Loose Change®

a penny saved is a penny earned

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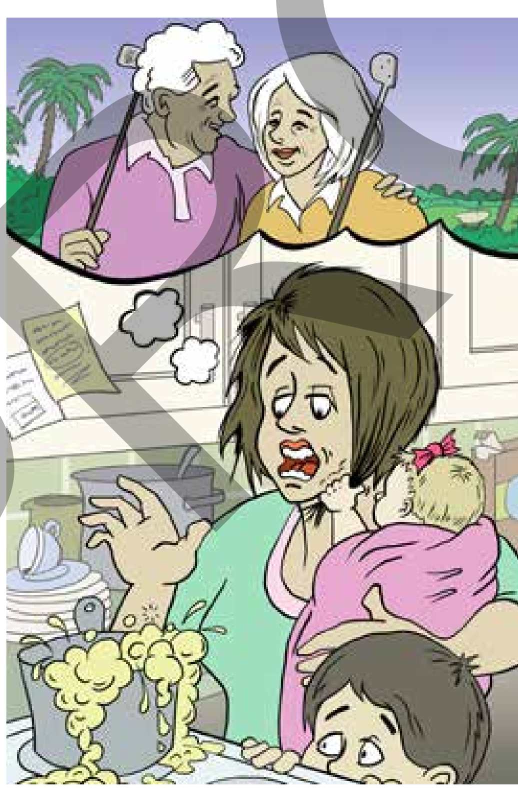
Retirement Savings for Non-working Spouses

To build retirement savings and Social Security benefits, you generally need the types of earned income from which payroll taxes and retirement plan contributions come. But even if you never earned income, you may still qualify for certain spousal benefits.

Spousal IRA

While most tax-qualified retirement plans require owners to offset their contributions with earned income, a spousal IRA allows contributions in the names of spouses with little to no earned income. This is especially important for parents who interrupt their careers to start and care for families at the expense of income parity when they return to work.



Because women may earn less, on average, than men for doing the same work, women are often lagging in retirement readiness. A spousal IRA can help a lower-paid or even non-working spouse save for retirement, as long as the working spouse has enough income to offset contributions from both spouses.

The Rules

If you qualify by the same income limits and age restrictions that govern all IRA accounts and you file a joint federal income tax return, a spouse without any earned income can still contribute to either a traditional or Roth IRA. In 2019, the annual contribution limit is $6,000, plus an extra $1,000 if at least age 50.

Income limits, age restrictions and access to an employer-provided qualified retirement plan will determine the tax deductibility of a spousal IRA. However, owners of any IRA get to enjoy tax-deferred growth potential. Owners of traditional IRAs typically pay ordinary income tax on retirement withdrawals, while qualified distributions from Roth IRAs are tax-free.

In Retirement

Spouses with little to no lifetime income can also qualify for spousal Social Security benefits. Spousal benefits generally are half of the spouse's benefit at full retirement age, which is 66 this year and increasing to 67 over the next few years.

If your spouse begins receiving benefits before or after full retirement age, your spouse's—and your—monthly benefit will vary depending on when benefits begin. If you take benefits before your spouse's full retirement age, Social Security reduces the benefit permanently. If you take benefits after this age, benefits permanently increase.

Seasonal Businesses

For many businesses, summer earnings will comprise the vast majority of their income. How do you get the most from this short season?

Manage Your Cash: Keep a lid on expenses and purchase sale items. Avoid overbuying and pay close attention to outstanding invoices.

Anticipate Bumps: Keeping a cash cushion becomes vital when bad weather or even a natural disaster slows your business to a crawl during peak season. You can manage your cost of risk by carrying property, liability and flood insurance.

Get Creative: Hire retirees or teens looking to work a few months a year. Work with complementary businesses to offer discounts and other deals to your customers. Create an alternative income stream or two. For example, landscapers might turn to snow removal during the off-season in areas of the country with four seasons.

What About You? While your business may be seasonal, your financial wellbeing should be maintained year-round. Leverage business dollars to invest for your future in retirement.

Summer Fun on a Budget

Summer is traditionally when we find time to kick back, take a vacation and enjoy the weather. This season can also take a bite out of your budget. Here are a few tips to help you not break the bank this summer.

