



NEWS

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Embarking on a financial plan is like sailing around the world. The voyage won't always go to plan, and there'll be rough seas. But the odds of reaching your destination increase greatly if you are prepared, flexible, patient, and well-advised.

Jim Parker - DFA

Spring 2018

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Settling an Estate: Executors Inherit Important Title



Being named as the executor of a family member's estate is generally an honor. It means that person has been chosen to handle the financial affairs of the deceased individual and is trusted to help carry

out his or her wishes.

Settling an estate, however, can be a difficult and time-consuming job that could take several months to more than a year to complete. Each state has specific laws detailing an executor's responsibilities and timetables for the performance of certain duties.

If you are asked to serve as an executor, you may want to do some research regarding the legal requirements, the complexity of the particular estate, and the potential time commitment. You should also consider seeking the counsel of experienced legal and tax advisors.

Documents and details

A thoughtfully crafted estate plan with up-to-date documents tends to make the job easier for whoever fills this important position. If the deceased created a letter of instruction, it should include much of the information needed to close out an estate, such as a list of documents and their locations, contacts for legal and financial professionals, a list of bills and creditors, login information for important online sites, and final wishes for burial or cremation and funeral or memorial services.

An executor is responsible for communicating with financial institutions, beneficiaries, government agencies, employers, and service providers. You may be asked for a copy of the will or court-certified documentation that proves you are authorized to conduct business on behalf of the estate. Here are some of the specific duties that often fall on the executor.

Arrange for funeral and burial costs to be paid from the estate. Collect multiple copies of the death certificate from the funeral home or coroner. They may be needed to fulfill various

official obligations, such as presenting the will to the court for probate, claiming life insurance proceeds, reporting the death to government agencies, and transferring ownership of financial accounts or property to the beneficiaries.

Notify agencies such as Social Security and the Veterans Administration as soon as possible. Federal benefits received after the date of death must be returned. You should also file a final income tax return with the IRS, as well as estate and gift tax returns (if applicable).

Protect assets while the estate is being closed out. This might involve tasks such as securing a vacant property; paying the mortgage, utility, and maintenance costs; changing the name of the insured on home and auto policies to the estate; and tracking investments.

Inventory, appraise, and liquidate valuable property. You may need to sort through a lifetime's worth of personal belongings and list a home for sale.

Pay any debts or taxes. Medical bills, credit card debt, and taxes due should be paid out of the estate. The executor and/or heirs are not personally responsible for the debts of the deceased that exceed the value of the estate.

Distribute remaining assets according to the estate documents. Trust assets can typically be disbursed right away and without court approval. With a will, you typically must wait until the end of the probate process.

The executor has a fiduciary duty — that is, a heightened responsibility to be honest, impartial, and financially responsible. This means you could be held liable if estate funds are mismanaged and the beneficiaries suffer losses.

If for any reason you are not willing or able to perform the executor's duties, you have a right to refuse the position. If no alternate is named in the will, an administrator will be appointed by the courts.

The College Landscape After Tax Reform



Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans and ABLÉ plans before investing. Specific information can be found in each plan's official statement. Participating in a 529 plan or ABLÉ plan may involve investment risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investments may not perform well enough to cover college costs as anticipated. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan, and each plan has its own rules and restrictions, which can change at any time. Before investing in a 529 plan or an ABLÉ plan, consider whether your state offers residents favorable state tax benefits, and whether those benefits are contingent on joining the in-state plan. Other state benefits for 529 plans may include financial aid, scholarship funds, and protection from creditors.

College students and their parents dodged a major bullet with the Tax Cuts and Jobs Act of 2017. Initial drafts of the bill included the elimination of Coverdell Education Savings Accounts, the Lifetime Learning Credit, and the student loan interest deduction, along with the taxation of tuition waivers, which are used primarily by graduate students and college employees. In the end, none of these provisions made it into the final legislation. But a few other college-related items did. These changes take effect in 2018.

529 plans expanded

The new law expands the definition of 529 plan "qualified education expenses" to include K-12 tuition. Starting in 2018, annual withdrawals of up to \$10,000 per student can be made from a 529 college savings plan for tuition expenses related to enrollment at a K-12 public, private, or religious school (excluding home schooling). Such withdrawals are now tax-free at the federal level.

At the state level, some states automatically update their state 529 legislation to align with federal 529 legislation, but other states will need to take legislative action to include K-12 tuition as a qualified education expense. In addition, 529 plan institutional managers will likely further refine their rules to accommodate the K-12 expansion and communicate these rules to existing account owners. Parents who are interested in making a K-12 contribution or withdrawal should understand their plan's rules and their state's tax rules.

