Waller Financial Planning Group

Legacy Press

LIFESTYLE & LEGACY CHOICES BY DESIGN℠

Fall2017

Fact

About two-thirds of Americans do not have a written Will.

Source: 2015 survey by Rocket Lawyer

> *"Like your home's closets, your financial clutter needs an overhaul every now and again, and the payoff will go far beyond the psychic satisfaction of neatening up."*
>
> **Suze Orman**

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When Planning Opportunities Collide: 0% Capital Gains & Premium Tax Credits

By: Chris Olsgard, CFP®

Occasionally, our clients are fortunate enough from a tax-planning standpoint to take advantage of the 0% long-term capital gain tax bracket. The 0% long-term capital gain bracket was created in 2003 under President Bush's *Jobs Growth and Tax Relief Reconciliation Act* and was later made permanent under the *American Taxpayer Relief Act of 2012*. This legislation can produce significant tax savings for individuals with taxable income below the 15% ordinary income tax bracket. While the mechanics of the 0% tax calculation can be a bit overwhelming, the main point to remember is that married couples must have less than $75,900 of taxable income or individuals with less than $37,950 of taxable income in 2017; there may be an opportunity to harvest some long-term capital gains and pay $0 additional federal tax. Keep in mind, the additional income created by harvesting gains may increase a taxpayer's state tax liability, but more often than not, the opportunity is still too good to pass up.

There have been plenty of articles written since 2003 about the 0% capital gain bracket, and rightfully so, it's a good deal for taxpayers if properly utilized; however, the purpose of this article is not to reiterate the benefits. Instead, I'd like to highlight a potential pitfall that may be waiting for those low-income tax payers who are also eligible for a premium tax credit under the *Affordable Care Act of 2010*.

Most taxpayers who are not covered by a group health insurance plan, and not yet eligible for Medicare, are enrolled in a Marketplace plan. Marketplace plans are private health insurance plans that must meet the requirements set forth by the Department of Health and Human Services, which ensures a reasonable level of health insurance for all individuals. Under the *Affordable Care Act*, low-income taxpayers may also be eligible for significant premium tax credits to help offset or potentially eliminate all premiums due for the aforementioned health insurance coverage. The amount of a taxpayer's premium tax credit is determined by the taxpayer's family size and combined income for the year, relative to the federal poverty line. If the taxpayer's income falls between 100% and 400% of the federal poverty line for the year, they will receive at least some premium tax credit.

THE MOST COMMON FEDERAL POVERTY THRESHOLDS

ONE INDIVIDUAL	FAMILY OF TWO	FAMILY OF FOUR
$12,600 - $48,240	$16,240 - $64,960	$24,600 - $98,400
(100%) (400%)	(100%) (400%)	(100%) (400%)

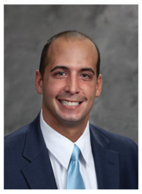
You may be asking yourself at this point, where is the pitfall? Let's take a look at the following example:

Assume we have a married couple under the age of 65 who recently retired and has not yet commenced their Social Security or retirement pension benefits. Their previous employers did not provide any type of retiree health insurance, so they are enrolled in a Marketplace plan and receiving a sizable premium tax credit (we've encountered situations where the premium tax credits are in excess of $10,000 per year.) Like most enrollees in a Marketplace plan, they were given the option of estimating their premium tax credit and having it applied monthly to reduce their premiums, which they elected. The fortunate couple is in a position where they are not paying any premiums for the coverage they selected from the Marketplace; most would agree this is a good deal.

Here comes the pitfall. Like most of us, the aforementioned couple wants to take full advantage of any opportunities they have to minimize the taxes they pay. Why not harvest some capital gains while they are in the lowest bracket and pay 0% in additional taxes as outlined above? If they do, the couple could be in for a very unexpected and unpleasant surprise when they go to file their taxes in April. Any capital gains they harvest at year-end will push their total income above the federal poverty line and would forfeit some or all of their premium tax credit, which ultimately causes a very large and unintended tax bill. This is a situation where two great tax-planning strategies cannot coexist. In-depth analysis needs to be completed to determine which of the strategies is most beneficial for the couple.

The example above is unique and may not apply to everyone, but the manner in which the planning opportunities crossed paths is quite common. This is why we take a comprehensive approach to our financial planning, ensuring our clients are well educated and fully aware of the options they have for achieving their lifestyle and legacy choices.

What Should You Do If You Inherit An IRA?



By: Jason Farris, CFP®, CAP®

If someone leaves you an Individual Retirement Account (IRA), you may find yourself in unfamiliar territory. You might be familiar with IRAs, but do you know if the same rules govern inherited IRAs? Before you make a rash decision on taking the inherited IRA, consider these options on what to do with your inheritance:

Take a Lump Sum... Slow Down

In a theoretical situation, the attorney settling the estate for an IRA owner informs the beneficiary no estate/death taxes are due; therefore, the beneficiary requests all the money from the IRA account believing taxes are not a concern. Such action may inadvertently create an income tax nightmare. Don't confuse estate/death taxes with personal income taxes. In essence, the taxation of inherited IRA is treated the same as an IRA. Any money distributed from the account will be recognized as income on your personal income tax return.

