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Hi Friends,

We hope you had a great October and Halloween. It is hard to believe, but Thanksgiving will be here in the blink of an eye and the holiday season is now underway. As the end of 2017 approaches, now is the time to examine finances and make sure things are in order. For those with kids in college or going to college, you can now complete the FAFSA form in October as well, so be sure to complete that this month if you haven't already done so.

Until next time, have a great Thanksgiving and enjoy this month's articles!

Jim, Ken, Megan, Sharon, & Melanie

November 2017 Financial Fitness

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Financial Fitness

Duncklee & Nott Monthly Newsletter

What You Can Do with a Will

A will is often the cornerstone of an estate plan. Here are five things you can do with a will.

Distribute property as you wish

Wills enable you to leave your property at your death to a surviving spouse, a child, other relatives, friends, a trust, a charity, or anyone you choose. There are some limits, however, on how you can distribute property using a will. For instance, your spouse may have certain rights with respect to your property, regardless of the provisions of your will.

Transfers through your will take the form of specific bequests (e.g., an heirloom, jewelry, furniture, or cash), general bequests (e.g., a percentage of your property), or a residuary bequest of what's left after your other transfers. It is generally a good practice to name backup beneficiaries just in case they are needed.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property in which you have already named a beneficiary passes to the beneficiary (e.g., life insurance, pension plans, IRAs).

Nominate a guardian for your minor children

In many states, a will is your only means of stating who you want to act as legal guardian for your minor children if you die. You can name a personal guardian, who takes personal custody of the children, and a property guardian, who manages the children's assets. This can be the same person or different people. The probate court has final approval, but courts will usually approve your choice of guardian unless there are compelling reasons not to.

Nominate an executor

A will allows you to designate a person as your executor to act as your legal representative after your death. An executor carries out many estate settlement tasks, including locating your will, collecting your assets, paying legitimate creditor claims, paying any taxes owed by your estate, and distributing any remaining assets to your beneficiaries. As with naming a guardian, the probate court has final approval but will usually approve whomever you nominate.

Specify how to pay estate taxes and other expenses

The way in which estate taxes and other expenses are divided among your heirs is generally determined by state law unless you direct otherwise in your will. To ensure that the specific bequests you make to your beneficiaries are not reduced by taxes and other expenses, you can provide in your will that these costs be paid from your residuary estate. Or, you can specify which assets should be used or sold to pay these costs.

Create a testamentary trust or fund a living trust

You can create a trust in your will, known as a testamentary trust, that comes into being when your will is probated. Your will sets out the terms of the trust, such as who the trustee is, who the beneficiaries are, how the trust is funded, how the distributions should be made, and when the trust terminates. This can be especially important if you have a spouse or minor children who are unable to manage assets or property themselves.

A living trust is a trust that you create during your lifetime. If you have a living trust, your will can transfer any assets that were not transferred to the trust while you were alive. This is known as a pourover will because the will "pours over" your estate to your living trust.

Caveat

Generally, a will is a written document that must be executed with appropriate formalities. These may include, for example, signing the document in front of at least two witnesses. Though it is not a legal requirement, a will should generally be drafted by an attorney.

There may be costs or expenses involved with the creation of a will or trust, the probate of a will, and the operation of a trust.

Ten Year-End Tax Tips for 2017

Deductions may be limited for those with high incomes

If your adjusted gross income (AGI) is more than $261,500 ($313,800 if married filing jointly, $156,900 if married filing separately, $287,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2017 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

IRA and retirement plan contributions

For 2017, you can contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2017 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2017 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2018, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2018, could make a difference on your 2017 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2017, prepaying 2018 state and local taxes probably won't help your 2017 tax situation, but could hurt your 2018 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2017 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately, $200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.

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Medicare and Your Employer Health Plan

The U.S. Bureau of Labor Statistics projects that the labor force will grow to about 164 million workers by 2024. Approximately 13 million of these workers (roughly 8%) will be age 65 and older.

Source: U.S. Bureau of Labor Statistics, Older workers: Labor force trends and career options, May 2017

If you plan to continue working after you reach age 65, you may be wondering how Medicare coordinates with your employer's group health plan. When you're eligible for both types of coverage, you'll need to consider the benefits and costs, and navigate an array of rules.

How does Medicare work with your group health plan?

You can generally wait to enroll in Medicare if you have group health insurance through your employer or your spouse's employer. Most employers can't require employees or covered spouses to enroll in Medicare to retain eligibility for their group health benefits. However, some small employers can, so contact your plan's benefits administrator to find out if you're required to sign up for Medicare when you reach age 65.

If you have Medicare and group health coverage, both insurers may cover your medical costs, based on "coordination of benefit" rules. The primary insurer pays your claim first, up to the limits of the policy. The secondary insurer pays your claim only if there are costs the primary insurer didn't cover, but may not pay all the uncovered costs.

Who is the primary insurer? If your employer has 20 or more employees, your employer group health plan is primary and your Medicare coverage is secondary. If your employer has fewer than 20 employees, your Medicare coverage is primary and your employer group health plan is secondary.

Your employer can tell you more about how your group health coverage works with Medicare.

