The tax reform provisions of the Tax Cut and Jobs Act don’t expire until the end of 2025…here’s why you might want to act sooner, rather than later, in anticipation of future changes

Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA
For Pen Bay Pilot

Tax legislation is often written and enacted to sunset on a date certain…”kicking the can” of tax policy down the road for future legislators and administrations to wrestle over…and leaving some uncertainty for the purpose of planning for taxpayers.

The Tax Cuts and Jobs Act (TCJA) of 2017 is no exception. Significant changes could be on the way then or even beforehand – if Congress acts before the sunset date of 12/31/2025.

For many, the most significant parts of the TCJA were the changes in tax brackets and rates, increase in the standard deduction, and changing the threshold for capital gains taxes to benefit high-income taxpayers. Also significant for the wealthy was the doubling of the lifetime exclusion amount for gifts and the estate tax exemption (both went from over $5 million to over $11 million). This allows the wealthier among us to give away or own at death twice as much as previously possible without transfer taxes due.

It is possible that when the TCJA provisions expire, the tax provisions will revert back to where they were before TCJA…so what might one consider doing before those provisions expire or other changes take effect?

With income taxes potentially increasing across the board, accelerating income if possible into a year while the TCJA rates apply may be advisable. This could pertain to payments due from others under installment sales contracts or other types of arrangements, like rents or royalties.

It also can mean taking advantage of potentially favorable-by-comparison capital gains treatment with a current low 15% rate applying to those with taxable income between $44,625 per year ($89,250 for married filing jointly) and $492,300 ($553,850 for married filing jointly) and no capital gains for those earning below those lower threshold amount. Many experts believe these rates will increase, and their applicability reach more taxpayers at lower income levels. Considering harvesting capital gains sooner, rather than later, could mean lower capital gains taxes than waiting.

Making gifts without having to report them for gift tax purposes and minimizing exposure to estate tax can be accomplished. The current annual gift exclusion is $17,000 for individuals and $34,000 for married couples for gifts per done. In other words, a taxpayer or a couple can make gifts in those amounts to one or more individuals. If a married couple makes 4 annual exclusion gifts – one to each of their 4 children – they can reduce their estate by $134,000 each year.

There are other possible strategies to address the potential increase in income, gift and estate taxes and in all cases one should consult with their own financial, tax and legal advisors before taking any action. But the time to consider this is now, before any changes take effect.

Everything You Need to Know About Trusts

You may have heard the term discussed in financial advising or estate planning conversations, but what exactly is a trust? In the most basic terms, a trust is a legal arrangement in which assets are held for the benefit of someone else (the beneficiary). There are many types of trusts for various goals, and complex trust law makes it necessary to hire an experienced attorney to help you establish one. First, though, it's important to understand the basics to help you figure out whether a trust is right for your planning needs; here, your financial advisor can help guide you in the right direction.

Why Create a Trust?

Trusts are popular estate planning tools because they can be used for many purposes, including:

Estate planning. Trusts can provide control and flexibility over the distribution of assets, minimize estate taxes, and preserve assets for your children until they are grown (in case you die while they are still minors). Trusts can also help avoid the expense and delay of probate because they allow for the seamless transfer of assets to beneficiaries without the need for court involvement.

Asset protection. Certain trusts can shield assets from potential creditors or legal claims. Placing assets in an irrevocable trust effectively removes them from your personal ownership, which makes them less vulnerable to financial liabilities or potential lawsuits. Trusts also allow you to set specific rules for distributing your assets, such as how much money a beneficiary can receive each year, an age when they can start to receive funds, or even how the funds can be used (e.g., for education only).

Tax benefits. Creating a trust can shift part of your income tax burden to beneficiaries in lower tax brackets. Also, if certain conditions are met, assets placed in an irrevocable trust may be protected from estate tax after your death.

Protection in case of illness or disability. Living trusts can be used to help you protect and manage your assets if you become incapacitated. If you can no longer handle your affairs, your trustee steps in and manages your property. Your trustee has a duty to administer the trust according to its terms and must always act with your best interests in mind. Without a trust, a court could appoint a guardian to manage your property.

Charitable giving. Charitable trusts allow you to support causes you care about while potentially enjoying tax benefits. These trusts can provide income for you or your beneficiaries during your lifetime, with the remaining assets designated for charitable organizations after your death.

What Are the Drawbacks of a Trust?

