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Berman Capital Management News
Financial & Investment Insights

It's December 31. Do You Know Where Your Money Is?

December and January are the perfect months to look back at what you earned, saved, and spent during the past year, as W-2s, account statements, and other year-end financial summaries roll in. So before Punxsutawney Phil comes out of his burrow to predict when spring is coming, take some time to get your financial house in order.

How much have you saved?

Whether you simply resolved last year to save more or you set a specific financial goal (for example, saving 15% of your income for retirement), it's time to find out how you did. Start by taking a look at your account balances. How much did you save for college or retirement? Were you able to increase your emergency fund? If you were saving for a large purchase, did you save as much as you expected? Challenge yourself in the new year to save a little bit more so that you can make steady financial progress.

How did your investments perform?

Review any investment statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relationship to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions?

Did you reduce debt?

Tracking your spending is just as important as tracking your savings, but it's hard to do when you're caught up in an endless cycle of paying down your debt and then borrowing more money, over and over again. Fortunately, end of year mortgage statements, credit card statements, and vehicle financing statements will all spell out the amount of debt you still owe and how much you've really been able to pay off. You may even find that you're making more progress than you think. Keep these statements so that you have an easy way to track your progress next year.

Where did your employment taxes go?

If you're covered by Social Security, the W-2 you receive from your employer by the end of January will show how much you paid into the Social Security system via payroll taxes collected. If you're self-employed, you report and pay these taxes (called self-employment taxes) yourself. These taxes help fund future Social Security benefits, but many people have no idea what they can expect to receive from Social Security in the future. This year, get in the habit of checking your Social Security statement annually to find out how much you've been contributing to the Social Security system and what future benefits you might expect, based on current law. To access your statement, sign up for a *my* SocialSecurity account at the Social Security Administration's website, www.socialsecurity.gov.

Has your financial outlook changed during the past year?

Once you've reviewed your account balances and financial statements, your next step is to look at your whole financial picture. Taking into account your income, your savings and investments, and your debt load, did your finances improve over the course of the year? If not, why not?

Then it's time to think about the changes you would like to make for next year. Start by considering the following questions:

- What are your greatest financial concerns?
- Do you need help or advice in certain areas?
- Are your financial goals the same as they were last year?
- Do you need to revise your budget now that you've reviewed what you've earned, saved, and spent?

Using what you've learned about your finances--good and bad--to set your course for next year can help you ensure that your financial position in the new year is stronger than ever.

December 2013

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What's in Store for Health-Care Reform in 2014

Increase in small business tax credit

The maximum tax credit available to qualifying small employers (no more than 25 full-time equivalent employees) that offer health insurance to their employees increases to 50% of the qualifying employer's premium costs (35% for tax-exempt employers) on January 1, 2014. This is an increase from the maximum credit of 35% (25% for tax-exempt employers) that began in 2010.

While the Affordable Care Act (ACA) became law in 2010, several of the more substantive provisions of the law don't take effect until 2014. Here's a review of some of the key parts of the ACA that are scheduled to begin in 2014.

Individual mandate

The ACA imposes a shared responsibility mandate, which requires that most U.S. citizens and legal residents of all ages (including children and dependents) have minimum essential health coverage or pay a penalty tax, unless otherwise exempt. The monthly penalty is equal to the greater of a declared dollar amount ($95 in 2014) or a percentage of the individual's gross income.

Note: *The employer's mandate to provide coverage for employees was also scheduled to begin in 2014; however, the requirement will not be enforced until January 2015.*

State Exchanges

The ACA requires that each state establish state-based American Health Benefit Exchanges for individuals and Small Business Health Options Program (SHOP) Exchanges for small employers. The Department of Health and Human Services will establish Exchanges in states that do not create the Exchanges. The general purpose of these Exchanges is to provide a single resource in each state for consumers and small businesses to compare health plans, get answers to questions, and enroll in a health plan that is both cost effective and meets their health-care needs.

Exchanges may only offer qualified health plans that cover essential benefits, limit out-of-pocket costs, and provide coverage based on four levels of cost sharing--bronze, silver, gold, and platinum. Also, tax credits and cost-sharing subsidies will be available to U.S. citizens and legal immigrants who buy health insurance through the health Exchanges.

