THE
Retirement Report
Retirement Transition Planning

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Seven Smart Money Moves You Should Make In 2017

Do you remember those New Year's resolutions you made to save more money and spend less? For many of us, those good intentions got shifted to the back burner when reality set in and bills starting piling up. But it's not too late to reexamine your financial affairs and turn things around for the rest of the year. Here are seven smart money moves that could help you in 2017:

1. Build a better budget. One fundamental of money management is to create a monthly budget that makes sense for you, and then stick to it. You may have gone through the process before, but if it's not working you have to go back to the drawing board.

Start with the essentials—mortgage or rent, utilities, your car or other commuting expenses, and anything else that you can't do without—and take it from there. Think about cutting back or eliminating expensive dinners, exotic getaways, and other luxuries you can live without. In particular, zero in on small, routine expenses—that daily cappuccino, for example—that may add up to a substantial cost.

2. Pay down your debts. If there's one thing that can wreck a budget, it's the payments you make on what you owe. Maybe you're saddled with credit card charges subject to high interest rates. Even the minimum monthly payment can be painful, and interest charges just keep mounting.

Try to make debt reduction a top priority. Start by resolving not to borrow any more until you pay down what you owe. If it makes sense and you can obtain a favorable interest rate, consider consolidating your debts into a single account.

3. Increase retirement savings. Now is a good time to boost your retirement savings as well. If you participate in a 401(k) plan at work, you might increase the amount that's subtracted from your paycheck. The maximum deferral for 2017 is $18,000 ($24,000 if you're age 50 or over). Plus, your employer may provide "matching" contributions of part of your savings.

In addition, you could supplement a 401(k) or other work plan with contributions to a traditional or Roth IRA (or a combination of the two). For 2017, the maximum total IRA contribution is $5,500 ($6,500 if you're age 50 or over).

4. Reinvest investment earnings. It may be easier to manage your finances if you have investment earnings from securities such as stocks, bonds, and mutual funds. However, when possible, instead of spending your profits, funnel those amounts back into other investments.

If you own investments that pay out regular dividends, you could use an automatic dividend plan to reinvest the money without having to lift a finger.

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Risk: A Matter Of The Timing Of Withdrawals

Last week, at a Fidelity convention, we had the good fortune to hear from Jurrien Timmer, Director of Investment Research. One item we wanted to share was his definition of risk. "Most investors," he said, "defined risk as the potential to lose money." But, for a fully diversified investor, the idea of incurring a permanent loss is not the whole story. Rather, he suggested that risk should be viewed as "not having access to cash when it's needed, without selling at a loss."

He went on to say that the odds of a 10% correction were one in two, or once every other year. The odds of a 20% decline were one in five, or once every five years. So, managing risk becomes about the timing of withdrawals. Simply put, if you need the cash in five years or less, you are taking the risk that the markets will be in correction when you need to sell. Hence, investors taking withdrawals can be forced to turn bad timing into a permanent loss, while young workers can just keep contributing to their 401ks and wait for the correction to end.

The lesson from this is to plan your future withdrawals with your portfolio in mind. The more cash and bonds you hold, the less likely it is you'll have to sell stocks at a bad time. Conversely, if you know you'll need a certain amount of cash over a certain period of time, you can plan for that within your portfolio. If you're unsure about your situation, give us a call.

Be Well,

Ric and Trang

Trust As IRA Beneficiary: Not Crazy

You may have heard that you can't name a trust as a beneficiary of your IRA—but in fact that is a perfectly legal option for IRA owners. But whether you should do it is a completely different story and requires further analysis.

IRAs can be complicated enough on their own without bringing a trust into the equation. And if you do name a trust as a beneficiary and then make a mistake with your account, the tax consequences could be devastating—so proceed with extreme caution. You'll need to work with an attorney experienced in these matters.

Why would you want to name a trust as your IRA beneficiary? It's not a tax-saving move and indeed could increase your tax bill. Still, there are valid reasons for using this planning technique. The primary benefit is protection against the IRA assets being squandered or attached by creditors. For example, you might want to pass money in an IRA to someone who is under age 21 and may not have much experience handling financial affairs or to a family member who is known to be a spendthrift. Having the account pass into a trust could enable a trustee to control how the money is distributed.

In a similar vein, you might intend to provide IRA funds to your spouse in a second or third marriage, but without shortchanging your children from an earlier marriage. In that case, you might leave the assets to a trust that pays out income to support a surviving spouse for life, with the remainder going to the children.

In any of these cases, naming a trust as your IRA beneficiary could be helpful—though, again, you'll need to work with an attorney with specialized knowledge of trusts and estate planning. Having the proper language in documents for the IRA and the trust is crucial.

