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7 Financial Steps Forward In A Second Marriage

Marrying again after divorce or the death of a spouse may offer great personal benefits. But it also can lead to financial complications, especially if you have children from your first time around.

However, the blessed event doesn't have to be ruined by family squabbles. Discussing matters openly and deploying a range of estate planning strategies can help you develop a plan that meets your needs. Here are seven steps to help move you along:

1. Open the lines of communication. Before you tie the knot, be up-front about your concerns and preferences. Talk to each other about your intentions and how you expect to pass along assets to other family members, including any children and grandchildren. You might find it helpful to include an impartial person, such as your financial advisor, to "broker" the talks.

Consider this checklist of points to discuss:

- Existing financial obligations (for example, a promise to pay for a grandchild's education);
- Plans for future support and funding for retirement;
- Guardianship of any minor children; and
- A prenuptial agreement protecting your personal interests.

2. Conduct an inventory. Now is a good time to compile a list of your assets. This may include: stocks, bonds, mutual funds, and other investments; amounts that you've transferred to trusts; retirement plan and IRA funds; and proceeds that will be available from life insurance policies. Also, review any agreements made during the course of your first marriage. For instance, if you were required to name your then- spouse as the beneficiary of your retirement plan accounts, you may have less flexibility than you thought.

3. Consider the variables. Not everything is cut and dried. It's up to you to decide which assets, if any, you will comingle with your new spouse's. Keep in mind, though, that the laws of your state also may come into play. For instance, in community property states, the law presumes that assets will be owned jointly. But most states mandate "equitable distribution," calling for property to be distributed fairly, but not necessarily equally. Also, you'll want to factor in your age and health status, as well as those of your spouse.

4. Pay attention to titles. The way that property is titled, both prior to marriage and after, can have a profound effect. For example, setting up accounts as joint tenants with rights of survivorship (JTWROS) will make it clear that assets will go directly to the other named person, such as your spouse, when you die. But if a title names you as the sole legal owner of assets, they'll pass to your estate and not

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What Are The Main Items On Trump's Tax Reform Agenda?

President Donald Trump is making tax reform one of the top priorities in the early days of his administration. Although there are no guarantees, some or all of his proposals may be approved by a Republican-led Congress, possibly with modifications. These are among the key items on the agenda:

- Replacing the seven-tier income tax rate structure for individuals with three brackets of 12%, 25%, and 33%.
- Eliminating some itemized deductions or limiting the dollar value of deductions claimed on personal returns.
- Reducing the top corporate income tax rate from 35% to 15%.
- Repealing the estate tax and replacing the step-up in basis for inherited assets with a carryover basis rule or income tax consequence at death.
- Repealing the 3.8% surtax on net investment income.
- Repealing the alternative minimum tax.
- Curbing the benefits of stretch IRAs.
- Providing immediate deductions for investments in businesses.
- Doubling the maximum Section 179 allowance from $500,000 to $1 million and revamping depreciation deduction rules.
- Revising tax benefits for child-care expenses, including a new deduction and tax-favored savings accounts.
- Implementing a one-time 10% repatriation tax for multinational corporations.

We will provide more details if and when any of these provisions are enacted into law.

Tune Into The Tax Break For NUA

NUA isn't the latest channel available on your cable TV system. It stands for "net unrealized appreciation"—a little-known gem of a tax break for those who take payouts in the form of company stock from a 401(k) or other employer-sponsored retirement plan.

This tax law provision lets you benefit twice: once when you pay the tax on the plan distribution and once when you sell the stock.

If you receive a retirement plan distribution in company stock, you'll be taxed only on what you initially paid for it. You won't have to pay tax on any subsequent gains in value—known as net unrealized appreciation, or NUA. In contrast, cash distributions from your 401(k) normally are taxed as income, at rates up to 39.6%.

And what happens when you sell the shares you received from your retirement plan? Then you will be taxed on the difference between what you paid for the stock and its sale price. But that profit will be taxed at capital gains rates, and if it qualifies as a long-term gain—because you've owned the stock longer than one year—the maximum tax rate is only 15% (or 20% if you're in the top 39.6% ordinary income tax bracket).

But the tax breaks for NUA aren't automatic. The distribution must be:

- Made from a "qualified" retirement plan sponsored by your employer. (IRAs don't count.)
- Due to a triggering event—death, disability, attaining the age of age 59½, or separation of service from the company sponsoring the plan.
- Taken in a single tax year.

Assuming you qualify, though, the tax savings for NUA can be substantial. Suppose that during the past 20 years, hypothetical investor Jane Doe has acquired 20,000 shares of company stock in her 401(k). The stock originally was bought for $5 a share, but now it's worth $50 a share, or a total of $1 million.

If Jane sells the stock within the 401(k) and then takes a cash distribution of the proceeds, the entire $1 million will be taxed as ordinary income. If Jane is in the 39.6% tax bracket, she'll be hit with a federal income tax bill of $396,000 (39.6% of $1 million). But if she instead takes the distribution as stock, not cash, she'll be taxed only on her original cost of $100,000, and she will pay only $39,600.

Now suppose that Jane sells the stock immediately for $1 million. Her $900,000 gain ($1 million - $100,000) is taxed as long-term capital gain at the maximum 20% rate, giving her a tax bill of $180,000. Add that to the $39,600 she paid on the distribution, and her total taxes are $219,600—or $176,400 less than she would have paid if she'd sold the stock inside her retirement plan. ●

5 Key Documents In An Estate Plan

To do a job right, you need the proper tools. And while each and every estate plan is unique, these five documents are often integral elements:

1. Financial power of attorney. This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers, able to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney. This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living will. While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be able to be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

4. Trusts. There are many reasons

Ten Frequent Retirement Mistakes To Avoid

When your retirement finally arrives, you can take a deep breath and exhale. You made it! But that doesn't mean you may relax completely.

