

# Financial Strategies

## News You Can Use!!

### What to Do After the Death of a Loved One



Losing a loved one can be a difficult experience. Despite the emotional trauma involved, you may also be responsible for handling a variety of financial, legal, and administrative tasks. You may find yourself unsure

of where to begin and what to do.

However, do not be hasty when settling your loved one's estate. Important decisions need to be made regarding distributions, which must be made in compliance with the will and applicable laws. Seek an experienced estate planning professional for advice. The following suggestions may provide a roadmap to help you navigate through the process.

#### Initial tasks

**Note:** *Some of the following tasks may have to be completed by the estate's personal representative.*

- Upon the death of your loved one, call close family members, friends, and clergy first because you'll need their emotional support.
- Arrange the funeral, burial or cremation, and memorial service. Hopefully, your loved one will have made arrangements ahead of time. Then notify family and friends of the final arrangements and place an obituary in the local paper (often the funeral home will handle this for you).
- Obtain certified copies of the death certificate (again, the funeral home should be able to get copies for you).
- Find and review your family member's finances, and look for relevant documents such as a will and trusts, deeds and titles to motor vehicles.
- Report the death to Social Security. If your loved one was receiving benefits via direct deposit, request that the bank return funds received for the month of death and thereafter to Social Security. Do not cash any Social Security checks received by mail. Return all checks to Social Security as soon as possible.

- Make a list of assets and debts. Be on the lookout for pension plans, IRA, 401(k), and other retirement plans owned by the deceased, as well as life insurance policies, bank accounts, and investments. Notify those named as beneficiaries of assets such as life insurance and retirement plans.
- Make sure mortgage and insurance payments continue to be made while the estate is being settled.
- Contact all credit card companies and let them know of the death. Cancel all cards unless you're named on the account and wish to retain the card.

#### Within 1 to 3 months of death

- File the will with the appropriate probate court. If real estate was owned out of state, file ancillary probate in that state. If there is no will, contact the probate court for instructions or contact a probate attorney for assistance.
- Notify creditors by mail and by placing a notice in the newspaper. Claims must be made within the statute of limitations, which varies from state to state (30 days from actual notice is common). Insist on proof of all claims. Notify heirs named in the will. Often, the probate process will require formal notification to heirs and others named in the will.

#### Within 6 to 9 months of death

- Federal and/or state estate tax return(s) may need to be filed, usually within nine months of death, although state laws may vary.
- Also, federal and state income taxes are due for the year of death on the normal filing date, unless an extension is requested. If there are trusts, separate income tax returns may be necessary.
- Update your own estate plan if your loved one was a beneficiary or appointed as an agent, trustee, or guardian.

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#### January 2020

Hindsight Is 2020: What Will You Do Differently This Year?

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Could you survive a no-spend month?

How Consumers Spend Their Money



## Hindsight Is 2020: What Will You Do Differently This Year?



### Live within your means

*It's easy to want what your friends, colleagues, or neighbors have — and spend money to get those things. That's a mistake. Live within your means, not someone else's.*

According to a recent survey, 76% of Americans reported having at least one financial regret. Over half of this group said it had to do with savings: 27% didn't start saving for retirement soon enough, 19% didn't contribute enough to an emergency fund, and 10% wish they had saved more for college.<sup>1</sup>

### The saving conundrum

What's preventing Americans from saving more? It's a confluence of factors: stagnant wages over many years; the high cost of housing and college; meeting everyday expenses for food, utilities, and child care; and squeezing in unpredictable expenses for things like health care, car maintenance, and home repairs. When expenses are too high, people can't save, and they often must borrow to buy what they need or want, which can lead to a never-ending cycle of debt.

People make financial decisions all the time, and sometimes these decisions don't pan out as intended. Hindsight is 20/20, of course. Looking back, would you change anything?

### Paying too much for housing

Are housing costs straining your budget? A standard lender guideline is to allocate no more than 28% of your income toward housing expenses, including your monthly mortgage payment, real estate taxes, homeowners insurance, and association dues (the "front-end" ratio), and no more than 36% of your income to cover *all* your monthly debt obligations, including housing expenses plus credit card bills, student loans, car loans, child support, and any other debt that shows on your credit report and requires monthly payments (the "back-end" ratio).