One key aspect of such an arrangement is that the trust you name as IRA beneficiary should have people—and not an institution or your estate—as its beneficiaries. That could enable those beneficiaries to use "stretch IRA" planning techniques to lengthen the amount of time that assets can utilize an IRA's tax advantages. Although required minimum distributions (RMDs) still will have to happen, they'll be based on the life expectancies of the ultimate beneficiaries. The younger they are, the longer the money can be shielded from taxes. If more than one nonspouse beneficiary is named in a trust, the age of the oldest living beneficiary must be used. Consider separate trusts for each nonspouse beneficiary.

A variation on this theme calls for naming your spouse as the primary beneficiary and the trust as the contingent beneficiary. Such a setup provides greater flexibility because the surviving spouse may roll over the inherited IRA assets into his or her own IRA as part of post-mortem estate planning. ●

One Last Shot At A Tax Exemption

Did your child graduate from college or graduate school this spring? If that's the case, this may be the last year you will be able to claim a dependency exemption for that son or daughter. But even then, you need to be careful to observe all of the tax rules covering such exemptions.

For starters, your dependency exemption for each qualifying child in 2017 is $4,050, the same as the personal exemption you and your spouse may claim. But you may lose some of the tax benefit of these exemptions under the personal exemption phase-out (PEP) rule. It kicks in at $261,500 of modified adjusted gross income (MAGI) for single filers and $313,800 of MAGI for joint filers.

To qualify for dependency exemptions, you must meet a two-part test. First, you have to provide more than half of your child's annual support for the year. Second, your dependent can't have earned more than the personal exemption amount in gross taxable income for the year. It's the second part of the test that often jeopardizes an exemption.

However, you may be in line for a special tax break. If your child is under age 19 or is a full-time student and under age 24, the second part of the test doesn't apply. That means you often still can claim a dependency exemption for a child in the year he or she graduates from college as long as you provide half of your son's or daughter's support.

Of course, if your kid is lucky enough to land a high-paying job right out of school, it may be a stretch to reach that half-support level. You might have to be extra-generous at the end of the year to secure the exemption one last time.

Consider this hypothetical example: Suppose your daughter graduates in May and starts working full-time in July. She earns $4,000 a month at her new job and contributes $800 of that

Spell Out Plans For Inherited IRA Assets

Do you have substantial assets in your IRAs? It's important to be smart about beneficiary designations, and maximizing tax benefits, while avoiding potential pitfalls. But it's also essential not just to fill out all of the paperwork and forget about it. Instead, take the time to discuss your plans with family members.

Spouses who inherit traditional IRA assets have more flexibility than other beneficiaries, though non-spouses, too, can benefit from careful planning to determine the best ways to pass along money in an IRA. Here are key points to cover in your family discussions:

The first thing to do is to bring everyone up to speed on the differences between spouses and other beneficiaries.

1. Spousal beneficiaries: Spouses who are IRA beneficiaries can move the money into their own IRAs and treat it just like other assets in those accounts. They can do this without owing any tax, and if they haven't yet reached age 70½, they won't have to take the required minimum distributions (RMDs) that must begin after you reach that milestone. (But if your spouse who died already was taking RMDs, you'll need to make that withdrawal for the year of death.)

That doesn't mean a spouse can't withdraw some or all of the money in the inherited account. But any distribution will be taxed, probably as regular income. So it's generally better for tax purposes to take a series of distributions stretched over several years.

2. Non-spousal beneficiaries: If you bequeath IRA assets to your children or to anyone other than your spouse, those beneficiaries will have to follow different rules. They can't roll over the money tax-free into IRAs of their own. Instead, they must arrange to receive a series of distributions based on their life expectancies or empty out the inherited accounts within five years. Because beneficiaries tend to be younger than the deceased IRA owner, they often can use the strategy of withdrawing funds gradually over their life expectancies, an approach often referred to as a "stretch IRA."

But those non-spouse beneficiaries *will* have to take annual RMDs regardless of how old they are. Because the amount of those yearly withdrawals depends on the inheritor's age, younger beneficiaries will be able to take smaller RMDs than those who are older. But if they fail to take an RMD in any year they'll be hit by a penalty of 50% of the amount that should have been withdrawn. They'll also owe regular tax.

The amount of these RMDs will be based on the account balances on December 31 of the prior year and a factor based on the beneficiary's projected life expectancy in IRS-prescribed tables. You have until December 31 of the current year to receive your RMDs, which generally will be calculated and paid out by the custodian of your IRA.

Of course, non-spousal beneficiaries, too, can choose to withdraw more than the required amount or to take a lump-sum distribution of everything in the account.

With these basic rules in place, there can be several strategies to maximize tax and other benefits. For example, naming younger beneficiaries could extend the life of a stretch IRA and reduce the amount that is lost to taxes. One way to do that, if your children don't need the funds, is to designate your grandchildren as beneficiaries. Or you could name a child as a primary beneficiary and a grandchild as a contingent beneficiary. When you pass away, the child would have the option to "disclaim" the inheritance, passing it along to the contingent beneficiary and thus lengthening the payout schedule. As long as assets remain within the IRA they won't be subject to current taxes.

