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5 Steps To Protect The Digital Assets You Own

We're living in a digital world. Nowadays, those important papers that you used to stash in a file cabinet or a safe deposit box often are created and stored electronically. That can remove some of the clutter of having lots of paper around, and it also may be good for the environment. Plus, it gives you easier access to information you need. But advanced technology also may result in problems you may not have considered.

Your heirs could face particularly thorny issues. What will happen to all of your electronic documents and files when you die? Who will have access to them? How will family members be able to find your user names and passwords? What about your photos and music? Will your social media accounts live on forever or will someone take them down? What about bills and insurance premiums you've been paying online? How about information that you want to remain confidential? Those and many other similar questions need to be addressed.

There also could be problems in other situations. Suppose you're severely incapacitated and your oldest child starts to handle your financial affairs online. As far as the financial institutions are concerned, you're still the person logging onto the account and making the transactions. Is it legal for your child to step in if a financial institution doesn't have a durable power of attorney on file? Are there any other restrictions?

State laws are continuing to evolve in this area, so there are no definitive answers, and you could be subject to rules that you agreed to when you signed up for various internet accounts—even if you paid scant attention to the fine print.

Nevertheless, it makes sense to do what you can to safeguard your digital assets while you're in good health. Putting aside the legal technicalities for the moment, here are five steps that could provide some measure of protection:

1. Make a list of passwords and accounts. The first thing to do is to make sure your loved ones have access to your user names and passwords, or that

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Results From Financial Calculators Don't Always Add Up

These days, you can find out virtually anything online. You no longer have to worry about "doing the math" on complex financial calculations. If you want to know how much interest you'll earn on an investment over a specified period or project how much you'll need to squirrel away for retirement, there's an app for that online. But be aware that these calculator apps aren't foolproof, as illustrated by the following real-life situation.

Someone just two years from retirement used an online calculator employing "Monte Carlo simulation," which tests many different variables to calculate the odds of funding your retirement successfully. In this case, one app based on an aggressive investment approach weighted heavily toward stocks revealed a 94% chance of achieving retirement goals. A second app, which used a more conservative allocation emphasizing bonds, indicated exactly the same 94% success rate. How could that be? It had to do with the way the app was programmed.

Don't assume that just because a calculator is online, it will provide you with the right answer. These apps can be black boxes, providing answers based on assumptions you can't check. When it comes to finance, you need answers you can trust. While online tools may be slick, having a professional calculate the numbers is best in all but the simplest situations. We're here to help.

Markets May Not Be Certain, But Experience Is

Have you ever wished you could do it all over again? Experience can be a great teacher, and it's natural to imagine that with the benefit of hindsight you would have made better decisions about everything from raising your children to managing your financial affairs. And while that may or may not be true, what is certain is that you can offer younger family members some of the insight you've acquired along the way.

Here are some thoughts you might pass along:

1. When you get a pay raise or a new higher-paying job, consider earmarking at least part of the additional money for retirement savings. You'll be amazed by what tax-deferred compounding can do to even relatively small sums over the course of several decades. And using raises to increase your contribution to a 401(k) can be relatively painless. Ratchet up your saving rate by a percentage point or two each year and you'll soon reach the maximum for annual pre-tax contributions to 401(k)s and similar employer-sponsored plans—$17,500 in 2014 if you're younger than age 50. Beginning at 50, you'll be eligible to contribute an extra $5,500 a year.

2. Try to resist the siren song of early retirement. Leaving your job in your 50s may be tempting, but it runs counter to several financial realities. Most people have not saved enough to retire comfortably even at the traditional age of 65, and quitting early can mortgage your future in two ways—reducing the amount you can save while extending the time that your savings must support you. By the same token, however, every year you keep working improves your situation. Moreover, as life expectancies increase, more and more people find they want to stay on the job at least part-time, and not only for financial reasons. Working can help keep you engaged and healthy, particularly if you find something you really like to do.

