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Money at work

Sandwich generation: menu of estate issues

Are you caught between young children and elderly relatives? If so, you are part of the "sandwich generation." It can be difficult to care for loved ones as they grow older. Plus, elderly relatives may not have adequately addressed their estate-planning needs.

The most practical approach is to set aside time for everyone involved—you, your spouse, and any siblings you have—to discuss the main aspects. **Be careful:** This requires a frank and honest dialogue about sensitive issues. What's more, relatives may regard this as an intrusion. Emotions might even boil over.

The following are five key estate-planning elements to consider.

Will: If a legally valid will has been devised, your relative's assets will generally be distributed as he or she wishes. Have the will reviewed periodically. An existing will can become outdated. It may need to be revised to reflect changes in personal circumstances or the applicable law.

Financial documents: Take an inventory of all the key documents pertaining to the relative's financial affairs. This might include bank account records, life and disability income insurance policies, financial statements, retirement plan and IRA documents, and so on. Make sure you assemble all the pertinent information—such as names and addresses of key contacts and policy numbers—in a protected file. Print out a copy for the relative.

Investments: Similarly, create a clear picture of your relative's investment portfolio. Assemble all relevant information in one place. When possible, include records showing the tax basis of securities your relative acquired years ago. At the same time, reexamine the relative's holdings in light of advancing age, economic conditions, and risk tolerance.

Tax records: As with other financial and investment documents, you should have easy access to your parents' or in-laws' tax records. For instance, do you know where they keep copies of their personal returns for the past few years, business filings, and other tax documents? Who has been preparing their tax returns? It can be helpful to bring these practitioners into the loop.

Health care: This can be a particularly touchy subject, so tread carefully. Establish guidelines in the event an elderly relative is disabled or suddenly loses a spouse. For instance, you should determine whether your relative has a preference for home health care, a nursing home, a continuing care retirement community, or some other living arrangement with a family member. Finally, a relative may adopt a "living will" or other health care directive to address end-of-life care decisions.

This is just a short list of topics to discuss. Other arrangements, including trusts and sophisticated tax-favored accounts, may play a prominent role for affluent individuals. ❖

Four retirement mistakes you can fix

We are all human, and we all make mistakes, but some errors are more damaging than others. For instance, as you plan for your approaching retirement, certain mistakes may come back to haunt you later on. Here are four common slip-ups and what you can do now to change things.

Mistake #1: You save too little and too late. This is probably the biggest mistake you can make. If you have not accounted for estimated needs in retirement, it will be difficult to make up for lost ground. Also, consider that life expectancies have generally been increasing in recent years, mainly due to health care advances. Your money may have to last longer than you expected.

Fortunately, you can still step up contributions to qualified plans, such as 401(k)s and IRAs, while you are working. The limit on deferrals to 401(k) plans in 2017 is $18,000 ($24,000 if you are age 50 or older) and $5,500 for IRAs ($6,500 if age 50 or older). If necessary, you may have to work a little longer than you planned.

Mistake #2: You fail to diversify. The rate of return on your investments is important, but it is not the be-all and end-all. In the end, you might be hurt if you simply chase after high rates of return, especially if the stock market goes into a prolonged slump prior to your retirement.

Adopt a long-term plan that emphasizes such fundamentals as asset allocation and diversification. Although these strategies are not guarantees against loss of principal, especially in a declining market, they can provide less exposure to risk than you would face if you were to sink all your money into just a few offerings.

Mistake #3: You forget about taxes. This can backfire in two ways. First, you may be missing opportunities to reduce taxes while you save for retirement. For instance, contributions to a 401(k) effectively lower your tax bill, while pay-ins to traditional IRAs may be wholly or partially deductible, depending on your income and whether you actively participate in an employer-sponsored plan.

Second, consider the tax implications of amounts received in retirement. Generally, income from 401(k)s and traditional IRAs is taxed at ordinary income rates. If you receive payments from a Roth IRA, however, the amount may be tax-free. Note: Congress is debating reforms that may affect the tax law.

Mistake #4: You stop saving and investing in retirement. When you finally stop working, you may have saved and invested enough to start your retirement with a comfortable lifestyle. But retirement planning should not come to a grinding halt just because you are no longer working full-time.

This is an ongoing process. Optimally, you can avoid mistakes like mismanaging a portfolio and can tweak your plan as needed. Remember that longer life expectancies may result in outliving your savings, despite your best intentions.

Finally, one last mistake is failing to seek professional guidance. Your professional advisors can help you develop a plan for the long term that sidesteps pitfalls that might trip you up while saving for retirement. Do not wait until it is too late. ❖

Climbing the bond ladder

Astute investors may add bonds to their portfolios for greater stability. However, while historically they are not as volatile as stocks, bonds are affected by rising and falling interest rates.

Basic principles: If interest rates rise before a bond's maturity date, you will be saddled with a below-market rate for the term of the bond. In that case, you could sell the bond at a loss or hope to invest the principal at a higher rate when the bond matures.