Insurers must provide guaranteed issue and renewability of coverage

All individual and group plans must issue insurance to all applicants regardless of health status, medical condition, or prior medical expenses. Insurers must renew coverage for applicants even if their health status has changed. Grandfathered individual plans are exempt from these requirements. Grandfathered plans are those that were in existence prior to the enactment of the ACA (March 2010) and have not been significantly altered in subsequent years.

In the past, insurers used pre-existing medical condition provisions to deny coverage for care related to the condition (pre-existing condition policy exclusion), increased the premium to cover the condition, or denied coverage altogether. Beginning January 1, 2014, the ACA prohibits insurers in group markets and individual markets (with the exception of grandfathered individual plans) from imposing pre-existing condition exclusions.

In keeping with the guaranteed availability of coverage, insurers may not charge individuals and small employers higher premiums based on health status or gender. Premiums may vary only based on family size, geography, age, and tobacco use.

Essential health benefits

All nongrandfathered small group and individual health plans must offer a package of essential health benefits from 10 benefit categories. The categories include ambulatory patient services, emergency services, hospitalization, laboratory services, maternity and newborn care, mental health and substance abuse treatment, prescription drugs, rehabilitative services and devices, preventive and wellness services, and pediatric services, including dental and vision.

Other policy provisions

The ACA also imposes several requirements and eliminates other provisions commonly found in insurance policies:

- Group and individual policies (including grandfathered plans) may not impose waiting periods longer than 90 days before coverage becomes effective.
- Annual deductible for small group (fewer than 50 full-time equivalent employees) health plans (excluding grandfathered plans) must not exceed $2,000 per insured and $4,000 per family. These amounts are indexed to increase in subsequent years.
- The most you'll pay annually for out-of-pocket expenses (deductibles, coinsurance, and co-pays) for all individual and group health plans (excluding grandfathered plans) cannot exceed the maximum out-of-pocket limits for health savings accounts ($6,350 for individual/$12,700 for family in 2014).
- All group health plans and nongrandfathered individual health plans can no longer impose annual or lifetime dollar limits on essential health benefits.

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The goal of a stretch IRA is to make sure your beneficiary can take distributions over the maximum period the RMD rules allow.

Stretch IRAs

The term "stretch IRA" has become a popular way to refer to an IRA (either traditional or Roth) with provisions that make it easier to "stretch out" the time period that funds can stay in your IRA after your death, even over several generations. It's not a special IRA, and there's nothing dramatic about this "stretch" language. Any IRA can include stretch provisions, but not all do.

Why is "stretching" important?

Any earnings in an IRA grow tax deferred. Over time, this tax-deferred growth can help you accumulate significant retirement funds. If you're able to support yourself in retirement without the need to tap into your IRA, you may want to continue this tax-deferred growth for as long as possible. In fact, you may want your heirs to benefit--to the greatest extent possible--from this tax-deferred growth as well.

But funds can't stay in your IRA forever. Required minimum distribution (RMD) rules will apply after your death (for traditional IRAs, minimum distributions are also required during your lifetime after age 70½).

The goal of a stretch IRA is to make sure your beneficiary can take distributions over the maximum period the RMD rules allow. You'll want to check your IRA custodial or trust agreement carefully to make sure that it contains the following important stretch provisions.

Key stretch provision #1

The RMD rules let your beneficiary take distributions from an inherited IRA over a fixed period of time, based on your beneficiary's life expectancy. For example, if your beneficiary is age 20 in the year following your death, he or she can take payments over 63 additional years (special rules apply to spousal beneficiaries).

As you can see, this rule can keep your IRA funds growing tax deferred for a very long time. But even though the RMD rules allow your beneficiary to "stretch out" payments over his or her life expectancy, your particular IRA may not. For example, your IRA might require your beneficiary to take a lump-sum payment, or receive payments within 5 years after your death. If stretching payments out over time is important to you, make sure your IRA contract lets your beneficiary take payments over his or her life expectancy.

Key stretch provision #2

What happens if your beneficiary elects to take distributions over his or her life expectancy but dies a few years later, with funds still in the inherited IRA? This is where the IRA language becomes crucial.

If, as is commonly the case, the IRA language doesn't address what happens when your beneficiary dies, then the IRA balance is typically paid to your beneficiary's estate.

However, IRA providers are increasingly allowing an original beneficiary to name a successor beneficiary. In this case, when your original beneficiary dies, the successor beneficiary "steps into the shoes" of your original beneficiary and can continue to take RMDs over the original beneficiary's remaining distribution schedule.

