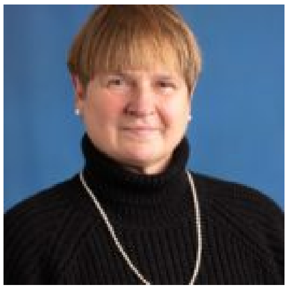
Charitable Giving Opportunities for 2021



Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA

As year-end approaches, many of us think about the charitable organizations that we have supported and want to continue supporting through annual giving. The tax advantage of making charitable gifts has changed dramatically in the past several years, and some opportunities exist that may not after the end of this year.

In recent years, the increased amount of the standard deduction has made itemizing charitable deductions less tax efficient. Because individual taxpayers have a standard deduction of $12,550 and married joint filers $25,100, often the combined value of itemized deductions, including charitable gifts, does not exceed those amounts. However, even non-itemizers can take advantage of the $300 for individual or $600 for married joint filer charitable deduction opportunity for 2021. This is an extension of the CARES Act of 2020.

The CARES act provision allowing cash contributions of up to

100% of AGI (Adjusted Gross Income) is also available for charitable giving in 2021 for itemizers. Gifts exceeding that amount may be carried over to future tax returns for up to 5 additional years. The CARES incentives are not available for gifts to donor-advised funds, supporting organizations or private foundations. This provision could increase the tax efficiency of large cash gifts that would otherwise be limited in their deductibility to 60% of AGI before or after the CARES act is effective.

A taxpayer who itemizes age 59 ½ or older can make a distribution from any defined contribution plan (401(k), IRA, 403(b)) and deduct up to 100% of AGI in 2021 under the extended provision of the CARES act. This could present a unique opportunity for many wishing to make a large gift to charity and use their retirement funds to do so.

And there are perennial gifting strategies that have tax efficiencies. One of these would be using appreciated stock instead of cash to make charitable gifts. 2021 saw record high market values for the stock market. The capital gains that are imbedded in these assets means that the full current market value of the stock can be a charitable gift without any capital gains tax being paid. The charity gets to realize the full value of these assets, while the donor does not recognize any capital gain when using them for charitable gifts.

Another option for those age 70 ½ or older involves IRA’s. Qualified Charitable Distribution (QCD) of up to $100,000 per year from IRA’s are extremely tax efficient. Not only can the distribution cover what would otherwise be considered a Required Minimum Distribution for those age 72 or older, but they are distributed directly to charity from an IRA without any income tax payable. Usually, distributions from an IRA require payment of income tax (federal and state, if applicable), but not so with QCD’s. For those who are less reliant on these funds from year to year, this is a particularly attractive option that involves giving the specific instructions to your IRA advisor or administrator to make the distribution.

As you consider any charitable giving for 2021, be sure to seek the advice of a professional financial or tax advisor to understand fully how any charitable gift can impact your particular financial and estate plans.

To Buy or Not to Buy . . . When Do You Need Life Insurance?

Whether you need life insurance depends partly on your stage of life. If you’re younger, you may have less need for coverage. As you move along the path in life, you’ll likely have more of a need. And, as your responsibilities lessen, your need may decrease.

Here’s a look at how your phase of life affects your life insurance needs.

Young and Single
As a young adult, you likely don’t depend on others for financial support. In most cases, your death wouldn’t create a financial hardship for others, making life insurance a low priority.

You could argue that you should buy now! The cost of life insurance factors in several things, including your health. At this point in your life, rates will probably be low. Now, while this may be a valid argument if you're at higher risk for medical conditions (e.g., diabetes) later in life, for now, you may want to consider investing the money you'd spend on premiums.

Some exceptions to this include:

• You have a mortgage or other loans with a cosigner. Your death would leave them entirely responsible for the debt, so you may want insurance to cover this.
• You have a child or you're supporting your parent/grandparent. As they depend on you, life insurance could provide support for them if you were to die.

Married . . . with Children (Or Without)
Married couples without children have little need for life insurance, especially if you both contribute equally to the household and don't have a mortgage.

Once you buy a home, though, it's a different story. Even if you both have well-paying jobs, the mortgage debt may be more than one person can handle on a single salary. And other debts, such as credit cards, can add to financial worries. In this situation, both of you should consider buying a modest amount of life insurance to provide financial support.

If you start a family, your life insurance needs are at their peak. In most cases, it's appropriate for both parents to have life insurance.

If your family has a single income, it is completely dependent on that salary for financial security. In this case, both parents should carry enough life insurance to cover lost income or the economic value of lost services—like having to pay for childcare if the stay-at-home parent dies.

Dual-income families need life insurance, too, because it's likely the surviving spouse will suffer financial hardship keeping up with household expenses and childcare costs.

