roadside assistance, higher fuel efficiency standards, and the latest safety features. These features help make your car safer to drive, which can provide you with peace of mind.

Disadvantages. The major downside of buying a new car is the hit it will take on your wallet. New cars tend to cost more than used cars for the same make and model, and they also depreciate in value more quickly. In fact, a vehicle loses the majority of its value in the first few years of ownership.

And remember, your new car won't stay new forever. Eventually, the new-car smell will fade, dents and scratches could appear, and the interior will experience wear and tear.

Buying a used car

Advantages. Even if you can afford a new car, buying a used car can be a smart alternative. In addition to saving on the upfront cost, you're also likely to save on insurance because used cars tend to be less expensive to insure than new cars.

Compared to new vehicles, used vehicles tend to depreciate less rapidly. Chances are that a used car's previous owner paid for the bulk of depreciation.

Since most modern cars can go 100,000 miles or more with few mechanical problems, you might not even notice a difference between buying a late-model used car with low mileage and buying a new car.

Disadvantages. A used vehicle comes with many unknowns. You probably won't know why it was traded in or how it was treated by the previous owner. As a result, you may need to be prepared to pay for required maintenance sooner than you would on a new car. You'll want to have a reputable mechanic check out a used vehicle before you buy it. Though you'll have to pay a mechanic for this service, it could end up saving you from paying costly repair bills down the road.

Bear in mind that your choice of models and options is much more limited if you decide to buy a used car. If you have your heart set on a specific kind of car or certain features, this might mean that you'll need to spend a much longer time shopping around.

Additional considerations

Whether you choose to buy a new or used car, make sure you consider the following questions as you go through the car shopping process:

- What do you like and dislike about your current car?
- How will you use the car? Will it be a commuter vehicle that's driven on highways daily, or will it be used less frequently around town?
- Do you need a larger car with a roomy trunk and plenty of seating to accommodate your family, or will a smaller two-door car suit your needs?
- What kinds of features are on your wish list? Do you want a car with the latest technology, or one with a leather interior? Is there a particular body style that you'd favor over another?

If you prefer to trade in your car for a new one every few years, explore leasing as an alternative to buying a new car. Monthly lease payments are generally lower than the payments on a loan to purchase the same vehicle. But leasing a car could mean that you're required to carry more insurance than if you purchase the car. Plus, lease contracts can be confusing, so make sure you know exactly how they work to avoid paying more than you need to.

Buying a car is an important financial decision. Do your research and understand how this purchase will affect you in the short term and the long term to make the most out of your new ride.

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A Parent-Child Conversation About College Costs

A weighty decision

Most teens are not financially experienced enough to drive a $100,000 or $200,000 decision, especially one that has the potential to impact them for most or all of their 20s or longer. So parent guidance is critical.

If you're the parent of a high school student who's looking ahead to college, it's important to have a grown-up conversation with your child about college costs. A frank discussion can help both of you get on the same page, optimize the college search process, and avoid getting blindsided by large college bills.

An initial conversation: a, b, and c

As a parent, you need to take the lead in this conversation because most 16-, 17-, and 18-year-olds are not financially experienced enough to drive a $100,000 or $200,000 decision. One approach is to start off saying something like: "We will have saved 'a' when it's time for you to start college, and after that we should be able to contribute 'b' each year, and we expect you to contribute 'c' each year." That will give you a baseline of affordability when you start targeting colleges.

A more in-depth conversation: borrow x, pay back y

Once you start looking at colleges, you'll see that prices vary, sometimes significantly. If a college costs more than a + b + c above, you'll have to fill the gap. The best way to try and do this is with college grants or scholarships (more on that in a minute). Absent grant aid, you'll need to consider loans. And here is where you should have a more detailed conversation with your child in which you say: "If you borrow 'x' you will need to pay back 'y' each month after graduation." Otherwise, random loan figures probably won't mean much to a teenager.

You can use an online calculator to show your child *exactly* what different loan amounts will cost each month over a standard 10-year repayment term. For example, if College 1 will require your child to borrow a total of $16,000 at 5%, that will cost $170 each month for 10 years. If College 2 requires $24,000 in loans, that will cost $255 each month. A loan amount of $36,000 for College 3 will cost $382 per month, and $50,000 for College 4 will cost $530 a month, and so on. The idea is to take an abstract loan amount and translate it into a month-to-month reality.

But don't stop there. Put that monthly loan payment into a larger context by reminding your child about other financial obligations he or she will have after college, such as a cell phone bill, food, rent, utilities, car insurance. For example, you might say: "If you attend College 3 and have a student loan payment of $382 every month, you'll also need to budget $40 a month for your phone, $75 for car insurance, $400 for food..." and so on. The goal is to help your child understand the cost of real-world expenses and the long-term financial impact of choosing a more expensive college that will require more loans.

Even with a detailed discussion, though, many teenagers may not be able to grasp how their future lives will be impacted by student loans. Ultimately, it's up to you — as a parent — to help your child avoid going into too much debt. How much is too much? The answer is different for every family. One frequently stated guideline is for students to borrow no more than what they expect to earn in their first year out of college. But this amount may be too high if assumptions about future earnings don't pan out.

