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EpicCapital

A Good Life Well Lived. INSIGHTS

Put it in a Letter

Express your wishes

Actor Lee Marvin once said, "As soon as people see my face on a movie screen, they [know] two things: first, I'm not going to get the girl, and second, I'll get a cheap funeral before the picture is over."[1]

Most people don't spend too much time thinking about their own funeral, and yet, many of us have a vision about our memorial service or the handling of our remains. A letter of instruction can help you accomplish that goal.

A letter of instruction is not a legal document; it's a letter written by you that provides additional, more personal information regarding your estate. It can be addressed to whomever you choose, but typically, letters of instruction are directed to the executor, family members, or beneficiaries.

Make a Cheat Sheet. Think of a letter of instruction as a "cheat sheet" to your estate. Here are a few ideas and concepts that may be included:

*The location of important legal documents, such as your will, insurance policies, titles to automobiles, deeds to property, etc.
*A list of financial assets, including savings and checking accounts, stocks, bonds, and retirement accounts. Be sure to include account numbers, PINs, and passwords where applicable.
*A list of pensions or profit-sharing plans, including the location of their explanatory booklets.
*The location of your latest tax return and Social Security statements.
*The location of any safe deposit boxes and their keys.
*Information on your social media accounts and how they can be accessed.

Identify Funeral Wishes. A letter of instruction is also a good place to leave burial or cremation wishes. You should consider giving the location of your cemetery plot deed, if you have one. You may even wish to specify which hymns or speakers you would like included in your memorial service. Although a letter of instruction is

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not legally binding, your heirs will probably be glad to know how you would like to be remembered. It also may be helpful to leave a list of contact information for people who should be notified in the event of your death.

There is no "best way" to write a letter of instruction. It can be written in your style and reflect your personality, or it can be written to simply convey information. You should decide what type of letter best fits your estate strategy.

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.

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.[1]

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 homebased businesses.[3]

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.[4]

If you spend your HSA funds for non-medical 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.

Before adjusting your asset location, consider working with an investment professional who is familiar with tax rules and regulations.

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 and 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 older than 70½, remember your year-end RMD. Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs and 401(k), 403(b), and profit-sharing plans by 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.[5]

Lastly, should you make 13 mortgage payments this year? If your house is underwater, this makes no sense – and you could argue that those dollars might be better off invested or put in your emergency fund. Those factors aside, however, there may be some merit to making a January 2020 mortgage payment in December 2019. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more.

If you're considering making 13 payments, consider working with a tax, legal, or accounting professional who is familiar with your situation.[3]

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.

Trends in Charitable Giving

The hows and whys of charity in America.

According to Giving USA 2018, Americans gave an estimated $410.02 billion to charity in 2017. That's the first time that the amount has totaled more that $400 billion in the history of the report.[1]

Americans give to charity for two main reasons: to support a cause or organization they care about or to leave a legacy through their support.

When giving to charitable organizations, some people elect to support through cash donations. Others, however, understand that supporting an organization may generate tax benefits. They may opt to follow techniques that can maximize both the gift and the potential tax benefit. Here's a quick review of a few charitable choices:

Remember, the information in this article is not a replacement for real-life advice. It may not be used for the purpose of avoiding any federal tax penalties. Make sure to consult your tax, legal, or accounting professional before modifying your charitable giving strategy.

Direct gifts are just that: contributions made directly to charitable organizations. Direct gifts may be deductible from income taxes depending on your individual situation.

Charitable gift annuities are not related to annuities offered by insurance companies. Under this arrangement, the donor gives money, securities, or real estate, and in return, the charitable organization agrees to pay the donor a fixed income. Upon the death of the donor, the assets pass to the charitable organization. Charitable gift annuities enable donors to receive consistent income and potentially manage taxes.

Pooled-income funds pool contributions from various donors into a fund, which is invested by the charitable organization. Income from the fund is distributed to the donors according to their share of the fund. Pooled-income funds enable donors to receive income, potentially manage taxes, and make a future gift to charity.

Gifts in trust enable donors to contribute to a charity and leave assets to beneficiaries. Generally, these irrevocable trusts take one of two forms. With a charitable remainder trust, the donor can receive lifetime income from the assets in the trust, which then pass to the charity when the donor dies; in the case of a charitable lead trust, the charity receives the income from the assets in the trust, which then pass to the donor's beneficiaries when the donor dies.