If you plan to travel by air, consider off-peak hours and flexible travel dates. Both could save you a sizable sum.

If you're staying home this summer, suspend your gym membership for a couple of months and bike, swim or exercise outdoors.

Buy a grill and outdoor furniture at the end of summer, when clearance prices are likely to dominate.

Keep your blinds and curtains closed during the sunniest part of the day. This will lessen the load on your air conditioning.

Raise your AC thermostat a degree or three. This simple step will add up in savings over time.

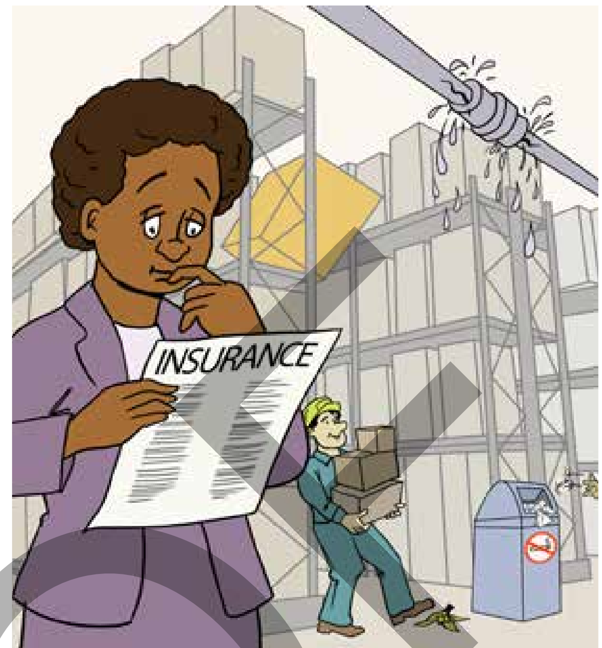
Know Your Risk Exposure

While most businesses have basic property and general liability insurance, they may have risk exposures elsewhere. Conduct an insurance audit to find out where.

The Basics

Start by exploring the need for business vehicle insurance and umbrella insurance. The latter is an extra amount above the limits established by property, liability and auto insurance.

Work with an insurance professional to understand the limits, deductibles and exclusions of each type of insurance. Exclusions could point to the need for more specialized insurance.



Specialized Coverage

Exclusions that may need separate coverage often include flood, windstorm and earthquake coverage. In some areas, windstorm or flood insurance is required.

Beyond Nature

Other types of coverage your business might need include cyber theft and identity theft insurance, to cover your employees and your customers for these risks.

Depending on the policy, employment practices liability insurance (EPLI) will help insure against damages due to wrongful termination, employee harassment, discrimination and other risks. If you have a professional practice, you may need errors and omissions (E&O) insurance.

Life & Disability

If you have employees, you may want to price group life insurance and disability income (DI) insurance. The former helps protect employees' loved ones, while the latter helps protect employees' largest asset—their ability to earn a living.

While you're comparing insurance coverage for your employees, don't forget about life insurance and DI insurance to protect yourself, partners and the business. With the help of a qualified attorney, you can create an agreement that includes life insurance on individual owners. The death benefit can either go to family members named as beneficiaries to pay for a business interest, or to the business to help the company recoup the financial loss that accompanies the death of an owner.

Talk to your financial professional experienced with business insurance to learn more.

When You Need a Trust

While you can create a will yourself through an online legal service (see accompanying infographic), consulting with your legal, tax and financial professionals may help you uncover financial challenges that a will alone cannot address. A trust may help you meet these challenges. Whether you have a modest estate you wish to shield from the public glare of probate or you want to reduce estate and inheritance taxes on a large estate, there is a trust to meet almost any estate planning challenge.

Two Types of Trusts

While there are many trusts, they all fall into two categories: revocable and irrevocable. They are what their names imply: You can amend and terminate a revocable trust, two things that are extremely difficult to do with an irrevocable trust. A revocable trust is designed for control and to keep financial affairs out of probate, not to reduce estate taxes.

Life Insurance Trust

One common type of irrevocable trust is a life insurance trust. While life insurance death benefits are usually income tax-free, they are subject to estate taxes. The threshold at which federal estate income taxes begin is more than most estates' value, but state inheritance taxes could kick in at much lower levels in some locations.

