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It's time for an employee benefits review. Those still working may want to evaluate their choices for health, dental, disability, long-term care and life insurance coverage. If accounts such as a Flexible Spending Account, Health Savings Account or Dependent Care Reimbursement Account exist, do you have a plan to contribute to or utilize these accounts before the end of the year? Are you on track to maximize contributions to your retirement savings plan for 2017? If you are 50 or older, have you made Catch-Up contributions? Are you taking advantage of an existing Employee Stock Purchase Plan? For the highly compensated, is there a Deferred Compensation plan available to you? Other benefit plans such as employee stock options, restricted stock, and performance bonuses can be an important part of your long-term financial security. Start your review by obtaining a copy of your summary of benefits. Feel free to contact SWA and we will gladly assist you.

Until November...

October 2017

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The SWA Newsletter

What You Can Do with a Will

A will is often the cornerstone of an estate plan. Here are five things you can do with a will.

Distribute property as you wish

Wills enable you to leave your property at your death to a surviving spouse, a child, other relatives, friends, a trust, a charity, or anyone you choose. There are some limits, however, on how you can distribute property using a will. For instance, your spouse may have certain rights with respect to your property, regardless of the provisions of your will.

Transfers through your will take the form of specific bequests (e.g., an heirloom, jewelry, furniture, or cash), general bequests (e.g., a percentage of your property), or a residuary bequest of what's left after your other transfers. It is generally a good practice to name backup beneficiaries just in case they are needed.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property in which you have already named a beneficiary passes to the beneficiary (e.g., life insurance, pension plans, IRAs).

Nominate a guardian for your minor children

In many states, a will is your only means of stating who you want to act as legal guardian for your minor children if you die. You can name a personal guardian, who takes personal custody of the children, and a property guardian, who manages the children's assets. This can be the same person or different people. The probate court has final approval, but courts will usually approve your choice of guardian unless there are compelling reasons not to.

Nominate an executor

A will allows you to designate a person as your executor to act as your legal representative after your death. An executor carries out many estate settlement tasks, including locating your will, collecting your assets, paying legitimate creditor claims, paying any taxes owed by your estate, and distributing any remaining assets to your beneficiaries. As with naming a guardian, the probate court has final approval but will usually approve whomever you nominate.

Specify how to pay estate taxes and other expenses

The way in which estate taxes and other expenses are divided among your heirs is generally determined by state law unless you direct otherwise in your will. To ensure that the specific bequests you make to your beneficiaries are not reduced by taxes and other expenses, you can provide in your will that these costs be paid from your residuary estate. Or, you can specify which assets should be used or sold to pay these costs.

Create a testamentary trust or fund a living trust

You can create a trust in your will, known as a testamentary trust, that comes into being when your will is probated. Your will sets out the terms of the trust, such as who the trustee is, who the beneficiaries are, how the trust is funded, how the distributions should be made, and when the trust terminates. This can be especially important if you have a spouse or minor children who are unable to manage assets or property themselves.

A living trust is a trust that you create during your lifetime. If you have a living trust, your will can transfer any assets that were not transferred to the trust while you were alive. This is known as a pourover will because the will "pours over" your estate to your living trust.

Caveat

Generally, a will is a written document that must be executed with appropriate formalities. These may include, for example, signing the document in front of at least two witnesses. Though it is not a legal requirement, a will should generally be drafted by an attorney.

There may be costs or expenses involved with the creation of a will or trust, the probate of a will, and the operation of a trust.

Five Myths About Group Disability Insurance

You may think that the chances of becoming disabled during your working years are slight, and even if you did get hurt or had to miss time at work, you could get by because you have group disability insurance. Unfortunately, you may be in for a big surprise. Here are some myths and misunderstandings about group disability insurance.

Myth 1: It won't happen to me.

You're not really worried about your group disability insurance coverage because you're sure you won't suffer a disability. In fact, your chances of being disabled for longer than three months are much greater than you may realize. Even the healthiest and ablest can become disabled. According to the Social Security Administration, one in five Americans lives with a disability, and more than one in four 20-year-olds becomes disabled before reaching retirement age.[1] So maybe you could miss work for an extended period of time due to a disability. But you have group disability insurance to cover all your income, right?

Myth 2: I work for a good employer, so I'm sure it provides disability insurance.