Be sure to discuss the pros and cons of setting up any trust with your attorney and financial professional. Although there can be many advantages of this type of arrangement, consider these potential drawbacks:

- A trust can be expensive to set up and maintain—trustee fees, professional fees, and filing fees may need to be paid.
- Depending on the trust you choose, you may give up some control over assets in the trust.
- Maintaining the trust and complying with requirements can take considerable time.
- Income generated by trust assets and not distributed to trust beneficiaries may be taxed at a higher income tax rate than your individual rate.

What Are the Different Types of Trusts?

The type of trust you choose depends on what you're trying to accomplish. In fact, you may need more than one type of trust to meet all of your goals.

Living (revocable) trust. You create a living trust during your lifetime to maintain control over property such as your house, a boat, or investments. Assets that pass through a living trust are not subject to probate—they don't get treated like the property in your will. Instead, the trustee will transfer the assets to the beneficiaries according to your instructions. The transfer can be immediate, or if you want to delay the transfer, you can opt for the trustee to hold the assets until a specific time, like when the beneficiary reaches a certain age.

Living trusts are appealing because they are revocable. You maintain control—you can change the trust or even dissolve it for as long as you live. Living trusts are also private. Unlike a will, a living trust is not part of the public record. No one can review the details of the trust documents unless you allow it.

Despite these benefits, living trusts have drawbacks. Assets in a living trust are not protected from creditors, and you are subject to taxes on income earned by the trust. In addition, you cannot avoid estate taxes using a living trust.

Irrevocable trust. Unlike a living trust, an irrevocable trust typically can't be changed or dissolved once it has been created. You generally can't remove assets, change beneficiaries, or rewrite any of the terms of the trust. Still, an irrevocable trust can be a valuable tool for tax planning, asset protection, and charitable giving.

When you transfer assets into the trust (these must be assets you don't mind losing control over), you may have to pay gift taxes on the value of the property transferred. If you have given up control of the property, all of the property in the trust is out of your taxable estate. That means your ultimate estate tax liability may be less, resulting in more passing to your beneficiaries. Property transferred to your beneficiaries through an irrevocable trust will also avoid probate. As a bonus, property in an irrevocable trust may be protected from your creditors.

Testamentary trust. A testamentary trust allows you to specify how your assets should be distributed and managed for your beneficiaries. It is created through a will and only takes effect upon the trustor's death. At that point, selected assets in your will are distributed into the trust. From that point on, these work very much like other trusts. The terms of the trust document control how the assets are managed and distributed to heirs. Since you have a say in how the terms are written, these types of trusts give you a certain amount of control over how the assets are used, even after your death.

As always, we appreciate your trust in us and aim to help you figure out the best financial plan to help you meet your goals. If you have any questions about this article, please reach out to us via phone or email.

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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.

Do You Need Health Insurance for Your Trip Abroad?

Whether you're traveling for business or pleasure, a trip abroad takes a lot of research and planning before the fun (or work) begins. In addition to looking up flights, hotels, attractions, eateries, and how to ask, "Where's the restroom?," in a new language, there’s another important topic you should explore before you go: health insurance. There is always a risk of experiencing an unexpected illness or an injury on a trip. And, if you need medical care in another country, you don’t want to be on the hook for the full expense if you can avoid it.

You’ve likely done careful budgeting to figure out how to finance your vacation, so the last thing you want (besides a health-related setback!) is an unexpected medical bill. Travel health insurance can help provide financial protection if you need medical care while abroad. This not only can provide peace of mind, but it can help you avoid potentially devastating financial losses if you become sick or hurt.

What Is Travel Health Insurance?
Travel health insurance can provide coverage for expenses, including hospital stays, emergency medical care, and transportation costs when you’re away from home. The specific coverage and benefits of each policy vary depending on the plan and the insurance provider, so it’s important to understand what’s covered and what isn’t before choosing. Of course, you’ll want to keep your costs reasonable, but you’ll also want to be covered for the most likely scenarios.

Do I Really Need It?
Your first step in figuring out the answer to this question should be to check with your regular health insurance provider to determine whether your policy provides coverage for medical expenses incurred while abroad. If it’s covered and you feel the coverage is sufficient, you may not need to look any further. Keep in mind, even if your regular policy offers some coverage, it may be limited or may not cover certain types of medical care, so ask about specifics. And it’s important to note that Medicare isn’t accepted abroad. Some credit cards offer travel insurance that may cover medical care, so that can be another

option to explore. The cost of medical care can be much higher in other countries, especially if you need emergency care, so if your regular policy doesn’t cover that, look into additional coverage.