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

Donor-advised funds are funds administered by a charity to which a donor can make irrevocable contributions. This gift may have tax considerations, which is another benefit. The donor also can recommend that the fund make distributions to qualified charitable organizations.

Some people are comfortable with their current gifting strategies. Others, however, may want a more advanced strategy that can maximize their gift and generate potential tax benefits. A financial professional can help you assess which approach may work best for you.

LPL Financial Representatives offer access to Trust Services through The Private Trust Company N.A., an affiliate of LPL Financial.

Your Extended Care Strategy

Are you prepared for the possibility – and expense – of eldercare?

Do you have an extra $33,000 to $100,000 to spare this year? How about next year, and the year after that? Your answer to these questions is probably "no."

What could possibly cost so much? Eldercare.

According to the AARP Public Policy Institute, a year of in-home care for a senior costs roughly $33,000. A year at an assisted living facility? About $45,000. A year in a nursing home? Approximately $100,000.[1]

Medicare has limitations. Generally speaking, it will pay for no more than 35 hours per week of home health care and only up to 100 days of nursing home care, following a hospitalization. It may pay for up to six months of hospice care. If you or someone you love happens to develop Alzheimer's disease or another form of dementia, Medicare will not pay for any degree of room and board for them at an assisted living facility.[2]

Medicaid is another resource entirely. For seniors who are eligible, Medicaid can pick up assisted living facility or nursing home expenses, and even in-home eldercare, in some instances. Qualifying for Medicaid is the hard part. Normally, you only qualify for it when you have spent down your assets to the point where you can no longer pay for eldercare out of pocket or with insurance.[2]

An extended care strategy may factor into a thoughtful retirement strategy. After all, your retirement may be lengthy, and you may need such care. The Social Security Administration projects that a quarter of today's 65-year-olds will live past age 90, with a tenth making it to age 100.[1]

"Remember, if you withdraw money from your HAS for a nonmedical reason, that money becomes taxable income, and you face an additional 20% penalty."

Insurance companies have modified extended care policies over the years. Some have chosen to bundle extended care features into other policies, which can make the product more accessible. An insurance professional familiar with industry trends may be able to provide you more information about policies and policy choices.

Waiting for federal or state lawmakers to pass a new program to help with the costs of eldercare is not much of a strategy. It is up to you, the individual, to determine how to face this potential financial challenge.[2]

If you lead a healthy and active life, you may need such care only at the very end. Assuming you do require it at some point, you may consider living in an area where you can join a continuing-care-at-home program (there are currently more than 30 of these, essentially operating as remote care programs of assisted living communities) or a "village network" that offers you some in-home help (not skilled nursing care, however).[1]

Those rare and nice options aside, retirement saving also needs to be about saving for potential extended care expenses. If insurance addressing extended care is not easy to obtain, then a Health Savings Account (HSA) might be an option. These accounts have emerged as another solution to extended care needs. An HSA is not a form of insurance, but it does provide a tax-advantaged savings account to which you (and potentially, your employer) can make contributions. You can use these funds to pay for most medical expenses, including prescription drugs, dental care, and vision care. You can look into this choice right away, to take advantage of savings over time.[3]

Once you reach age 65, you are required to stop making contributions to an HSA. Remember, if you withdraw money from your HSA for a nonmedical reason, that money becomes taxable income, and you face an additional 20% penalty. After age 65, you can take money out without the 20% penalty, but it still becomes taxable income.[3]

An HSA works a bit like your workplace retirement account. Your employer can make contributions alongside you. However, the money that you contribute comes from your pretax income and can be invested for you over time, so it may grow as your contributions accumulate.[3]

There are also some HSA rules and limitations to consider. You are limited to a $3,500 contribution for 2019, if you are single; $7,000, 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. Your employer can contribute, but the ceiling is cumulative between your contributions and theirs. For example, say you are lucky enough to have your employer put a hypothetical $1,000 into your account in 2019; you may only contribute as much as the rest of your limit, minus that $1,000. If you go over that limit, you will incur a 6% tax penalty, so it is smart to watch how much you contribute.[3]

Alternately, you could do without an HSA and simply earmark a portion of your retirement savings for possible extended care costs.

One thing is for certain: any retiree or retirement saver needs to keep the possibility of extended care expenses in mind. Today is not too soon to explore the financial options to try and meet this challenge.

If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us

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