

When Should Millennials Start Retirement Saving?

This is a true story about Sarah X, who graduated from a prestigious university five years ago. She's on her third job, but she's now communications director at a private foundation and finally earning decent money.

Sarah's student loans are paid off, and her salary leaves her some money to invest.

However, like many of her millennial friends, she doesn't know a lot about investments or the differences between various retirement plans. But she is thinking about her future and wonders when she should start saving for retirement.

There's a short, simple answer: **NOW.**

The best time to begin saving for retirement is as soon as you can. Granted, relaxing on the deck of a retirement cottage overlooking the ninth green isn't first and foremost in the minds of most 20-somethings. But you can't ignore the sheer weight of the saving numbers. Let's go back to Sarah, who's 27. If she manages to save \$5,000 a year in a 401(k) for the next 40 years—until she's 67, the Social Security full retirement age for her generation—and she earns an average annual return of 7%, she will end up with \$1,035,632. But if she waits 10 years to start saving, when she's 37, her accumulated savings will be just \$490,027.

If you're convinced that now would be a good time to get started, consider these steps that could help you reach your goals:



1. Budget and save. It's difficult to be diligent about setting aside money for retirement when you're young and have a million things you'd rather do with your money. But if you're able to set objectives for saving and

you do your best to stick to them, it could pay off beautifully down the road. Try to train yourself to live within your means while you move ahead in your career and your personal life.

2. Take advantage of employer retirement plans. Your company probably offers a tax-deferred retirement plan—a 401(k) or a 403(b)—and your employer may provide matching contributions (for example, up to 3% of your compensation) to go alongside the pre-tax earnings you put into the plan. With all of that money invested for the long haul, it can grow at compound rates, and you won't be taxed on the growth until you pull out funds during retirement.

3. Don't forget about IRAs. Regardless of whether you participate in an employer-sponsored retirement plan, you also can set up an IRA. With a traditional IRA, the money you put in may be partly or wholly tax-deductible, depending upon your salary. But here, too, you'll be taxed on withdrawals during retirement. Another option, a Roth IRA, doesn't give you a tax deduction on money going in but may provide 100% tax-free

Something Borrowed, Something Blue, Make Sure To Budget, Too!

As many of our clients or their children contemplate marriage, we have noticed an alarming trend: too many couples overlook the importance of discussing financial issues before they wed. Money management is a sensitive issue, no matter the couple's age or socio-economic status, but experience proves an open dialogue is vital to a successful partnership.

We see a tendency to make assumptions and postpone the conversation. Few couples sit down and discuss their philosophies, fears, goals, and expectations. Will they have a joint account or keep their finances separate? How do they feel about help from parents or in-laws? How much should they save? Some may marry a partner from a wealthier family or a partner with much greater earnings. In these cases, prenuptial agreements should be discussed.

Both partners should feel that they are making a contribution to the marriage and that their contribution is valued. Any notable philosophical differences should be brought to light.

The couple should set spending expectations together, including all the expenses and savings goals. They need to negotiate and compromise and may need to seek outside help. We are available to help.

While financial conflicts are one of main reasons for divorce, discussing this tricky subject in an open manner contributes to a positive communication pattern in the relationship.

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Marriage Doesn't Mean Owning All Your Assets Jointly

Owning assets jointly is more convenient than individual ownership, and it's the simplest way to avoid probate after a spouse's death. But couples often should consider separating their assets. Here's why:

Estate tax implications.

Estate rules let spouses leave unlimited property to each other tax free. That's okay when the first spouse to die leaves everything to the second, but the second death could result in a whopping tax bill for heirs.

Estate Tax exemption portability, when properly elected, can help limit the damage, but couples likely to have estate tax issues could consider holding property individually to help maximize the value of each other's estate tax exclusion. While owning a house jointly is important for giving both spouses equal claim if they divorce, other assets may be held separately in roughly equal shares.

Dividing jointly owned property. How you take title also affects who can inherit your property. If you own it individually or jointly as "tenants in common," each of you may specify in your will that you want a particular asset

or share of an asset to go to a designated heir. However, if you take title as "joint tenants" (with rights of survivorship) or "tenants by the entirety"—the most common form of ownership for married couples—your share will pass directly to your spouse.

That may work if you and your spouse share the same beneficiaries. But it could be a problem if, for example, you're in a second marriage and want to divide assets among children from different marriages.

Consider John and Mary. Because they own their property as tenants in common, each holds a 50% share, and John can bequeath his share to children from a prior marriage. Mary won't automatically inherit John's interest.

But if they hold their assets as joint tenants or tenants by the entirety, the surviving spouse becomes the sole owner of everything the couple owned together. If John dies first, the title

documents will govern, and Mary will decide how assets are divided when she dies.