It’s also worth noting that some countries actually require proof of health insurance before they’ll allow entry, including Cuba, Antarctica, and the United Arab Emirates.

What Types Are Available?
The kinds of policies you can choose from include:

• Short-term travel health insurance. This provides coverage for a specific trip or period of time, usually up to six months. It can be a good option if you’ll be abroad for a short trip.
• Long-term travel health insurance. If you’re planning to travel for several months or even a year, a long-term travel health insurance policy may be a better choice for you. These policies typically offer more comprehensive coverage and may be more cost effective over an extended period.
• Medical evacuation insurance. This covers the cost of emergency medical transportation, such as an air ambulance, if you become seriously ill or injured while traveling. Although this might not be necessary for a standard trip out of the country, you’ll want to consider it if you’re traveling to a remote location or a country with limited medical facilities.

How Should I Choose a Policy?
When making this decision, consider:

• Coverage. Look for a policy that provides comprehensive coverage for medical expenses, emergency care, and medical evacuation. If you have preexisting conditions, your policy should cover those (some don’t, in which case having a preexisting condition would exclude you from coverage). Be sure to read the policy carefully so you know what’s covered and what isn’t.

• Cost. Travel health insurance can vary widely in price, so shop around and compare rates from different providers. The cheapest policy may not provide the best coverage, so consider the cost-benefit analysis when making your choice.
• Provider network. Check to see if the insurance provider has a network of medical providers in the countries you’ll be visiting. An affordable policy that offers comprehensive coverage is of no use to you if it doesn’t cover doctors in your destination.
• Policy limitations. Some policies may have limitations on coverage for preexisting conditions, adventure sports such as sky diving, or certain types of medical care.
• Customer service. Look for an insurance provider with good customer service and a 24/7 helpline you can contact if you need assistance while traveling (especially if there is a time difference to consider).

Once you’ve purchased insurance, be sure to carry your insurance card and/or a copy of your policy with you during your trip. If you do find yourself in need of medical care while abroad, the U.S. Embassy will be able to provide information about local doctors and hospitals. Even if you don’t expect to run into medical issues, a sudden illness or accident can cause a huge financial loss. It’s best to be prepared.

As always, we’re happy to answer any questions you might have about this topic as you figure out your insurance needs. And we wish you happy and healthy travels!

Should You Unretire?

You've planned, saved, and waited for retirement for years. When the time to stop working finally arrives, what will you do? You may be surprised to learn that many people go back to work.

People make this choice for a few different reasons. Some need the money, others crave social interaction, and some miss working for a goal or cause about which they're passionate. Whether your motivation falls into one of these categories or a different one, following are questions to ask yourself before deciding to start working again after you retire.

Do You Need the Money?
Many Americans lack the necessary savings to maintain the same lifestyle in retirement that they had when employed. Others underestimate how long they'll live after retirement and don't have enough saved to last the rest of their lives. One obvious benefit of going back to work is earned income.

Given the current inflation rate and rising interest rates, it makes sense that many retirees return to work because they need money. But adding income doesn't just affect your bank account and spending capacity. It also has ramifications on your social security payments, health benefits, and pension.

Social security. If you've reached full retirement age (66 or 67, depending on when you were born), additional income from a job won't reduce your social security benefits. If you've opted to start collecting social security before your full retirement age, however, there is a limit on how much you can earn without having your benefits reduced. The limit in 2023 is $21,240. If you earn more than that at your job, you will have $1 withheld from benefits for every $2 over the limit. Thankfully, once you reach full retirement age, that money will come back to you in the form of a higher check each month.

Health benefits. Once you turn 65, you qualify for Medicare. But earning additional income could push you to a higher tax bracket and, therefore, increase your Medicare premiums. If you’re able to get medical coverage through your job, that might provide a more affordable option. You can then reenroll in Medicare later, though that comes with rules and deadlines you’ll need to be aware of. The bottom line: Do your research on how working after retirement will affect your health benefits. Speak to a Medicare representative and/or benefits advisor at your company.

