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A study conducted at Texas Tech University shows that after age 50 an individual's financial competency declines at a rate of about one-percent per year but the same individual's confidence actually increases! Clearly this poses a threat to the financial stability of aging adults. Such a decline in mental capacity can lead to poor decision making, loss of capital and even financial abuse from solicitors and worse, family and friends.

To combat the risk of cognitive decline, we recommend that clients review their durable power of attorney and ensure a copy is on file with their financial institutions. Clients may also consider adding written instructions with each institution and advisor naming a trusted family member or friend that can be contacted if concerns arise.

Until July…

The SWA Team

June 2018

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The SWA Newsletter

Pick Your Plastic: Debit or Credit?

According to a Federal Reserve study, Americans use debit cards more often than credit cards, but the total value and the average value of credit card transactions are higher than those of debit card transactions.

While consumers made 69.5 billion transactions using debit cards, the total value of these transactions was $2.56 trillion, with an average transaction value of $37. Credit card usage resulted in 33.8 billion transactions, with a total value of $3.16 trillion, and a $93 average transaction value.[1]

This reflects fundamental differences. A debit card acts like a plastic check and draws directly from your checking account, whereas a credit card transaction is a loan that remains interest-free only if you pay your monthly bill on time. For this reason, people may use a debit card for regular expenses and a credit card for "extras." However, when deciding which card to use, you should be aware of other differences.

Fraud protection

In general, you are liable for no more than $50 in fraudulent credit card charges. For debit cards, a $50 limit applies only if a lost card or PIN is reported within 48 hours. The limit is $500 if reported within 60 days, with unlimited liability after that. A credit card may be safer in higher-risk situations, such as when shopping online, when the card will leave your sight in a restaurant, or when you are concerned about a card reader. If you regularly use a debit card in these situations, you may want to maintain a lower checking balance and keep most of your funds in savings.

Merchant disputes

You can dispute a credit card charge before paying your bill and shouldn't have to pay it while the charge is under dispute. Disputing a debit card charge can be more difficult when the charge has been deducted from your account, and it may take some time before the funds are returned.

Rewards and extra benefits

Debit cards offer little or no additional benefits, while some credit cards offer cash-back rewards, and major cards typically include extra benefits such as travel insurance, extended warranties, and secondary collision and theft coverage for rental cars (up to policy limits). Of course, if you do not pay your credit card bill in full each month, the interest you pay can outweigh any financial rewards.

Credit history

Using a credit card responsibly can help you build a positive credit history because your usage is reported to credit reporting agencies. A debit card has no effect on your credit.

Money management

Using a debit card helps ensure that you don't overspend. Because purchases are deducted right away from your checking account, you aren't in the dark about how much you're spending. You can quickly check your balance online or at an ATM, and see which purchases are pending.

A credit card offers you the flexibility of tracking your monthly expenses on one bill, which can help you establish and stick to a realistic budget. A credit card can also be used in emergencies.

Considering the additional protections and benefits, a credit card may be a better choice in some situations — but only if you pay your monthly bill on time. The good news is, you don't have to choose just one option.

[1] U.S. Federal Reserve, 2016 (2015 transactions, most recent data available)

Did you know that 94% of all workers are covered under Social Security?

Source: Social Security Fact Sheet on the Old-Age, Survivors and Disability Insurance Program, July 2017

Quiz: Can You Answer These Social Security Benefit Questions?

Most people will receive Social Security benefits at some point in their lifetimes, but how much do you know about this important source of income? Take this quiz to learn more.

Questions

1. Can you receive retirement and disability benefits from Social Security at the same time?

a. Yes

b. No

2. If your ex-spouse receives benefits based on your earnings record, your benefit will be reduced by how much?

a. Reduced by 30%

b. Reduced by 40%

c. Reduced by 50%

d. Your benefit will not be reduced

3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?

a. 6%

b. 7%

c. 8%

4. Monthly Social Security benefits are required to be paid by which of the following methods?

a. Paper check only

b. Paper check, direct deposit, or debit card

c. Direct deposit or debit card

5. Are Social Security benefits subject to income tax withholding?

a. Yes

b. No

6. Once you've begun receiving Social Security retirement benefits, you can withdraw your claim if how much time has elapsed?

a. Less than 12 months since you've been receiving benefits

b. Less than 18 months since you've been receiving benefits

c. Less than 24 months since you've been receiving benefits

Answers

1. b. No. If you receive a disability benefit, it will automatically convert to a retirement benefit once you reach full retirement age.

