



## Berman Capital Management & Research

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Happy Thanksgiving Everyone!

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Financial Mistakes People Make at Different Ages

Periodic Review of Your Estate Plan

Taxes, Retirement, and Timing Social Security

What do I need to do to create a will?

# Berman Capital Management News *Financial & Investment Insights*

## Financial Mistakes People Make at Different Ages



There's a saying that with age comes wisdom, but this may not always be true in the financial world. As people move through different life stages, there are new opportunities--and potential

pitfalls--around every corner.

### In your 20s

*Living beyond your means.* It's tempting to want all the latest and greatest in gadgets, entertainment, and travel, but if you can't pay for most of your wants up front, then you need to rein in your lifestyle. If you take on too much debt--or don't work diligently to start paying off the debt you have--it can hold you back financially for a long, long time.

*Not saving for retirement.* You've got plenty of time, so what's the rush? Well why not harness that time to work for you. Start saving a portion of your annual pay now and your 67-year-old self will thank you.

*Not being financially literate.* Many students graduate from high school or college without knowing the basics of money management. Learn as much as you can about saving, budgeting, and investing now so you can benefit from it for the rest of your life.

### In your 30s

*Being house poor.* Whether you're buying your first home or trading up, don't buy a house that you can't afford, even if the *bank* says you can. Build in some wiggle room for a possible dip in household income that could result from switching jobs, going back to school, or leaving the workforce to raise a family.

*Not protecting yourself with life and disability insurance.* Life is unpredictable. What would happen if one day you were unable to work and earn a paycheck? Let go of the "it-won't-happen-to-me" attitude. Though the cost and availability of life insurance depend on several factors including your health, the younger you are when you buy insurance, the lower your premiums will likely be.

*Not saving for retirement.* Okay, maybe your

20s passed you by in a bit of a blur and retirement wasn't even on your radar screen. But now that you're in your 30s, it's critical to start saving for retirement. Wait much longer, and it can be hard to catch up. Start now, and you still have 30 years or more to save.

### In your 40s

*Trying to keep up with the Joneses.* Appearances can be deceptive. The nice homes, cars, vacations, and "stuff" that others have might make you wonder whether you should be buying these things, too. But behind the scenes, your neighbors could be taking on a lot of debt. Take pride in your savings account instead.

*Funding college over retirement.* In your 40s, saving for your children's college costs over your own retirement is a mistake. If you have limited funds, set aside a portion for college but earmark the majority for retirement. Then sit down with your teenager and have a frank discussion about academic options that won't break the bank--for either of you.

*Not having a will or an advance medical directive.* No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

### In your 50s and 60s

*Co-signing loans for adult children.* Co-signing means you're on the hook--completely--if your child can't pay, a situation you don't want to find yourself in as you're getting ready to retire.

*Raiding your home equity or retirement funds.* It goes without saying that doing so will prolong your debt and/or reduce your nest egg.

*Not quantifying your retirement income.* As you approach retirement, you should know how much you can expect from Social Security (at age 62, at your full retirement age, and at age 70), pension income, and your personal retirement savings.

*Not understanding health-care costs in retirement.* Before you turn age 65, review what Medicare does and doesn't cover, and how gap insurance policies fit into the picture.



## Periodic Review of Your Estate Plan

An estate plan is a map that explains how you want your personal and financial affairs to be handled in the event of your incapacity or death. It allows you to control what happens to your property if you die or become incapacitated. An estate plan should be reviewed periodically.

### When should you review your estate plan?

Although there's no hard-and-fast rule about when you should review your estate plan, the following suggestions may be of some help:

- You should review your estate plan immediately after a major life event
- You'll probably want to do a quick review each year because changes in the economy and in the tax code often occur on a yearly basis
- You'll want to do a more thorough review every five years

Reviewing your estate plan will alert you to any changes that need to be addressed.

There will be times when you'll need to make changes to your plan to ensure that it still meets all of your goals. For example, an executor, trustee, or guardian may die or change his or her mind about serving in that capacity, and you'll need to name someone else.

Events that should trigger a periodic review include:

- There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren
- There has been an addition to your family through birth, adoption, or marriage (stepchildren)
- Your spouse or a family member has died, has become ill, or is incapacitated
- Your spouse, your parents, or other family member has become dependent on you
- There has been a substantial change in the value of your assets or in your plans for their use
- You have received a sizable inheritance or gift
- Your income level or requirements have changed
- You are retiring
- You have made (or are considering making) a change to any part of your estate plan

### Some things to review

Here are some things to consider while doing a periodic review of your estate plan.