Other considerations. Owning assets separately is especially important if your combined net worth is at or above the IRS estate tax exemption.

The tax law signed by President

Obama at the beginning of 2013 retained the \$5 million estate tax exemption (indexed to \$5.34 million for 2015).

Also, since joint-tenancy assets can be taken by creditors or lost



in lawsuits once an individual's assets are exhausted, doctors or others who can be sued easily will want at least half of their assets in their spouse's name.

Deciding how to hold title to your assets is not a simple decision, as state laws differ and each situation is unique. We can work with your attorney to help decide what's best for you and your spouse. ●

Simple Dividend Strategies To Minimize Taxes

What's the tax deal with dividends? At first glance, it looks to be cut and dried. You receive dividends during the year and you pay tax on the amount reported to you on your Form 1099s. End of story, right?

Not exactly. First, many dividends are eligible for preferential tax treatment, much like long-term capital gains. Second, some astute timing can minimize the tax you owe on dividends. Third, it is wise to be aware of a common tax mishap that befalls investors.

Here's a quick overview:

1. Qualified dividends. Generally,

dividends issued by domestic companies are "qualified" when paid to stockholders and mutual fund owners, and that means special tax treatment. In some cases, qualified dividends also may be paid by foreign corporations, including shares represented by publicly traded American Depositary Receipts (ADRs) and shares that are otherwise readily tradable on an established U.S. securities market.

Similar to long-term capital gains, the maximum tax rate on qualified dividends is 20% for investors in the top ordinary income tax bracket of 39.6%. Investors in the two lowest brackets of 10% and 15% may benefit

from a 0% rate on qualified dividends.

To qualify for the reduced tax rates, shareholders of common stock and mutual funds must own the stock for more than 60 days, including the "ex-dividend" date (when dividends are paid). The holding period is 90 days for preferred stock. Being sure to meet these requirements could reap significant tax savings.

2. Tax timing. Although investors usually aren't concerned with corporate mechanisms, it's important to know the ex-dividend date. After this date, buyers of the securities no longer are entitled to receive dividends. However, as long as you buy a stock

When Does Life Insurance Make Sense?

As a basic tool to protect your family, life insurance has an obvious appeal. But its value goes beyond the obvious benefit of providing cash for your loved ones at a crucial juncture. Especially if your death is sudden and unexpected, life insurance can serve a myriad of purposes you might not have considered, and it can be valuable to virtually any family with assets to preserve. Tapping the cash value of a life policy might also provide needed cash during your lifetime.

Let's start with the fundamentals. There are two basic types of life insurance: term and cash value. With term insurance, you pay premiums for a specified length of time (often for 10 or 20 years). In return, the insurance company agrees to provide a death benefit for your survivors if you die while the policy is in force. The amount of your premiums depends upon several factors, including your age, your health, and your lifestyle. In general, the older you are—or the more likely you are to die from smoking, obesity, or other risk factors—the higher the premiums.

In contrast, cash value life insurance—which may come in several forms, including whole life, universal life, and variable life—provides both a death benefit and a cash value. While part of your premium is

used to fund a death benefit, just as with a term policy, the remainder is earmarked for a cash-value account. The account for a whole life or universal life policy earns interest and grows on a tax-deferred basis, while the value of variable life account will vary with market returns.

With cash value insurance, you can also borrow against the policy's value at favorable interest rates, although policy benefits will be reduced if you don't repay the loan in a timely fashion. And, if the contract includes a special rider, you may be able to draw on benefits in an emergency.

How much life insurance protection do you need? It depends on several factors. At the very least, there has to be enough to make up for the shortfall from income you would have earned. But there are also other sources of income for the family—including pension benefits, Social Security, and earnings from investments—that may be lost if you die prematurely. And depending on your family's situation, you may want to secure extra protection.

How can life insurance be used? To begin, your beneficiaries will receive death benefits they can use to make mortgage payments or pay off a mortgage, take care of funeral expenses, and provide a financial cushion to help

them cope with their loss. Life insurance can be particularly beneficial for someone who is still working full time as one of the family's main breadwinners. Insurance proceeds can sustain family members until they are able to get back on their feet and make definitive plans for the future.

But there are several other ways in which life insurance can come to the rescue. Insurance can help with the taxes that may be due shortly after your death, even with the generous 2015 estate and gift tax exemption of \$5.34 million. Business interests may be particularly likely to generate tax liability, especially if you owned a substantial share in a company that your family decides to sell.

Another strategy could be for a couple to arrange to have the surviving spouse use insurance proceeds to pay the income taxes due on converting a traditional IRA to a Roth IRA. That could provide tax-free income during retirement and avoid the need to tap the IRA for the funds to pay tax on the conversion.