3. Consider postponing Social Security. You can begin receiving benefits as early as age 62, but each year you delay will increase the amount of your monthly payment, and if you wait until age 70, you'll get 76% more than if you had started drawing benefits at 62. And most people will live long enough to get a larger total payout if they begin later.

4. Don't feel like you have to go it alone in making financial decisions. Working with an advisor could help you make sense of complex financial markets and chart a comfortable path toward your goals. The right advisor can assist you in deciding how much to save, how to allocate your investments, how to weigh the pros and cons of buying a home and other major financial choices, and, when the time comes, how to deploy your retirement nest egg. ●

Is It Too Late For Roth Conversion?

When you're creating a retirement paycheck from a blend of Social Security, pensions, and personal retirement accounts, it only makes sense to do what you can to minimize income and investment taxes. For example, consider the distributions from your traditional IRAs or 401(k)s. Most or all of that income will be taxed at full income rates that now go as high as 39.6%. In contrast, under most circumstances, withdrawals from Roth IRAs aren't taxed at all. So should you switch from traditional IRAs to a Roth? Or is it too late to benefit from such a conversion?

The answer depends on your situation. Because you'll have to pay income tax on the money you convert to a Roth IRA, one crucial calculation involves whether your federal income tax bracket will be higher or lower during retirement. It usually makes sense to convert before retirement if you expect to be in a higher tax bracket later, while if you anticipate being in a lower bracket in retirement, you probably should wait until then to convert. If you are retired and expect to remain in a relatively low tax bracket, you might decide not to convert at all.

The main attraction of a Roth IRA for retirees is the lure of tax-free payouts while living on a fixed income. Distributions you take after age 59½ from a Roth you've had for at least five years will be exempt from federal income tax. And, from an estate planning view, with a Roth you won't be subject to the mandatory lifetime distributions that traditional IRAs require. But because a Roth conversion is taxable, it's like taking money out of an IRA for almost any other reason—and it may or may not pay off.

Example 1: You're in the 39.6% tax bracket now, you expect to be in the 28% bracket in retirement, and you have $500,000 in an IRA. If you convert to a Roth this year, you'll have

14 Of The Smartest Midyear Tax Moves In '14

Even as we approach the midpoint of this year, it's still not clear whether some favorable tax provisions that officially expired last year will be extended retroactively into 2014. While that uncertainty could affect your tax planning for this year, there's plenty we *do* know that you could act upon. Consider these 14 midyear tax strategies for '14:

1. Sell securities at a gain. Despite recent tax law changes, you still can benefit from rules that give you a tax break on investment sales. The maximum tax rate for long-term capital gains is only 15% (or 20% for those in the top ordinary income tax bracket). However, some upper-income investors also may have to pay a surtax of 3.8% on capital gains.

2. Harvest capital losses. If you've already realized gains—particularly short-term gains taxed at ordinary income rates reaching as high as 39.6%—you might be able to sell losing positions to offset those profits. If your losses exceed your gains, you also can use them to erase up to $3,000 of ordinary income in 2014.

3. Max out on 0% rate. If you expect your income to be low this year—for example, if you incur a substantial business loss—a portion of your long-term capital gains may qualify for the 0% tax rate that applies to investors in the two lowest ordinary income tax brackets.

4. Avoid the wash sale rule. If you acquire "substantially identical" securities within 30 days of selling an investment at a loss, you won't be able to deduct the loss on your tax return. This "wash sale" rule can be avoided by waiting at least 31 days to buy back the same securities. Or you could buy the additional shares first and wait at least 31 days to sell your original holdings.

5. Invest in dividend-paying stocks. Most dividends are taxed at the same preferential tax rates as long-term capital gains. To qualify for this tax break, however, you have to hold the dividend-paying shares at least 61 days.

6. Arrange an installment sale. You usually can defer tax on the sale of real estate or other property if you receive payments over two years or longer. Not only do you stretch out your tax payments, but you also might reduce the effective tax rate if you stay below the thresholds for the higher capital gains rate and the 3.8% surtax.