But just because a lender determines how much you can afford to borrow doesn't mean you should. Why not set your ratios lower? Many things can throw off your ability to pay your monthly mortgage bill down the road — a job loss, one spouse giving up a job to take care of children, an unexpected medical expense, tuition bills for you or your child.

**Potential solutions:** To lower your housing costs, consider downsizing to a smaller home (or apartment) in the same area, researching and moving to a less expensive town or state, or renting out a portion of your current home. In addition, watch interest rates and refinance when the numbers make sense.

### Paying too much for college

Outstanding student debt levels in the United States are off the charts, and it's not just students who are borrowing. Approximately 15

million student loan borrowers are age 40 and older, and this demographic accounts for almost 40% of all student loan debt.<sup>2</sup>

**Potential solutions:** If you have a child in college now, ask the financial aid office about the availability of college-sponsored scholarships for current students, or consider having your child transfer to a less expensive school. If you have a child who is about to go to college, run the net price calculator that's available on every college's website to get an estimate of what your out-of-pocket costs will be at that school. Look at state universities or community colleges, which tend to be the most affordable. For any school, understand *exactly* how much you and/or your child will need to borrow — and what the monthly loan payment will be after graduation — before signing any loan documents.

### Paying too much for your car

Automobile prices have grown rapidly in the last decade, and most drivers borrow to pay for their cars, with seven-year loans becoming more common.<sup>3</sup> As a result, a growing number of buyers won't pay off their auto loans before they trade in their cars for a new one, creating a cycle of debt.

**Potential solutions:** Consider buying a used car instead of a new one, be proactive with maintenance and tuneups, and try to use public transportation when possible to prolong the life of your car. As with your home, watch interest rates and refinance when the numbers make sense.

### Keeping up with the Joneses

It's easy to want what your friends, colleagues, or neighbors have — nice cars, trips, home amenities, memberships — and spend money (and possibly go into debt) to get them. That's a mistake. Live within *your* means, not someone else's.

**Potential solutions:** Aim to save at least 10% of your current income for retirement and try to set aside a few thousand dollars for an emergency fund (three to six months' worth of monthly expenses is a common guideline). If you can't do that, cut back on discretionary items, look for ways to lower your fixed costs, or explore ways to increase your current income.

<sup>1</sup> Bankrate's Financial Security Index, May 2019

<sup>2</sup> Federal Reserve Bank of New York, Student Loan Data and Demographics, September 2018

<sup>3</sup> *The Wall Street Journal*, The Seven-Year Auto Loan: America's Middle Class Can't Afford Their Cars, October 1, 2019



## Key Retirement and Tax Numbers for 2020

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2020.

### Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$19,500 in compensation in 2020 (up from \$19,000 in 2019); employees age 50 and older can defer up to an additional \$6,500 in 2020 (up from \$6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to \$13,500 in 2020 (up from \$13,000 in 2019), and employees age 50 and older can defer up to an additional \$3,000 in 2020 (the same as in 2019).

### IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2020 (the same as in 2019), with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
<b>Single/head of household (HOH)</b>	\$64,000 - \$74,000	\$65,000 - \$75,000
<b>Married filing jointly (MFJ)</b>	\$103,000 - \$123,000	\$104,000 - \$124,000
<b>Married filing separately (MFS)</b>	\$0 - \$10,000	\$0 - \$10,000

**Note:** The 2020 phaseout range is \$196,000 - \$206,000 (up from \$193,000 - \$203,000 in 2019) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
<b>Single/HOH</b>	\$122,000 - \$137,000	\$124,000 - \$139,000
<b>MFJ</b>	\$193,000 - \$203,000	\$196,000 - \$206,000
<b>MFS</b>	\$0 - \$10,000	\$0 - \$10,000

### Estate and gift tax

- The annual gift tax exclusion for 2020 is \$15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is \$11,580,000, up from \$11,400,000 in 2019.