Well, you better get something in writing confirming that you're covered under your employer-sponsored group disability insurance. According to the Bureau of Labor Statistics, 39% of private industry workers took part in employer-sponsored short-term disability insurance, and 33% were covered by group long-term disability insurance. Workers in service occupations, such as waiters/waitresses, hair stylists, and dental hygienists have the lowest access rates, about 20% for short-term disability insurance and only about 10% for long-term group coverage. On the other hand, 54% of workers in management, professional, and related occupations have access to short-term disability coverage, and 59% are covered by long-term group disability insurance.[2]

Myth 3: Group disability insurance will replace my income.

Actually, group disability insurance replaces some of your income — typically about 60% of income if you become disabled and can't work. And most coverage has a monthly income cap of roughly $5,000 to $8,000, which may be less than 60% of your income. Also, the income used to calculate your disability insurance benefit usually applies only to your base salary and doesn't include bonuses and commissions.

Myth 4: I won't be taxed on my disability insurance benefits.

You won't be taxed on your disability insurance benefits if premiums are paid from your income with after-tax dollars. However, most employers pay the premium for group policies, which means any benefits you receive are likely taxable to you as ordinary income.

Myth 5: As long as I'm with the company, I'll have coverage.

Generally, group disability insurance is a voluntary benefit offered by the employer, which is under no compulsion to maintain coverage or pay for its cost. The employer can switch plans to a policy that doesn't offer the same coverage options, or the employer can stop offering coverage altogether. Sometimes, if the company has an unusually high number of expensive disability claims, the insurer may exercise its right to significantly increase the premium or terminate the coverage.

Okay, so what are my options?

First, verify with your employer that you do, in fact, have group disability insurance coverage. Then review your plan to see how much income it actually would pay. Also, understand the group policy's definition of disability. Not every injury or illness that causes you to miss work may be covered.

Once you know how much you'd receive from the disability insurance, estimate whether it would be enough to cover your monthly expenses. If there's a shortfall, do you have other sources of income (e.g., investment income, spouse's income) to cover the difference, or would you have to access your savings? If you'll be using savings to supplement your disability income, you'll want to gauge how long your savings will last. The average duration of long-term disability is 31.2 months.[3]

You could consider purchasing supplemental disability coverage to help pay for some of your lost income not covered by your group disability policy. For instance, if your group plan pays 60% of your salary, a supplemental disability plan may increase your total benefit to 80% of your income. In any case, disability income policies contain certain exclusions, waiting periods, reductions, limitations, and terms for keeping them in force. Individual disability income insurance policies provide disability income insurance only. They do NOT provide basic hospital, basic medical, or major medical insurance.

[1] Social Security Administration, The Facts About Social Security's Disability Program, SSA Publication No. 05-10570, January 2017

[2] Beyond the Numbers: Pay and Benefits, vol. 4, no. 4 (U.S. Bureau of Labor Statistics, February 2015)

[3] Council for Disability Awareness, The Average Duration of Long-Term Disability Is 31.2 Months. Are You Prepared? January 18, 2016

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Life Is for the Living, and So Is Life Insurance

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Life insurance guarantees are based on the claims-paying ability and financial strength of the life insurance company issuing the policy.

Life can be busy. The requirements of work and family often leave little time to step back and think about where you've been and where you're heading. But as your responsibilities grow, so does the need to evaluate what would happen if life for you stopped. September is Life Insurance Awareness Month and a good time to reflect on how life insurance can help those you leave behind — the living.

Your spouse or life partner

A successful marriage is often predicated on sharing and providing for one another, and that includes each other's financial obligations. If you were suddenly no longer in the picture, would there be enough money to pay for your final expenses, cover debt, and buy some time to allow your significant other to adjust to a new way of life? Life insurance can provide funds to cover immediate expenses and income to help support your surviving loved one.

Your children

You've worked hard to provide for your kids, to give them the chance to realize their hopes and dreams. Your children are likely your greatest responsibility — a responsibility that doesn't end with your passing. Whether your children are in diapers or about to enter college, if something happened to you or your spouse, or both of you, would there be enough income to continue to provide financially for your children? Life insurance can help provide the resources for their continued growth and maturation.

Your home

Buying a home may be the largest single expenditure of your life. While being a homeowner is exciting, mortgage payments, often lasting 30 years, along with maintenance, utility costs, homeowners insurance, and real estate taxes can add up to a long-term financial commitment. Adequate life insurance protection can provide funds that could be used to cover these expenses, allowing your family to remain in their home.

Your business

Do you own your own business? Life insurance can fit into your business plan in many ways. It can be part of an employee benefit program, with coverage under a group plan. Life insurance purchased on the lives of certain key employees can protect your company from the loss of talented and valuable workers. And life insurance can be used to fund a buy-sell agreement.

