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Retirement Savings: Do Yours Measure Up?

When envisioning retirement, you may picture living in tropical climates, traveling and sightseeing at leisure, or doing whatever suits you on any given day. Regardless of your age or circumstance, it might surprise you to learn that a "lifestyle plan" is an important part of retirement planning.

Knowing how you want to spend your retirement years, where you might like to live, and which activities you plan to pursue is necessary in determining the total amount of cash you'll need. A general rule of thumb suggests that you may need 60% to 80% of your current income per year in order to maintain your current standard of living in retirement. If you find this figure surprising, you are not alone.

Social Security

Although many people think that their Social Security benefit will provide a large portion of their retirement income, for the most part, it is a *supplement* to their retirement savings, rather than a main source of income. You can get an estimate of your future Social Security benefits by going to the Social Security website at www.ssa.gov and using the online estimate calculator. By obtaining your estimate of benefits online, you can plan for the amount of income you will need to supplement your desired lifestyle.

Since Social Security provides only a portion of needed income, many people rely on savings to make up the difference. And yet,

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Your Business: Passing the Torch

Let's assume that you've decided to transfer your business to another family member. However, you are concerned about the tax consequences of relinquishing ownership, and how your future personal cash needs will be met. Consequently, you are a little unsure how best to proceed.

You could gift your entire interest in the business, but there are several reasons for *selling* at least *some* portion of the business to a family member(s) rather than making an outright gift:

- Gifting the entire entity could result in substantial gift taxes without providing you with any cash to help pay those taxes.
- You may need to get some cash out of the business for funding your retirement income needs.
- If some family members will not be involved in the business, you may also wish to obtain cash to provide equal treatment (i.e., compensation) to nonparticipating family members.
- You may want to use selling, rather than gifting, to help the acquiring family member(s) appreciate the value of ownership.

If structuring all (or some) of the transaction as a sale makes sense in your particular situation, there are tax-saving strategies that can benefit you and other family members.

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Retirement Savings: Do Yours Measure Up?

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according to The 2019 Retirement Confidence Survey (RCS), 40% of respondents who are currently working report having total savings and investments of less than $25,000.*

With the decline in traditional **pensions** and the uncertain future of Social Security, individuals are increasingly responsible for their own retirement funds, but according to these statistics, many have yet to take that important first step.

Taking the First Step

Starting a retirement savings plan can be a lot easier than you may think. In fact, the first step is to accept "free" money. This means taking full advantage of all of your employer's benefits. This may include a traditional pension, also known as a **defined benefit plan** that your employer contributes to on your behalf, which is then payable to you upon retirement.

Today, a more common benefit option is a **defined contribution plan**, such as a **401(k)**. Your employer may offer a company match in contributions up to a certain percentage.

That's free money increasing your principal that did not come out of your paycheck, but you must make the contributions. Employer-sponsored 401(k) plan contributions may be deducted from your paycheck before taxes, and have the potential to grow tax deferred.

Because money is deducted from your gross pay, you may find that your contributions have a relatively small impact on net income, and can be of great benefit to your overall nest egg. For example, saving $5,000 today, over a period of 15 years, at a hypothetical 5% rate of return, could amount to over $10,569 in additional savings income.

Individual Retirement Accounts

Since retirement may require 75–90% of your current income, many people are contributing to **Individual Retirement Accounts (IRAs)** in addition to employer-sponsored retirement saving plans. **Traditional** and **Roth IRAs** allow for annual contributions of $6,000 in 2019 for those under age 50. For those age 50 and older, annual "catch up" contributions of an additional $1,000 are allowed in 2019. Funds in both accounts will be subject to a 10% Federal income tax penalty if distributions are taken before age 59½, however, certain exceptions apply.

Depending on your income and participation in an employer-sponsored plan, contributions to a traditional IRA may be tax deductible and earnings grow tax deferred until you retire. Contributions to a Roth IRA are made after taxes, but are tax exempt when you withdraw in retirement, provided you are age 59½ or older and have owned the account for at least five years. Taking the opportunity to save as much as you can afford each year could have a favorable and significant impact on your ability to reach your retirement goals.

You can achieve your retirement goals and live the lifestyle you desire, if you develop a game plan. Take time now to evaluate your resources, set retirement goals, and take the necessary steps to reach them. $

* Source: Employee Benefit Research Institute (EBRI), *The 2019 Retirement Confidence Survey (RCS)*.