Separation Anxiety
If you get a divorce, you'll need to decide what to do about your life insurance, both from a beneficiary and coverage perspective. Add in dependents and it becomes more complex.

Keep it simple. If you don't have children, it may be as simple as changing your beneficiary and adjusting your coverage.

Work it out. If you have children, the custodial and noncustodial parents will need to work out the details of your life insurance. You'll want to make sure your children—and not your ex-spouse—are provided for in the event of your death. This may mean purchasing a new policy or changing the beneficiary to your children. If you and your ex-spouse can't agree, the court will decide for you.

Climbing the "Corporate" Ladder
So, how do career changes affect your life insurance needs? It's important to review your coverage whenever you leave your employer or start your own business.

When you leave your job, any employer-sponsored group life insurance coverage typically ends. Find out if you'll be eligible for group coverage with your new employer or look into purchasing coverage yourself. You may also be able to convert your group coverage to an individual policy; it may be more expensive, but it's a good choice if you have a preexisting medical condition that may prevent you from buying life insurance coverage elsewhere.

You should review your coverage amount, too. Your policy may no longer be adequate, especially if you've incurred more debt and expenses. If you own a business, consider your business debt. If your business isn't incorporated, your family could be responsible for those bills if you die.

The Golden Years

Ah . . . retirement! Once you hit these golden years, your life insurance needs may change again. If fewer people depend on you financially, your debts have been paid, and you have substantial financial assets, you may need less coverage than before. But it's possible that your life insurance needs will remain the same. The proceeds from your life insurance can be used to pay for your final expenses or to replace any lost income for your spouse (e.g., social security or a pension). Proceeds can even be used to pay estate taxes or as a charitable donation.

No matter what phase of life you're in, it's a good time to review your options and decide whether you need coverage and, if so, how much. If you'd like to discuss options, please reach out to me or my office.

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.

Investor360° Security Enhancement: Multifactor Authentication Required on Sept. 9

A note to our financial planning clients:

To create a more secure login process in Investor360°®, **multifactor authentication (MFA) will be required for all users (mobile and desktop platforms) beginning Sept. 9, 2021.**

What Does This Mean?

When you log in after Sept. 9, you will be asked to set up MFA in Investor360° on either a desktop browser or mobile app. A set of instructions will appear on your desktop or mobile device screen to assist you with the setup process. We're including a link here to the **Investor360° Mobile Reference Guide.**

Want to Download Investor360° Mobile?

On your mobile device, you can download Investor360° Mobile from the Apple Store or Google Play.

Questions?

If you have any questions or would like to give feedback about Investor360° MFA, please give us a call at 236-4311.

Here is a Crash Course in 529 Plans and Their Impact on Financial Aid

Are you worried about the rising cost of education? 529 plans can be powerful college savings tools when you understand how to take full advantage of them.

Start with the Basics
529 plans are tax-advantaged college savings plans sponsored by a state or state agency, and there are two types:

- **Prepaid tuition plans.** With this type of plan, tuition and fees for a specific school are paid in advance.
- **Savings plans.** These are tax-advantaged investment vehicles (the account grows tax deferred, like individual retirement accounts [IRAs]). Savings can be used at most accredited colleges and universities in the U.S. or abroad.

Make Your Plan Work for You

When timed appropriately, contributions and withdrawals can help maximize your 529 plan. With most plans:

- **You can only contribute cash.** This includes checks, money orders, and credit card payments. You can’t contribute stocks, bonds, or mutual funds without liquidating them first.
- **Anyone can contribute.** With a 529 plan set up, gift giving just became easier!
- **There are investment options.** You can choose how to invest your contributions from a variety of investment portfolios.

- **You may be able to use funds for K–12 education.** Be sure to check as not all states recognize these updated provisions for K–12 education.
- **Research tax impacts.** Withdrawals used to pay qualified education expenses are free from federal income tax and may also be exempt from state income tax.

The CliffsNotes on contributions. To qualify as a 529 plan under federal rules, a state program can't accept contributions more than the anticipated cost of attendance for the most expensive schools in the country. Most states have contribution limits of $350,000 and up per beneficiary.

The type of plan determines the limits:

- **Prepaid tuition plans.** These limit total contributions.
- **Savings plans.** These limit the value of the account (contributions plus earnings).
- **Minimum contribution requirements.** Some plans have requirements, such as minimum opening deposits or yearly contribution amounts.
- **State guidelines vary.** Contributions made to one state's 529 plan don't usually count toward the contribution limit in another state. Be sure to check the rules of each state's plan.

Should you fund your plan in a lump sum or over time?

