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Investment News

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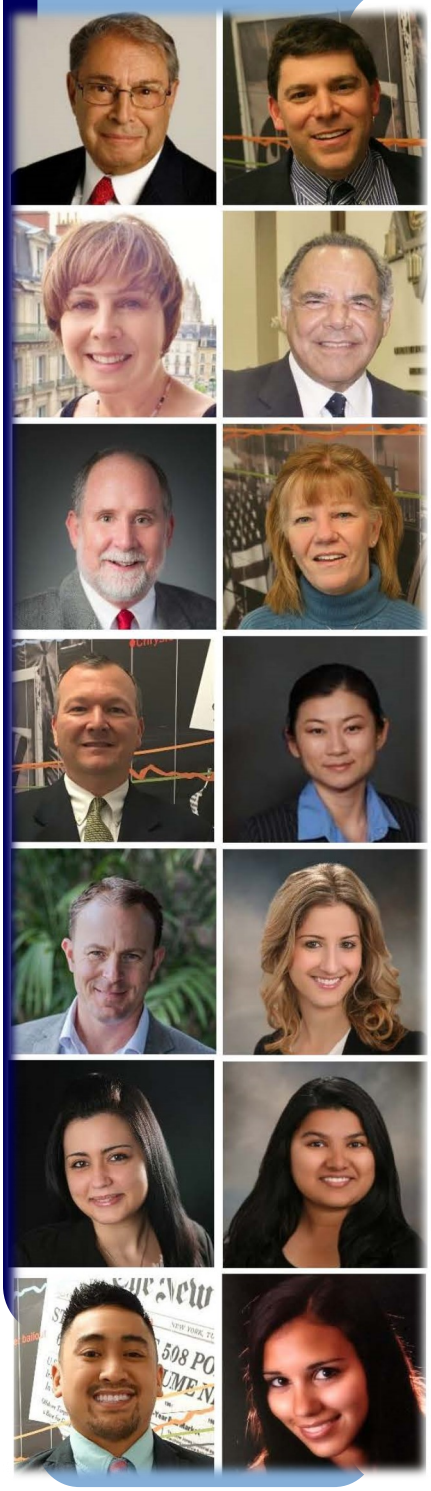

Health Care Costs Are Cutting into Retirement Preparations

This is happening in subtle and no-so-subtle ways.

You may have seen this statistic before or one resembling it: the average 65-year-old retiring couple can now expect to pay more than $250,000 in health care expenses during the rest of their lives.

In fact, Fidelity Investments now projects this cost at $285,000. The effort to prepare for these potential expenses is changing the big picture of retirement planning.[1]

Individual retirement savings strategies have been altered. How many people retire with a dedicated account or lump sum meant to address future health costs? Very few. Most retirees end up winging it, paying their out-of-pocket costs out of income, Social Security benefits, and savings.

While couples can save together, individuals also have considerable health care costs as well. Fidelity estimates the costs as $150,000 for women and $135,000 for men. The costs can potentially take up a considerable amount of a retiree's income – 9 to 14%, according to Fidelity. Per year, out-of-pocket costs, including dental and vision, could run into $3,000 to $8,000 in an average year.[2,3]

While households have begun adjusting their retirement expectations considering projected health care expenses, businesses have also quietly made some changes. If you can take advantage of employer matching contributions, take advantage of that benefit.

There is no easy answer for retirees preparing to address future health care costs. Staying active and fit may lead to health care savings over the long run, but some baby boomers and Gen Xers already have physical ailments. Barring some sort of unusual economic phenomenon or public policy shift, the question of how to pay for hundreds of thousands of dollars of medical and drug expenses after 65 will confound many of us.

Citations.
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Annual Financial To-Do List

Things you can do for your future as the year unfolds.

What financial, business, or life priorities do you need to address for the coming year? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to managing your taxes. You have plenty of choices. Here are a few ideas to consider:

Can you contribute more to your retirement plans this year? In 2020, the contribution limit for a Roth or traditional individual retirement account (IRA) remains at $6,000 ($7,000, for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA: singles and heads of household with MAGI above $139,000 and joint filers with MAGI above $206,000 cannot make 2020 Roth contributions.[1]

Before making any changes, remember that withdrawals from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.[2]

Make a charitable gift. You can claim the deduction on your tax return, provided you itemize your deductions with Schedule A. The paper trail is important here. If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record, payroll deduction record, credit card statement, or written communication from the charity with the date and amount. Incidentally, the Internal Revenue Service (I.R.S.) does not equate a pledge with a donation. If you pledge $2,000 to a charity this year, but only end up gifting $500, you can only deduct $500.[3]

These are hypothetical examples and are not a replacement for real-life advice. Make certain to consult your tax, legal, or accounting professional before modifying your strategy.

See if you can take a home office deduction for your small business. If you are a small-business owner, you may want to investigate this. You may be able to legitimately write off expenses linked to the portion of your home used to exclusively conduct your business. Using your home office as a business expense involves a complex set of tax rules and regulations. Before moving forward, consider working with a professional who is familiar with home-based businesses.[4]

Open an HSA. A Health Savings Account (HSA) works a bit like your workplace retirement account. There are also some HSA rules and limitations to consider. You are limited to a $3,550 contribution for 2020, if you are single; $7,100, if you have a spouse or family. Those limits jump by a $1,000 "catch-up" limit for each person in the household over age 55.[5]

If you spend your HSA funds for nonmedical expenses before age 65, you may be required to pay ordinary income tax as well as a 20% penalty. After age 65, you may be required to pay ordinary income taxes on HSA funds used for nonmedical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

Pay attention to asset location. Tax-efficient asset location is an ignored fundamental of investing. Broadly speaking, your least tax-efficient securities should go in pretax accounts, and your most tax-efficient securities should be held in taxable accounts.

Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss. Before adjusting your asset allocation, consider working with an investment professional who is familiar with tax rules and regulations.

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MARKET PERFORMANCE
01/01/2020 to 01/31/2020

DJIA ^DJI Down –0.99%
S&P 500 ^GSPC Down –0.16%
NASDAQ ^IXIC Up 1.99%
Russell 2000 ^RUT Down –3.26%

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

Review your withholding status. Should it be adjusted due to any of the following factors?

* You tend to pay a great deal of income tax each year.
* You tend to get a big federal tax refund each year.
* You recently married or divorced.
* A family member recently passed away.
* You have a new job and you are earning much more than you previously did.
* You started a business venture or became self-employed.

These are general guidelines and are not a replacement for real-life advice. So, make certain to speak with a professional who understands your situation before making any changes.

Are you marrying in 2020? If so, why not review the beneficiaries of your retirement accounts and other assets? When considering your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2020, you will need a new Social Security card. Additionally, the two of you may have retirement accounts and investment strategies. Will they need to be revised or adjusted with marriage?

Are you coming home from active duty? If so, go ahead and check the status of your credit as well as the state of any tax and legal proceedings that might have been preempted by your orders. Make sure any employee health insurance is still there and revoke any power of attorney you may have granted to another person.

Consider the tax impact of any upcoming transactions. Are you planning to sell any real estate this year? Are you starting a business? Do you think you might exercise a stock option? Might any large commissions or bonuses come your way in 2020? Do you anticipate selling an investment that is held outside of a tax-deferred account?

If you are retired, and in your seventies, remember your RMDs. In other words, Required Minimum Distributions (RMDs) from traditional retirement accounts. There is a new development to report on this, as the Setting Every Community Up for Retirement Enhancement (SECURE) Act just altered a key rule pertaining to these mandatory withdrawals. Under the SECURE ACT, in most circumstances, once you reach age 72, you must begin taking RMDs from most types of these accounts. The previous "starting age" was 70½.[6]

This new RMD rule applies only to those who will turn 70½ in 2020 or later. If you were 70½ when 2019 ended, you must take your initial RMD(s) by April 1, 2020, at the latest.[6]

If you have already begun taking RMDs, your annual deadline for them becomes December 31 of each year. The I.R.S. penalty for failing to take an RMD can be as much as 50% of the RMD amount that is not withdrawn.[6]

Vow to focus on being healthy and wealthy in 2020. And don't be afraid to ask for help from professionals who understand your individual situation.

Citations.
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We hope you enjoy our newsletter!
Please e-mail us any topics you would like to see covered in future newsletters.

We welcome your referrals and feedback. Please feel free to share this newsletter with your family and friends.

Ways to Fund Special Needs Trusts

A look at the different options & strategies.

If you have a child with special needs, a trust may be a financial priority. There are many crucial goods and services that Medicaid and Supplemental Security Income might not pay for, and a special needs trust may be used to address those financial challenges. Most importantly, a special needs trust may help provide for your disabled child in case you're no longer able to care for them.

In planning a special needs trust, one of the most pressing questions is: when it comes to funding the trust, what are the options?

There are four basic ways to build up a third-party special needs trust. One method is simply to pour in personal assets, perhaps from immediate or extended family members. Another possibility is to fund the trust with permanent life insurance. Proceeds from a settlement or lawsuit can also serve as the core of the trust assets. Lastly, an inheritance can provide the financial footing to start and fund this kind of trust.

Families choosing the personal asset route may put a few thousand dollars of cash or other assets into the trust to start, with the intention that the initial investment will be augmented by later contributions from grandparents, siblings, or other relatives. Those subsequent contributions can be willed to the trust, or the trust may be named as a beneficiary of a retirement or investment account.[1]

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When life insurance is used, the trustor makes the trust the beneficiary of the policy. When the trustor dies, the policy's death benefit is left, tax free, to the trust.[2]

A lump-sum settlement or inheritance can be invested while within the trust, inviting the possibility of growth and compounding. With a worthy trustee in place, there is less likelihood of mismanagement, and funds may come out of the trust to support the beneficiary in a measured way that does not risk threatening government benefits.

The trust may also be funded with tangible, non-cash assets. Examples include real estate, securities, collections of cars or art or antiques, or even a business. These assets (and others like them) can be left to the trustee of the special needs trust via a revocable living trust or will. Just remember that the goal of the trust is to provide the trust beneficiary with cash. Those tangible assets will need to be sold or liquidated to meet that objective.[1]

Currently, it costs about $3,500 to design a basic special needs trust. Given that initial expense and ongoing administrative costs, most families aim to place at least $100,000 inside these vehicles. The typical trustee is a bank – or more precisely, a bank's trust division – and annual administration fees commonly range from 0.5% to 1.5%. If the trustee is a relative of the child or a close friend of the family, administration may be done for free or at minimal cost.[3]

Care must be taken not only in the setup of a special needs trust, but in the management of it as well. This should be a team effort. The family members involved should seek out legal and financial professionals who are well versed in this field, and the resulting trust should be a product of close collaboration.

Citations.

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