Pension. If you work for someone other than your original employer, your pension benefit won’t be affected—you can work, receive a salary from your new employer, and also receive your pension benefit from your original employer. If, however, you continue to work past your retirement date for the same employer or you retire and then return to work for that employer, your pension may be affected in various ways.

Different plans have different stipulations regarding working and receiving your pension, so it’s best to ask your company’s plan administrator what your plan says. It’s possible you can still receive your pension even if you continue to work. Other plans might suspend your pension while you work but will increase your payment when benefits resume to make up for the suspension. There are some plans in which you’d forfeit the pension benefits during the time you’re working. Find out what the rules are for your company’s plan so you don’t unexpectedly lose benefits.

Do You Miss Your Coworkers?

Even if you don’t need the extra income, you might miss the social interactions that come with a job. Or you might crave the mental stimulation from solving problems and working toward set goals. If your career was a passion, you might have a strong desire to continue working in that field after retirement. In these cases, you should still consider the financial effects of returning to work, but there are also nonmonetary factors to think about.

Work-life balance. If money isn’t an issue, consider a part-time or flexible-schedule job. Freelancing or consulting will give you control over your time and allow you to maintain a healthy work-life balance. Tap into a hobby or passion to find a job you will enjoy. These types of roles can provide a purpose, activity, and goals—and likely won’t feel as demanding as full-time work.

Health and well-being. The mental and physical toll of working is worth considering, too. If you’ve taken a break from your career due to retirement and you miss it, you might be forgetting stress or physical demands that came with the job. Be sure to assess the psychological and physical impacts of returning to work to ensure that your overall well-being isn’t compromised.

Deciding to work after retirement is a personal choice that should be based on individual circumstances and preferences. It offers the opportunity for financial security, mental stimulation, and passion pursuit; however, it also carries the risks of reduced leisure time, potential health challenges, and impacts on retirement benefits. It’s important to carefully weigh the pros and cons to make an informed decision that aligns with the retirement lifestyle you seek.As always, we’re available to advise you on retirement planning and the best course of action based on your personal goals and financial situation. Feel free to reach out to our office to discuss the option of working after retirement.

A Midyear Check-In with Your Financial Advisor

As we near the halfway mark of the year, it’s an ideal time to conduct a midyear financial planning review so you can assess your progress, make necessary adjustments, and ensure that you’re on track to achieve your financial goals. This checklist of topics to discuss with your advisor can inspire conversations that help confirm you’re headed in the right direction or adjustments that will get you back on target.

Goals. Begin by revisiting the financial plans you set at the beginning of the year. Have you made progress toward them? Are modifications necessary? This step will help realign your financial planning with your current circumstances. Consider any life events or changes that may require you to make adjustments. Update your personal financial records and ensure that they are organized and easily accessible for future reference.

Budget review. Have there been significant changes or unexpected expenses that would cause you to alter the budget you set at the start of the year? Identify areas where expenses can be reduced or eliminated. By analyzing your spending habits, you can identify potential savings and redirect those funds toward your financial goals. Determine if your budget needs to be revised to accommodate a difference in income, expenses, or financial priorities. If you didn’t establish a budget in January, now is a good time to set one up. You might want to explore the many digital budgeting apps available to track your accounts and expenses.

Income analysis. Assess any changes in income streams or potential future changes that may affect your financial situation. You might also want to explore opportunities to increase your income through side hustles or alternative sources of income. Midyear is a good time to check your tax withholdings, too, especially if you've changed jobs or gotten a salary increase.

Retirement planning. Check your progress toward your retirement savings goals. Review your 401(k), 403(b), IRA, or pension plans, and consider adjusting your contributions or investment strategies to ensure that you are on track for a comfortable retirement.

Debt management. Have you made progress in reducing debts, such as student loans and credit card debt, so far this year? Consider strategies for accelerating debt repayment to see whether it's possible. This is also a good time to review your credit report and fix any issues or check for fraud. You're entitled to a free copy of your credit report from each of the three national credit bureaus (Equifax, Experian, and TransUnion) once per year. If you're paying off multiple debts, it's wise to focus on the ones with the highest interest rates first to help you save more over the long term.

Investment performance. Review the performance of your investment portfolios and determine whether they still align with your goals. If necessary, think about rebalancing your portfolio or adjusting your strategies to optimize returns and manage risks effectively.

