Planning Giving Seminar for Area Non-Profits

Abraham
Dugal

Allen Financial of Camden advisors and wealth managers Sarah Ruef-Lindquist, JD, CTFA, and Abraham Dugal were the featured speakers at an event attended by a number of Maine non-profit organizations, held at and hosted by the Island Institute in Rockland.

Dugal and Ruef-Lindquist presented the program “The Ultimate Equation: Donor Passion + Thoughtful Planning = Planned Gifts Is your organization prepared?” Learn how to build strong policy foundations to support planned gifts and endowments.

Among those organizations participating were the Schoodic Institute, Farnsworth Art Museum, Midcoast Recreation Center, Mildred Stevens Williams Memorial Library, Harbor House, Island Institute and Georges River Land Trust.

Sarah Ruef-
Lindquist,
JD, CTFA

Dugal and Ruef-Lindquist spoke about the policy foundations and recognition practices they view as necessary to have fiscally-sound and successful planned giving programs and endowment funds.

Dugal’s background at Fidelity Charitable Gift Fund and

Cambridge Associates in Boston position him as a seasoned advisor in the area of endowment management. He reviewed the detailed aspects of sound fiscal policies that boards include in order to fulfill their fiduciary duties related to both investment and spending.
Given the unprecedented intergenerational transfer of wealth taking place in the United States, and the projections for gifts to non-profit organizations during the next 30 to 40 years in the trillions of dollars, organizations would be well-served to pay greater attention to this area of resource development to build their long-term financial sustainability, Ruef-Lindquist said.

Sarah Ruef-Lindquist Featured Speaker at May meeting of the MDI Nonprofit Alliance

Sarah Ruef-Lindquist, JD, CTFA

Sarah Ruef-Lindquist, JD, CTFA of Allen Financial was the featured speaker at the May meeting of the MDI Nonprofit Alliance (MDINA) held recently at the Acadia National Park Headquarters offices.
MDINA is a collaborative group of nonprofits in the Mount Desert Island area who share event planning, development and other

resources, including educational programming, to support their respective missions. Some of the participant groups who were represented at the meeting include the Criterion Theatre, Camp Beechcliff, Jackson Laboratories, Jesup Library, Schoodic Institute, MDI Nursing Association, Island Connections, YWCA, Bar Harbor Food Pantry, Southwest Harbor Library, Friends of Acadia, Wendell Gilley Musuem, Healthy Acadia and Island Housing Trust and host, Acadia National Park.

Ruef-Lindquist spoke about the policy foundations and recognition practices she views as necessary to have fiscally-sound and successful planned giving programs. Her background as an attorney, financial and philanthropic advisor, trust officer and board member contribute to her unique perspective as an advisor and fiduciary and how they approach potential gifts through clients' estate and financial planning. She was invited to present as a long-time member of the board of the Maine Planned Giving Council, an association of non-profit board and staff as well as professional advisors involved in the industry of gift planning.

Given the unprecedented intergenerational transfer of wealth taking place in the United States, and the projections for gifts to non-profit organizations during the next 30 to 40 years in the trillions of dollars, organizations would be well-served to pay greater attention to this area of resource development to build their long-term financial sustainability, Ruef-Lindquist said. She is no stranger to Hancock County, having worked as a Senior Administrative Trust officer for Union Trust until a merger in 2008 with Camden National, and as a past board member and development chair for the Abbe Museum.

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.

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 ½ 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 ½ 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.

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 expectance 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.

February is for Falling … in Love?

By Sarah Ruef-Lindquist, JD, CTFA

Sarah Ruef-Lindquist, JD, CTFA

February is a month that always reminds me of falling in love…Valentine’s Day smack in the middle of the month, and I got married in March, and my husband’s birthday is in February, so it’s all about love, and falling in love. But this February has had a different kind of falling feeling in just the first week…the stock markets.
According to colleagues who research such things, the S&P 500 gained +5.7% (total return) in January 2018, the index’s 15th consecutive up month. This number of consecutive up months has only been achieved once before for the S&P 500, between March 1958 and May 1959. So perhaps not surprising that falling prices

– even a 10% correction – could result in the first "down" month for the S&P 500 in the month of February 2018.