On the other hand, if you hold a bond until its maturity date, the reverse occurs if interest rates fall. Investors will pay more for a current bond that hasn't reached its maturity. The longer the time before a bond matures, the faster the price of the bond rises or falls in relation to changing interest rates.

There is a relatively simple way you can protect yourself against interest rate fluctuations while managing the cash flow from bond investments. It is called a "bond ladder."

How it works: Instead of buying, say, one $100,000 10-year bond, you buy ten $10,000 bonds with varying maturities, beginning with one year and going up to 10 years. As a result, you own bonds maturing every year for the next 10 years. This provides a laddered portfolio of short-term, mid-term, and long-term bonds.

If interest rates go up and you have a bond maturing soon, it can be reinvested at a higher interest rate. You can reinvest a maturing one-year bond each year for 10 years to keep the ladder going. If interest rates drop, only a small portion of your portfolio—the maturing one-year bond—must be reinvested at the low rate.

Watch your step: Using a bond ladder is like any other investment strategy. You should move cautiously and only after you have investigated all your options. Here are a few basic points to remember:

- Find out when the bonds can be called, if at all. The rules may differ depending on the type of bonds you have acquired. Key point: Know all the details before you invest. As a rule of thumb, you may want to concentrate on bonds that cannot be called.
- Invest only in high-quality bonds. Be careful about using certain corporate and municipal bonds to build your ladder. Reason: Changes in the credit status of the entity that issues the bonds could mean that you won't receive your interest or principal on time. Even worse, the issuer may default.
- The ladder does not need to have a rung for every year. For instance, you could choose bonds that mature at two- or three-year intervals. But adding more rungs increases the diversification.

Fortunately, you do not have to go it alone. Seek professional guidance concerning investment decisions. ❖

What's your comfort level?

Despite some optimism, too many Americans are still feeling uncomfortable about saving for retirement.

According to new research from NerdWallet, an independent online financial site, 40% of individuals between the ages of 45 and 54 say that they are concerned about their lack of retirement savings, while 30% of Americans admit they are saving zero for retirement. Yet only 32% of employees with a workplace retirement plan intend to increase their plan and IRA contributions in 2017.

If you save just 1% more per year for the next decade or so, you could potentially increase your nest egg in a substantial way, depending on your age and income. That may provide additional confidence for your financial future and future retirement. ❖

Don't get hooked by phishing scams

Are you getting pop-up messages on your computer or mysterious e-mails asking for your Social Security number or other personal data? You may have been targeted by a "phishing" scam intended to steal information from unsuspecting victims.

The financial consequences can be devastating. What's more, you may have to spend months or even years trying to clean up the mess.

Common theme: The pop-up or e-mail appears to be posted by an organization or individual you are familiar with, such as your own bank, someone in your e-mail address book, or even the government. It requires that you update, validate, or confirm certain information. Some phishing e-mails threaten penalties or cancellations if you do not respond.

The message then directs you to a website that looks legitimate. This fake site is used to trick you into revealing personal information that con artists can use for their own purposes or to commit crimes in your name. And the FBI and IRS are warning consumers about even more sophisticated attacks. Phishing topped the IRS list of its "Dirty Dozen" tax scams to watch out for in 2017.

A little common sense can go far, but it is easy to be caught off guard by a phishing scam. Consider these precautions:

- Do not reply to messages requesting personal or financial information. Similarly, do not click on any links in the message. A bona fide company would not ask for this type of information via email. If you have concerns, contact the organization using a telephone number you know to be genuine or initiate a new web browser session at the company's actual website.
- Use antivirus and antispyware software. Have these updated periodically. Some phishing emails contain software that can harm your computer or track online activity without your knowledge. Antivirus software may protect you from inadvertently accepting unwanted files.
- Set up a computer "firewall." The firewall blocks outside communications from unauthorized sources. This is especially important if you have a broadband connection. Operating systems and browsers may also offer free software patches to close the "holes" in the system.
- Do not e-mail personal or financial information. If you initiate a transaction and want to provide information to the organization, look for indicators that the site is secure. Caveat: Such indicators are not 100% foolproof.
- Review credit card and bank account statements to check for unauthorized charges. If your statement is late by more than a couple of days, call your credit card company or bank to confirm your billing address and account balances.
- Be cautious about opening attachments or downloading files. These files may contain viruses or other software that can be harmful.

Finally, if you believe you are the victim of an identity theft scam, report it immediately to the Federal Trade Commission at www.identitytheft.gov. Don't delay. ❖

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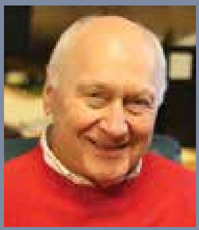
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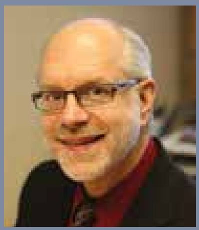
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