- **Monthly investments may be an easy option.** 529 plan earnings grow tax deferred and can be withdrawn tax free if used to pay for qualified expenses. The sooner you put money in, the sooner you can start to generate potential earnings.
- **A lump sum may have unwanted gift tax consequences.** With limited opportunities to change your investment portfolio, you could get locked into undesirable investments for a

period of time.

Timing is everything! Although 529 plans are tax-advantaged accounts, potential federal tax impacts are something to keep in mind. Under special rules unique to 529 plans, you can gift a lump sum of up to five times the annual gift tax exclusion—$75,000 for individual gifts or $150,000 for joint gifts—and avoid federal gift tax, provided you make an election on your tax return to spread the gift evenly over five years. (The federal gift tax exclusion is $15,000 for 2021.

Withdrawals should also be coordinated with education tax credits—the American Opportunity Credit and Lifetime Learning Credit—because tuition expenses used to qualify for a credit can't be the same tuition expenses paid with tax-free 529 funds.

What About Financial Aid?

During the financial aid process, income and assets are examined to determine how much the student should be expected to pay for school before receiving financial aid. To maximize the beneficiary's future financial aid options, pay close attention to who is listed as the owner of your 529 plan.

How to handle 529 plans owned by parents. The value of any parent-owned 529 plan will be listed as an asset on the Free Application for Federal Student Aid (FAFSA). Colleges and the federal government typically treat 5.64 percent of parental assets as available to help pay college costs. By contrast, student assets are assessed at a rate of 20 percent.

Here are some additional things to keep in mind about parent assets:

- **Will the plan be considered an asset?** Parents are required to list a 529 plan as an asset only if they are the account owners of the plan.

- **A note for students who are dependents.** A 529 account owned by a dependent student—or by a custodian for the student—is reported on the FAFSA as a parental asset.
- **Yearly income guidelines.** If parental adjusted gross income is less than $50,000 and they meet a few other requirements under the simplified needs test, the federal government doesn't count any of their assets.* In this case, the 529 account wouldn't affect financial aid.
- **Subsequent years may look different.** For parent- and student-owned 529 plans, funds aren't classified as parent or student income the following year when they're used to pay for qualified education expenses.

What about grandparent-owned 529 accounts? If a grandparent is the account owner, the 529 plan doesn't need to be listed as an asset on the FAFSA. Withdrawals from a grandparent-owned 529 account, however, are counted as student income—which is assessed at 50 percent—on the FAFSA the following year. This means financial aid eligibility could decrease by 50 percent in the year following the withdrawal. Grandparents may want to wait until their grandchild's last two years of college to make a withdrawal if they are concerned about the potential impact on financial aid.

Preparation Is Key

You should review all your options to ensure that you're financially prepared for education expenses. If you'd like to discuss 529 plans—or any other options—or if you have any questions about the information presented here, please contact me or my office.

* *An applicant who qualifies for the simplified needs test may still be required to report assets on the FAFSA if they live in*

a state that requires asset information to determine eligibility for state grant programs. The asset information will be used only to determine eligibility for state grant programs. It won't be used to determine eligibility for federal student aid. The states include Colorado, Georgia, Hawaii, Illinois, Minnesota, New Jersey, New Mexico, Ohio, Oklahoma, South Carolina, Vermont, Washington, Washington D.C., Wisconsin, and Wyoming.

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.

The fees, expenses, and features of 529 plans can vary from state to state. 529 plans involve investment risk, including the possible loss of funds. There is no guarantee that a college-funding goal will be met. To be federally tax free, earnings must be used to pay for qualified higher education expenses. The earnings portion of a nonqualified withdrawal will be subject to ordinary income tax at the recipient's marginal rate and subject to a 10 percent penalty. By investing in a plan outside your state of residence, you may lose any state tax benefits. 529 plans are subject to enrollment, maintenance, and administration/management fees and expenses.

Qualified Expenses:

• College/university cost of attendance (tuition, fees, books, equipment, and room and board)

• Certified apprenticeship programs (fees, books, supplies, and equipment)

• Student loan repayment ($10,000 lifetime limit per beneficiary and $10,000 per each of the beneficiary's siblings)

• K–¬12 tuition expenses up to $10,000 per year

Estate Planning for LGBTQ+ Married Couples

On June 26, 2015, in the *Obergefell v. Hodges* decision, the U.S. Supreme Court ruled that states must allow same-sex couples to marry and must recognize same-sex marriages from other states. As a result, estate planning for LGBTQ+ married couples became equal, under the law, to planning for other married couples. As with any historic legal case, however, unique challenges have emerged in the wake of the *Obergefell* decision. This is especially true regarding estate planning.

Consequently, a comprehensive estate plan review is a must for LGBTQ+ couples who were married, were in a domestic partnership, or created an estate plan *before* June 26, 2015. Your current estate plan might no longer make sense for several reasons, including those discussed below. Together, we can discuss your situation and create or update your estate plan appropriately.