Before making any decisions regarding a lump sum, consult with your financial planner and tax professional. If you do not need the money, it is best to leave the account alone in order to benefit from tax-deferred growth; however, you need to know the following:

IRA Owner's Age at Death

Required minimum distributions (RMDs) still need to be met after the death of an IRA owner; however, the requirements that apply depend on whether the IRA owner died before or after the age of 70½.

If an IRA owner dies *before* turning age 70½, RMDs must be made in one of two ways:

1. **Life Expectancy Method:** The account must be distributed over the life expectancy of the beneficiary. Distributions must begin by December 31 of the calendar year immediately following the first anniversary of the IRA owner's death.

2. **Five Year Rule:** The entire account must distributed by the end of the calendar year following the fifth anniversary of the IRA owner's death.

If an IRA owner dies *on or after* turning age 70½, you have two options on distributions:

1. **Life Expectancy Method:** The account must be distributed over the life expectancy of the beneficiary. Distributions must begin by December 31 of the calendar year immediately following the first anniversary of the IRA owner's death.

2. **Owner's Life Expectancy:** The account must be distributed over the life expectancy of the owner. Again, distributions must begin by December 31 of the calendar year immediately following the first anniversary of the IRA owner's death.

What if the IRA Owner is my Spouse?

A surviving spouse may elect to treat an inherited IRA in the same manner outlined above. The surviving spouse of an IRA owner, who is the sole beneficiary of an IRA, may also elect to treat the entire account as his or her own. By electing to treat an inherited IRA as your own, you are the new IRA owner. As such RMDs, if any, will be based on your age. This election can be made at any time after the IRA owner's death.

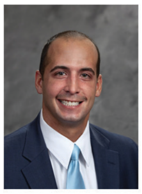
Are there different rules for a Roth IRA?

The Roth IRA owner's age at death is irrelevant, as they will always be presumed less than 70 ½, as it relates to determining RMDs. Additionally, a surviving spouse of an IRA owner who is the sole beneficiary may still elect to treat an inherited Roth IRA as his or her own Roth IRA.

Dealing with the loss of a loved one and making important financial decisions can be an overwhelming task. If you inherited an IRA and are in need to discuss your options available to you, please contact one of our CERTIFIED FINANCIAL PLANNER™ professionals to discuss possible solutions for you.

[1] The Internal Revenue Service provides specific instructions on how to determine life expectancy. To further view these instructions and the Five Year Rule, check out Publication 590-B: https://irs.gov/pub/irs-pdf/p590b.pdf

Long-Term Care: Facts About The "Forgotten" Policy



By: Jason Farris, CFP®, CAP®

Everybody knows about life insurance, and disability insurance covers millions through corporate plans. Health insurance is always in the news thanks to the controversy around the Affordable Care Act.

But what about the forgotten stepchild: Long-Term Care (LTC) insurance? How much do you know about it? How do you know whether you need it or not?

Recently, the Morningstar mutual fund service published an eye-opening blog that provides 75 statistics about LTC coverage, some of which will help people evaluate this often-forgotten piece of their personal risk profile.

For instance: 52.3% of people turning 65 will need long-term care during their lifetimes—meaning either skilled care providers in their homes or, more often, a stay for months or years in a nursing facility. Already, 10% of Americans over age 65, and 38% over age 85, currently have Alzheimer's dementia, which, in its advanced stages, requires round-the-clock care.

But before you buy that policy that will pay for 5 years of assisted living, you should know that the average long-term care need for individuals who today are age 65 is 2 years, and only 22% of men will ever need more than one year in a nursing home. The figure rises to 36% for women. There is only a 2% (men) to 7% (women) probability of needing more than five years in a nursing home.

If you self-insure, what kind of costs are you looking at? The median yearly cost of adult day care in the home is $17,680, but that rises to $43,539 a year if you move into an assisted living facility, and you can more than double that cost if you prefer a private room ($92,378). Some places, like Manhattan, cost about $164,250 for a private room.