Even still, those same colleagues tell me that the S&P 500 has gained +10.1% per year (total return) over the 50-year period of 1968-2017 despite 7 bear markets – at least a 20% decline each time. To me, that demonstrates durability. Love it or hate it, the stock market is – so far in its history – durable, weathering depressions, recessions, war time, peace time, administrations stable and not-so-stable, reflecting the value of capital in our economy. Of course, this is no prediction of future results.

Some folks felt that the drop in market value in the past week on all indices meant it was time to go to cash or get out of the market. My advice? "Not so fast," because how do you know when to get back into the market? Staying in cash means not only eroding purchasing power due to inflation (which is predicted my many to be increasing from historic lows), but potential for lost opportunity, the cost of not being invested, should the market improve.

Or course, it's always best to get advice from your financial advisor before making any changes in your financial plans or investment strategy. Talk through your options with a professional who knows your goals and risk tolerance. And let's remember to keep February about falling in love.

Your Year-End Financial

Planning Checklist

As 2017 draws to a close, it's time to begin organizing your finances for the new year. To help you get started, we've put together a list of key planning topics to consider. [Click to view our financial planning team page.]

Savings and investments

Revisit your retirement contributions. Review how much you're contributing to your workplace retirement account. If you're not taking full advantage of your employer's match, it's a great time to consider increasing your contribution. If you've already maxed out your match or your employer doesn't offer one, boosting your contribution could still offer tax advantages. Now is also a good time to ensure that your portfolio allocation remains in line with your objectives.

Anticipate Roth recharacterizations. If you converted a traditional IRA to a Roth IRA during 2017 and paid tax on the conversion, mark your calendar now to allow plenty of time to recharacterize (i.e., undo) the conversion if you need to. The deadline is your tax-filing deadline plus any extensions.

Take stock of your goals. Did you set savings goals for 2017? Realistically evaluate how you did and think about your goals for next year. If you determine that you are off track, we'd be happy to help you develop and monitor a financial plan.

Health and wellness

Spend your FSA dollars. If you have a flexible spending account (FSA), those funds may be forfeited if you don't use them by year-end. (Some FSAs offer a 2.5-month grace period or the ability to carry over up to $500 into the next year; check with your employer to see if those options are available.) It's also a good time to calculate your FSA allotment for next year, based on your current account excess or deficit.

If you're not using an FSA, evaluate your qualifying health care costs to see if setting one up for 2018 would make sense.

Taxes, taxes, taxes

Manage your marginal tax rate. If you’re on the threshold of a tax bracket, deferring income or accelerating deductions may help you reduce your tax exposure. It might make sense to defer some of your income to 2018 if doing so will put you in a lower tax bracket. Accelerating deductions, such as medical expenses or charitable contributions, into the current tax year (rather than paying for deductible items in 2018) may have the same effect. In addition, reviewing your capital gains and losses may reveal tax planning opportunities—for instance, harvesting losses to offset capital gains.

Here are a few key 2018 tax thresholds to keep in mind:

- The 39.6-percent marginal tax rate affects those with taxable incomes in excess of $426,701 (individual), $480,051 (married filing jointly), $453,351 (head of household), and $240,026 (married filing separately).
- The 20-percent capital gains tax rate applies to those in the 39.6-percent tax bracket.
- Itemized deductions and personal exemption phaseouts affect those with adjusted gross incomes above $266,700 (individual) and $320,000 (married filing jointly).
- The 3.8-percent surtax on investment income applies to the lesser of net investment income or the excess of modified adjusted gross income over $200,000 (individual) and $250,000 (married filing jointly).

Consider the benefits of charitable giving. Donating to charity is another good strategy for reducing taxable income. If you’d like to help a worthy cause while trimming your taxes, it’s worth exploring your charitable goals and various gifting alternatives.

Make a strategy for stock options. If you hold stock options, now is a good time to make a strategy for managing current and future income. Consider the timing of a nonqualified stock option exercise. Would it make sense to avoid accelerating income into the current tax year, or defer income to future years, in light of your estimated tax picture? And don't forget about the alternative minimum tax (AMT). If you're considering exercising incentive stock options before year-end, have your tax advisor prepare an AMT projection to see if there's any tax benefit to waiting until January of the following year.

