

# 2023 · WHAT ISSUES SHOULD I CONSIDER WHEN FUNDING AN UNEXPECTED EXPENSE?

THRESHOLD ISSUES	YES	NO
Is the expense urgent and necessary?	<input type="checkbox"/>	<input type="checkbox"/>
Is the expense of a recurring (seasonal, annual, etc.) nature?	<input type="checkbox"/>	<input type="checkbox"/>
Do you need to confirm how much time you have to fund the expense?	<input type="checkbox"/>	<input type="checkbox"/>
Do you need to explore whether key factors are flexible? If so, consider the following: <ul style="list-style-type: none"> <li>■ Negotiate terms when possible.</li> <li>■ Look to adjust your timeline for making payment(s), if possible, to accommodate your circumstances.</li> <li>■ If there are more affordable alternatives, weigh the costs and benefits.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
Is the expense attributable to a third party? If so, consider whether you have grounds for recovery or legal action.	<input type="checkbox"/>	<input type="checkbox"/>

FUNDING SOURCES	YES	NO
Is the funding need short-term (e.g., you expect that a future liquidity event will eventually cover the expense)? If so, consider the following: <ul style="list-style-type: none"> <li>■ Explore temporary financing options that will bridge the time gap.</li> <li>■ If you have an IRA, you could take advantage of the 60-day rollover rule to cover the expense and repay the full amount to your account (subject to the one rollover per 12 months rule).</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
Could the expense be covered by insurance (in whole or in part)? If so, contact your insurance company to determine the steps and documentation needed to pursue your claim.	<input type="checkbox"/>	<input type="checkbox"/>
Do you have liquid assets (cash or cash equivalents) to fund the expense? If so, consider the following: <ul style="list-style-type: none"> <li>■ If you are tapping your emergency fund, create a plan to replace withdrawn cash.</li> <li>■ If you are using cash earmarked for other goals, adjust your savings strategy to divert dollars back to those goals. (continue on next column)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>

FUNDING SOURCES (CONTINUED)	YES	NO
Do you have a HELOC?	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a taxable investment account? If so, consider the following: <ul style="list-style-type: none"> <li>■ If you need to sell investments to raise cash, consider the tax impact and harvest gains and losses strategically.</li> <li>■ If you are able to borrow against your investments, this could help smooth any tax burden across tax years and it would avoid underwriting.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a Roth IRA? If so, consider the following: <ul style="list-style-type: none"> <li>■ Contributions can be withdrawn at any time, tax and penalty-free.</li> <li>■ Withdrawn earnings may be subject to income tax and possibly a penalty. See the flowchart "Will A Distribution From My Roth IRA Be Tax And Penalty-Free?"</li> <li>■ Be mindful of the impact on your long-term financial plan.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
Do you have an inherited IRA? If so, withdrawals will be subject to income tax (unless the account is a Roth), but there is no penalty.	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a retirement account with your employer, and does the plan allow loans?	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a traditional retirement account? If so, consider the following: <ul style="list-style-type: none"> <li>■ Withdrawals from your IRA, 401(k), 403(b), etc. (if permitted) will be subject to income tax and may incur a 10% penalty if you are under age 59.5, except in limited circumstances.</li> <li>■ Review whether the expense qualifies for a penalty exception (e.g., first-time homebuyer, qualified education expenses, unreimbursed medical expenses, qualified birth or adoption expenses, etc.).</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
Do you need to explore borrowing to cover the expense instead of spending your own funds? If so, consider the following: <ul style="list-style-type: none"> <li>■ Weigh the tradeoffs and compare the interest cost of borrowing to the opportunity cost of spending rather than investing your assets.</li> <li>■ Explore any financing options through the vendor/service provider, if applicable. (continue on next page)</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>

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FUNDING SOURCES (CONTINUED)	YES	NO
<ul style="list-style-type: none"> <li>For short-term needs, consider using a credit card with a 0% intro APR (or other favorable offer to avoid the high interest rates typically charged by credit card companies) to pay for the full expense, allowing you time to pay off the balance over the favorable interest rate period.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Do you have a family member who is willing to provide assistance?</b> If so, consider an intrafamilial loan. This can be structured to permit a low rate (tied to the AFR) and payments can be forgiven gift tax-free up to the annual exclusion amount.</p>	<input type="checkbox"/>	<input type="checkbox"/>

CASH FLOW ISSUES	YES	NO
<p><b>Do you need to assess how this expense will impact your regular budget this year?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>Reassess discretionary spending and eliminate unnecessary costs in order to free up funds and/or redirect savings.</li> <li>Adjust the timing/amount of other discretionary expenses.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Are there future carrying costs associated with this expense?</b></p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>If you incurred debt to cover the expense up front, do you need a debt reduction/consolidation plan?</b> If so, treat repayments as a fixed expense in your future budget.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>After covering this expense, do you expect to have excess cash flow in the future?</b> If so, consider replenishing your emergency fund (if needed) and saving toward new or other goals. See the "What Accounts Should I Consider If I Want To Save More?" checklist.</p>	<input type="checkbox"/>	<input type="checkbox"/>

TAX ISSUES	YES	NO
<p><b>Is the expense an unexpected tax bill?</b> If so, adjust your tax planning to avoid large payments and penalties in April, spreading withholdings and/or estimated payments throughout the year. (continue on next column)</p>	<input type="checkbox"/>	<input type="checkbox"/>

TAX ISSUES (CONTINUED)	YES	NO
<p><b>Will you withdraw funds from a tax-preferred account (e.g., 529 plan or HSA)?</b> If so, consider the tax impact and any potential penalties, keep proper records, and report withdrawals, if necessary.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Will you need to raise cash from your taxable investment account(s)?</b> If so, consider the capital gains consequences. Choose securities and lots that tie with your gain and loss harvesting goals, as well as your investment goals.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Will you borrow to fund the expense?</b> If so, consider whether any interest payments will be tax-deductible.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Do you need to determine whether the expense is tax-deductible (in whole or in part)?</b></p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Is this a home improvement expense?</b> If so, keep proper records to document any increase in your cost basis.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Will your future tax bills (real estate, auto, etc.) increase as a result of this expense?</b></p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>If you can control the timing of the expense, does it make sense to delay into the next tax year, or to spread across multiple tax years?</b></p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Does your method of funding the expense push your income above certain limits that expose you to various additional taxes and surcharges (e.g., NIIT exposure, IRMAA surcharges)?</b></p>	<input type="checkbox"/>	<input type="checkbox"/>

MISCELLANEOUS ISSUES	YES	NO
<p><b>After making this expenditure, will you need to update any existing or add any new insurance coverage?</b></p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Will you need to consider your debt relief options (e.g., debt management, settlement, bankruptcy)?</b></p>	<input type="checkbox"/>	<input type="checkbox"/>
<p><b>Do you need to consider any collateral effects the expense may have on your financial health (e.g., credit score, premium rates)?</b></p>	<input type="checkbox"/>	<input type="checkbox"/>

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Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor. may apply.

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