

2017 Tax Reform and the Impact on Alimony Decreed After 2018: Divorce is Hard Enough...Don't be Blind-Sided by This One!



Sarah Ruef-
Lindquist,
JD, CTFA

By Sarah Ruef-Lindquist

For as many years as I can recall, when a party to a divorce was ordered to pay alimony, their “consolation prize” was that the amount was deductible for federal income tax purposes. This was usually tax efficient for the parties overall, since the payor of the alimony was usually in a higher tax bracket than the recipient, so the net that the recipient received was higher than it would be if the payor had to pay the tax. The recipient of the alimony had to treat it as taxable income on their federal return. It was actually considered earned income.

With the December 2017 Tax Reform signed into law, all of that will change.

For divorces after 2018, the payor of alimony will no longer be able to deduct the amount from their income. Additionally, the payee, or recipient of the alimony, will no longer be taxed on it as income. What is ironic about this is that for years, the tax benefit was given to the higher earner, the one who was paying the alimony. That made sense. Essentially, one could view this change as a tax increase, because the tax liability of the payor in most divorce situations is likely greater than that of

the payee, or recipient. This could be viewed as a tax increase overall for those who divorce after 2018.

For those whose 2018 and earlier divorce decrees are modified after the end of 2018, the modification must choose which tax treatment they want, or it will default to the old. Parties negotiating their alimony going forward should be mindful of this new treatment. In proceedings for which there is no decree before the end of 2018, payee spouses can reasonably anticipate that payor spouses will try to have their alimony obligation reduced to reflect the loss of the deduction, but at the same time, the payee spouse does not need to take into account a federal tax obligation for the alimony as income. It is unclear how Maine plans to treat alimony for payees.

What is clear is that recipients of alimony can no longer treat it as earned income for the purposes of establishing eligibility for making contributions to an IRA. In other words, if you receive alimony under a decree dated after 2018, you can't claim it as earned income to allow you to make IRA contributions to help you save for retirement. One may make contributions to an IRA (up to \$5,500 per year, or \$6,500 if you are 50 or older) but only to the extent of earned income.

As with any financial decisions, be sure to check with your financial or legal advisor about the impact on your tax liability of any decree relating to your domestic relations situation.

Meet Our Medicare Team at the

MidCoast Senior Expo

Join Jo-Ann Neal and Anna Moorman at the MidCoast Senior Expo, Friday, May 18 from 9 a.m. to 2 p.m. at the Elk's Lodge, 210 Rankin Street in Rockland.

Jo-Ann and Anna will be ready to answer questions about Medicare. The event is expected to draw 32 exhibitors and is sponsored by Maine Senior Guide.

Wendy Byrd, Group Benefits Account Manager, Obtains Life & Health License



Wendy Byrd

Wendy Byrd, group benefits account manager at Allen Insurance and Financial, has obtained her State of Maine Life and Health insurance license so that she can help clients with a variety of insurance products, including health, life, dental and disability insurance.

Byrd joined Allen Insurance and Financial in July 2017 and is based in the company's Benefits Division, located at 31 Chestnut Street in Camden. She assists clients with insured benefits questions.

Byrd is a graduate of Lewiston High School and the University of Maine, and is certified as a benefits account manager by the

National Association of Health Insurance Underwriter (NAHU). The NAHU Benefits Account Manager Certification provides account manager professionals with an understanding of the complex and critical role an account manager plays in the health and benefits arena.

Your Financial Well Being

By Sarah Ruef-Lindquist, JD, CTFA

Do you have financial well-being? Many of us see our doctor and dentist at least annually to be sure we know our physical well-being and have a chance to do what we can, on our own or with the help of medicine, to maintain our physical well-being.

But what about our financial well-being? Is there a test, or a standard, against which we can measure this? How do we know whether we have financial well-being?

According to the Consumer Financial Protection Bureau, “(financial) well-being is defined as having financial security and financial freedom of choice, in the present and in the future.” This includes control over day-to-day finances, the capacity to absorb a financial shock, the financial freedom to make choices that allow one to enjoy life, with a clear path to meeting financial goals.

www.consumerfinance.gov/reports/financial-well-being. Each person’s perspective on enjoying life is different, so there’s no “one size fits all” approach.

The CFPB article discusses how social and economic factors can increase or diminish a person’s opportunities, while financial behavior can be guided by personality, attitudes, knowledge and skills. Decisions a person makes every day about the options

available to them drive and often determine their financial well-being.