To build in room for the unexpected, a safer approach might be to borrow no more than the federal government's Direct Loan limit, which is currently a total of $27,000 for four years of college ($5,500 freshman year, $6,500 sophomore year, and $7,500 junior and senior years). Federal loans are generally preferable to private loans because they come with an income-based repayment option down the road that links a borrower's monthly payment to earned income if certain requirements are met. Whatever loan amount you settle on as being within your range, before committing to a college, your child should understand the total amount of borrowing required and the resulting monthly payment after graduation. In this way, you and your child can make an informed financial decision.

If there's any silver lining here, it's that parents believe their children may get more out of college when they are at least partly responsible for its costs, as opposed to having a blank check mentality. Being on the hook financially, even for just a small amount, may encourage your child to choose courses carefully, hit the books sufficiently, and live more frugally. Later, if you have the resources, you can always help your child repay his or her student loans.

Target the right colleges

To reduce the need to borrow, spend time researching colleges that offer grants to students whose academic profile your child matches. Colleges differ in their aid generosity. You can use a net price calculator — available on every college website — to get an estimate of how much grant aid your child can expect at different colleges. For example, one college may have a sticker price of $62,000 but might routinely offer $30,000 in grant aid, resulting in an out-of-pocket cost of $32,000. Another college might cost $40,000 but offer only $5,000 in grant aid, resulting in a higher $35,000 out-of-pocket cost.

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Can I convert my traditional IRA to a Roth IRA in 2018?

If you've been thinking about converting your traditional IRA to a Roth IRA, this year may be an appropriate time to do so. Because federal income tax rates were reduced by the Tax Cuts and Jobs Act passed in December 2017, converting your IRA may now be "cheaper" than in past years.

Anyone can convert a traditional IRA to a Roth IRA in 2018. There are no income limits or restrictions based on tax filing status. You generally have to include the amount you convert in your gross income for the year of conversion, but any nondeductible contributions you've made to your traditional IRA won't be taxed when you convert. (You can also convert SEP IRAs, and SIMPLE IRAs that are at least two years old, to Roth IRAs.)

Converting is easy. You simply notify your existing IRA provider that you want to convert all or part of your traditional IRA to a Roth IRA, and they'll provide you with the necessary paperwork to complete. You can also transfer or roll your traditional IRA assets over to a new IRA provider and complete the conversion there.

If you prefer, you can instead contact the trustee/custodian of your traditional IRA, have the funds in your traditional IRA distributed to you, and then roll those funds over to your new Roth IRA within 60 days of the distribution. The income tax consequences are the same regardless of the method you choose.[1]

The conversion rules can also be used to contribute to a Roth IRA in 2018 if you wouldn't otherwise be able to make a regular annual contribution because of the income limits. (In 2018, you can't contribute to a Roth IRA if you earn $199,000 or more and are married filing jointly, or if you're single and earn $135,000 or more.) You can simply make a nondeductible contribution to a traditional IRA and then convert that traditional IRA to a Roth IRA. (Keep in mind, however, that you'll need to aggregate the value of all your traditional IRAs when you calculate the tax on the conversion.) You can contribute up to $5,500 to all IRAs combined in 2018, or $6,500 if you're 50 or older.

[1] If you choose to receive the funds first and don't transfer the entire amount, a 10% early withdrawal penalty may apply to amounts not converted.

Can I undo my Roth IRA conversion in 2018?

The answer is: It depends.

When you convert a traditional IRA to a Roth IRA, you include the value of your traditional IRA, reduced by any nondeductible contributions you've made, in your income for federal tax purposes in the year of the conversion. For conversions prior to 2018, if you subsequently decided to "recharacterize" or undo the conversion for any reason — e.g., the value of your IRA assets declined after the conversion, resulting in a bad tax deal — the IRS would permit you to do so, provided the recharacterization took place in a timely fashion.

For example, assume you converted a fully taxable traditional IRA worth $50,000 to a Roth IRA in 2016. You would have been required to include $50,000 in income on your 2016 federal income tax return. But shortly after the conversion, the value of your Roth IRA declined to $40,000. Suddenly you were faced with the proposition of paying taxes on $50,000, while your Roth IRA was worth only $40,000. Fortunately, you had until your tax return due date (including extensions) to undo all or part of a conversion. So in this example, you would have had until October 15, 2017, to recharacterize the conversion.

Unfortunately, the Tax Cuts and Jobs Act passed in 2017 eliminated the option to recharacterize a Roth conversion, with one exception: If you converted your Roth IRA in 2017 and have since changed your mind, you have until your filing deadline, including extensions (or until October 15, 2018), to recharacterize.

When you recharacterize, you need to withdraw the amount you originally converted, plus any earnings, out of the Roth IRA and transfer it back to a traditional IRA.

If you already paid your taxes for 2017, you'll need to file an amended return to obtain a refund for any taxes paid on the conversion. An amended return can generally be filed as late as three years after the original return was filed.

Undoing a Roth conversion can be complicated, so it's probably a good idea to consult your tax professional before taking action.

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