Risk management. Is your insurance coverage (e.g., life, health, and property insurance) adequate? Review beneficiary designations and update them if necessary. Think about any new risks or changes in circumstances that may require additional coverage to protect your financial well-being, such as marriage, having a baby, starting a business, or buying a house.

Estate planning. Although you probably won't need to update estate planning documents such as wills and trusts, it's a good idea to review them and ensure that they still reflect your wishes. Take into account changes in family or financial circumstances, such as marriage, divorce, or the birth of a child, which may require adjustments to ensure that your desires are met and your loved ones are protected.

Emergency fund. If unexpected expenses arise and you're unprepared, it could put your financial status at risk. You should have three to six months of expenses in an emergency fund. It makes sense to put any excess cash into this fund to be sure that you're covered in case you suddenly face unexpected costs.

A midyear financial planning review is an important step in maintaining control over your financial well-being and staying on track to achieve your goals. This list can help you evaluate your financial situation, make informed decisions, and adjust your plans accordingly. Please contact our office to discuss any item on this list or to set up a midyear meeting so we can help you set the stage for a successful remainder of the year.

Big Picture of Retirement Planning: Planning for the Spending Years

By Sarah Ruef-Lindquist
For Pen Bay Pilot Wave

Sarah Ruef-Lindquist, JD, CTFA

Many of us spend between 35 and 45 years working, earning and saving for retirement. People retire and shift into a spending mode but they often want to be sure they will have what they need, and won't outlive their money. Every day people thinking about their retirement ask me "How much do I need to have set aside to retire?"

Well, that depends. As financial advisors, we look at known data and estimate some other amounts as best we can.

First, we look at the sources of projected "guaranteed" income like pensions or social security, and consider especially the timing of beginning one's draw on social security. Beyond your Full Retirement Age ("FRA" which depends upon the year you were born) you can add 8% to the value of your benefit by waiting a year, up until age 70, which is the current mandatory age to begin withdrawing from social security.

Once we have a good estimate of “guaranteed” sources of income, we look at savings: We look at “qualified” accounts, like 401(k)’s, 403(b)’s and IRA’s. We look at ROTH accounts, that can be withdrawn tax-free. We look at non-qualified savings and investment accounts. We can use a ball park figure of 4% or maybe 5% (depending on how much someone wants to leave in their legacy at death) and calculate that percentage of both qualified and non-qualified savings that one could spend in a given year, and add that to the “guaranteed” amount we already estimated.

Then we look at expenses: usually the big unknown is health care. We examine lifestyle, whether there will be lower expenses upon leaving the workforce, or downsizing a home or moving, and what the resulting cost of living will be. Also, any plans to remain even part-time in the workforce. And we estimate whether there is excess income, or a gap to cover planned costs of living. This can help us determine if our current savings plan is “on track” or perhaps needs to be increased. Inflation is also a factor to be considered, now more than it has in recent years.

It makes sense to begin this kind of planning 10 years and certainly at least 5 years before any planned retirement date. It also makes sense before making any significant elections, like social security withdrawals, that may be permanent. Get in touch with your Financial Advisor, and begin this very important conversation if you are planning your retirement.

Women and Retirement: More on SECURE 2.0

Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist
For Pen Bay Pilot

A recent article in Financial Advisor on-line magazine provided some interesting insights into how SECURE 2.0, the most recent sweeping legislation affecting retirement savings, has potential to support women's retirements.[1]

Leslie Geller, senior vice president and wealth strategist at Capital Group, explained how some of the provisions that could provide greater opportunities than previously available for women saving for retirement:

"SECURE 2.0, far more than the original SECURE, presents more options and opportunities for different people to save for retirement differently. And I think it's especially impactful for women because saving for retirement is far less of a one-size-fits-all approach for women and finances," she said.

According to the article, the following provisions should be of particular interest to women:

Required Minimum Distributions. In 2023, the age at which people must withdraw taxable funds from retirement accounts (‘RMD’s’) rises from 72 to 73, and to 75 in 2033. That’s a minor deferral for today’s 72-year-old. But for women who are 62 this year or younger, it’s a much more significant bump. This allows these accounts to have time for potentially greater tax-free growth before draw-down begins.

Catch-up contributions for 401(k) and 403(b) plans, governmental plans and traditional IRAs. Catch-up contributions are especially helpful for women who take time out of the workforce for childrearing or eldercare, and who have longer life expectancies than men. While it is impossible to recover the lost time value of money, increasing retirement savings now to grow through retirement is the next best thing.