Living within our means is a key behavior for financial well-being. Sometimes that requires tough decisions which can, in the long run, increase your chances at financial security. Making poor decisions can have the opposite – and disastrous – effect.

As financial advisors, we often review with clients just what their cash flow is, and what they might do to improve it. Often this is to optimize their retirement savings over time for the future or encourage their living in a way that will optimize – for as long as necessary – the retirement savings on which they are already relying.

Making a realistic plan with desirable goals is also critical. If the plan is not realistic, it's a recipe for failure. So is a plan with an end result that is not a compelling goal. It simply won't motivate the good decision-making required to stick with the plan.

To find out about your financial well-being, see a financial advisor, and then get an annual “check-up.” Having a professional help you analyze and provide input on your situation, while developing a realistic plan for your goals and then reviewing it annually can make the difference between financial security and insecurity both now and in the future.

Making Lemonade? Charitable Giving Strategies in 2018 and

Beyond



Sarah Ruef-
Lindquist,
JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA

The Tax Relief and Jobs Creation Act that was signed into law at the close of 2017 is touted as the most extensive tax reform legislation since the 1986 Tax Act, which I came to know early in my professional career as a lawyer and philanthropic advisor. In the 1986 act, there was a lot we took for granted in the itemized deduction world, including the once sacred charitable income tax deduction for itemizers. Essentially losing that deduction because of the dramatic increase in the standard deduction has become cause for concern for the charitable sector. [I've written before](#) about why that might be misplaced, but I want to focus here on what strategies have not changed in that legislation that still are powerfully tax efficient giving strategies that support annual funds and planned giving alike. For those age 70 $\frac{1}{2}$ or older with IRAs they can give up to \$100,000 total to charity or charities in any given year without having to recognize the income tax that would otherwise be payable on distributions. Why? Because a direct Qualified Charitable Distribution (QCD) can be excluded from income. That's a significant amount of potential philanthropy. A donor could take advantage of the QCD method to make annual gifts, or a larger planned gift. I often advise clients who are eligible to do this kind of gifting even when itemizing the gifts for a deduction is an option, because it's potentially more tax efficient.

When one receives a distribution from their IRA and then makes a

gift from the proceeds on which they will be taxed, they may increase their Adjusted Gross Income in a way that exposes one to a higher level of income tax on Social Security Benefits. They may also bump themselves into a higher income and/or capital gains tax bracket. One of the best features of this strategy is that donors can use their Required Minimum Distribution (RMD) that they must otherwise withdraw from their IRA to make these gifts. The result? That income that was put aside without tax will become a charitable gift without deducting any tax, which many people find compelling. If you are age 70 $\frac{1}{2}$ or older, or work in development and have donors in this age demographic, consider the QCD option and what it could mean for you or your organization's donors. As with all gifting strategies, be sure to obtain competent, independent legal and tax advice before making a significant charitable gift.

Sherree Craig Achieves NAHU Advanced Self-Funding Certification



Sherree L.
Craig, CEBS

Sherree L. Craig, CEBS, senior account executive in the Insured Benefits Division at Allen Insurance and Financial, has achieved an Advanced Self-Funding Certification from the National

Association of Health Underwriters.

The NAHU Advanced Self-Funding Certification ensures knowledge of regulatory concerns, service model options, cost-containment strategies and underwriting concepts necessary for providing advice and direction on employer self-funded health plans.

Craig has been with Allen Insurance and Financial for 20 years. She works with businesses across Maine on their employee benefits offerings.

“Employers have limited options to control their own health plan expenses with an insurance company. Self-funding is a valuable tool to consider for a company’s health plan strategy,” said Craig. “This certification allows me to better assist businesses who elect to self-fund their medical plans with using the most cutting edge cost-control techniques, while assuring that they are fulfilling their plan sponsor obligations.”

Deb McDonald Achieves ACSR Designation



Deb
McDonald

Deb McDonald, a business insurance account manager at Allen Insurance and Financial recently achieved the designation of Accredited Customer Service Representative in Commercial Lines from the Independent Insurance Agents & Brokers of America.

McDonald has been with Allen Insurance and Financial since

1995. She lives with her family in Union.

The ACSR designation program was developed to recognize the contribution made to each customer by the service they are provided through independent insurance agencies such as Allen Insurance and Financial.