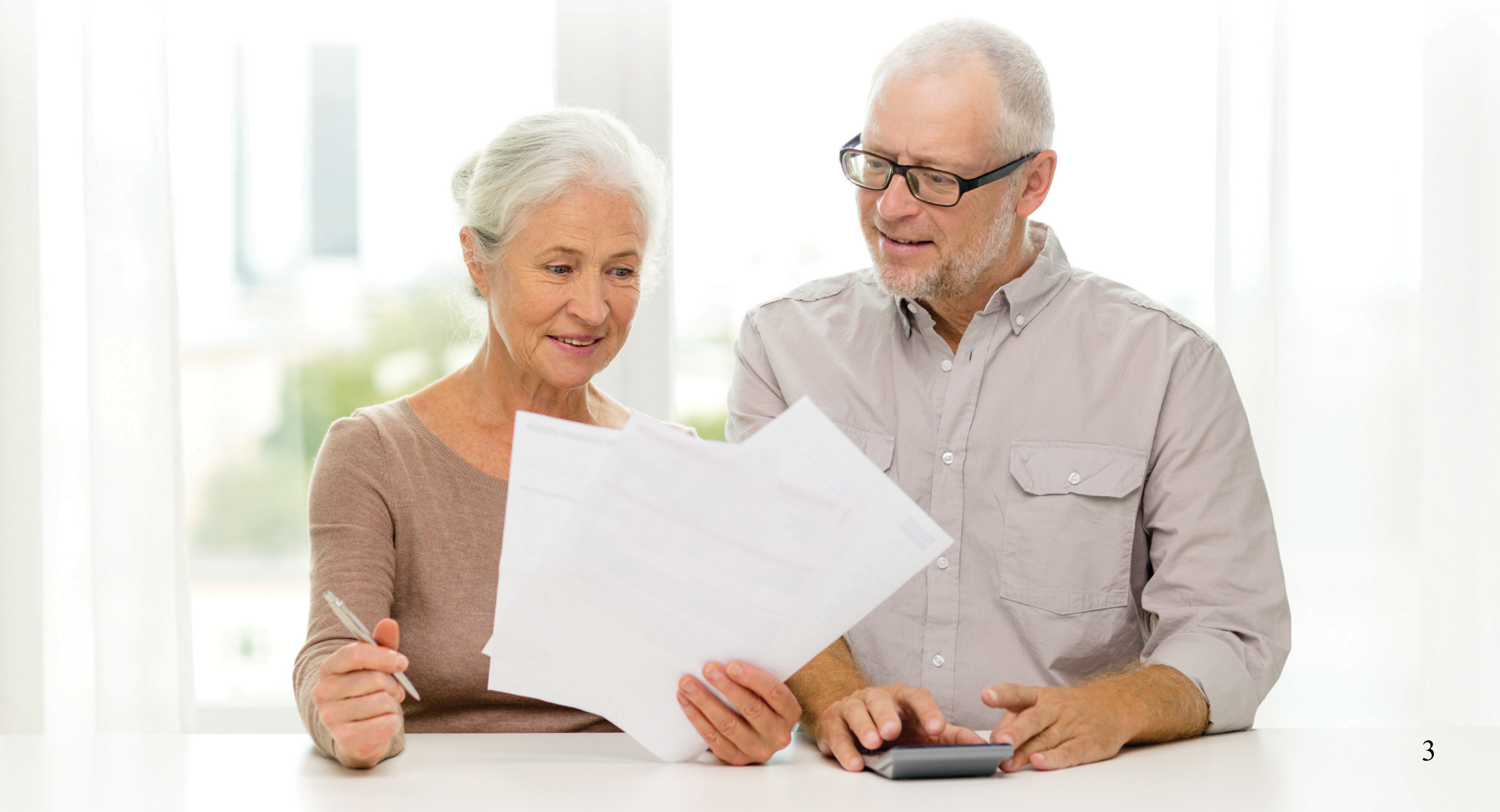
Why can't you just move in with your relatives if you begin to experience symptoms of Alzheimer's or are too frail to get around on your own? The blog cites some statistics: unpaid caregivers (usually family members, usually a daughter) suffer significant financial hardships; their 37 billion hours of unpaid labor cost them $3 trillion in potential earnings, in the most recent year for statistics (2013). 70% of these unpaid caregivers suffered work-related difficulties due to their caregiving duties.

Doesn't the government pay for many peoples' LTC expenses? Yes, in fact, 62.3% of long-term care services and supports are provided through Medicaid—and these payments make up roughly 20% of Medicaid's total budget. But there's a catch: a Medicaid recipient can only retain up to $120,900 (total assets) to be eligible for long-term care benefits provided by Medicaid.

Suppose all of this has convinced you to buy LTC insurance. You should know that there are now fewer than 15 insurers offering standalone long-term care policies, down from 125 back at the turn of the century. Altogether, 7.25 million individuals have long-term care insurance coverage, with average annual premiums of $2,772. Total benefits available at age 82, for a person who bought a typical policy at age 60: $547,000.

Figuring out the right insurance plan for your needs is an overwhelming task. Please contact one of our CERTIFIED FINANCIAL PLANNER® professionals to analyze an appropriate solution for your financial needs.

Source:
http://news.morningstar.com/articlenet/article.aspx?id=823957



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News & Notes

Upcoming Holiday Closures

In observance of the upcoming holidays, our offices will be closed on the following dates:

November 23
November 24
December 25
December 26
January 1

Are You Following Us On Social Media?

Our sites provide insight into the financial industry, as well as helpful information about our offices and staff members.