Caring for an aging parent or loved one

Are you caring for an aging parent or loved one? Would the people who depend on you be able to afford quality health care and a comfortable place to live without your financial support? Life insurance can become extremely important in these situations, helping to provide for these individuals in the event of your death.

Planning for retirement

Preparing for retirement probably means you're saving as much as you can in your 401(k), IRA, or other savings vehicle. If you die before you get to enjoy your retirement, will your retirement plan die for your surviving loved ones as well? Not only will your salary be unavailable to help pay for current living expenses, but your income won't be there to build the nest egg for the retirement of your spouse or life partner. Life insurance can help provide funds that can be used for your spouse's or life partner's retirement.

Your health has changed

If your health declines, how will it affect your life insurance? A common worry is that your insurer could cancel your coverage should your health change. However, changes to your health will not affect your current insurance coverage, provided you continue to pay your premiums on time. In fact, you should take a closer look at your life insurance policy to find out if it offers any accelerated (living) benefits that you can access in the event of a serious or long-term illness.

Leaving a legacy

Life insurance can be used to increase the size of an estate for your heirs. The death benefit could provide your beneficiaries with a larger legacy than might otherwise be possible. The cost of life insurance may be significantly less than the proceeds of the policy paid to your beneficiaries when you die.

Charitable giving

Donating a life insurance policy to a charity may enable you to make a larger gift than you otherwise could afford. Further, the government encourages charitable giving by providing tax advantages for certain charitable donations (the charity must be a qualified charity). This means that both you and the charity could benefit from your donation (though some charities may not accept a gift of life insurance for various reasons).

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What are some tips for reviewing my Medicare coverage during Medicare Open Enrollment?

During the Medicare Open Enrollment Period that runs from October 15 through December 7, you can make changes to your Medicare coverage that will be effective on January 1, 2018. If you're satisfied with your current coverage, you don't need to make changes, but it's a good idea to review your options.

During Open Enrollment, you can:

- Change from Original Medicare to a Medicare Advantage plan, or vice versa
- Switch from one Medicare Advantage plan to another Medicare Advantage plan
- Join a Medicare prescription drug plan, switch from one Medicare prescription drug plan to another, or drop prescription drug coverage

The official government handbook, *Medicare & You,* which is available electronically or through the mail, contains detailed information about Medicare that should help you determine whether your current coverage is appropriate. Review any other information you receive from your current plan, which may include an Annual Notice of Change letter that lists changes to your plan for the upcoming year.

As you review your coverage, here are a few points to consider:

- What were your health-care costs during the past year, and what did you spend the most on?
- What services do you need and which health-care providers and pharmacies do you visit?
- How does the cost of your current coverage compare to other options? Consider premiums, deductibles, and other out-of-pocket costs such as copayments or coinsurance; are any of these costs changing?

If you have questions about Medicare, you can call 1-800-MEDICARE or visit the Medicare website at medicare.gov. You can use the site's Medicare Plan Finder to see what plans are available in your area and check each plan's overall quality rating.

If I donate used property to charity, what documentation is needed?

The documentation needed to obtain a federal income tax deduction for donating used property to a charity typically depends on the value of the property. In general, do not attach the documentation to your income tax return. Keep the records so that you can provide them to the IRS if requested to do so.

If you claim a deduction of less than $250, you must have a receipt from the charitable organization (a letter acknowledging your contribution will suffice) that shows the name of the organization, the date and location of your contribution, and a reasonably detailed description of the property. You must also have a record of the fair market value (FMV) of the property (and how you determined it) at the time of the contribution.

If you claim a charitable deduction for $250 or more, you must substantiate the contribution with a contemporaneous written acknowledgment of the contribution from the charity. The acknowledgment must contain the name of the charity and a reasonably detailed description of the property. The acknowledgment must also include either (1) a statement that no goods and services were provided by the charity in return for the contribution, (2) a good-faith estimate of the value of such goods and services (these reduce the amount of the charitable deduction), or (3) a statement that the goods and services were token benefits or consisted entirely of insubstantial membership benefits or intangible religious benefits.

If the value of the contribution is over $500, your records must also include how you acquired the property (e.g., purchase, gift, inheritance, or exchange), when you obtained the property, and the cost or other basis of the property (including any adjustments).

If you claim a deduction of over $5,000 for a noncash charitable contribution of one item or a group of similar items, you must also obtain a qualified written appraisal of the donated property from a qualified appraiser.

If the amount of your deduction for all noncash contributions is more than $500, you must file IRS Form 8283 with your federal income tax return.