- Who are your family members and friends? How do you feel about them?
- Do you have a valid will? Does it reflect your current goals and objectives about who receives what after you die? Does your choice of an executor or a guardian for your minor children remain appropriate?
- In the event you become incapacitated, do you have a living will, durable power of attorney for health care, or Do Not Resuscitate order to manage medical decisions?
- In the event you become incapacitated, do you have a living trust, durable power of attorney, or joint ownership to manage your property?
- What property do you own and how is it titled (e.g., outright or jointly with right of survivorship)? Property owned jointly with right of survivorship passes automatically to the surviving owner(s) at your death.
- Have you reviewed your beneficiary designations for your retirement plans and life insurance policies? These types of property pass automatically to the designated beneficiary at your death.
- Do you have any trusts, living or testamentary? Property held in trust passes to beneficiaries according to the terms of the trust.
- Do you plan to make any lifetime gifts to family members or friends?
- Do you have any plans for charitable gifts or bequests?
- If you own or co-own a business, have provisions been made to transfer your business interest? Is there a buy-sell agreement with adequate funding? Would lifetime gifts be appropriate?
- Do you own sufficient life insurance to meet your needs at death? Have those needs been evaluated?
- Have you considered the impact of gift, estate, generation-skipping, and income taxes, both federal and state?

This is just a brief overview of some ideas for a periodic review of your estate plan. Each person's situation is unique. An estate planning attorney may be able to assist you with this process.



*An estate plan should be reviewed periodically, especially after a major life event. Here are some ideas about when to review your estate plan and some things to review when you do.*



## Taxes, Retirement, and Timing Social Security



*\*This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual rates of return and results will vary. The example assumes that earnings are taxed as ordinary income and does not reflect possible lower maximum tax rates on capital gains and dividends, as well as the tax treatment of investment losses, which would make the return more favorable. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison. Investments offering the potential for higher rates of return also involve a higher degree of risk to principal.*

The advantages of tax deferral are often emphasized when it comes to saving for retirement. So it might seem like a good idea to hold off on taking taxable distributions from retirement plans for as long as possible. (Note: Required minimum distributions from non-Roth IRAs and qualified retirement plans must generally start at age 70½.) But sometimes it may make more sense to take taxable distributions from retirement plans in the early years of retirement while deferring the start of Social Security retirement benefits.

### Some basics

Up to 50% of your Social Security benefits are taxable if your modified adjusted gross income (MAGI) plus one-half of your Social Security benefits falls within the following ranges: \$32,000 to \$44,000 for married filing jointly; and \$25,000 to \$34,000 for single, head of household, or married filing separately (if you've lived apart all year). Up to 85% of your Social Security benefits are taxable if your MAGI plus one-half of your Social Security benefits exceeds those ranges or if you are married filing separately and lived with your spouse at any time during the year. For this purpose, MAGI means adjusted gross income increased by certain items, such as tax-exempt interest, that are otherwise excluded or deducted from your income for regular income tax purposes.

Social Security retirement benefits are reduced if started prior to your full retirement age (FRA) and increased if started after your FRA (up to age 70). FRA ranges from 66 to 67, depending on your year of birth.

Distributions from non-Roth IRAs and qualified retirement plans are generally fully taxable unless nondeductible contributions have been made.

### Accelerate income, defer Social Security

It can sometimes make sense to delay the start of Social Security benefits to a later age (up to age 70) and take taxable withdrawals from retirement accounts in the early years of retirement to make up for the delayed Social Security benefits.

If you delay the start of Social Security benefits, your monthly benefits will be higher. And because you've taken taxable distributions from your retirement plans in the early years of retirement, it's possible that your required minimum distributions will be smaller in the later years of retirement when you're also receiving more income from Social Security. And smaller

taxable withdrawals will result in a lower MAGI, which could mean the amount of Social Security benefits subject to federal income tax is reduced.

Whether this strategy works to your advantage depends on a number of factors, including your income level, the size of the taxable withdrawals from your retirement savings plans, and how many years you ultimately receive Social Security retirement benefits.