The expansion of 529 plans may impact Coverdell Education Savings Accounts (ESAs). Coverdell ESAs let families save up to \$2,000 per year for a child's K-12 or college expenses. Up until now, they were the only option for tax-advantaged K-12 savings. But now the use of Coverdell ESAs may decline as parents are likely to prefer the much higher lifetime contribution limits of 529 plans — generally \$350,000 and up — over the \$2,000 annual limit for Coverdell accounts. In addition, Coverdell ESA contributions can only be made for children under age 18.

Coverdell ESAs do have one important advantage over 529 plans, though: investment flexibility. Coverdell owners have a wide variety of options in terms of what investments they hold in their accounts, and may generally change investments as often as they wish. By contrast, 529 account owners can invest only in the investment portfolios offered by the plan, and they can change their existing plan investments only twice per year.

In addition, the new tax law allows 529 account owners to roll over (transfer) funds from a 529 account to an ABLÉ account without federal tax consequences if certain requirements are met. An ABLÉ account is a tax-advantaged account that can be used to save for disability-related expenses for individuals who become blind or disabled before age 26. Like 529 plans, ABLÉ plans allow funds to accumulate tax deferred, and withdrawals are tax-free when used for a qualified expense.

New calculation for kiddie tax

The tax reform law changes the way the "kiddie tax" is calculated. Previously, a child's unearned income over a certain amount was taxed at the parents' rate. Under the new law, a child's unearned income over a certain amount (\$2,100 in 2018) will be taxed using the compressed trust and estate income tax brackets. This change may make the use of UTMA/UGMA custodial accounts less attractive as a college savings vehicle due to the reduced opportunity for tax savings.

New tax on large college endowments

The tax law creates a new 1.4% tax on the net investment income of large college endowments. Specifically, the tax applies to institutions with at least 500 tuition-paying students and endowment assets of \$500,000 or more per student. Approximately 30 colleges are expected to be swept up in this net in 2018, including top-ranked larger universities and smaller elite liberal arts colleges. Some affected colleges have publicly stated that the tax will limit their ability to fund certain programs, including financial aid programs.

Loss of personal exemptions

Starting in 2018, the tax law eliminates personal exemptions, which were \$4,050 in 2017 for each individual claimed on a tax return. So on their 2018 tax returns (which will be completed in 2019), parents of college students will lose an exemption for each college student they claim. However, this loss may be at least partially offset by: (1) a larger standard deduction in 2018 of \$24,000 for joint filers (up from \$12,700 in 2017); \$12,000 for single filers (up from \$6,350 in 2017); and \$18,000 for heads of household (up from \$9,350 in 2017); and (2) a new family tax credit of \$500 in 2018 for each dependent who is not a qualifying child (i.e., under age 17), which would include a dependent college student. The income thresholds to qualify for this credit (and the child tax credit) are significantly higher: up to \$400,000 adjusted gross income for joint filers and up to \$200,000 for all other filers.



Although there are certainly no guarantees that any future plans will pan out as expected, taking time now to assess these four points can help you position yourself to pursue a comfortable retirement.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Four Points to Consider When Setting a Retirement Income Goal

No matter what your age or stage of life, targeting a goal for monthly retirement income can seem like a daunting task. Following are four considerations to help you get started.

1. When do you plan to retire?

The first question to ponder is your anticipated retirement age. Many people base their target retirement date on when they're eligible for full Social Security benefits, and for today's workers, "full retirement age" ranges from 66 to 67. Other folks hope to retire early, while still others want to work as long as possible. As you think about your anticipated retirement date, keep the following points in mind.

If you plan to retire early, you'll need significant resources to provide income for potentially decades. You can typically tap your employer-sponsored retirement plan without penalty as early as age 55 if you terminate your employment, but if you try to access IRA assets prior to age 59½, you will be subject to a 10% early withdrawal penalty, unless an exception applies. In both cases, regular income taxes will apply. Also consider that you generally won't be eligible for Medicare until age 65, so unless you are one of the lucky few who have employer-sponsored retiree medical benefits, health insurance will have to be funded out of pocket.

If you plan to delay retirement, consider that unexpected circumstances could throw a wrench in that plan. In its 2017 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that current workers plan to retire at a median age of 65, while current retirees reported a median retirement age of 62. And although four in 10 workers plan to work until age 70 or later, just 4% of retirees said this was the case. Why the difference? Nearly half of retirees said they retired earlier than planned, with many reporting unexpected challenges, including their own health concerns or those of a family member.¹

2. How long will your retirement last?

The second important consideration, which builds on the first, is how long your retirement might last. Projected life spans have been lengthening in recent decades due in part to advancements in medical care and general health awareness. According to the National Center for Health Statistics (NCHS), a 65-year-old woman can expect to live 20.6 more years, while a 65-year-old man can

expect to live 18 more years.² To estimate your own life expectancy based on your current age and health profile, visit the online longevity calculator created by the Society of Actuaries and American Academy of Actuaries at longevityillustrator.org.

