Financial Strategies

News You Can Use!!

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Motherhood by the Numbers

While mothers deserve appreciation every day of the year, Mother's Day offers a special opportunity to celebrate them. In honor of mothers everywhere, here are some facts about motherhood that might surprise you.

Sources: 1) Centers for Disease Control and Prevention, 2020; 2-5) U.S. Census Bureau, December 2020; 6) National Retail Federation, 2020

How Well Do You Understand Retirement Plan Rules?

Qualified retirement plans, such as IRAs and 401(k)s, have many rules, and some of them can be quite complicated. Take the following quiz to see how well you understand some of the finer points.

1. You can make an unlimited number of retirement plan rollovers per year.

A. True

B. False

C. It depends

2. If you roll money from a Roth 401(k) to a Roth IRA, you can take a tax-free distribution from the Roth IRA immediately as long as you have reached age 59½.

A. True

B. False

C. It depends

3. You can withdraw money penalty-free from both your 401(k) and IRA (Roth or traditional) to help pay for your children's college tuition or to pay for health insurance in the event of a layoff.

A. True

B. False

C. It depends

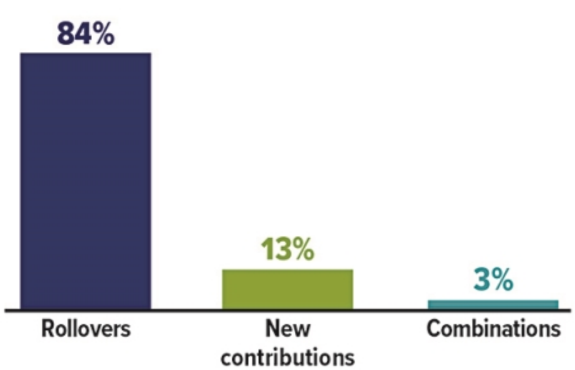
4. If you retire or otherwise leave your employer after age 55, you can take penalty-free distributions from your 401(k) plan. You can't do that if you roll 401(k) assets into an IRA.

A. True

B. False

C. It depends

Shares of Traditional IRA Assets Opened with...



Source: Investment Company Institute, 2020 (data reflects IRAs opened in 2016)

1. C. It depends. Rollovers can be made in two ways — through a direct rollover, also known as a trustee-to-trustee transfer, in which you authorize the funds to be transferred directly from one account or institution to another, or through an indirect rollover, in which you receive a check in your name (less a required tax withholding) and then reinvest the full amount (including the amount withheld) in a tax-deferred account within 60 days. If the full amount is not reinvested, the outstanding amounts will be considered a distribution and taxed accordingly, including any applicable penalty. Generally, individuals can make an unlimited number of rollovers in a 12-month period, either direct or indirect, involving employer-sponsored plans, as well as an unlimited number of direct rollovers between IRAs; however, only one indirect (60-day) rollover between two IRAs is permitted within a 12-month period.

2. C. It depends. Beware of the five-year rule as it applies to Roth IRAs. If you establish your first Roth IRA with your Roth 401(k) rollover dollars, you will have to wait five years to make a qualified withdrawal from the Roth IRA, regardless of how long you've held the money in your Roth 401(k) account, even if you are over 59½. However, if you have already met the five-year holding requirement with *any* Roth IRA, you may take a tax-free, qualified withdrawal.

3. B. False. You can take penalty-free withdrawals from an IRA, but not from a 401(k) plan, to pay for a child's qualifying education expenses or to pay for health insurance premiums in the event of a job loss. Note that ordinary income taxes will still apply to the taxable portion of the distribution, unless it's from a Roth account that is otherwise qualified for tax-free withdrawals.

4. A. True. If you leave your employer after you reach age 55, you may want to consider carefully whether to roll your money into an IRA. Although IRAs may offer some advantages over employer-sponsored plans — such as a potentially broader offering of investment vehicles — you generally cannot take penalty-free distributions from an IRA between age 55 and 59½, as you can from a 401(k) plan if you separate from service. If you might need to access funds before age 59½, you could leave at least some of your money in your employer plan, if allowed.

When leaving an employer, you generally have several options for your 401(k) plan dollars. In addition to rolling money into an IRA and leaving the money in your current plan (if the plan balance is more than $5,000), you may be able to roll the money into a new employer's plan or take a cash distribution, which could result in a 10% tax penalty (in addition to ordinary income taxes) on the taxable portion, unless an exception applies.

Should You Convert Your Term Life to Permanent Life Insurance?

Term life insurance provides life insurance coverage for a specific time period (the term). The face amount of the policy is paid if you die during the term of the policy. When you live longer than the term of coverage, nothing is paid, as there is no cash surrender value. Permanent life insurance provides protection for your entire life, regardless of your age or health, as long as you pay the premium to keep the policy in force.