Plan for estimated taxes and RMDs. When considering your taxes for 2017, be sure to take any potentially large bonuses or a prosperous business year into account. You may have to file estimated taxes or increase the upcoming January payment. If you're turning 70½, you'll need a strategy for taking required minimum distributions (RMDs) from your traditional IRA and 401(k) plans.

Adjust your withholding. 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 of this is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck. You can also use this strategy to make up for low or missing quarterly estimated tax payments.

Proactive planning

Review your estate documents. To help ensure that your estate plan stays in tune with your goals and needs, you should review and update it on an ongoing basis to account for any life changes or other circumstances. If you haven't done so during 2017, take time to:

- Check trust funding
- Update beneficiary designations
- Review trustee and agent appointments
- Review provisions of powers of attorney and health care directives

- Ensure that you fully understand all of your documents

Check your credit report. It’s important to monitor your credit report regularly for suspicious activity that could indicate identity theft. Federal law requires that each of the nationwide credit reporting companies (Equifax, Experian, and TransUnion) provide you with a free copy of your report every 12 months, at your request.

Get professional advice. Of course, this list is far from exhaustive, and you may have unique planning concerns not covered here. As you prepare for the coming year, please feel free to reach out to us to discuss the financial issues and deadlines that are most relevant to you.

Whatever your planning may entail, we wish you a happy, healthy, and prosperous 2018!

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

2017 Tax Reform and charitable giving: "Doom and Gloom" or perhaps just "Meh?"

By Sarah Ruef-Lindquist, JD, CTFA

There has been an income tax charitable deduction in the US since 1917. For 100 years, those who itemize deductions have been able to take a deduction for gifts to charities, with some limitations based mostly on a taxpayer's adjusted gross income.

We have all been reading about the change in the individual income tax laws, the doubling of the standard deduction and the predictions about the impact on charitable giving. A November 16, 2017 Forbes article on line cited a potential impact of as much as $13 billion less in charitable giving as a result of the doubling of the standard deduction, with the amount of itemizers decreasing from 33% to 5%, according to the Tax Policy Center cited in the article. This assumes that what motivates charitable giving is a tax deduction.

Sarah Ruef-Lindquist, JD, CTFA

According to the Giving in Maine 2017[1] report of the Maine Philanthropy Center, regarding 2015 "Declared charitable deductions represent approximately 80% of total dollars given by individuals" meaning there's another 20% who don't itemize, but still give. We are all familiar with the pattern of giving late in December, before the end of the year. Charities do get the majority of their gifts from individuals during the last two months of the calendar year, suggesting a tax motivation for giving.

But do the 80% Mainers who itemize give because they get a tax deduction? I don't think so. How do you explain the other 20% that do give, and still don't itemize? A deduction is a nice benefit, but if it were truly the motivator, only people who got a deduction would make gifts, and we know that is not the case.

I believe that people give to charities because they believe in the importance of work that the charity is doing, and want to support it. The fact that they can get a tax deduction is icing on the cake, but not the real reason they give. I predict that rather than there being a drop of $13 billion in giving in 2018, without the incentive to deduct a charitable gift, there will be in an increase in charitable giving, because if people have more to give, they will give more. I know that if I were sitting down to write my charitable gift checks today, and there was no tax incentive for me to do so, I would still write those checks. And if I knew my tax liability for the year was going to be smaller, because the standard deduction I can use is larger than my historic itemizations AND I had a lower tax rate, I might actually make my charitable gifts larger, because I could. That should be the case a year from now.

Giving USA[2] reported in 2017 that in 2016, total charitable giving in the US was $390.05 billion, 72% of that from living individuals. The figures for 2017 won't be out until around June of 2018, and the figures for 2018 won't be available until a year after that, so we won't know for a while what impact – positive or negative – 2017 tax reform may have. Let's all remember why we support charitable causes with our gifts, and that in years when we have even more to give, we might just plan to give more.

[1] https://www.mainephilanthropy.org/MEgivingreport

[2] *Giving USA* is *Giving USA 2017: The Annual Report on Philanthropy for the Year 2016*, a publication of Giving USA Foundation, 2017, researched and written by the Indiana University Lilly Family School of Philanthropy. Available online at www.givingusa.org.