In 2023, employees contributing to an employer plan who are 50 years old and older can now make a catch-up contribution of $7,500 on top of the $22,500 maximum regular contribution. Those amount were $6,500 and $20,500.

The second adjustment is a new initiative for employees 60 to 63. Beginning in 2025, these workers will be able to contribute 150% of the catch amount up or $10,000, whichever is greater.

529 rollover to Roth. Saving for a child’s education is a priority for many women. Under the new provision, 529 funds not used for education can be rolled into a Roth IRA tax and penalty free, up to $35,000.

New benefits for part-time employees. Women are often part-time employees, ineligible for retirement plan participation. However, beginning in 2025 employers will have to make their 401(k) plans available to their long-term, part-time workers, who are those working at least 500 hours a year for at least two consecutive years.

Automatic enrollment. Beginning in 2025, employees will no longer have to actively opt into new employer 401(k) or 403(b) plans. The deferral amount will start at 3% in 2025 and increase 1% a year to 10% unless the employee opts out.

Save for retirement while paying off student loans. An employee repaying a student loan can still get an employer matching contribution on the repayment amount under a 401(k), 403(b) or 457 (b), even if they are not contributing to the plan. These contributions, beginning in 2024, can allow a worker to pay off student loans and simultaneously save for retirement.

There are also numerous new provisions that allow account holders to access account assets for emergencies, waiving penalties for early withdrawals in the case of terminal illness, domestic violence victims and penalty-free emergency withdrawals of up to $1,000 per year.

Given the unique circumstances of each individuals, consulting a qualified financial or tax advisor about how any of these provisions may affect you is strongly recommended.

Teaching Teens Financial Responsibility

We feel confident our kids will be taught reading, writing, and basic math in school. But how will they learn to budget, use a credit card, save for a car or a down payment on a home, and stay out of debt? Just as reading and writing are critical skills for a successful future, so is financial responsibility.

Unlike with common academic subjects, however, it often falls on families to teach money-related lessons. Before a teenager leaves the nest, they should know these basic financial concepts to lay a foundation for success in adulthood.

Budgeting and Banking

Allowances are commonly offered to kids as a reward for doing chores. They also provide lessons in saving and budgeting. A monthly allowance—as opposed to a weekly one—gives more opportunities for planning ahead because the cash needs to last longer. Creating a budget with your teen for how to spend an allowance can lead to a discussion about prioritizing needs over wants and figuring out how to spend less on some things so you have more to spend on others. You might suddenly find your kid packing a snack at home, for example, instead of visiting the vending machine at school.

Teens often have additional opportunities to learn money management when they earn cash from part-time jobs or summer work. That additional income means they have more to spend and budget—and they're attaining more financial independence.

One common approach is to instruct kids to divide their income into three categories: save, spend, and give. Although saving in an envelope or piggy bank might work for young children, opening a savings account for your teen helps them learn about banking in general, accruing interest, and planning for long-term goals. Many banks offer teen checking accounts with a debit card as well as allow parental access and controls.

It might be possible to set up direct deposit for paychecks and have your teenager check the balance from their mobile phone. Looking at the paycheck together can also spark lessons in taxes, such as types of deductions, what the government uses the money for, and who must file a return. This way, you'll save them from a big surprise when their take-home pay is less than expected. You can also look into youth brokerage accounts to get your teen to learn about investing.

A Course in Good Credit

Once your teen has money in the bank, they'll need a way to access it. Options include debit cards, prepaid cards, and adding an authorized user to your credit card account. Each of these methods offer lessons in how to spend within your means.

A debit or prepaid card can help your teen start making online and in-person purchases without incurring debt. Practicing using a debit card can get them in the mindset of spending only what they have, which will be helpful when they are eligible for an actual credit card. Although most lenders won't issue a credit card to anyone younger than 18, adding your teen as an authorized user on your credit card is another option for a starting experience with credit. To maintain the same spend-within-your-means line of thinking that a debit card offers, consider requiring receipts for your teen's purchases and collecting cash from them for each expense.

Look at the credit card bill together each month, explaining annual fees, interest charges, late payment fees, and—most important—the consequences of amassing credit card debt. Paying the bill together can also help your teen form a habit of checking all charges, getting mistakes or fraudulent charges corrected, and paying attention to due dates.