Independent Insurance Agents & Brokers of America is the nation's oldest and largest national association of independent insurance agents & brokers with more than 300,000 members. Find them online at independentagent.com.

Considering Self-Funding in the Battle Against Increasing Health Insurance Costs

By Sherree L. Craig, CEBS, Insured Benefits Division



Sherree L.
Craig, CEBS

With a predicted medical trend increase of 6.5% in 2018 (PwC), businesses can expect to see a bump in their health insurance costs again this year.

Until the underlying issue of the cost of medical care can be controlled, company health insurance plans will be impacted with higher premium costs, reduced insurance protection and increased employee dissatisfaction with their benefits.

More businesses are exploring the opportunity to be creative

with their company health plan offerings through a risk-mechanism called self-funding. What are they doing? They are paying for all of their employees' health care with the assistance of a third party administrator (TPA), insuring only their highest cost claims with a stop-loss insurance policy. This way, they have several advantages over a fully insured health plan.

1. Removal of insurance company overhead costs
2. Reduced state premium taxes
3. Improved cash flow and,
4. Flexibility in plan designs and service offered.

This flexibility leads us into several strategic initiatives considered next generation for health plan cost control, and employers are adopting these innovative ideas to help reign in their medical spending.

All health plans are required to pay 100% for preventive services. How about removing all financial obstacles (co-payments and deductibles) for the treatment of the chronic conditions that lead to the largest medical costs down the line? With this concept, "Value Based Plan Design" diabetics are getting proper testing and medications to prevent the catastrophic claim that is imminent without proper care. Another tool being adopted by self-funded health plans is the reference-based pricing model. A reference price (the most that will be paid) is determined for a treatment, either by a percentage of the allowable Medicare payment (i.e., what the federal government has to pay for that service) or by a study of comparable pricing from well-respected providers (Centers of Excellence).

The plan payment for any provider is capped at that reference price. A health plan might also choose to negotiate with that provider to accept that price (Direct Provider Contracting), or the health plan policy might be to have the member pay the balance bill if higher than the reference price.

Self-funding is not an answer for all employers. If you do choose to make that leap, or want to explore the opportunities, be sure to speak with an experienced professional. There is a lot of work to be done when moving in this direction and thorough education, preparation, and analysis is critical.

Sherree Craig is certified in self-funding by the National Association of Health Underwriters. The NAHU Advanced Self-Funding Certification ensures knowledge of regulatory concerns, service model options, cost-containment strategies and underwriting concepts necessary for providing advice and direction on employer self-funded health plans.

Retirement Income Planning: The Total Return Approach Vs. the Bucket Approach



Thomas C.
Chester, CFP™,
AIF®

Presented by [Thomas C. Chester, CFP™, AIF®](#)

Most working Americans have only one source of steady income before they retire: their jobs. When you retire, however, your income will likely come from a number of sources, such as retirement accounts, social security benefits, pensions, and part-time work. When deciding how to manage your various assets to ensure a steady retirement income stream, there are two main

strategies to consider: the total return approach and the investment pool—or bucket—approach.

The total return approach

With the total return approach, you invest your assets in a diversified portfolio of investments with varying potential for growth, stability, and liquidity. The percentage you allot to each type of investment depends on your asset allocation plan, time horizon, risk tolerance, need for income, and other goals. The objective of your investment portfolio generally changes over time, depending on how close you are to retirement:

- Accumulation phase. During the accumulation phase, your portfolio's objective is to increase in value as much as possible, with a focus on investments with growth potential.
- Approaching retirement-age phase. As you near retirement, your portfolio becomes more conservative, moving toward more stable and liquid assets in order to help preserve your earnings.
- Retirement phase. Once you retire, the idea is to withdraw from your portfolio at an even rate that allows you to enjoy a sustainable lifestyle.

Traditionally, a widely quoted withdrawal rate for the first year of retirement has been 4 percent. Ideally, that 4 percent should be equal to the amount left over after you subtract your yearly retirement income (e.g., pensions, social security, and so on) from your total cost of living, including investment management fees. Each year, you will most likely increase your withdrawal percentage to keep up with inflation. Keep in mind, however, that the appropriate withdrawal rate for you will depend on your personal situation as well as the current economic environment.

The bucket approach

The bucket approach also begins with a diversified portfolio, following the total return approach throughout most of the accumulation period. Then, as retirement approaches, you divide your assets into several smaller portfolios (or buckets), each

with different time horizons, to target specific needs.