3. What will your expenses look like?

The third consideration is how much you will need to meet your basic living expenses. Although your housing, commuting, and other work-related expenses may decrease in retirement, other costs — including health care — will likely rise.

In 2017, EBRI calculated that Medicare recipients with median prescription drug expenses may need about \$265,000 just to pay for basic medical expenses in retirement.³ And that doesn't even include the potential for long-term care. According to the Department of Health and Human Services (HHS), 52% of people over age 65 will need some form of long-term care during their lifetimes, which could add another \$69,000, on average, to the out-of-pocket costs.⁴

In addition, remember to account for the impact inflation will have on your expenses over time. For example, say you need an estimated \$50,000 to cover basic needs in your first year of retirement. Ten years later, at a 3% annual inflation rate (the approximate historical average as measured by the consumer price index), you would need more than \$67,000 to cover those same costs.

4. How much can you accumulate?

This is perhaps the most important consideration: How much can you *realistically* accumulate between now and retirement based on your current savings rate, timeframe, investment portfolio, and lifestyle? Once you project your total accumulation amount based on current circumstances, you can gauge whether you're on track or falling short. And if you appear to be falling short, you can begin to think about how to refine your strategy, either by altering your plans for retirement (e.g., delaying retirement by a few years), saving more, or investing more aggressively.

¹ EBRI Issue Brief, March 21, 2017

² NCHS Issue Brief, Number 293, December 2017

³ EBRI Notes, January 31, 2017

⁴ HHS, "Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief," February 2016

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What are some tips for creating a budget and sticking to it?

It's a common problem for many individuals — wondering exactly where your paycheck goes each month. After paying expenses, such as your mortgage, utilities, and credit card bills, you may find little left to put toward anything else.

Creating a budget is the first key to successfully manage 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. If you become sidetracked when it comes to your finances, consider these tips for creating a budget and staying on the right path.

Examine your financial goals. Start out by making a list of your short-term goals (e.g., new car, vacation) and long-term goals (e.g., your child's college education, retirement) and prioritize them. Consider how much you will need to save and how long it will take to reach each goal.

Identify your current monthly income and expenses. Add up all of your income. In addition to your regular salary and wages, be sure to include other types of income, such as

dividends, interest, and child support. Next, add up all of your expenses. Sometimes it helps to divide expenses into two categories: fixed (e.g., housing, food, transportation) and discretionary (e.g., entertainment, vacations). Don't forget to factor in any financial goals you would like to pursue.

Evaluate your budget. Once you've added your income and expenses, compare the two totals. Ideally, you should be spending less than you earn. If this is the case, you're on the right track, and you'll need to look at how well you use your extra income toward achieving your financial goals. On the other hand, if you are spending more than you earn, you should make some adjustments to your budget. Look for ways to increase your income or reduce your expenses, or both.

Monitor your budget. Finally, you should monitor your budget periodically and make changes when necessary. Keep in mind that any budget that is too rigid is likely to fail. Keep your budget flexible as your changing circumstances demand.



What are some strategies for paying off credit card debt?

Nowadays, it's easier than ever to get caught up in the cycle of credit card debt. In fact, it's become a growing problem for many Americans. According to the Federal Reserve, total U.S. credit card payments reached 111.1 billion in 2016, up 7.4% from 2015.¹

If you find that you are struggling to pay down a credit card debt balance, here are some strategies that can help eliminate your credit card debt altogether:

Pay off cards with the highest interest rate first. If you have more than one card that carries an outstanding balance, prioritize your payments according to their interest rates. Send as large a payment as you can to the card with the highest interest rate and continue making payments on the other cards until the card with the highest interest rate is paid off. You can then focus your repayment efforts on the card with the next highest interest rate, and so on, until they're all paid off.

Apply for a balance transfer with another card. Many credit card companies offer highly competitive balance transfer offers (e.g., 0%

interest for 12 months). Transferring your credit card balance to a card with a lower interest rate can enable you to reduce interest fees and pay more against your existing balance. Most balance transfer offers charge a fee (usually a percentage of the balance transferred), so be sure to do the calculations to make sure it's cost-effective before you apply.

Pay more than the minimum. If you only pay the minimum payment due on a credit card, you'll continue to carry the bulk of your balance forward without reducing your overall balance. As a result, try to make payments that exceed the minimum amount due. For more detailed information on the impact that making just the minimum payment will have on your overall balance, you can refer to your monthly statement.

Look for available funds to make a lump-sum payment. Are you expecting an employment bonus or other financial windfall in the near future? If so, consider using those funds to make a lump-sum payment to eliminate or pay down your credit card balance.

¹ Federal Reserve, 2017