Some Things to Consider When Making Regular Charitable Gifts

Sometimes, our desire to give can lead us into making commitments that are difficult to fulfill. Any endeavor worth undertaking, especially one that can benefit others, deserves our careful consideration *before* we take action. Therefore, when contemplating charitable giving, you may want to consider the following points:

- **Choose your causes.** Worthy causes abound and often demand our immediate attention. Choose a limited number of organizations that concentrate on areas that are important to *you*, and then research what kind of help is needed.

- **Budget your gifts.** Include charitable gifts when planning your annual budget. Distributing your donations throughout the year may lessen the impact on your finances and increase the total you may be able to give.

- **Plan your volunteer activities.** Volunteering can be a rewarding experience, especially when you're able to see the fruits of your labor. Carefully determine the time you have available to ensure your best efforts for the cause, and avoid taking on too much.

- **Review your plans.** Just as you review your annual financial budget, look at your annual time/value budget. Revise your volunteer commitments to include those where the rewards have been the greatest for both you and your cause.

- **Consider a testamentary gift.** If you are fortunate enough to be in a position to increase the amount you donate, or if you are concerned about the future of the organizations you support, consider making a testamentary gift.

Testamentary Gifts

Generally, a testamentary gift is a promise of funds to be given from your estate upon your death. However, using your estate in this way may cause complications. Your intended gift could be reduced if any of the following apply:

- The fair-market value of your assets decreases before your death.

- Unforeseen estate expenses must be met from your assets.

- Your will is contested.

You may be able to protect your gift from estate problems through the establishment of a **trust**. However, the associated legal and administrative costs may have an adverse impact on your gift.

Protection for Your Charitable Gift

Your intentions—and your gift—can be protected from the complications above through the use of **life insurance**. The potential of life insurance may even result in a larger gift than you had originally intended.

The policy can be owned by the charity and removed from your estate, generally protecting your gift from taxation, creditors, and legal contest. It can be purchased and maintained with funds that you contribute to the charity, and as such, your contributions are tax deductible as a charitable gift. As owner of the policy, the charity can decide whether to use your gift to pay the premiums or let the policy lapse. As **beneficiary**, the charity will receive the proceeds of the policy at your death. Depending on the type of policy purchased and the charity's willingness to use your contributions to maintain the policy, these proceeds may be guaranteed and may increase over time. In addition, the proceeds may exceed the amount you would have otherwise given outright during your lifetime or upon your death, depending on the policy type and other factors.

The satisfaction that can come from preparing your charitable gifts ahead of time can be extremely rewarding. When protected with life insurance, your gift could result in the ability to yield more than you ever imagined possible. It may help provide essential funding for your chosen organization, enabling the continuation of its good work.

Be sure to consult a qualified insurance professional to determine the appropriate strategy for your unique circumstances. $

All insurance guarantees are based on the financial strength and claims paying ability of the issuing insurance company.

The Importance of Social Security Numbers for Children

In the past, children typically applied to the Social Security Administration (SSA) for Social Security numbers (SSNs) in their teen years when they entered the workforce. Today, even though having a SSN is not mandatory, almost all personal financial transactions are now linked in some way to a SSN. For example, it is important for your child to have a number in order to be claimed as a dependent on your income tax return. The Internal Revenue Service (IRS) requires that SSNs be listed for all *dependents* claimed on tax returns. Your child may also need a number for the following reasons: if you open a bank account for your child; buy savings bonds in the child's name; obtain health insurance coverage for your child; or apply for government services.

The easiest, most convenient time to apply for your child's SSN is when you provide the information for your baby's birth certificate at the hospital. You will then have the opportunity to apply for your newborn's SSN. The state agency that issues birth certificates will contact the SSA with your child's information, and your child's Social Security card will be mailed to you. When you receive your child's card, remember to keep it in a safe location and not to carry it with you.

If you should wait to apply for your child's SSN, the SSA will require proof of your identity, as well as proof of your child's age, U.S. citizenship, and identity. In addition, the SSA will have to verify your child's birth record, which can take up to another three months before you will receive the Social Security card. The SSA's verification process is necessary to help protect your child from becoming a victim of SSN identity theft through the fraudulent use of birth records. If you are planning to adopt a child, it is recommended that you apply for your newly adopted child's SSN when the adoption is complete.