There is no “right” number of buckets, but three is fairly common. In a three-bucket scenario:

- The first bucket would cover the three years leading up to retirement and the two years following retirement, providing income for near-term spending. It would likely include investments that have historically been relatively stable, such as short-term bonds, CDs, money market funds, and cash.
- The second bucket would be used in years three through nine of retirement. Designed to preserve some capital while generating retirement income, it would include more assets with growth potential, such as certain mutual funds and dividend-paying stocks.
- The third bucket, designated to provide income in year 10 and beyond, would contain investments that have the most potential for growth, such as equities, commodities, real estate, and alternatives. Although the risk profile of this bucket is typically higher than the other two, its longer time horizon can help provide a buffer for short-term volatility.

As you enter the distribution phase, you draw from these buckets sequentially, using a withdrawal rate based on your specific lifestyle goals in a particular year.

The big picture

Many people are familiar with the total return approach, but the bucket approach has been gaining popularity recently, thanks in large part to its simplicity. It also accounts for different time periods during retirement, potentially allowing you to allocate money more effectively based on your personal situation.

Perhaps the greatest benefit of the bucket approach is that it can help provide a buffer during times of market volatility. For example, if the value of the investments in buckets two and three suddenly fluctuates due to market conditions, your immediate cash income is coming from bucket one, which is likely

to be less volatile. This may also alleviate the need to sell investments that have lost money in order to generate retirement income.

Of course, while the bucket approach has its advantages, some investors simply feel more comfortable using the total return approach. Remember, the best strategy for your retirement is unique to you and your personal preferences and needs. However you choose to pursue your retirement dreams, it's important to work with a financial professional who can help you create the most appropriate strategy based on your goals and situation.

Contact us today to learn more about the different paths you may take to pursue a sustainable and enjoyable retirement.

Diversification does not assure against market loss, and there is no guarantee that a diversified portfolio will outperform a non-diversified portfolio.

“There is nothing like a dame”



Sarah Ruef-
Lindquist,
JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA

Beyond medical care, one of the few differences for how professionals approach women as compared to men is in the area of financial planning. Of course, this is has to do with differences largely beyond a woman's control, but thoughtful recognition of the differences can have a tremendous impact on

women's financial lives.

One might assume that a longer average life expectancy – 6 years longer – for women is a good thing. It is, but you have to cover living expenses for those additional years.

When over your working years you have earned on average 79 cents for every dollar earned by your male counterpart, the challenge of paying for that longer life expectancy grows. Lower earnings impact not only what one can set aside and save for retirement, but likely the amount contributed to retirement by an employer and the amount ultimately available from social security as well.

Combined with years out of the work force for child-rearing and/or caring for aged family members and you have the 'perfect storm' of inadequate resource to support a woman who will likely outlive a male spouse.

When advising women, we want to focus on several options, including elections that can be made on a spouse's pension and maximizing benefits for them down the road. For instance, some couples may want to elect a higher immediately payout on retirement and forgo a future spousal benefit, but this is usually not a good idea for down the road when the surviving spouse- especially if her benefits alone are significantly lower and she is any number of years younger than her spouse, has less to live on. They will lose that income with the death of their spouse.

For widows or divorced women who were married at least 10 years to their spouse and have not remarried, we want to be sure they consider elections available to them as surviving or former spouses. Many divorced women learn that they are entitled to a social security amount, that though 50% of their ex spouse's benefit, amount exceeds 100% of their own. Electing to receive the 50% spousal benefit in no way diminishes the ex-spouse's benefit, but can improve their own income outlook for the rest of their lives.

Surviving spouses who do not remarry have several elections: Depending on their age and whether they are caring for a disabled child or a child age 16 or younger, they can elect current benefits as survivor, defer taking a higher benefit and continue working and even switch to a higher benefit at full retirement age or later. The optimal strategy will depend heavily on the need for income and health status. If one is in poor health, a common strategy is to begin benefits as early as possible to maximize how much is available before death. For a healthy spouse with a family history of longevity, a strategy to maximize the income over a long period of time may be preferable. Of course, this must be balanced with the need for income.

Women may have more years ahead than many men; careful planning can help the quality of those years. Of course, it's always best to get advice from your financial advisor before making any decisions or changes in your financial plans. Talk through your options with a professional who knows your income and overall financial situation.