In fact, mistakes made in retirement can cause significant financial distress. Here are 10 common pitfalls to avoid:

Mistake 1. Going on a spending spree. It may be tempting to start spending freely, especially because you now have more time on your hands. But you don't want to burn through your savings in just a few years. It's still important to rely on a budget that helps you balance monthly income and expenses.

Mistake 2. Applying for Social Security right away. Most people are eligible to begin receiving Social Security benefits as early as age 62. Although that may be the best approach for some retirees, it's not recommended for everyone. You can ensure greater monthly benefits by waiting until full retirement age (FRA) to apply—age 66 for most Baby Boomers—or even longer. Starting your benefits at age 70 will give you the largest possible monthly benefit.

Mistake 3. Not taking income taxes into account. Even though you're retiring, taxes will continue to have an impact on your financial life in general and your investments in particular. You still can take advantage of investment losses to offset capital gains that otherwise would be taxed, while distributions from your employer-sponsored retirement plans and IRAs may add to your tax bill. If you have a Roth IRA, you may be able to take tax-free payouts—or pass them along to your heirs.

Mistake 4. Becoming too conservative in your investments. The traditional advice is to shift your portfolio to lower-risk investments during retirement. That makes sense as a general principle, but don't go too far. Consider your life expectancy and how long you will have to stretch the income from your savings. By avoiding investment risk you could increase another kind of risk—the risk of outliving your savings.

Mistake 5. Being handicapped by your biggest asset. It's often hard to give up the home in which you raised your children. However, at some point during retirement, it may become too expensive to live there. Even if you've paid off your mortgage, you'll still be responsible for real estate taxes, repairs, and utilities, which could add up to thousands of dollars a month. Selling the old homestead and then buying a smaller place could free up your equity while reducing your costs.

Mistake 6. Being victimized by a scam. Con artists frequently prey on the elderly, and today's schemes are increasingly sophisticated, putting almost everyone at risk. Imposters may create phony websites that mirror ones from reputable financial institutions and pretend that the information they're seeking is crucial. Be very careful about working with anyone you don't know personally.

Mistake 7. Continuing to support your adult children. No matter how old you are, you never stop being a parent. Nevertheless, there comes a point when you must realize that you're living on a fixed income and can't support your children in the same manner as you could during your peak earning years. Worry about paying your own expenses first. Then, if there are assets left over, you can follow your parental inclinations.

Mistake 8. Underestimating health-care costs. Just because you're eligible to receive Medicare at age 65 doesn't mean all of your expenses will be paid. You'll probably need other coverage to supplement Medicare, and if you or your spouse encounter serious health issues, you could run up extremely high costs for care in a nursing home or care in your home. Long-term care insurance, when purchased early enough, can provide affordable protection. Alternatively, you might need to set aside funds to pay for potential care expenses.

Mistake 9. Leaving work too soon. Sure, some people would like to call it quits as early as possible, but it's important to be realistic. Go back to your budget and consider it in terms of how long you're likely to live. Although it may not be your first choice, the option of working for a year or two longer could help in two ways, adding to your nest egg and shortening the length of time you'll need it to fund retirement expenses. Coordinate this decision with your choices for Social Security benefits.

Mistake 10. Not seeking professional guidance. Instead of trying to do it all on your own, or relying on the advice of friends or family, sit down with your financial adviser to map out a plan. This last step may help you avoid many of the other mistakes and improve your chances of a comfortable retirement. ●

for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will because assets in the trust don't have to go through probate court proceedings.

Though there are myriad variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. Yet while that's not the case with an irrevocable trust, this type of trust can protect assets from creditors and remove them from your taxable estate.

5. Will. Last but not least is your will, which establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without. ●

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7 Financial Steps Forward

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directly to your spouse.

5. Name your beneficiaries. If you're entering a new marriage you'll likely need to amend your existing will or replace it entirely. In particular, it's important to review the beneficiaries you've named for various assets in the will. Also, take a look at the beneficiary designations in documents for all of your retirement plans, IRAs, and life insurance policies. Those beneficiary designations take precedence over whatever may be in your will.

6. Show some trust. Your estate plan may include one or more trusts, which can be useful in transferring wealth to children of an earlier marriage while imposing some constraints on the recipients. Here are a few possibilities:

Bypass trust: This vehicle could be designed to provide income to a surviving spouse, with the remainder of trust assets going to other designated family members.

Q-tip trust: With a qualified terminable interest property (Q-tip) trust, a surviving spouse may receive income, but not principal, when the owner dies, with children receiving the remainder from the surviving spouse's estate.

Spendthrift trust: As the name implies, this trust can be helpful in restricting beneficiaries' access to assets until they reach a specified age or meet other requirements.

7. Don't forget about taxes. Last, but not least, it makes sense for both of you to consider how to minimize estate tax on the federal and state levels. That likely means use of the generous estate tax exemption ($5.49 million in 2017) as well as the "portability" provision allowing a surviving spouse's estate to benefit from the unused portion of a deceased spouse's exemption. Such provisions could be included in trust documents or other estate planning devices.

The second time around, it's more important than ever to seek expert assistance from your estate planning advisors. Don't hesitate to contact us. ●