There is no cost for obtaining a Social Security card because Social Security services are free of charge. Therefore, if anyone contacts you about obtaining a card or SSN and is charging a fee, he or she is *not* affiliated with the SSA. Further, if you suspect your child's number is being used by someone else, you can file a complaint with the Federal Trade Commission (FTC) either online at www.consumer.gov/idtheft, or by phone at 1-877-IDTHEFT.

To learn more about obtaining a number for newborns or other Social Security services, visit www.socialsecurity.gov, or call 1-800-772-1213. $

A Savings Plan That Pays for More than College

If you're thinking about ways to fund your child's education, the Federal government has provided an incentive—the **Coverdell Education Savings Account (Coverdell ESA)**, formerly known as the Education IRA. Contributions are not tax deductible, but withdrawals for eligible education expenses are tax free.

If you're a parent who wishes to open a Coverdell ESA for your child, keep in mind that there are income eligibility limits. Contributions phase out for single taxpayers with adjusted gross incomes (AGIs) between $95,000 and $110,000, and for married couples filing jointly with AGIs between $190,000 and $220,000 in 2019.

You may contribute up to a maximum of $2,000 annually per child until the designated student reaches age 18. Contributions are subject to the gift tax; the **annual gift tax exclusion** limits are $15,000 for singles and $30,000 for married couples in 2019. Remember, if you also contribute to a 529 plan for the same child during the same year, you will need to add these gifts together to determine your gift tax filings.

There is no limit to the number of accounts that may be held in a child's name or the number of people who may make contributions to a Coverdell ESA—as long as total contributions remain within the $2,000 annual limit per child. If multiple accounts are established and the total contribution exceeds $2,000, the excess is subject to a 6% excise tax penalty. You can, however, eliminate the penalty by withdrawing the excess contributions (and any earnings) before the due date for the beneficiary's tax return for that year. The withdrawal would be considered income, and it would be subject to taxation.

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A Savings Plan That Pays for More than College
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Coverdell ESA funds can be used to pay for more than just college expenses. Funds can also be used to pay for elementary and secondary school expenses, including the purchase of computer systems, educational software, and Internet access for the child.

A Few Holds Barred

The beneficiary must spend a Coverdell ESA by his or her 30th birthday. If the designated beneficiary does not use the funds for educational purposes by that age, the account may be rolled over to another family member who is under age 30. Withdrawals from a Coverdell ESA that are not used for qualified education expenses may be subject to both income taxes and a 10% penalty.

Finally, if you're hoping your child will qualify for financial aid for college, you may want to think twice about setting up a Coverdell ESA, as such an account must be set up in the child's name. When determining how much a family can afford to contribute to the cost of college, assets held in a child's name count more heavily than those held in the parents' names. Therefore, it may be more difficult to obtain financial aid.

To learn more about funding college costs through a Coverdell ESA or other financial sources, including financial aid, visit the US Department of Education at www.studentaid.ed.gov. $

Living Together: Are There Strings Attached?

Unlike marriage, which involves numerous legal obligations and rights, a couple living together outside of marriage may be unaware of concerns unique to their domestic partnership, and could possibly face the following challenges over the course of their relationship: What happens when property is purchased together, or when one partner financially supports the other and then both individuals go their separate ways? What about assets accumulated while the couple lives together? Does a former partner have a right to such property? Suddenly, cohabitation could become more than a mere living arrangement and turn into an issue of asset protection or lifestyle preservation.

Untying the Knots of Obligation

Perhaps the most significant problem facing unmarried domestic partners is a potential claim to property, if and when the relationship ends. The issue of property rights can sometimes create major disagreements that, in some states, have resulted in **palimony** lawsuits.

"Palimony," which means the division of property and/or support payments as a result of the break-up of two unmarried individuals, does not have its origins in the law. The media coined the term in the 1970s amid several high-profile celebrity lawsuits. Although palimony suits generally occur in a limited number of states, unmarried couples could learn valuable lessons from such cases when planning a life together. In states where palimony suits are prevalent, **cohabitation agreements** are an increasingly popular method for unmarried couples to clarify their expectations and obligations. The parties can determine how comprehensive the contracts need to be, taking into consideration their combined assets. When properly drafted, these agreements may be enforceable in a number of states.

A carefully written agreement can outline everything from how jointly owned property will be distributed to what support will be provided by one partner to the other, in the event the relationship terminates. Like any contract, a written cohabitation agreement should be prepared with the assistance of legal counsel to ensure that both parties' wishes are equally and fairly represented.

