

# The SWA January 2021 Newsletter



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Child identity theft is on the rise. In today's technology dominated world, your child's identity could be obtained through phishing, social networking sites, free online video games and software downloads. However, there are a few steps you can take to reduce the risk of identity theft.

Consider installing anti-virus and anti-spyware software on your family's computers. Turn off geo-tagging. Pictures taken with smartphones may contain geo-tagging details which show the child's exact coordinates, such as her home, at the time she took the picture. This information is available on pictures uploaded to social networking sites. Request a credit report on your child. A minor should have no credit history. If one exists, your child may be a victim of identity theft.

Until February...

The SWA Team

## Sandwich Generation Caregivers Face Many Challenges

Individuals in the "sandwich generation" have the dual responsibility of providing care for an adult — often a parent — while also raising children. Caring for others can be very rewarding, but the day-to-day demands of supporting multiple generations can take a financial, emotional, and physical toll on sandwiched caregivers.

### Profile of Sandwiched Caregivers



Source: National Alliance for Caregiving, 2019

# Watch Out for These Financial Pitfalls in the New Year

As people move through different stages of life, there are new financial opportunities and potential pitfalls around every corner. Here are common money mistakes to watch out for at every age.

## Your 20s & 30s

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

**Not saving regularly.** Save a portion of every paycheck and then spend what's left over — not the other way around. You can earmark savings for short-, medium-, and long-term goals. A variety of mobile apps can help you track your savings progress.

**Living beyond your means.** This is the corollary of not saving. If you can't manage to stash away some savings each month and pay for most of your expenses out-of-pocket, then you need to rein in your lifestyle. Start by cutting your discretionary expenses, and then look at ways to reduce your fixed costs.

**Spending too much on housing.** Think twice about buying a house or condo that will stretch your budget to the max, even if a lender says you can afford it. Consider building in space for a possible dip in household income that could result from a job change or a leave from the workforce to care for children.

**Overlooking the cost of subscriptions and memberships.** Keep on top of services you are paying for (e.g., online streaming, cable, the gym, your smartphone bill, food delivery) and assess whether they still make sense on an annual basis.

**Not saving for retirement.** Perhaps saving for retirement wasn't on your radar in your 20s, but you shouldn't put it off in your 30s. Start now and you still have 30 years or more to save. Wait much longer and it can be hard to catch up. Start with whatever amount you can afford and add to it as you're able.

**Not protecting yourself with insurance.** Consider what would happen if you were unable to work and earn a paycheck. Life insurance and disability income insurance can help protect you and your family.

## Your 40s

**Not keeping your job skills fresh.** Your job is your lifeline to income, employee benefits, and financial security. Look for opportunities to keep your skills up-to-date and stay abreast of new workplace developments and job search technologies.

**Spending to keep up with others.** Avoid spending money you don't have trying to keep up with your friends, family, neighbors, or colleagues. The only financial life you need to think about is your own.

**Funding college over retirement.** Don't prioritize saving for college over saving for retirement. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Closer to college time, have a frank discussion with your child about college options and look for creative ways to help reduce college costs.

**Using your home equity like a bank.** The goal is to pay off your mortgage by the time you retire or close to it — a milestone that will be much harder to achieve if you keep moving the goal posts.

**Ignoring your health.** By taking steps now to improve your fitness level, diet, and overall health, not only will you feel better today but you may reduce your health-care costs in the future.

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## The Weight of Too Much Debt

Approximately 70% of workers with non-mortgage debt say their debt has impacted their ability to save for emergencies and retirement, with 40% saying their debt is a “minor” problem and 21% saying it is a “major” problem.



Source: Employee Benefit Research Institute, 2020

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## Your 50s & 60s

**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 approach retirement.

**Raiding your retirement funds before retirement.** It goes without saying that dipping into your retirement funds will reduce your nest egg, a significant tradeoff for purchases that aren't true emergencies.

**Not knowing your sources of retirement income.** As you near retirement, you should know how much money you (and your partner, if applicable) can expect from three sources: your personal retirement accounts (e.g., 401(k) plans and IRAs); pension income from an employer; and Social Security at age 62, full retirement age, and age 70.