2. d. Your benefit will not be reduced if your ex-spouse receives Social Security benefits based on your earnings record.

3. c. Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

4. c. Since 2013, the Treasury Department has required electronic payment of federal benefits, including Social Security. You can sign up for direct deposit of your benefits into your current bank account or open a low-cost Electronic Transfer Account (ETA) at a participating financial institution. Another option is to sign up for a Direct Express® prepaid debit card. Under this option, your Social Security benefits are deposited directly into your card account, and you can use the card to make purchases, pay expenses, or get cash.

5. b. No. Withholding isn't mandatory, but you may voluntarily ask the Social Security Administration to withhold federal income tax from your benefits when you apply, or later, if you determine you will owe taxes on your Social Security benefits (not everyone does). You may choose to have 7%, 10%, 15%, or 25% of your benefit payment withheld. Ask a tax professional for help with your situation.

6. a. If something unexpected happens and you've been receiving Social Security benefits for less than 12 months after signing up, you can change your mind and withdraw your claim (and reapply at a later date). You're limited to one withdrawal per lifetime, and there are also financial consequences. You must repay all benefits already paid to you or your family members based on your application (anyone affected must consent in writing to the withdrawal), and repay any money previously withheld, including Medicare premiums or income taxes.

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Managing Money When You Marry: Financial Tips for Newlyweds

According to a survey by the American Psychological Association, 62% of Americans are stressed about money.[1]

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

Getting married is an exciting time for a couple. However, along with this excitement come many challenges. One such challenge is how to manage your finances together. The key to success is to communicate with your partner and come up with a financial plan that you both agree on, since the financial decisions you make now can have a lasting impact on your finances in the future.

Map out your financial future together

Your first step should be to discuss your common financial goals. Where do you see yourself next year? What about five years from now? Together, make a list of your short- and long-term financial goals. Short-term goals are ones that can be achieved in less than five years (e.g., saving for a down payment on a home or new car). Long-term goals usually take more than five years to achieve (e.g., paying off college loans, saving for retirement). Next, determine which financial goals are most important to both of you so together you can focus your energy on them.

Prepare a budget

A budget is an important part of managing your finances. Knowing exactly how you are spending your money each month can set you on a more clear path to pursue your financial goals. Start by listing your current monthly income. In addition to your regular salary and wages, be sure to include other types of income, such as dividends and interest. Next, add up all of your expenses. It helps to divide expenses into two categories: fixed (e.g., housing, food, transportation, student loan payments) and discretionary (e.g., entertainment, vacations). Ideally, you should be spending less than you earn. If not, you need to review your expenses and look for ways to cut down on your spending.

Consider combining bank accounts

You'll also need to decide whether you and your spouse should combine bank accounts or keep them separate. While maintaining a joint account does have its advantages (e.g., easier record keeping and lower maintenance fees), it is sometimes difficult to keep track of the flow of money when two individuals have access to a single account. Fortunately, online banking makes it easier to know exactly what is in your account at all times. If you choose to keep separate accounts, you might consider opening a joint checking account to pay for common household expenses.

Resolve outstanding credit/debt issues

Having good credit is an important part of any sound financial plan, so this would be a good time to identify any potential credit or debt problems you or your spouse may have and try to resolve them now rather than later. Order copies of your credit reports and review them together. You are entitled to a free copy of your credit report from each of the three major credit reporting agencies once every 12 months (visit annualcreditreport.com for more information). For the most part, you are not responsible for your spouse's past credit problems, but they can prevent you from getting credit together as a married couple. Even if you've always had good credit, you may be turned down for credit cards or loans that you apply for together if your spouse has a bad credit history. As a result, if one of you had credit issues, you might consider keeping your credit separate until your credit situation improves.