### Kiddie tax

Under the kiddie tax rules, unearned income above \$2,200 in 2020 (the same as in 2019) is taxed using the trust and estate income tax brackets. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

### Standard deduction

	2019	2020
<b>Single</b>	\$12,200	\$12,400
<b>HOH</b>	\$18,350	\$18,650
<b>MFJ</b>	\$24,400	\$24,800
<b>MFS</b>	\$12,200	\$12,400

**Note:** The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is \$1,650 (the same as in 2019) for single/HOH or \$1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

### Alternative minimum tax (AMT)

	2019	2020
<b>Maximum AMT exemption amount</b>		
<b>Single/HOH</b>	\$71,700	\$72,900
<b>MFJ</b>	\$111,700	\$113,400
<b>MFS</b>	\$55,850	\$56,700
<b>Exemption phaseout threshold</b>		
<b>Single/HOH</b>	\$510,300	\$518,400
<b>MFJ</b>	\$1,020,600	\$1,036,800
<b>MFS</b>	\$510,300	\$518,400
<b>26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount</b>		
<b>MFS</b>	\$97,400	\$98,950
<b>All others</b>	\$194,800	\$197,900

\*Alternative minimum taxable income

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## Could you survive a no-spend month?

Would you take on a 30-day challenge to spend money only on necessities such as rent, utilities, and groceries?

During a no-spend month, many common activities — including dining out, buying movie or concert tickets, and shopping for clothes — are avoided at all costs.

The idea behind a 30-day challenge is that the time period is just long enough to help change bad habits without seeming intolerable. If frugality isn't normally your forte, closely scrutinizing your spending could reap hundreds of dollars in savings. More important, it could help identify ways you might be wasting money on a regular basis.

Start by setting a positive goal for the money. Will you use the extra savings to pay down credit card debt or build up your emergency fund?

Here are some other ways to prepare for a successful challenge.

**Time it right.** Periods that include major holidays, planned vacations from work, and family birthdays are probably not the best for taking on this type of household experiment.

On the other hand, it could be ideal to begin the new year with a "fiscal fast."

**Establish rules.** Take your fixed expenses (i.e., rent/mortgage, utilities, phone bill, insurance payments) into account when planning your no-spend month. Evaluate your typical monthly discretionary spending to figure out where you can reduce or eliminate your spending for the month.

**Plan to break patterns.** Fill up your freezer and pantry with groceries and collect ideas for easy homemade meals. Steer clear of your personal spending triggers, which could mean staying off the Internet or waiting until later to meet up with friends who are big spenders.

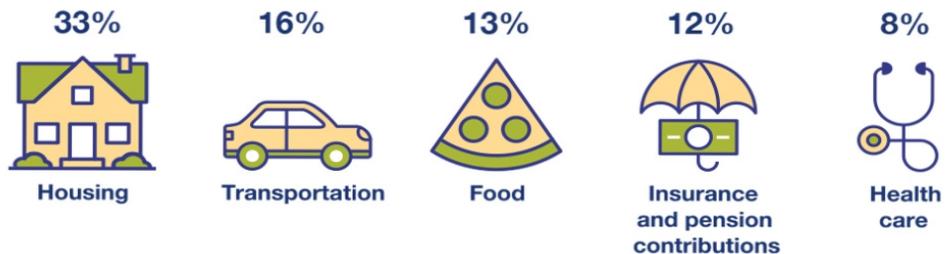
**Seek out free and fun entertainment.** You don't have to stay home for an entire month. Spend the day visiting a public park or beach, or look for free concerts, outdoor movies, art festivals, workshops, and other special events hosted by community groups.

**Stay focused.** When you get tempted to spend, remember your goal for the money you've saved. Keep a record of your progress to have a tangible reminder that your efforts will pay off.

## How Consumers Spend Their Money

Each year, the Bureau of Labor Statistics reports on consumer spending patterns. According to the 2019 report, consumers spent an average of \$61,224 in 2018.\*

### Share of total spending for the top five categories



\*Average annual expenditures per consumer unit. Consumer units include families, single persons living alone or sharing a household with others but who are financially independent, and two or more persons living together who share major expenses.

U.S. Bureau of Labor Statistics, Consumer Expenditures 2018, released September 2019