Beneficiary Designations

To move forward with a fresh slate, you may want to purge anything related to a previous relationship from your estate plan. That includes removing former partners as the beneficiary of retirement accounts, investment accounts, life insurance, or annuities. If you co-owned real estate with a former partner, this situation may also need to be addressed.

Dissolved Partnerships

If you were in a domestic partnership but broke up without formally dissolving it, you may still be legally married. How can this be? Some states automatically converted domestic partnerships to marriages after the *Obergefell* ruling. Or, perhaps a same-sex couple was married in a different state than their state of residence (such as a couple living in Texas who got married in Vermont). The couple may have broken up thinking the marriage “didn’t count” because their state of residence didn’t recognize it as a legal union. In reality, the couple in question could still be legally married. Given the complexity of this topic, we should discuss potential pitfalls such as these.

Marriage Benefits

Marriage comes with several potential income and estate tax benefits that now apply to all married couples. While there are several reasons to remain unmarried, you may want to consider the marriage benefits now available to LGBTQ+ couples, including:

Income tax filing. Married filing jointly status often benefits couples with disparate salaries, and it could also bring a couple’s total tax bill down in certain other situations. For instance, if one spouse makes about $215,000 per year, and as a couple you still make about that much, married filing jointly status would bring the single marginal tax bracket down from 32 percent to a married filing jointly bracket of 24 percent. Married filing jointly can also provide additional deductions and other related tax benefits compared with those available to single filers.

Unlimited marital deduction. This is a provision in the U.S. tax law that allows a married person to transfer an unlimited amount of assets to their spouse at any time, including after death, free from tax. So, if you created a trust or other transfer plan to protect assets after the death of a partner, a better option may now be available. A revised estate plan could provide greater flexibility to a surviving spouse.

Joint tenants by the entireties. Many states offer married persons a “joint tenants by the entireties” ownership option for real estate and other accounts. This type of ownership offers extra creditor protection to the marital unit. In the event of death, it automatically ensures that a surviving spouse receives the full title of a property.

Parenting Planning

If you and your spouse are planning on having children, you should be aware of how the following legalities affect LGBQT+ couples. The rules differ for parents who are married versus those who are unmarried.

Married couples. Married couples where one partner gives birth to the child should receive treatment very similar to different-sex couples. The U.S. Supreme Court ruling in *Pavan v. Smith* held that Arkansas could not apply a different parentage assumption to the wife of a birth mother than the state applies to husbands of birth mothers.

If you’re planning on conceiving through assisted reproduction, such as surrogacy, however, you and your spouse will likely have to rely on your state’s adoption procedures. This process is often called a “second-parent adoption” because a co-parent is adopting their partner’s child without terminating the partner’s parental rights. In some states, the “second-parent adoption” procedure is easier for married couples because *Obergefell* requires that all married couples have access to a state’s stepparent adoption procedures.

Unmarried couples. Unfortunately, the rules are much tougher for unmarried couples. Some states are still passing laws that deny adoption rights to unmarried persons with no genetic connection to a child—seemingly targeting the LGBTQ+ community directly. As a result, many lawyers encourage same-sex couples to "adopt their own children," as strange as that sounds. This way, if you and your partner break up and move, states are required to follow the court orders of other states, preserving the rights of both parents.

Other considerations. You should also understand that state parentage laws and federal and international laws don't always move in sync. In certain cases, if the genetic parent of a couple's child is not a U.S. citizen, that child may not be granted automatic U.S. citizenship. This is so even if the nongenetic partner is a U.S. citizen and acts as the child's parent. This scenario is most concerning when the child is born abroad, but with appropriate planning, it's possible to ensure that a child can remain with either parent in the future.

A step forward. In 2017, the Uniform Law Commission drafted an update to the Uniform Parentage Act that promotes the use of "voluntary acknowledgment of parentage forms." At its core, this proposed law seeks to assign parental rights at the birth of the child to the two people who sought to create a family, whether through assisted reproductive technology or natural birth. As of this writing, however, only five states (California, Connecticut, Rhode Island, Vermont, and Washington) have enacted a law substantially similar to the updated Uniform Parentage Act.

Other Estate Planning

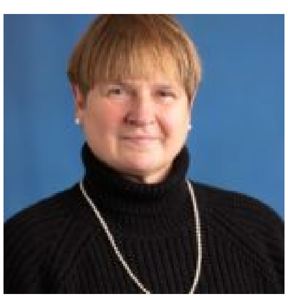
A power of attorney provides very important protection for your health care and other estate planning decisions. To prevent these decisions from being challenged, it's wise to have executed a clear statement of your wishes regarding health care treatment options, end-of-life care, and burial decisions. A legal provision known as an *in terrorem* clause can be helpful in preventing challenges to your will or any trusts you’ve created. As with all estate planning documents, working with a qualified attorney to craft a personalized plan is essential to ensuring your wishes are honored.