7. Contribute to a 401(k). Another way to reduce your tax liability is to increase contributions to a 401(k) plan where you work. For 2014, you can elect to defer as much as $17,500 to your account ($23,000 if you're age 50 or over). You won't be taxed on those contributions, which can compound tax-free until you make withdrawals from the account during retirement.

8. Convert to a Roth IRA. If you have money in a traditional IRA, you can convert some or all of those funds to a Roth IRA. The amount you convert will be taxed as regular income, but you could ease that pain by spreading out the conversion over several years. And you'll be able to enjoy tax-free distributions during retirement with a Roth.

9. Sell the old homestead. Tax law allows you to exclude tax on up to $250,000 (for single filers) or $500,000 (for joint filers) of profit on a home sale if you've owned and used the home as your principal residence at least two of the past five years.

10. Rent out a vacation home. You can write off certain rental activity costs, plus depreciation, but you must be careful. If your personal use exceeds 14 days or 10% of the days the home is rented out—whichever is greater—deductions are limited to the amount of rental income.

11. Help support your new college graduate. Generally, you can claim a $3,950 dependency exemption for a child graduating from college in 2014 if you provide more than half of the child's annual support. It might work out to your advantage—to say nothing of your child's—if you provide a gift that puts you over the half-support mark.

12. Dust off charitable donations. Instead of tossing out old furniture and clothing, you could give items in good condition to charity. You generally can deduct the fair market value of property donated to a qualified charitable organization, within certain limits.

13. Adjust your withholding. If you have too little income tax withheld from your paycheck you could be penalized for not making estimated payments—a penalty that's easy to avoid.

14. Give generous gifts. Finally, under the annual gift tax exclusion, you can provide up to $14,000 to any family member in 2014 without any gift tax consequences. Meanwhile, such gifts reduce the size of your taxable estate. ●

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to pay a tax of $198,000. That's probably not worth the future benefit of receiving tax-free payouts—money that would have been taxed at the 28% rate without the conversion. However, if you wait until you drop into the 28% bracket, the conversion will cost less and may be worthwhile.

Example 2: You're in the 28% bracket now, you expect to be in the 39.6% bracket during retirement, and you have $100,000 in an IRA. If you convert to a Roth this year, you'll pay a tax of at least $28,000. (It may be higher because part of the conversion could be taxed at a 33% rate.) But that may be preferable to being taxed on that money at the top 39.6% rate during retirement.

You'll also need to weigh other factors, including the size of your account and whether a series of smaller conversions might reduce your overall tax liability. Also, a Roth conversion effectively could increase the 3.8% surtax on your net investment income. We can help you figure out the best strategy for your situation. ●

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Protect Your Digital Assets

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they know where to find that information if it's needed. And try to remember to update your list when you are prompted to change a password for security purposes. It won't do much good to give someone a list of expired passwords.

2. Use a password manager. Along the same lines, it can be difficult managing all of your electronic accounts, even under the best circumstances. A simple solution is to use an online password manager service. Once you enroll with the service, a single password grants access to all of your accounts.

3. Provide authority under your will and durable power of attorney. Don't forget to coordinate the management of your digital assets with your overall estate plan. This may require some additions or modifications to your existing will and durable power of attorney. If you don't have a power of attorney in place, now is a good time to create this document. It enables a designated party to act on your behalf in a multitude of situations.

4. Review vendor contracts. Check the terms of agreements you've signed with social media sites and other online entities. In some cases, matters will be taken out of your own hands. If you're not satisfied with the terms, you might opt to close the account or shift to a different provider. At the very least, develop a good understanding about how things will work in the event of your incapacitation or death.

5. Consider storage with an online company. Undoubtedly, your electronic files contain sensitive information you need to protect, such as your Social Security number and account numbers for securities and IRAs. If that information falls into the wrong hands, it could lead to a financial and logistical nightmare. That could be avoided if you use an online storage company to secure your data.

Technology can simplify our lives, but it also may result in unexpected complications. That's why it's important to do whatever is necessary to give family members the access they will need to handle your financial matters. ●