Evaluate your employee and retirement benefits

If you and your spouse have separate health insurance coverage through an employer, you'll want to do a cost-benefit analysis of each plan to determine whether you should keep your health coverage separate. Compare each plan's deductible, copayment, and benefits as well as the premium for one family plan against the cost of two single plans. In addition, if you and your spouse participate in an employer-sponsored retirement plan, you should be aware of each plan's investment options, matching contributions, and loan provisions. Review each plan carefully and determine which one provides the better benefits. If you can afford to, contribute the maximum amount possible to your respective plans.

Assess your life and disability insurance needs

While the need for life and disability insurance may not have seemed necessary when you were both single, as a married couple you may find that you are financially dependent on each other. Having life and disability plans in place will help ensure that your financial needs will be taken care of if either of you dies or becomes disabled. If you already have insurance, you should reevaluate the adequacy of your coverage and update your beneficiary designations.

[1] "Stress in America," American Psychological Association, 2017

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How has tax reform affected the generation-skipping transfer tax?

The Tax Cuts and Jobs Act, signed into law in December 2017, doubled the federal generation-skipping transfer (GST) tax exemption to $11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exemption is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, the federal GST tax remains the same.

The federal GST tax generally applies if you transfer property to a skip person. A skip person is someone who is two or more generations younger than you (for example, a grandchild). The GST tax may apply in addition to any gift or estate tax. Similar to the gift tax provisions, annual exclusions (up to $15,000 per recipient in 2018) and exclusions for qualifying educational and medical expenses are available for GST tax. You can protect up to $11.18 million (in 2018) with the GST tax exemption. Transfers in excess of the GST tax exemption are generally taxed at 40%.

A GST generally occurs on a transfer that is subject to federal gift or estate tax and made to a skip person, or a transfer to a trust if all the beneficiaries with an interest in the trust are skip persons. A GST may also occur on certain distributions from trusts to skip persons. Additionally, a GST may occur when an interest in a trust terminates, and skip persons then hold all interests in the trust.

Unlike with the gift and estate tax applicable exclusion amount, the GST tax exemption is not portable between spouses. The estate of a deceased spouse cannot transfer any unused GST tax exemption to the surviving spouse.

Note: An early version of the legislation proposed approximately doubling the gift and estate tax basic exclusion amount and the GST tax exemption for 2018 to 2024. After 2024, the estate tax and the GST tax would have been repealed. The gift tax would not have been repealed, although the top gift tax rate would have been reduced from 40% to 35% after 2024. However, the only provision that made it into the final legislation was the doubling of the gift and estate tax basic exclusion amount and the GST tax exemption for 2018 to 2025.

What are the gift and estate tax rules after tax reform?

The Tax Cuts and Jobs Act, signed into law in December 2017, approximately doubled the federal gift and estate tax basic exclusion amount to $11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exclusion is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, federal gift and estate taxes remain the same.

Gift tax. Gifts you make during your lifetime may be subject to federal gift tax. Not all gifts are subject to the tax, however. You can make annual tax-free gifts of up to $15,000 per recipient. Married couples can effectively make annual tax-free gifts of up to $30,000 per recipient. You can also make unlimited tax-free gifts for qualifying expenses paid directly to educational or medical service providers. And you can make deductible transfers to your spouse and to charity. There is a basic exclusion amount that protects a total of up to $11.18 million (in 2018) from gift tax and estate tax. Transfers in excess of the basic exclusion amount are generally taxed at 40%.

Estate tax. Property you own at death is subject to federal estate tax. As with the gift tax, you can make deductible transfers to your spouse and to charity; there is a basic exclusion amount that protects up to $11.18 million (in 2018) from tax, and a tax rate of 40% generally applies to transfers in excess of the basic exclusion amount.

Portability. The estate of a deceased spouse can elect to transfer any unused applicable exclusion amount to his or her surviving spouse (a concept referred to as portability). The surviving spouse can use the unused exclusion of the deceased spouse, along with the surviving spouse's own basic exclusion amount, for federal gift and estate tax purposes. For example, if a spouse died in 2011 and the estate elected to transfer $5 million of the unused exclusion to the surviving spouse, the surviving spouse effectively has an applicable exclusion amount of $16.18 million ($5 million plus $11.18 million) to shelter transfers from federal gift or estate tax in 2018.

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