Planning to Protect Your Future

Whether or not you face the unique estate planning challenges discussed above, it’s wise to review your estate plan when laws or your personal situation have changed. If you would like to schedule a review or have any questions about the information presented here, please reach out to us.

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.

Charitable Giving in 2020…and 2021?



Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA

We love June, don't you? Temperatures are warmer, flowers are blooming, and this year especially, many people are getting out and enjoying each other's company and all that Maine has to offer with understandable pent-up enthusiasm.

Every year in June, the news includes the annual report about charitable giving in the US. The GivingUSA Foundation publishes GivingUSA with data about charitable giving activity in the prior year, based on income tax return data. The news has been positive year-on-year for a long time now.

Will it be for 2020?

As a preview Marketwatch reported interesting giving behavior during the early pandemic months of 2020: They reported that 2020 got off to a great start, but then as the pandemic hit, giving plummeted.

Then, it rebounded. A lot. At a time when millions of Americans were losing their jobs and could not make rent or mortgage payments.

It would seem there was a swift recognition of the challenges being faced, and generous response to help meet the need. "Some people even donated their stimulus checks. Protests over racial injustice last summer spurred another outpouring of donations."

Using data provided by Blackbaud from a large and representative sample of non-profits "Not only did overall giving increase, but so did the average size of people's donations, increasing to $737 from $617 in 2019."[i]

According to prior GivingUSA reports, US charitable giving totaled for 2019 was $450 billion. 2018 was $428 billion. 2017 was $410 billion. 2016 $390 billion. See a trend here?

Neither Blackbaud nor Marketwatch try to predict what the total giving will be for 2020, but instead await the June 15, 2021 release of that data by GivingUSA. We will, too.

We are almost half-way through 2021. What could help boost giving in 2021? The stock market is nearing record highs and those are always opportunities to consider charitable gifts of appreciated securities, to reduce capital gains exposure, or to create charitable remainder trusts to provide income and immediate tax deductions while deferring and reducing gains exposure.

As congress considers further changes to income tax laws, there are several pending provisions of interest including a possible charitable remainder trust option for up to $100,000 of qualified charitable distributions from IRA’s (these had previously been limited to only outright gifts to charity). Stay tuned about those.

There are many reasons to be optimistic about charitable giving in the US. As you renew in-person meetings with your supporters, we hope they are as rewarding and productive as ever.

[i] Blackbaud’s analysis was based on its 8,833 nonprofit clients, which took in a total of $40.7 billion in donations in 2020. That’s only one slice of the giving pie in the U.S, where there are roughly 1.5 million nonprofits, but the Blackbaud data set is the largest sample size of giving and is representative of the nonprofit sector as a whole, a spokeswoman said.

Unsure When to Claim Social Security? Timing Has Its Benefits

For many Americans, social security benefits make up a significant portion of retirement income. When it comes to how much you will receive, you may be surprised to learn that you have a choice in the matter—and timing is everything. The longer you wait to claim your benefits, the larger your monthly payment will be, so when you start can determine whether you’ll have sufficient funds to achieve your retirement goals.

Here are considerations to keep in mind as you think about your social security choices.

When Are You Eligible?
Based on the year you were born, the Social Security Administration (SSA) has determined your full retirement age (FRA)—in other words, the normal retirement age at which you become eligible to receive full social security benefits. If you were born before 1955, you’ve already reached your full retirement age (see Figure 1). If you were born after 1960, you’ll reach your FRA at age 67.

Figure 1. Full Retirement Age (FRA)

If you were born in:	Your FRA is:
1937 or earlier	65

1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943–1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

The Early Bird Gets . . . Less
Although your FRA serves as the baseline, you can claim your social security benefits at an earlier age. Keep in mind, though, that taking your benefits early will permanently reduce the amount you receive.

Let's say your FRA is 66 and your monthly benefit amount is $1,000. If you decide to take benefits at age 62, your monthly benefit will be permanently reduced by 25 percent. That might be a hefty sum to leave on the table, so remember that you have up to 12 months to withdraw your application for benefits if you change your mind.

Good Things Come to Those Who Wait
If you don't need the cash when you reach your FRA, you can opt to delay your claim—and the SSA offers an economic incentive to do that. Should you decide to wait until after you've passed your FRA, the SSA compensates you for allowing those funds to

stay in its reserves by guaranteeing an 8 percent increase in benefits for each year you delay, up until age 70. So, if you wait until 70 to claim benefits, your payment will be 76 percent more than what you would have received if you claimed early at 62. If you're in a position to do so, it literally pays to wait.

