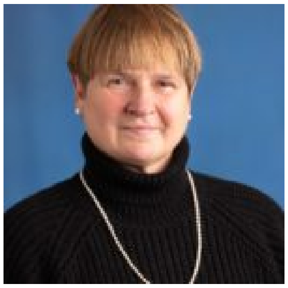
‘Gray Divorce’ is on the Rise



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.

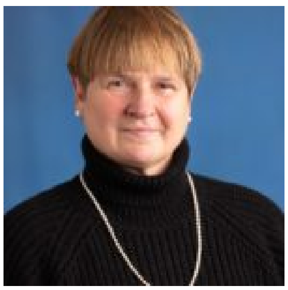
Estate planning documents. Although there's usually no distinction about whether records need to be retained in paper or digital form, there are certain instances where it’s essential to have original legal documentation with the “wet” signature. This requirement holds true for estate planning documents. 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.

Retirement Planning for Women: Understanding the 'Bag Lady' Syndrome



Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA

Challenges can be different for women planning for retirement than those facing male counterparts. The phenomenon of women envisioning themselves as elderly "bag ladies" is based in very realistic concerns. But with proactive planning, beginning in early adulthood, women can take control and realistically envision economic security for their retirements.

A persistent wage gap in many fields has put women at a disadvantage in several ways: Because women earn less, women generally have less they can set aside for retirement after paying current living expenses during the accumulation years (when in the workforce). According to 2021 data on Payscale.com "The average amount of money earned by women throughout their career is $850,000 less than that of men."

Compounding the disadvantage, women spend a greater amount of time out of the work force, typically related to child and other family care roles. On average, women spend 44% of their adult life out of the workforce compared to 28% for men. This can significantly add to women's disadvantage at saving to prepare for retirement years, as well as exacerbating their diminished social security participation.

According to Brookings.edu (July 2020) How does gender equality affect women in retirement?
Caregiving provided during women's 20s and 30s, when careers are formed and when age-earnings profiles are relatively steep, creates career-long earning losses. One study found that a woman with one child earns 28 percent less on average over her career than a woman without children, partially as a result of time out of the work force. (In sharp contrast, becoming a father typically does not reduce a man's earnings.) Each additional child reduces average women's earnings by another 3 percent. Women are also more likely than men to care for their aging parents—a responsibility that predominantly falls on women over the age of 50.

People who leave the labor force early to care for a parent or other elderly relative lose an average of $142,000 in wages.
The wage gap and time out of the work force also results in women generally earning a lower social security benefit than male counterparts. In 2019, the average annual Social Security income received by women 65 years and older was $13,505 compared to $17,374 for men.

Moreover, women tend to live longer than men and thus rely on their retirement wealth for a longer period of time. In 2020, average life expectancy at age 65 is 21.1 years for women and

18.6 years for men…As a result, for a given level of retirement wealth at age 65, women can afford to consume about 7 percent less per year than men to make those resources last as long as they do, according to the Brookings report.

Women fear outliving their spouses. Given greater longevity, that is not surprising They also fear outliving their financial resources.

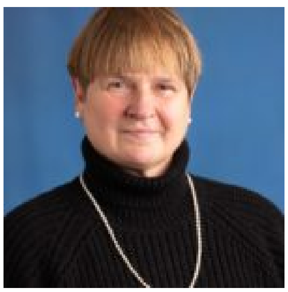
What can women do to address these issues while a wage gap persists, time out of the workforce and relative longevity impair their ability to earn and build for as secure a retirement as men?

Women tend to put off building a relationship with a financial advisor or delegate that activity to a partner or spouse. Rather than wait until they are in their 40’s or 50’s, women should begin discussing their own retirement planning in their 30’s, to gain a realistic picture of what they can do to plan for retirement. The value of compounded earnings over time add value exponentially to saving early in one’s working years, and a financial advisor can help increase this understanding.

A financial advisor who understands these issues and who also can empathize with what it feels like to have these financial challenges can help to increase financial literacy to empower the kind of decision making that can support more secure retirements.