### Example

Mary, a single individual, wants to retire at age 62. She can receive Social Security retirement benefits of \$18,000 per year starting at age 62 or \$31,680 per year starting at age 70 (before cost-of-living adjustments). She has traditional IRA assets of \$300,000 that will be fully taxable when distributed. She has other income that is taxable (disregarding Social Security benefits and the IRA) of \$27,000 per year. Assume she can earn a 6% annual rate of return on her investments (compounded monthly) and that Social Security benefits receive annual 2.4% cost-of-living increases. Assume tax is calculated using the 2015 tax rates and brackets, personal exemption, and standard deduction.

**Option 1.** One option is for Mary to start taking Social Security benefits of \$18,000 per year at age 62 and take monthly distributions from the IRA that total about \$21,852 annually.

**Option 2.** Alternatively, Mary could delay Social Security benefits to age 70, when her benefits would start at \$38,299 per year after cost-of-living increases. To make up for the Social Security benefits she's not receiving from ages 62 to 69, during each of those years she withdraws about \$40,769 to \$44,094 from the traditional IRA--an amount approximately equal to the lost Social Security benefits plus the amount that would have been withdrawn from the traditional IRA under the age 62 scenario (plus a little extra to make the after-tax incomes under the two scenarios closer for those years). When Social Security retirement benefits start at age 70, she reduces monthly distributions from the IRA to about \$4,348 annually.

Mary's after-tax income in each scenario is approximately the same during the first 8 years. Starting at age 70, however, Mary's after-tax income is higher in the second scenario, and the total cumulative benefit increases significantly with the total number of years Social Security benefits are received.\*



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### What do I need to do to create a will?

A will is a legal document that is generally used to describe how you want your estate to be distributed after your death. It might also be used to name an executor for your estate or a guardian for your minor children. It is generally a good practice to name backup beneficiaries, executors, and guardians just in case they are needed. Even though it's not a legal requirement, a will should generally be drafted by an attorney.

In order to make a will, you must be of legal age (18 in most states). You must also understand what property you own, who the family members or friends it would seem natural to leave property to are, and who gets what under your will.

Generally, a will is a written document that must be executed with appropriate formalities. You should sign the document (or direct someone else to sign for you in your presence). The will should also be signed by at least two witnesses who are of legal age and understand what they

are witnessing; some states require three witnesses. The witnesses should not benefit from any provisions in the will. Some states also require that a will be notarized.

Some states allow a will that is entirely in your handwriting, known as a "holographic" will. Some states allow a "nuncupative" will, which is an oral will you dictate during your last illness, before witnesses, that is later converted to writing.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property (e.g., life insurance, qualified retirement plans, IRAs, Totten Trust accounts, Payable on Death accounts, Transferrable on Death accounts) passes directly to the designated beneficiary at your death, bypassing the probate process.

Your will does not take effect until you die. You can create a new will or revoke or amend an existing will up until your death.



### How do I change or revoke a will?

Your will does not take effect until you die. You can create a new will or revoke or amend an existing will up until your death.

A will remains valid until properly revoked or superseded. Revoking your will must be done very carefully. Most state laws require that the will be revoked by a subsequent instrument (a new will) or by a physical act (e.g., destroying or defacing it). This means the will must either be burned, torn, or canceled with the intent to revoke. You might, for example, write REVOKED across the will and sign and date the revocation.

You can amend (change) your will by executing a codicil. A codicil is a separate, written, and formally executed document that becomes part of your will. More specifically, a codicil is a supplement or addition to a will that explains, modifies, or revokes a previous will provision or that adds an additional provision. A codicil generally should be used only for minor changes to your will. You should execute a new

will if there are many changes or a major change.

A codicil should generally be executed with the same formalities as required for a will. In general, the codicil must be signed, dated, and witnessed in accordance with the laws of the appropriate state.

The codicil should be attached to the will it is amending. Be sure to draft, execute, and attach a copy of the codicil to each copy of your will.

Although a new will usually must be contested in its entirety, some states will allow a codicil to be contested on its own. If it is found to be invalid, only the changes contained in the codicil will be voided and the remaining will provisions remain valid.

Some states provide that provisions in a will may be revoked automatically upon marriage or divorce. It is generally a good practice to review your will and make changes as needed upon marriage or divorce, or for any other major changes in your life.