Remember, though, that the maximum benefit amount you can receive tops off at age 70, so there's no financial motivation to delay your claim past then.

Deciding the Right Time for You

Claiming your benefits as soon as you reach your FRA shouldn't be a given—nor should holding out longer for a bigger benefit. The right timing depends on your specific circumstances, and there's a lot to consider.

Life expectancy. Longer life expectancies are a large factor in determining the best claiming strategy, so a break-even analysis—the age when your cumulative benefits will even out—can provide helpful insight. Handy life expectancy calculators and benefits calculators are available to help you estimate your benefits based on the age you want to make your claim.

Your spouse. Married couples should consider various strategies for maxing out benefits. If you're the primary earner, you've been married at least one year, and your spouse is at least 62, your spouse may qualify for a spousal benefit of up to 50 percent of your FRA benefit when you make your claim. Although your dependent spouse receiving a benefit won't affect the amount of your benefit, keep in mind that if you make an early claim, your spouse's benefit will also be reduced. The flip side is, if you wait until age 70, you maximize benefits for both of you—and potentially the survivor benefit for your spouse.

If you have two incomes, for example, depending on your benefits estimates, you might consider making your claims at different times. It may make sense for the lower earner to take benefits first when they reach their FRA, and the higher earner to wait until age 70 because their increases will amount to more over time. Depending on life expectancy, this approach could also mean a higher survivor benefit for the lower earner should the higher earner pass away first. Note, however, that your spouse's benefits will be permanently reduced if they apply before their FRA. (There is an exception if they are caring for a dependent child younger than 16 who has a disability, making them eligible for dependent benefits.) For dual earners born before 1954, you can opt to apply for only the spouse benefit and delay taking your own benefit until a later date.

If you and your spouse have similar lifetime earnings, each of you might want to wait until age 70 if it's financially viable. This positions both of you to receive the maximum amount and ensures that one of you receives the highest possible survivor benefit after the other passes away.

Tax implications. Because some of your social security benefits may be taxable, depending on your income, some people may factor the tax impact of their claiming strategy into their decision-making process.

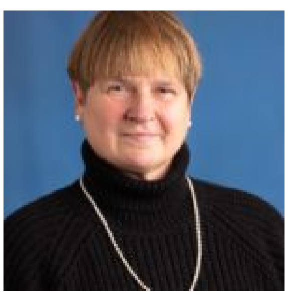
Keep in mind, if you or your spouse worked at a job at which you didn't pay into social security because you were earning a pension, your retirement and your spousal/survivor benefits may be affected by the Windfall Elimination Provision and Government Pension Offset. (This is common for teachers and government employees.)

The Math Is Personal

Depending on your specific financial situation, deciding when to claim your social security benefits may have a significant impact on your retirement goals. Time may be on your side if you're looking to maximize your benefits, but the choice can be complicated; it depends on your health, family circumstances, and overall financial wellness. We invite you to talk with us about the various ways we can support your retirement goals. For more detailed information about benefits, call the SSA at 800.772.1213 or visit www.ssa.gov.

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.

'Gray Divorce' is on the Rise



Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA

I recently wrote about the financial vulnerability of women in retirement relative to their male counterparts. Lower wages, longer time out of the workforce as caregivers and resulting challenges to saving adequately for retirement years contribute to this vulnerability.

A recent Kiplinger article highlights the increased divorce rate of older couples (age 50 and older) and the perilous journey that such financially vulnerable women face in marriage dissolution. The article refers to this as “gray divorce.” Citing Pew Research, the divorce rate for people in this age cohort has doubled since the 1990s.

Whether a result of the decreased stigma of divorce and waiting until the nest is empty to end an unhappy marriage, greater life expectancy coupled with unwillingness to remain in unhappy unions, or the new pressure of a pandemic overwhelming long-used coping mechanisms, the trend is real, and can leave women in financially difficult – or even perilous – circumstances.

According to the Kiplinger article: “A study conducted by the Social Security Administration found that around 20% of divorced women 65 or older live in poverty and are less financially secure than married or widowed adults.”

How can women prepare themselves for the impact of divorce in their later years? One of the recommendations in my prior article about retirement planning was to establish a relationship with a financial advisor. That is especially important if a divorce, division of marital assets and other support resources becomes a reality, because in this instance, knowledge is power.

Having a relationship with a financial advisor can help a woman have a realistic understanding of their income, assets, liabilities and ongoing expenses once they are no longer part of a marriage. The financial advisor can then help create the strategies appropriate to build the client’s economic security going forward as they take control over their own individual financial life.

Does Your Credit Need Repairing?