**Not having a will or 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.

# Estate Planning Strategies in a Low-Interest-Rate Environment

The federal government requires the use of certain interest rates (published by the IRS) to value various items used in estate planning, such as an income, annuity, or remainder interest in a trust. The government also has interest rates that a taxpayer may be deemed to use in connection with certain installment sales or intra-family loans. These rates are currently at or near historic lows, presenting several estate planning opportunities. Low interest rates generally favor certain estate planning strategies over others and may have a detrimental effect on others.

## Grantor Retained Annuity Trust (GRAT)

In a GRAT, you transfer property to a trust, but retain a right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your beneficiaries, such as family members. The value of the gift of a remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. Also, if you survive the trust term, the trust property is not included in your gross estate for estate tax purposes. If the rate of appreciation is greater than the IRS interest rate, a higher value of trust assets escapes gift and estate taxation. Consequently, the lower the IRS interest rate, the more effective this technique generally is.

## Charitable Lead Annuity Trust (CLAT)

In a CLAT, you transfer property to a trust, giving a charity the right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your beneficiaries, such as family members. This trust is similar to a GRAT, except that you get a gift tax charitable deduction. Also, if the CLAT is structured so you are taxed on trust income, you receive an upfront income tax charitable deduction for the gift of the annuity interest. Generally, the lower the IRS interest rate, the more effective this technique is.

## Installment Sale

You may also wish to consider an installment sale to family members. With an installment sale, you can

generally defer the taxation of any gain on the property sold until the installment payments are received. However, if the family member resells the property within two years of your installment sale, any deferred gain will generally be accelerated. The two-year limit does not apply to stocks that are sold on an established securities market.

You are generally required to charge an adequate interest rate in return for the opportunity to pay in installments, or interest will be deemed to be charged for income tax and gift tax purposes. However, with the current low interest rates, your family members can pay for the property in installments, while paying only a minimal interest cost for the benefit of doing so.

## Low-Interest Loan

A low-interest loan to family members might also be useful. You are generally required to charge an adequate interest rate on the loan to avoid income tax and gift tax consequences. However, with the current low interest rates, you can provide loans — or refinance an existing loan — at a very low rate and family members can effectively keep any earnings in excess of the interest they are required to pay you.

## Charitable Remainder Unitrust (CRUT)

You retain a stream of payments for a number of years (or for life), after which the remainder passes to charity. You receive a current charitable deduction for the gift of the remainder interest. Interest rates have no effect if payments are made annually at the beginning of each year. Otherwise, interest rates generally have only a minimal effect. However, in this case, a lower interest rate increases the value of the charitable remainder interest slightly less than a higher interest rate would.

*The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate professional before implementing a trust strategy.*

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## More to Consider

Here is how certain factors affect the valuation of remainder interest transfers in the trusts discussed here. In addition to the interest rate, you may want to consider how the length of the trust term and the amount of the trust payments affect values.

FACTOR	GRAT	CLAT	CRUT
Lower interest rate	LV	LV	Minimal or no effect
Longer term of years	LV	LV	LV (shorten term to increase value)
Higher annuity payment	LV	LV	N/A
Lower unitrust payout rate	N/A	N/A	HV

HV = higher value for remainder interest; LV = lower value for remainder interest

# Debit or Credit? Pick a Card

Americans use debit cards more often than credit cards, but they tend to use credit cards for higher-dollar transactions. The average value of a debit-card transaction in 2018 was just \$36, while credit-card transactions averaged \$89.<sup>1</sup>

This usage reflects fundamental differences between the two types of cards. 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 (as in a restaurant), or when you are concerned about the security of 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 checking account, and it may take some time before the funds are returned.

**Rewards and extra benefits.** Debit cards offer little or no additional benefits, whereas some credit cards offer cash-back rewards, and major cards may 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 or benefits.

**Credit history.** Using a credit card can affect your credit score positively or negatively, depending on how you use it. A debit card does not affect your credit score.

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.

1) Federal Reserve, 2019

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## IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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