The family members who inherit IRA assets then can make their own beneficiary designations immediately, selecting a spouse or a child to inherit the account. Your beneficiaries also will be able to avail themselves of strategies for extending the life of the IRA.

These rules cover assets in traditional IRAs. There are different requirements for Roth IRAs, from which most distributions, even by beneficiaries, are tax-free. The original account holders don't have to take RMDs, although beneficiaries are required to withdraw money each year according to schedules based on their life expectancies. ●

amount to a 401(k). The retirement plan contribution doesn't count as support, but the other $3,200 a month does, and for six months that adds up to $19,200.

If you provided $1,500 in monthly support to your daughter while she was in school and after she graduated, you will have given her $18,000 for the year. But that's less than half of her total support.

To get over that hump and save your exemption for your daughter, you might give her a cash gift, say $2,000, around the holidays, maybe to help her buy a car. Now you're providing more than half of her support for the year —$20,000 ($18,000 + $2,000) compared with $19,200. The $2,000 gift allows you to claim a $4,050 exemption.

Of course, Congress could revise these tax rules, but it's unlikely that any changes involving dependency exemptions would be retroactive to the beginning of the year. Keep one eye on the progress of tax reform talks in Washington and the other eye on your child's support totals for the year. ●

When To Disclaim An Inherited IRA

Should you ever pass up a chance to get more money? It depends. Suppose you're in line to inherit IRA assets. When it makes sense, you might use a "qualified disclaimer" so that the assets bypass you on the way to someone else.

A disclaimer is a legal document that lets you waive your right to receive money or property from an estate. If you execute a disclaimer, it's as if you never inherited the assets. Instead, they go directly to the next people in line to receive them. In the case of an IRA, the assets typically wind up with the account's contingent beneficiaries.

Why would you do this? There are two main reasons:

1. Assuming you don't need the money, you might prefer that the assets go directly to the younger generation, usually your own kids or grandkids. You were going to give the assets to them eventually anyway, right? A disclaimer shortens the process while lengthening the time over which the beneficiaries must take required minimum distributions (RMDs) from the account. RMDs are based on the life expectancies of the beneficiaries, so the younger they are, the longer the wealth can be preserved.

2. A disclaimer may reduce a family's overall tax liability. The RMDs from IRAs generally are taxed at ordinary income rates, which go as high as 39.6%. Younger children and grandchildren are likely to pay tax at a much lower rate.

For a disclaimer to work, it has to be an irrevocable, unqualified refusal to accept property, and it must meet the following requirements:

- It must be in writing with a declaration and signature of the person who is making the disclaimer.
- It must identify the property (or the partial interest in the property) that is being disclaimed.
- It must be delivered to the party or entity responsible for transferring the assets (for example, an IRA custodian or trustee).
- The disclaimer has to be executed less than nine months after the property was transferred (or within nine months of when the disclaiming person reaches age 21, if that's sooner).
- As a result of the disclaimer, the assets must pass to the new recipients without any direction from the person making the disclaimer. You can't decide to give the money to someone other than the legal beneficiaries next in line.

This process can be technically complicated, so you'll need to work with an attorney to provide the proper language for a disclaimer, which must take into account whatever is required under state law. Also, take great care in completing any beneficiary designation forms furnished by an institution. ●

Seven Smart Money Moves

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5. Diversify your investments. Spreading your portfolio over several different kinds of investments could help reduce some of the inherent risks of investing and relieve some of the pressure associated with volatility in the markets. (Of course diversification doesn't ensure a profit or guarantee protection against a loss, especially in a declining market.)

The idea behind this strategy is relatively simple. If you put all your eggs in one investment basket, or into just a couple of baskets, a severe loss could have devastating effects. But if, for example, you added international stocks to an investment mix tilted heavily toward domestic stocks and bonds, you might be less likely to be hurt by a drop in one type of holding. Just keep in mind that foreign investments involve special risks relating to political, economic, currency fluctuations and other events.

6. Improve your credit score. Even if you need to cut down on spending, you're likely to borrow at least occasionally—for a home mortgage, say, or for a car that you use for your daily commute.

But you still may be able to reduce the interest you pay on loans by improving your credit score. Paying off existing debt on time is a crucial first step, and there are other moves that also could help. Check your current score online and consider tips for pushing it higher.

7. Keep an eye on taxes. Being aware of the tax implications of your money moves could help reduce another big expense. Deferring more of your salary for your 401(k) could reduce your tax liability, and there also are ways to minimize taxes on your investment earnings. For instance, long-term capital gains are taxed at a maximum rate of only 15% (20% if you're in the top tax bracket)—much better than the top rate of 39.6% on regular income. ●