Many people had their financial plans derailed in 2020. You or a spouse may have lost a job or been hit with unexpected expenses for medical care, assisting family members, or other reasons. Financial stress may have forced you to make tough choices, such as deciding which bills to pay, scaling back on your savings, or borrowing from a 401(k) account. As a result, you may need to get back on track financially. One of the first areas to tackle should be your credit score.

Even if your finances didn't take a hit during the pandemic, it's wise to keep track of your credit score. A strong credit score forms the basis of a solid financial foundation. It affects your ability to get a job; your access to loans for a car, house, or education; and your ability to qualify for various types of insurance. Can you repair or upgrade your credit score? Yes, but the first step is to understand what your credit score and credit report are based on, as well as how to monitor your credit.

Understanding Your Credit Score

Here's what you need to know about your credit score:

Your FICO score.

The FICO score, based on a model created by Fair Isaac Corporation, is the most commonly used scoring system of a person's credit history. Lenders use these scores to evaluate your creditworthiness, which means the probability that you will repay credit cards and loans in a timely manner. A lower FICO score can result in higher interest rates for credit or loans, as well as shorter repayment terms, a requirement for a cosigner, or even outright denial of a loan.

FICO scores range from 300 to 850. Generally, scores greater than 800 are considered excellent, while scores below 640 are considered below average, or subprime. Most lenders use the average score of the three most well-known reporting agencies (Experian, TransUnion, and Equifax).

Your FICO credit score is based on five factors:

1. Payment history (35 percent)
2. Total amount owed compared with available credit, known as credit utilization (30 percent)
3. Length of credit history (15 percent)
4. Types of credit used (10 percent)
5. New credit cards or loans opened and credit inquiries (10 percent)

Alternative credit scores.

Besides FICO, these recently adopted sources provide alternative credit scores:

• Vantage provides a single score based on the three major reporting agencies but differs from FICO in that it gives

varying levels of importance to different parts of your credit report. Most websites that offer free credit scores, such as Credit Karma, use the VantageScore.
• UltraFICO, which is used only by Experian, lets consumers enhance their credit score by linking with their checking, savings, or money market accounts.
• Experian Boost helps consumers improve their FICO score by giving them credit for on-time phone and utility payments. Experian Boost is offered only through Experian.

UltraFICO and Experian Boost are intended primarily for consumers with subprime credit scores, as well as people without enough usage to receive a score. These services are especially helpful to those with borderline credit scores.

Understanding Your Credit Report

Once you know your credit score, you'll also want to know what went into that three-digit figure—which you can find out by reviewing your credit report.

Credit reports contain a comprehensive record of your credit history, including personal information, account information, and whether you have paid your bills on time. Your credit report also contains information on any accounts that have been sent to a collections agent and whether you've filed for bankruptcy or received a bankruptcy discharge.

Checking Your Credit Report

With so much of your financial life based on your credit report, accuracy is important. Unfortunately, the Federal Trade Commission (FTC) estimates one in five consumers has at least one error on their report. That's why it's so important to make checking your credit report a habit. There are several ways to do so:

• Go to AnnualCreditReport.com. Everyone has the right to a free report from each of the three major credit reporting agencies each year.
• Go to Innovis, another reporting agency that provides free credit reports. Although your free report will not include a credit score, it's wise to verify information from this source because companies may use it to check your credit history.
• Go to Credit Karma, NerdWallet, and Bankrate for free access to one or two of the major credit reports, as well as additional services such as credit monitoring and free credit scores.
• Check out organizations such as LifeLock and Identity Guard which, for a fee, provide enhanced credit monitoring and identity theft protection.

Freezing Your Credit

Since 2018, consumers have been able to freeze their credit files free of charge. A credit freeze imposes restricted access on credit reports, making it more difficult for identity thieves to open accounts in someone else's name. During a freeze, you can still access your credit history and open new accounts—though you'll have to temporarily lift the freeze to do so.

A freeze won't affect your credit score. But you should be aware that a freeze cannot prevent someone else from making charges to your existing accounts. So, even if you have a credit freeze in place, be sure to keep monitoring your current accounts.