Working with an advisor to build a plan as early as possible, fine-tuning that plan as the years go by while intentionally saving for retirement can set women on a path to secure retirement, and eliminate the imagined “Bag Lady” for good.

2020: ESG Record Breaking Growth in the Midst of Covid-19 and Climate-Change Focus



Sarah Ruef-Lindquist, JD, CTFA

BySarah Ruef-Lindquist, JD, CTFA
Originally submitted to Pen Bay Pilot

More people in the US are involved in the stock markets than ever before. If you have any retirement plan assets, like an IRA or a 401(k), chances are you have investments. For a growing number of investors, considering the impact of the companies in which they are investing is becoming a priority in selecting stock, mutual and exchange-traded funds to include in their portfolios and retirement accounts.

ESG investing involves a strategy that takes environmental, governance and social issues of companies and their impact into account. Sometimes also referred to as “SRI” or *Socially Responsible Investing*, the use of this strategy has grown significantly over the last several decades to not just screen out “bad actors” like fossil fuels, gambling, defense industry and alcohol, but to include in mutual and exchange traded funds and investor portfolios companies creating more diverse boards and C-suite leadership, environmentally friendly policies, operations and progressive workplace conditions.

There is a growing list of mutual and exchange-traded funds with the ESG focus, a trend that has been developing for more than 30 years. But the past 4 years and most recently the pandemic has accelerated their growth exponentially. According to the Banking Exchange on February 2, 2021 Bank of America’s *ESG Matters – Quant Edge* recently reported that additional investments in sustainable investment strategies in 2020 reached $255 billion, a new record. The report went on to say that 1,866 ESG equity funds saw inflows in 2020 of $194 billion, compared to $186 in outflows from other global equity funds. In other words, the additional amounts invested in ESG funds exceeded the funds taken out of non-ESG funds.

The article reported 141 new ESG funds were launched in 2020, most of them in Europe. In the fixed-income space, there was also significant growth: ESG bonds issued in 2020 exceeded $500 billion for the first time. Bank of America also reported that thus far 2021 is showing stronger inflow momentum for sustainable products, with global ESG funds experiencing $24 billion in inflows, one and a half times the pace of 2020.

Why all the increased investments in these types of offerings? One theory was cited as “…regulatory changes coming to the EU and a new presidential administration in the US” seeking to tackle climate change and address social change.

In a January 6, 2021 article on Livemint, the ESG inflows in 2020 were compared to inflows of $63.34 billion 2019 with "conscious investing" a key theme of 2021. They cited a BlackRock survey from December 2020 showing investors with $25 trillion in assets planning to double their ESG assets in the next five years. Climate-related risks were a top concern for 88% of those 425 investors responding from 27 countries.

A December 14, 2020 article in Forbes *Why Socially Responsible Investing Is Likely to Gain Momentum Under Biden* noted that sustainable investing has had more growth over the last four years than the previous 12, in part because US voters perceived the need to support endeavors that could positively address climate change and social issues if government was not so inclined. The article went on to say that the growth in sustainable investing now means that in one out of three investing dollars are being invested in this manner.

In addition to more investment activity increasing the amount of funds that have a socially-conscious approach, these investments outperformed their peers that do not have an SRI or ESG strategy. Bank of America's analysis revealed that 65% of ESG indices outperformed equivalent traditional benchmarks in 2020. The outperformance of many tech stocks in 2020 as the pandemic drove innovation and demand while fossil fuel companies suffered from the continued growth of alternatives and reduced demand supported this relative outperformance, and could continue as a tailwind as the world emerges from the pandemic economy with a renewed emphasis on climate change awareness.

Ask your financial advisor about the options available for ESG investing that would suit your particular situation. You may find that the ESG strategy could support a plan of doing well, while doing good.