Once you've taught your teen how to responsibly pay the bill, you can explain the basics of credit scores, such as how they're calculated and how they can affect a person's ability to borrow and make large purchases as an adult.

Contributing to a Cause

"Spend, save, give" might sound easy, but what would motivate your teen to donate any of their earnings—and to whom should they give? One way to introduce the concept of donating to charity is to share information about the contributions you make, why you chose those organizations, and how the recipients benefit from your help. Perhaps your teen is an animal lover, has a friend battling a disease, has a relative who is a veteran, or is interested in another cause that would benefit from a donation.

After selecting a charity, discuss the importance of researching organizations to confirm their legitimacy and to verify that any contributions directly benefit those in need. Lastly, educate your teen about itemized tax deductions and how charitable donations to qualified organizations can reduce your tax bill.

Staying Safe from Scams
Just as you've taught your child general online safety, there are new lessons to learn once debit cards, banking apps, and online donations enter the mix. It's important that your teen knows never to share passwords, online banking information, or account numbers. Help them regularly check credit card bills or debit accounts for fraudulent charges and guide them through reporting purchases they don't recognize.

If you have questions about how to communicate these—or any other financial concepts—to your teen, please reach out to our office. We aim to help your whole family achieve financial success.

Inheriting Debt from a Family Member

Thinking about a loved one’s outstanding debt is the last thing on anyone’s mind when a family member passes away. Unfortunately, many people find themselves dealing with creditors and figuring out how to pay their loved one’s debts as they grieve. To avoid this situation, it makes good financial sense to consider these matters ahead of time.

Who’s Responsible for Outstanding Debt?
Generally, the deceased person’s estate assets are used to satisfy creditor claims before being distributed to beneficiaries. If estate assets are insufficient to pay all outstanding debt, the estate is considered insolvent, and state law prioritizes the payment of the deceased person’s bills with the available assets.

In some cases, however, outstanding debts may not fall to the estate:

• Cosigned or joined debts. If you’ve cosigned on a loan or credit card with the deceased person or owned the account jointly, you are financially responsible for that debt.
• Guaranteed debts. A similar situation to cosigning, if you are the guarantor of a loan for someone who has passed away, you will owe the lender payment of any remaining debt.
• Community property. If your spouse passes away, you may find yourself responsible for debts for which you weren’t a cosigner or coapplicant. Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin are considered community property or quasi-community property states, meaning all property and debt acquired during a marriage is considered jointly owned. If you live in one of these states, you could be

held responsible for debts your spouse incurred.

How Are Different Types of Debt Handled?

• Credit card debt. Again, family members are not responsible unless they cosigned on the credit card. Although debt collectors may be aggressive, they can only make a claim against the estate. If you did cosign, you will be held responsible for the debt, even if you didn't directly incur it. However, being an authorized user on the credit card account will not make you responsible for the credit card debt.

• Medical debt. If your parent qualified for Medicaid, the state may try to recover the payments made for their care. The state cannot ask you to pay, but it may be able to put a lien on your parent's home to recover the funds or seek recovery from your parent's estate. If a family member dies with other unpaid medical bills (unrelated to Medicaid), those bills become an estate debt. Keep in mind that many states have filial responsibility statutes that, under certain circumstances, hold adult children responsible for a deceased parent's medical debt. A spouse might also be responsible for a deceased spouse's medical debts under a state's family expense act. Be sure to understand how state law may apply in your situation.

• Mortgage debt. If you inherit a residence with a mortgage, you generally aren't required to pay it off immediately. If you fail to make the mortgage payments, however, or cannot sell the house for a price that will pay off the mortgage, the lender will likely foreclose (or possibly agree to a short sale). If you don't wish to own the real estate, you may disclaim it, at which point it would transfer to the next estate beneficiary.

• Student loan debt. Federal programs, such as Perkins and Stafford loans, usually offer cosigners forgiveness if the borrower passes away. However, private loans may be another story. Although some lenders have started to discharge the debt if a borrower dies or becomes disabled, many demand the money owed from cosigners.

• Taxes. The estate is responsible for paying any property, income, or estate taxes. Tax authorities are usually given top priority as creditors.

Don’t Be Bullied

Family members of deceased debtors—and all consumers—are protected by the federal Fair Debt Collection Practices Act (FDCPA), which prohibits debt collectors from using abusive, unfair, or deceptive practices in attempting to satisfy a debt. Under the FDCPA, collectors can contact the deceased person’s spouse, guardian, executor, or administrator to get their contact information, but they are not allowed to discuss the details of the debt. You have the right to control your interactions with these collectors. For more information, visit the Federal Trade Commission’s website.