Repairing Your Credit: 7 Important Steps

Repairing your credit score will require time, patience, and discipline. Know that there is no quick fix. Instead, work your way through these steps for improving your credit score over time:

1. Review your credit reports for errors and dispute any inaccurate or missing information. Be aware that simply checking your credit report or FICO score will have no effect on your credit score. You’ll need to take action to dispute incorrect or missing information. The FTC website provides consumer information on how to file and resolve credit disputes.
2. Pay your bills on time. Even if you have missed payments, get current with your bills.
3. Tackle past-due accounts and reduce the amount of debt you owe. You could start by paying off debts with the smallest balance to the largest (the debt snowball method) or from the highest interest rate to the lowest (the debt avalanche method).
4. Be cautious when opening new credit cards. New credit accounts should be opened only on an as-needed basis. Although closing unused credit cards is often seen as a short-term strategy to increase a credit score, you should know that closing an account does not remove it from your credit report.
5. Consider consumer credit counseling. A great resource for educational materials and workshops is the U.S. Department of Justice’s U.S. Trustee Program, which maintains a list of credit counseling agencies approved to provide pre-bankruptcy advice.
6. Be wary of credit repair services. These companies offer to act on behalf of the consumer and negotiate with creditors, but they may also charge unreasonable fees and upfront charges, as well as mislead customers about their ability to fix credit.
7. Consider bankruptcy only as a last resort. Filing for bankruptcy can allow people to keep their house, car, and other property. It also has serious consequences, however, including lowering your credit score. If you’re exploring bankruptcy, the U.S. Trustee Program maintains a state-by-state list of government-approved organizations that supervise bankruptcy cases and trustees.

Meeting Your Financial Goals

Your credit history is an important cornerstone of your financial plan. That's why making a commitment to monitor and manage your credit score and report is so important. Although the process may take time and patience, working to repair your credit is well worth the effort. It's an important part of staying on track to meeting your long-term financial goals.

These tools/hyperlinks are being provided as a courtesy and are for informational purposes only. We make no representation as to the completeness or accuracy of information provided at these websites.

To Keep or Not to Keep: A Guide to Common Records-Retention Questions

Living in an increasingly paperless world has its benefits, but when it comes to records retention, does it make a difference? Sure, digital recordkeeping on the cloud means more storage space, easy access, and less vulnerability to inadvertent destruction. But the questions of what to keep and for how long feel just as confusing as ever.

Keep or Toss

Whether your files are physical or electronic, the same principles and time frames for record retention apply. Below, we review some rules of thumb to consider for a few common financial documents. Keep in mind, though, this list is not exhaustive, and professional responsibilities and potential liability risks may vary.

ATM receipts, deposit slips, and credit card receipts.
In general, you don't need to hold onto monthly financial statements after you verified your transactions—that is, unless statements include tax-related information. Also keep in mind that if you dispute a transaction included in a statement, in most cases, you have 60 days from the statement date. Beyond 60 days, the bank may be alleviated of liability associated with the charge—so you may be on your own to try to get your money back.

Paycheck stubs.
Once you receive your annual W-2, it's usually not necessary to retain your paystubs for the prior year. You may want to keep your year-end stub if it includes any tax-related information not reported on your W-2, however. Additionally, if you anticipate a life event in the near future that will require proof of recent income—applying for a home loan, for example—then plan to hang onto pay stubs from at least the past two months.

Tax returns.
Determining when to purge tax returns usually depends on how long the IRS has to contest a given year's return. In most cases, it's a period of three years—assuming tax returns are filed properly and do not contain any knowingly fraudulent information. The time frame can extend up to six years for severely underreported income, and there's no time limit for the IRS to contest fraudulent returns. The same timing applies to the supporting documentation used in preparing a tax return, so you should also retain the financial and tax documentation—investment statements showing gains or losses and

evidence of charitable contributions, for example—pertinent to the corresponding year’s return. If you’re unsure how long you should keep a specific tax return and accompanying paperwork, be sure to check with your accountant. Additionally, the IRS offers some useful information on time limitations that apply to retaining tax returns.

Old 401(k) statements.
Once you’ve confirmed your contributions are recorded accurately, there’s little need to keep each quarterly or monthly statement. It may be a good idea to keep each annual summary until the account is no longer active, however.

Estate planning documents. Although there’s usually no distinction about whether records need to be retained in paper or digital form, there are certain instances where it’s essential to have original legal documentation with the “wet” signature. This requirement holds true for estate planning documents. In most circumstances, a court will only accept a decedent’s original last will and testament—a copy will not suffice. If you’re unable to produce the original, the court may presume it doesn’t exist, deeming the copy invalid. It’s possible there are legal avenues you can pursue to get the court to accept a photocopy of a will, but this could prove to be a costly and stressful process.

Get Organized and Be Sure to Shred

A good records-filing system is key to helping you maintain and easily access important documents. If you’re storing things digitally, you can retain much more than any filing cabinet could hold, making it easy to take a more liberal approach to what you save. Keep in mind, the retention guidelines for many documents aren’t clear-cut. When you’re unsure, start by assessing what purpose the document may serve in the future. And it’s always important to consult the appropriate financial, tax, or legal professional for advice on specific records. Finally, remember when it comes to materials that include personal information, if you’re not keeping it, then you should be shredding it.

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.