Should you wait to enroll in Medicare?

Medicare Part A helps pay for inpatient hospital care as well as skilled nursing facility, hospice, and home health care. Because Medicare hospital insurance is free for most people, you may want to enroll in Part A even if you have employer coverage. It could be helpful to have both types of insurance to fill any coverage gaps. However, if you have to pay for Part A, you'll need to factor the cost of premiums into your decision.

Medicare Part B medical insurance, which helps pay for physician services and outpatient expenses, requires premium payments, so it would be wise to compare the costs and benefits of Medicare to your employer's plan. If you're satisfied with your employer coverage, you may be able to wait to enroll in Part B.

Late-enrollment penalties typically apply if you do not enroll in Medicare Part A and Part B when you are first eligible. However, if you are covered by a group health plan based on current employment, these penalties generally do not apply as long as you follow certain rules. You can sign up for Medicare Part A and/or Part B at any time as long as you are covered by a group health plan through your own employment or your spouse's employment. When you stop working or your coverage ends, you have eight months to sign up without penalty. This eight-month period starts the month after your employment ends or the month after your employer group health coverage ends (whichever occurs first). Visit medicare.gov for more information.

What if you have an HSA?

If you have a high-deductible health plan through work, keep in mind that you cannot contribute to a health savings account (HSA) after you enroll in Medicare (A or B). The good news is that the HSA is yours, even if you can no longer contribute to it, and you can use the tax-advantaged funds to pay Medicare premiums and other qualified medical expenses. So it might be helpful to build your HSA balance before enrolling in Medicare.

Whether you should opt out of premium-free Part A in order to contribute to an HSA depends on what you consider to be more valuable: secondary hospital insurance coverage or tax-advantaged contributions to pay future expenses. HSA funds can be withdrawn free of federal income tax and penalties provided the money is spent on qualified health-care expenses. HSA contributions and earnings may or may not be subject to state taxes.

How are Medicare claims handled?

Once you enroll in Medicare, tell your health-care providers that you have coverage in addition to Medicare to help ensure that claims are submitted properly. You can also contact the Medicare Benefits Coordination & Recovery Center (BCRC) at (855) 798-2627 if you have questions about how your claims will be handled.

Medicare rules are complex, and these are only guidelines. Different rules and considerations apply if you have retiree health coverage through your former employer (or your spouse's employer) or other types of health coverage. For more detailed information, visit medicare.gov.

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How much money should a family borrow for college?

There is no magic formula to determine how much you or your child should borrow to pay for college. But there is such a thing as borrowing too much. How much is too much? Well, one guideline for students is to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned by taking out larger mortgages than they could afford (even though lenders may have told them they were qualified for that amount), students can get burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years or longer. A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car payments come into play? What if a borrower steps out of the workforce for an extended period to care for children and isn't earning an income? There are many variables, and every student's situation is different. Of course, a loan deferment is available in certain situations, but postponing payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently $27,000 for four years of college. Over a 10-year term with a 4.45% interest rate (the current 2017/2018 rate on federal student loans), this equals a $279 monthly payment. Borrow more by adding in co-signed private loans, and the monthly payment will jump: $40,000 in loans (at the same interest rate) equals a monthly payment of $414, while $60,000 in loans will result in a $620 monthly payment. Before borrowing, students should know *exactly* what their monthly payment will be.

As for families, there is no one-size-fits-all rule on how much to borrow. Many factors come into play including, but not limited to, the number of children in the family, total household income and assets, and current and projected retirement savings.

How can families trim college costs?

Trimming college costs up front can help families avoid excessive college borrowing and the burdensome student loan payments that come with it. Here are some ideas.

1. Pick a college with a lower net price. You can use a college's net price calculator (available on every college's website) to estimate what your net price (out-of-pocket cost) will be at individual colleges. A net price calculator does this by estimating how much grant aid a student is likely to receive based on a family's financial and personal information. Colleges differ on their aid generosity, so after entering identical information in different calculators, you may find that College A's net price is $35,000 per year while College B's net price is $22,000. By establishing an ideal net price range, your child can target schools that hit your affordable zone.

2. Investigate in-state universities. Research in-state options and encourage your child to apply to at least one in-state school. In-state schools generally offer the lowest *sticker* price (though not necessarily the lowest *net* price) and may offer scholarships to state residents.

3. Research colleges that offer generous merit aid. All colleges are not created equal in terms of how much institutional aid they offer. Spend time researching colleges that offer generous merit aid to students whose academic profile your child matches.

4. Graduate early. Earn college credit in high school by taking AP/IB classes and then graduate a semester or two early. Or look at colleges that specifically offer three-year accelerated degree programs.

5. Seek out free room and board. There are two ways to do this: The first is to live at home (though transportation costs might eat into your savings), and the second way is to become a resident assistant (RA) on campus, a job that typically offers free room and board.

6. Work during college. Working during college and contributing modest amounts to tuition along the way — say $1,500 to $3,000 a year — can help students avoid another $6,000 to $12,000 in loans.

7. Combine traditional and online courses. Does the college offer online classes? If so, you may be able to earn some credits at a lower cost over the summer or during breaks.

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