When reviewing your IRA language, it's important to understand that a successor beneficiary is not the same as a contingent beneficiary. Most IRA providers allow you to name a contingent beneficiary. Your contingent beneficiary becomes entitled to your IRA proceeds only if your original beneficiary dies before you.

Stretch even further ...

If you name your spouse as beneficiary, your IRA can stretch even further. This is because your spouse can elect to treat your IRA as his or her own, or to transfer the IRA assets to his or her own IRA. Your spouse then becomes the owner of your IRA, rather than a beneficiary. As owner, your spouse won't have to start taking distributions from your traditional IRA until he or she reaches age 70½ (and no lifetime RMDs are required from your Roth IRA). Plus, your spouse can name a new beneficiary to continue receiving payments after he or she dies.

What if your IRA doesn't stretch?

If your IRA doesn't contain the appropriate stretch provisions, don't fret--you can always transfer your funds to an IRA that contains the desired language. In addition, upon your death, your beneficiary can transfer the IRA funds (in your name) directly to another IRA that has the appropriate stretch language.

A word of caution

While you might appreciate the value of tax-deferred growth, your beneficiary might prefer instant gratification. If so, there's little to prevent your beneficiary from simply taking a lump-sum distribution upon inheriting the IRA, rather than "stretching out" distributions over his or her life expectancy. It's possible, though, to name a trust as the beneficiary of your IRA to establish some control over how distributions will be taken after your death.

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What can I do to protect my username and password information from computer hackers?

At one time, computer hackers were viewed as a few rogue individuals who mainly worked alone. Today, many hackers are part of highly sophisticated networks that carry out well-organized cyber attacks. Unfortunately, these online security breaches can result in your username and password information being compromised.

Whenever you enter your personal information online, you'll want to make sure that you create a strong password to protect that information. Some tips for creating a strong password include:

- Avoid creating simple passwords that have a connection to your personal identity (e.g., date of birth, address) or that can be found in the dictionary
- Create a password that uses a nonsense word/random alphanumeric combination or an arbitrary, easy to remember phrase with mixed-up character types (e.g., upper/lower case, punctuation)
- Don't use the same password for multiple websites
- Use an online tool that allows you to test the strength of a password

If you have trouble keeping track of all of your password information or if you want an extra level of password protection, you may want to use some type of password management software. There are a variety of password managers on the market. Password managers typically work by using high-level encryption methods to store all of your online usernames and passwords on one secure server, using a single master password.

There are a few things you should consider when choosing a password manager. First, if you plan on needing your password information for use on various devices (e.g., tablet, smartphone), you will want to choose a password manager that has mobility features. In addition, some password managers offer added benefits such as web form fillers, which can come in handy if you do a lot of online shopping. Other features to look for include automatic log in and password generator capability.

What will happen to my digital assets if I die or become incapacitated?

In today's digital age, many individuals live at least a part of their life online. Whether you share your life with others through e-mail, Facebook posts, and tweets, or simply have a number of online, password protected accounts, you'll want to make plans for the disposition of all of your digital assets in the event of your death or incapacity.

Unfortunately, the laws governing digital assets are not well settled. Only a small number of states have estate laws that specifically cover digital assets, and those laws are relatively new and untested. As a result, you should consult an estate planning attorney for information on how digital assets are handled in your particular state.

For the most part, websites, blogs, and registered domain names are transferable under standard property and copyright laws. However, certain online accounts (e.g., e-mail, social media accounts) may not be transferrable, depending on the site's terms of service. Terms of service vary widely from site to site. Some sites will allow a person with the appropriate legal authority to access your accounts upon your death. Others will put your accounts in a "memorial state" or permanently delete your account upon proper notification of your death.

The most important step you can take to protect your digital assets is to include them in your estate plan, just as you would your physical assets. Your first step should be to identify and inventory all of your digital assets. Make a list of where your assets are located and how they are accessed (e.g., username and password). Next, indicate what you wish to happen to your digital assets (e.g., transfer to an heir or terminate) and who will be responsible for carrying out those wishes (e.g., an executor). Be sure to refer to this inventory in your will (but keep it separate since your will eventually becomes public information).

If privacy issues surrounding your digital assets are a real concern, a number of online websites securely store all of your digital asset information and allow you to leave legacy instructions for a designated beneficiary or executor. The costs of these types of services vary, depending upon the services offered.

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