Usually, term life insurance costs less than permanent life insurance for the same amount of death benefit. Term policies often offer the opportunity to convert to permanent insurance. Here are some reasons why you might consider converting your term life insurance to permanent life insurance.

Your Health Has Changed

Since term life insurance is temporary coverage that will end after a number of years, your circumstances may have changed, warranting life insurance coverage for the rest of your life. Converting term life insurance to permanent life insurance does not require additional underwriting. This allows you to extend your life insurance coverage for the rest of your life without going through a medical exam. This fact is particularly important if your health has changed since the time you purchased the term policy.

Your Financial Circumstances Have Changed

You may have purchased term life insurance because it fit better into your budget. Now you may be able to afford the higher premium cost of a permanent life insurance policy that better fits your insurance needs.

You May Want Cash Value

Most permanent life insurance provides for the accumulation of cash value. Part of the premium goes toward the cost of the death benefit and related policy costs; another part goes toward building cash value. The interest and earnings grow tax deferred until you withdraw the funds and may be part of the income-tax-free death benefit when you die. With most cash-value life insurance, you can borrow against or take withdrawals from your cash-value account, although policy loans and withdrawals can reduce the death benefit.

You Want Funds to Pay for Final Expenses

Final expenses of a last illness and memorial and funeral costs could take quite a bite out of your assets, or worse, the assets of the loved ones you leave behind. You may want to convert some or all of your term life insurance to permanent insurance that can be used to pay for final expenses.

Questions to Ask

If you're thinking about converting your term life insurance to permanent, here are some questions to ask your insurer:

- Can my policy be converted?
- When must I decide to convert?
- What are my options? What types of permanent policies are available? Can I do a partial conversion?
- What will the premium cost?

You Want to Leave a Legacy

The tax-free death benefit of a life insurance policy may be a cost-effective way to leave an inheritance to your loved ones. Permanent life insurance can be available no matter when you die, as long as you've kept up with the premium payments.

You May Owe Estate Taxes

Federal estate taxes are owed on estate assets that exceed the federal estate tax exclusion ($11.7 million in 2021). In addition, several states have their own separate estate taxes and exemptions. Those you leave behind can use the death benefit of your life insurance to pay some or all of any applicable estate taxes after your death.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Withdrawals of the accumulated cash value, up to the amount of the premiums paid, are not subject to income tax. Loans are also free of income tax as long as they are repaid. Loans and withdrawals from a permanent life insurance policy will reduce the policy's cash value and death benefit, and could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured. Additional out-of-pocket payments may be needed if actual dividends or investment returns decrease, if you withdraw policy cash values, or if current charges increase. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

New Changes to College Financial Aid and Education Tax Benefits

In late December 2020, Congress passed the Consolidated Appropriations Act, 2021, another relief package in response to the pandemic. The bill included several provisions related to education, including $22.7 billion for colleges and universities. Here are some key highlights.

Simplified FAFSA. The bill accomplishes the long-held bipartisan objective of simplifying the Free Application for Federal Student Aid, or FAFSA, starting with the 2023-2024 school year. For example, the legislation significantly reduces the number of overall questions (including eliminating questions about drug convictions and Selective Service status); makes the income protection allowance more favorable for parents and students, which will allow more income to be shielded from the formula; increases the income threshold (from $50,000 to $60,000) to qualify for the simplified needs test, an expedited formula in the FAFSA that doesn't count family assets; and widens the net of students eligible for a Pell Grant.

However, the FAFSA will no longer divide a parent's assessment by the number of children in college at the same time. This change has the potential to significantly reduce the amount of financial aid offered to middle- and high-income families who have multiple children in college at the same time.

Goodbye EFC terminology. In the future, the expected family contribution (EFC) will be referred to as the student aid index, or SAI, in an attempt to more accurately reflect what this number represents: a yardstick for aid eligibility rather than a guarantee of what families will pay (families often pay more than their EFC amount).

Expanded Lifetime Learning credit. The bill increased the income limits necessary to qualify for the Lifetime Learning credit, an education tax credit worth up to $2,000 per year for courses taken throughout one's lifetime to acquire or improve job skills. Starting in 2021, a full credit will be available to single filers with a modified adjusted gross income (MAGI) below $80,000 and joint filers with a MAGI below $160,000 (the credit phases out for single filers with incomes between $80,000 and $90,000 and joint filers with incomes between $160,000 and $180,000). These are the same income limits used for the American Opportunity credit. To accommodate an expanded Lifetime Learning credit, Congress repealed the deduction for qualified college tuition and fees for 2021 and beyond.

Employer help with student loan repayment. The bill extended a provision allowing employers to pay up to $5,250 of employees' student loans on a tax-free basis for another five years. This provision, included in the Consolidated Aid, Relief, and Economic Security (CARES) Act, would have expired at the end of 2020.