For whatever reasons, one or even both partners may not wish to enter into a formal agreement. If one party is of substantial means, a personal asset protection plan may be an option for that individual to explore in further detail. However, there are other ways to help avoid potential problems. For example, it may be unwise to purchase significant assets together, title assets in joint names, regularly give money to a partner (unless it is made as a "gift" using the annual gift tax exclusion), place money into a joint account, or use a partner's last name.

In today's tax environment, estate planning for unmarried partners is complex. Although such planning can be challenging, it may be less difficult if both individuals have a realistic understanding of their rights regarding asset protection and lifestyle preservation. $

Life Insurance and Divorce: Protecting Your Family's Future

Sometimes in life, things don't work out as planned. One of the most trying examples is when a couple decides they can't make their marriage work and, subsequently, file for divorce. Divorce can take a significant financial and emotional toll on a couple, their children, and other family members. In the midst of immediate financial and legal concerns, couples also need to consider ways to help protect their individual financial futures and that of their children's in the event of death. Life insurance may offer a solution.

Let's take a look at several different scenarios. After divorce, if the non-custodial parent who is paying alimony and/or child support were to die, then the custodial parent may be unable to maintain the children's lifestyle or save for a future college education. On the other hand, if the custodial parent were to die, the non-custodial parent may be unable to afford childcare expenses. Consequently, divorcing couples may want to consider making life insurance policies part of the divorce decree.

The custodial parent may want to purchase a life insurance policy on the non-custodial parent, but if not, transferring ownership and beneficiary arrangements on an existing policy may be another option. The custodial parent may request alimony or child support increases to cover the cost of policy premiums. If the non-custodial parent remains the policy owner, the divorce decree can include arrangements to ensure that the custodial parent is named as the irrevocable beneficiary, and that he or she receives ongoing proof that the payments are made and the policy remains in force.

The non-custodial parent may wish to keep the policies he or she already has to protect other financial interests. To ensure protection for children from a previous marriage, the non-custodial parent may consider purchasing a new policy on his or her life, naming the former spouse as the owner and beneficiary. If this is done before or during the divorce proceedings, gift tax will not be owed. If the custodial parent is the policy owner, premiums may be tax deductible as alimony.

For existing policies, it is important to remember that the insurance company must be notified of any beneficiary changes. A will cannot be used for this purpose. In addition, should the insured remarry and the policy names the "husband" or "wife" of the insured as the beneficiary, the new spouse may receive the proceeds. If the insured does not remarry and the same policy language is in force, then the proceeds may be paid to the secondary beneficiary. If the insured's estate is named as the new beneficiary, insurance proceeds may be delayed by the probate process. If minor children are named as beneficiaries, additional problems may arise, as insurance companies generally do not pay minors directly. For this reason, you may want to consider creating a trust for minor children and naming the trust as the beneficiary of the policy proceeds.

Divorce is rarely easy, but with a well-planned strategy, the short- and long-term financial needs of your loved ones can be met. Since laws vary from state to state, be sure to consult with your team of qualified tax and legal professionals about your unique circumstances. $

Survivorship Life: A Win-Win Proposal

If you are looking for a flexible and creative life insurance product, you may want to consider **survivorship life insurance**. Often referred to as ***last-to-die*** or ***second-to-die*** life insurance, this coverage insures *two* individuals, but provides only one death benefit payable at the death of the second insured. In some instances, especially when the insured individuals are nearing retirement, it may be less expensive than a single life insurance policy on one individual.

Cost savings are possible because the insurance risk is spread over the life expectancy of two lives rather than one. In fact, two individuals can be insured even if one is medically "uninsurable," therefore providing added planning potential for otherwise difficult situations.

Benefits for Estate Planning

Survivorship life insurance is often used as a vehicle to fund estate taxes. Even with the appropriate wills, trusts, and property-ownership designations, married individuals who properly balance their estates are still subject to estate tax on assets exceeding the **applicable exclusion amount** of $11.4 million per person for 2019. In this type of situation, a survivorship life insurance policy can be an integral part of an estate plan.

For example, consider the hypothetical case of Adam and Julie. Adam and Julie are both 60 years of age and have three adult children. They have updated and signed the appropriate legal documents (**wills**, **trusts**, and so forth) and repositioned their asset ownership to maximize their individual applicable exclusion amounts. For a married couple in 2019, $22.8 million can potentially pass to their heirs free of estate taxes. However, the remainder of their assets may incur as much as a 40% Federal estate tax in 2019.