Women and the Pandemic: Planning for a Healthy Financial Future

Over the past year, we've all felt the effects of the coronavirus pandemic in one way or another. But, as the job losses and unemployment numbers tell us, it's staggeringly clear that women—particularly women of color—have been disproportionately affected. Women have lost or scaled back their careers, with their labor force participation now at a 30-year low. At the same time, their responsibilities in terms of child care and home schooling have risen by more than six hours per day. For many, it's reached a crisis point.

If you're one of the many women whose lives and finances have been turned upside down by the pandemic, you might be struggling with what to do next. Fortunately, there are strategies to address your immediate concerns and help you plan for a healthy financial future.

A Taxing Time

Unemployment compensation. Did you know unemployment compensation is taxable, including the additional weekly $600 authorized by the CARES Act? (To learn more, see Form 1099-G, Certain Government Payments.) At the state level, only five states that tax income—California, Montana, New Jersey, Pennsylvania, and Virginia—do *not* tax unemployment benefits.

In recent news, the American Rescue Plan Act (ARPA) signed by

President Biden on March 11, 2021, includes some tax relief. Under ARPA, the first $10,200 of unemployment benefits received in 2020 will be tax-free for individuals whose modified adjusted gross income (MAGI) is less than $150,000.

If you are unemployed and will continue to receive unemployment payments in 2021, there's a simple solution to minimize any future tax surprises: complete Form W-4V to voluntarily withhold taxes from your unemployment benefits. The withholding rate is a flat 10 percent.

Coronavirus-related distributions (CRDs).

If you supplemented your cash flow with CRDs from an IRA or other retirement plan (e.g., 401(k)), you will have more complex choices to consider. To help make the decision that's right for you, it's important to know all of the options:

- The full amount of the distribution may be reported as income in the year it's distributed.
- The full amount of the distribution may be reported ratably in one-third increments spread over three years. For example, an individual who received a $9,000 CRD in 2020 would report $3,000 in income in 2020, 2021, and 2022.
- Individuals have a three-year window that begins the day after they receive a distribution to recontribute all or a portion of it to a retirement plan or IRA.
- Individuals who reported a CRD and then rolled it back into an IRA or retirement plan can claim a refund for the income tax paid in a prior year.

Please note: The choice to report a distribution in one year or to spread it out ratably over three years is irrevocable, so it requires careful consideration.

Health Care Coverage

Health insurance can be the biggest immediate worry after losing a job, especially for single mothers who can't rely on a spouse's coverage. Fortunately, there are several options at your disposal. For example, you may be eligible for Medicaid coverage, especially if you live in one of the 39 states that recently expanded the Medicaid program. Alternatively, the Affordable Care Act's (ACA's) Health Insurance Marketplace provides all Americans with nationwide access to health insurance.

Extended open enrollment. For those who missed the fall open enrollment period for ACA insurance or who want to make changes to their plan, the federal government is holding an extra open enrollment period through May 15, 2021. State-based marketplaces are another option in California, Colorado, Connecticut, Idaho, Maryland, Massachusetts, Minnesota, Nevada, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Washington, and the District of Columbia.

You'll need to check each state's enrollment timeline. If you lose your job after May 15, you will still have a 60-day special enrollment period to find health insurance in either the federal or state marketplace. Marketplaces have links to information about eligibility for premium subsidies and assistance for selecting the right plan.

COBRA. Another option is COBRA, though it's more expensive. You could be covered by this plan—and keep the health insurance policy you had while employed—for 18 months after a layoff or reduction in work hours. Unfortunately, COBRA coverage may cost up to 102 percent of the health plan's full premium.

Short-term plans. Other options, such as short-term health plans, which can be used for up to 36 months, may offer only limited benefits. Unlike ACA plans, short-terms plans aren't required to provide the following 10 essential health benefits:

- Laboratory services
- Emergency services
- Prescription drugs
- Mental health and substance use disorder services
- Maternity and newborn care
- Rehabilitative services
- Ambulatory patient services
- Preventive and wellness services and chronic disease management
- Hospitalization
- Pediatric services, including vision and dental care

Keep in mind that insufficient coverage for any of these health care needs could expose you to bills that will affect your family's financial security for years. As such, addressing this issue now is vital in coping with the pandemic's long-term effect on your finances.