In a pinch, you could borrow against the cash value of a permanent life insurance policy to help put your children through college or to pay down existing debt. While this is a last resort option, repaying the loan from your policy might end up costing you less than other alternatives.

Some insurance companies permit you to use the money that would have been paid to your survivors as a death benefit to pay qualified long-term care expenses. Using these "accelerated death benefits" could help you avoid depleting family assets that your spouse may need.

These are just a few of the ways life insurance may be part of an overall wealth planning strategy. It could also be used as part of a charitable giving strategy, by providing cash to your heirs to make up for your spending on philanthropy. Life insurance has many applications, and we can help you consider all of the possibilities. ●

before its ex-dividend date, you can then sell the stock after the ex-dividend date and still receive the dividends.

One common tax planning strategy we employ is to sell mutual fund shares before the ex-dividend date and buy shares after the date dividends are declared. If instead you buy shares just before the ex-dividend date, you will have additional tax liability for the current tax year, even if the value of your shares declines. We weigh the potential gains tax against the tax on the dividends

before making the sale.

3. Reinvested dividends. Most investors choose to have dividends in an investment automatically

reinvested. That way, your money keeps earning more money for you. However, for those clients who need cash regularly, it can be more tax efficient to "turn

off" dividend reinvesting. Part of our role as your financial advisor is to know the rules and manage your holdings accordingly. ●



Planning Ahead Continues In Retirement

After working for many decades, buying a home, raising a family, sending children to college, and paying for a wedding or two, retirement probably seems like a just reward. Yet now is no time to sit on your nest egg. Even if you've been retired for several years, you need to keep planning for the future, which could extend well beyond your 80s. In 2010, the average life expectancy for a U.S. citizen reached 77.8 years. And if you've made it to age 70, the average rises to 87. Since many retirees can now reasonably expect to live into their eighties or nineties, retirement planning never really ends.

Of course, everyone's situation is different, but here are several areas that could have a major impact on your plans.

Investment portfolio. Most retirees tend to invest rather conservatively, and for good reason. When you're living on a fixed income, you need to make sure you have enough coming in to cover your basic expenses, and you may not have time to recover from steep market losses. Still, keeping too much of your

portfolio in bonds and other comparatively safe investments may backfire over a long life span, especially if higher inflation returns. Allocating a judicious percentage of your assets to stocks may enable you to maintain your standard of living when expenses rise.

Insurance policies.

Your coverage needs change with age, and a review during retirement of all of your policies can not only make sure you have enough insurance but also that you're not continuing to pay for coverage you no longer need. Term life insurance may be an unnecessary luxury now, while long-term care insurance, to pay for extended care in a nursing home or in your residence could be a necessity. And while Medicare covers most doctor and hospital fees, you might need to buy additional supplemental coverage at a time that many employers are scaling back health insurance benefits for retirees.



Wills and trusts. Estate planning, too, tends to be a work in progress, and wills and trusts created several years ago will likely need to be updated to reflect your evolving circumstances as well as changes in estate tax rules. During the course of your retirement, for example, your children may become so successful that they no longer need to inherit as much of your wealth, while bequests or trust payments to grandchildren could help them buy a home or launch a business.

Weighing all of these factors and making sure that your retirement continues to unfold according to plan is a daunting proposition. But you don't have to go it alone. We are here to work with you and your other advisors to help keep you on track regardless of where you are in your post-work life. Please call for an appointment to review your progress. ●

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distributions in retirement.

4. Invest wisely. This is good advice not only for money in tax-advantaged retirement accounts but also for money you invest in taxable brokerage accounts. We can help you find the investment balance that best suits your personal needs, objectives, risk tolerance, and other circumstances. Although there's no foolproof method, you should have more leeway to be aggressive now than you would when you're nearing retirement or already retired. Of course, past performance is no guarantee of future results, but you can use historical stock market trends to help shape your investment strategies.

5. Expect the unexpected. Even the best-laid retirement saving plans can be derailed by an emergency such as a hospital stay or the loss of a job. Try to leave enough wiggle room within your budget to account for some unforeseen financial trouble. Rather than put yourself in a position to have to skip or slash retirement plan contributions, remember to put aside cash in a "rainy day" fund. Most experts recommend building up enough to sustain you for at least six months.

6. Avoid debt like the plague. One of the biggest impediments to retirement saving is a crushing debt



load. You're not doing yourself any favor by deferring part of your salary to an employer plan if you're financing luxury items on a credit card with sky-high interest rates. That's not to say that borrowing isn't warranted at times—perhaps to help buy a home or car—but make sure it fits into your overall plan.

7. Educate yourself.

Finally, you can improve the chances for a secure, comfortable retirement by learning all of the rules of the road, including the nuances of investments and the tax differences between various accounts. Knowledge is your friend. Rely on us to give you a solid foundation for going forward. ●