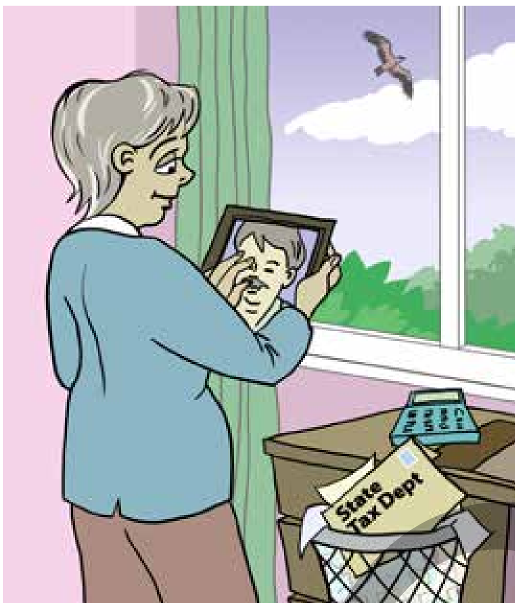
It is important to remember that the trust, not the estate, is the owner and beneficiary of the life insurance, and distributes its death benefit to beneficiaries named in the trust tax-free after the insured person dies.

Life Insurance and Taxes

Life insurance is sometimes called the gift of love. In its most basic form, you buy a life insurance policy for its lump-sum death benefits directed to your beneficiaries. For most people this benefit is a way to financially protect loved ones, but there may be tax consequences, too. The following examines how life insurance may affect your overall tax picture.

What Is and Isn't Taxed

There are no tax benefits connected to premiums you pay for an individual life insurance policy, but you may owe income tax on employer-paid life insurance of more than $50,000 or if your premiums were tax-deductible. Beneficiaries may also owe income tax on employer-paid life insurance if any cash value increased the death benefit.



However, death benefits are typically income tax-free to the beneficiary in most instances, and cash value (in those policies that offer it) grows tax-deferred. Dividends, which some life insurance policies pay when expenses are lower than anticipated, also don't trigger taxes. Dividends are not guaranteed. There are a number of ways that cash value and insurance surrendered during your lifetime can have tax consequences, so work with your financial and tax professionals to make sure you follow the rules.

Ownership Matters

Most families that pay life insurance premiums with after-tax money either through the workplace or individually won't notice any tax advantages until the policy's death benefits are paid. That's when beneficiaries receive benefits that are typically income tax-free. This isn't necessarily the case, though, when it comes to estate taxes.

True, the federal estate tax exemption amount has increased markedly to over $11 million (over $22 million for couples filing jointly) in recent years, affecting only a small percentage of Americans. But some states that levy estate and inheritance taxes have much lower tax thresholds.

If you use a life insurance trust to buy and own life insurance (with the help of an estate planning attorney), you can help shield loved ones from estate taxes on the death benefit, no matter how much it is.

Put Your Wishes in Writing

Living wills, healthcare proxies and healthcare powers of attorney are all types of advance directives, which are legal documents that allow you to spell out your decisions about end-of-life care ahead of time.

Living Will

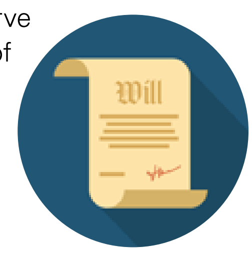
A living will is a legal document in which you dictate how you want medical professionals to treat you in different health instances. For example, if you are permanently unconscious or dying, this document may instruct others not to provide life-sustaining treatment, such as a ventilator or feeding tube.

Healthcare Proxy

A healthcare proxy and durable power of attorney for health care are the same. Each is a legal document in which you appoint a person to make medical decisions on your behalf when you are not able to make them on your own. You may also want to choose an alternate proxy, in the event the primary proxy is unavailable.

Key Considerations

In addition to these healthcare-related documents, consider drawing up a will and a durable power of attorney for financial reasons. Combined, these documents can serve as the foundation of an estate. Talk to a qualified estate planning attorney to learn more.