One solution to this problem would be to create an **irrevocable trust** to purchase a survivorship life insurance policy on their lives. The trust would own and be the beneficiary of the policy and, thus, would allow the policy proceeds to pass to the trust beneficiaries (the couple's children) free of estate taxes. Adam and Julie could also *gift* the policy premiums to the trust using their **annual gift tax exclusions** of $15,000 (indexed for inflation) per person per donee for 2019. In order to qualify for the annual exclusion, the trust would need to contain a provision called a **Crummey withdrawal power**.

Enhancing Charitable Gifting

Even if an individual does not foresee any estate tax problems, survivorship life insurance can be a dynamic method to enhance any gifting program. Suppose Adam and Julie's net assets total $600,000 and they have little concern about estate taxes. However, they make an annual gift of $5,000 to a favorite local charity. Rather than gifting $5,000 in cash to the charity every year, they may choose to leverage their gift and pay the premium on a survivorship life insurance policy. This insurance gifting program can be arranged so that the charity would be the owner and beneficiary of the new survivorship life policy. Adam and Julie would then receive an annual charitable deduction for their gift, and the charity would ultimately receive a life insurance death benefit.

Maintaining Business Continuity

In a more advanced use, survivorship life insurance can be effective in helping to ensure continuity in a closely held business. For instance, passing a family-owned business of substantial value to heirs may be hindered by potentially high estate taxes that, in some instances, may require a forced sale of the business in order to raise the necessary cash to pay the taxes. A survivorship life insurance policy can be purchased on the lives of the owner and his or her spouse, with the death benefit providing cash to help meet estate tax obligations and keep the business in the family.

Whether you have concerns about potential estate taxes or wish to leverage the value of a gift to your favorite charity, a survivorship policy can help provide a relatively high benefit for a minimal cost. Be sure to consult your team of professional advisors, including tax and legal professionals, for specific advice about your unique circumstances. $

Your Business: Passing the Torch

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The Self-Canceling Installment Note (SCIN)

While a sale usually involves payments all at once upon the "closing," an installment sale is an arrangement that provides for payments in any year after the year of sale.

An installment sale can be very useful for spreading out both buyer payments and seller tax liability over a period of years. It also "freezes" the value of a company at the time an agreement is reached between buyer and seller. By freezing a company's value, any future appreciation of the company is kept out of the seller's estate.

However, one limitation of a conventional installment sale is that if the seller should die before the note is fully paid, the buyer would still be liable for paying the balance to the seller's estate, and the present value of the future payments would be included in the decedent's gross estate.

By adding a **self-canceling provision** to the installment sale agreement, no further payments need be made by the buyer if the seller fails to outlive the term of the installment note. The balance of the note would not be included in the seller's estate for estate tax purposes (avoiding potential estate taxes). However, in the seller's estate there would be "income with respect to a decedent" (IRD) upon the cancellation of the installment note.

The SCIN vs. a Private Annuity

Another technique for making intrafamily transfers is a **private annuity**, whereby the buyer(s) provides periodic fixed payments to the seller for a fixed term of years or over the seller's lifetime in exchange for ownership. Here are some points you may want to consider:

- If the seller outlives his or her actuarially determined life expectancy, under a private annuity, the buyer must continue to make payments. With a SCIN, payments end upon the noteholder's death or the expiration of the note's term.
- With a private annuity, payments made during the seller's life expectancy are subject to capital gains taxes. However, if the seller outlives his or her life expectancy, all subsequent payments are taxed at potentially higher ordinary income tax rates.
- With a private annuity, any remaining unpaid portion at the death of the seller would not be included in the seller's estate. With a SCIN, there is the potential for "income with respect to a decedent."
- Property purchased with a SCIN receives a step-up in basis. However, there is no step-up in basis with a private annuity.

Sale and Gift Combination

Wealth preservation can be accomplished by combining a sale with gifting that maximizes use of the annual $15,000 gift tax exclusion—and takes advantage of the $11.4 million applicable exclusion amount. The key is having a business valuation that will withstand Internal Revenue Service (IRS) scrutiny, since the IRS can negate what it considers a "bargain sale" between related parties. Regardless of which strategy is right for you, with *proper* planning, you can transfer business assets to a family member in a tax-efficient manner while providing for your future cash needs. $