Know Where You Stand

Inherited debt can be a complex issue. If you find yourself in this situation, seek advice from your financial advisor and an attorney who can guide you through the probate process and work with debt collectors. Although dealing with a loved one’s death is never easy, getting your questions answered and protecting your inherited assets may make the situation a little less stressful.

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6 Money Conversations to Have in a Long-Term Relationship

All couples hope for a “happily ever after,” but it’s no secret that money issues can be primary reasons partners split up or divorce. To avoid future battles over finances, it’s smart to put all your cards—credit and otherwise—on the table. Of course, a conversation about salaries and student debt is probably premature on a first date. But once you decide to enter a long-term relationship, be sure that you and your partner are on the same page about handling current and future expenses. Even if you’re married, it’s never too late to talk about where you stand and where you’re headed financially.

Set yourself up for that happily ever after by having these important financial conversations.

1) What Do Each of You Bring to the Table?
It’s a good start to be honest about liabilities, such as student loans, credit card debt, medical expenses, and other financial obligations, as well as assets, such as salary and investments. Knowing these figures will help you plan for the future and understand how you’ll need to budget. It may also give you a bit of a reality check. Once you combine finances, your goals will be mutual—perhaps owning a house, paying off debt, starting a family, saving for retirement—and you’ll need to work together toward them.

Lying to your partner about money, or hiding debt or separate accounts, is often referred to as financial infidelity. This term alone gives you a sense of the trouble it can cause in a relationship and why it’s ideal to be honest about finances from the start.

2) What Are Your Credit Scores?
Your credit scores will factor into your ability to buy a car or house—or even rent an apartment. Since these events will inevitably happen during a long-term relationship, revealing your scores early will help you determine whether you’re in good standing as a couple or if you’ll need to improve your scores before attempting a big purchase. You can start by getting a credit report from Equifax, Experian, or TransUnion (you’re entitled to one free report from each company per year). Go to AnnualCreditReport.com to get started. Need help getting your score up? Check out Credit Karma or NerdWallet for tips.

3) How Will You Split Expenses?
Drawing up a monthly budget is a huge step toward the goal of financial stability. Consider how much income you are bringing in, what your regular costs will be, and whether you will pay them from a joint account or split them up. There are many budgeting apps you can use to help you set up a plan and stick to it. You’ll also want to have an emergency fund, which should cover three to six months of expenses. If you don’t have enough to set those funds aside, factor a monthly contribution to your emergency fund into your budget plan.

4) What Is Your Risk Tolerance?
Whether you’re a risk taker or have a more conservative approach, it helps to agree with your partner when it comes to investing as a couple. Risk tolerance also comes into play regarding debt or divorce. Although signing a prenuptial agreement is often associated with protecting your assets in case of a separation, it can also protect one partner from another’s debts—either personal or business related. Having a conversation about the value of such a document could help

prevent problems in the future.

5) Will You Have Kids?
According to the Brookings Institute, the average cost of raising a child born in 2015 through the age of 17 is $310,605. Needless to say, having a child—and certainly having multiple children—would be a major expense. Childcare (or living on one income if a parent is caring for the child) is another big cost to consider. Hospital expenses are often high before your child even arrives. In addition, adoption, IVF, surrogacy, and egg freezing and storage can be expensive, should you go through any of those processes.

6) What Are Your Plans for Retirement?
Once you've had these important financial conversations, you'll be on track to eventually head into your golden years and retire together. You should start planning for that as soon as possible. The earlier you set up a retirement plan and start accumulating savings, the less you'll need to contribute on a regular basis. If your employer offers a 401(k) or another plan, decide if you can afford to start contributing now. If they offer to match a percentage of your contribution, that's even more incentive to enroll.

Discuss your retirement plans with your partner. At what age do you hope to retire? How much savings will you realistically need to support yourselves from that retirement age through the rest of your lives? Do you plan to travel? Relocate? Talking through these answers will help determine how much you need to save together to retire comfortably.

Although this isn't the most romantic list, a solid financial foundation is a critical aspect of a long-lasting partnership. If you need additional information about any of these discussion topics, please reach out to our office.

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