Five Reasons You Need a Will

Having an up-to-date will is one of the most important planning steps you can take in any area of your life. If you don't believe this, consider these reasons why you might change your mind. Through a will, you can:

01 Direct who will receive your assets after you pass

02 Name legal guardians for your minor children

03 Help prevent confusion among beneficiaries

04 Designate an executor who will settle your estate

05 Donate assets to the charities of your choice

Plan for Change

When you anticipate and plan for various changes that could affect your business, you increase the likelihood that it will prosper over the long term. Similarly, you'll want to pay attention to changes in your business that could affect your personal financial or estate strategies. Here are some events that should trigger a review.

Changes in Personnel

The loss of a key person, especially a co-owner, could have a dramatic impact on the viability of your business and is a possibility you need to address in advance. If you haven't already, consider the potential need for a buy-sell agreement and look into securing life insurance on your business's key people.

Changes in Financial Status

Has your business grown to the point where you can consider establishing a retirement plan? A retirement plan can be an attractive employee benefit and could also benefit you personally. Moreover, employer contributions to a qualified retirement plan are tax deductible (within limits).

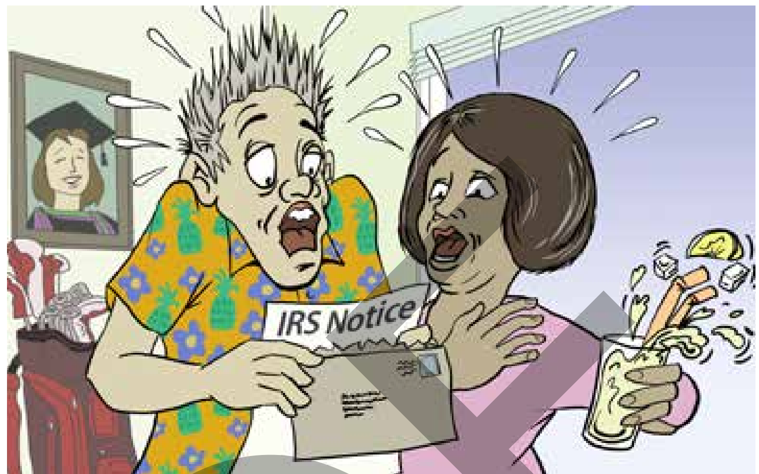
Changes in Business Structure

When you change how your business is structured—for example, electing or terminating its S-corporation status or forming a limited liability company—you should also review your estate strategy. You want to be certain that changes in your business's structure do not negate parts of your strategy.

Lowering Taxes After Age 65

Managing your taxes in retirement is important as ever. In retirement, you may have income from various sources, with each one having tax rules that might differ from others. One nasty tax surprise can reduce your fixed income in retirement without an easy way to make up the loss. However, understanding the rules can help minimize taxes.

Compare Taxes



Each source of your retirement income has its own individual tax effect. For example, realized gains from taxable investments held at least one year incur a tax ranging from 0% for those with the least income to 20% for more affluent investors. The majority of investors in between, with a 15% capital gains tax, need to compare this against the reduced federal income tax rate on distributions from a traditional IRA or 401(k) plan to determine a withdrawal strategy.

You may also want to consider when to begin withdrawing money from a tax-free Roth IRA if you have one. You aren't required to take minimum distributions from a Roth during your lifetime. Not so with a traditional IRA or 401(k) plan, which require minimum distributions by age 70 ½. Failure to meet this deadline may result in a stiff penalty on the required amount not withdrawn. If you qualify by income, converting some or all of a traditional IRA to a Roth IRA in a down income year may also make sense.

Other Challenges

Depending on your state and income, Social Security benefits may be tax-free. Also dependent on your state are your total tax deductions. With the new state and local tax (SALT) deduction limit of $10,000 from combined state income and real estate taxes, you might consider downsizing your home or even moving to a state with low or no income and real estate taxes.

When to begin drawing Social Security benefits is another question to answer. Taking them before full retirement age may reduce your benefit permanently, while the benefit permanently increases for every year of delayed payments up to age 70. And if you continue to work, you can still contribute to an IRA or 401(k) plan. Talk to your financial professional to learn more.

Financial Industry Regulatory Authority

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

January 10, 2019

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Org Id: 8408

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The communication submitted appears consistent with applicable standards.

Reviewed by,

Thomas G. Dineen, III
Associate Principal Analyst

tgd

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