Careers in Transition

The Women in the Workplace 2020 report from McKinsey and Lean In highlighted several structural factors causing one in four women to downshift their career or stop working altogether. Among the primary culprits, according to the McKinsey report, are concerns that employers view caregivers of children and adult parents as not fully committed to their jobs. But shifting priorities and changing a career path to meet a present problem will affect your future social security benefits, retirement security, and household net worth.

Social security. Social security retirement benefits are based on an individual's primary insurance amount (PIA), which is calculated from your average indexed monthly earnings during your 35 highest earning years. Social security records a zero for each year that you do not earn income. More zeros—especially during the primary earning years after age 40—can reduce your PIA and cannot be recouped through later employment. Although you may think your absence from the workforce will be temporary, it may lead to an extended time away from employment.

Retirement savings. Even if your career is in transition, there are still ways to save for retirement. For instance, you can contribute to a spousal traditional or Roth IRA if you are married, file a joint income tax return, and have a modified adjusted gross income (MAGI) below the threshold set for that tax year. If you are older than 50, you can make an extra $1,000 catch-up contribution, as long as your MAGI is below the annual threshold. The amount you can contribute to a spousal IRA will begin to phase out within certain MAGI ranges, and it will end once MAGI exceeds an annual specified limit. Spousal IRAs are available for all married couples, including same-sex unions.

Planning for a Healthy Post-COVID Life

As we settle in to 2021, vaccines bring hope that the medical risks may soon be behind us. Unfortunately, that is unlikely to quickly reverse the damage to women's earnings. It is a difficult time, but you needn't navigate it alone. We are here to help you consider all the options when it comes to unemployment compensation, health care, social security, and retirement savings to help stabilize your immediate cash flow and get you back on the road to long-term financial security.

Authored by Anna Hays, JD, LLM, advanced planning consultant,

Tax Season Scam Alert

With tax season upon us, many of us are busy gathering the appropriate documents, meeting with CPAs, and ensuring that relevant tax deadlines are met. But in all the hustle and bustle, taxpayers also need to keep an eye on the risks, especially tax season scams. Each year, scammers get more savvy with strategies they use to gain access to other people's personal information and money. To help you steer clear of this year's top scams, learn red flags to watch out for—along with some timely tax-filing reminders.

"Ghost" Tax Return Preparers

One truly frightening scam haunting taxpayers is the ghost preparer. These preparers remain hidden from the IRS by not signing returns, making the returns appear to be self-prepared. In cases where the individual e-files, the ghost preparer will refuse to digitally sign the return. The result can be disastrous for taxpayers, leaving them open to serious filing mistakes, tax fraud, penalties, and audit by the IRS.

Red flags. To help avoid this issue, be in the know when it comes to red flags surrounding ghost preparers. They usually:

• Don't sign the return with a Preparer Tax Identification Number (PTIN) (The PTIN is required by law for anyone who is paid to prepare or assist in preparing a federal tax return.)
• Lure clients in with the promise of big refunds (Unfortunately, these scammers will resort to claiming fake deductions to boost the size of the refund.)
• Require payment in cash

• Have refunds directed into their bank accounts, not the taxpayer’s

Pro tip. If you’re looking for someone to prepare your taxes, the IRS has a great online resource that offers a tool for checking your tax preparer’s credentials and tips for avoiding potential tax scammers. No matter who prepares your return, it’s important to review it carefully, including the routing and banking numbers if you’re receiving your refund via direct deposit.

New Round of COVID-19 Scams

As the coronavirus continues to spread, so do scams, unfortunately. Criminals often try to exploit taxpayers during times of uncertainty, and this pandemic has been no exception. The latest COVID-19 scams center around the most recent round of stimulus payments. They have taken on a few forms, all with the singular goal of stealing taxpayers’ money and personal information.

Red flags. The IRS Criminal Investigation division has compiled a list of the latest COVID-19 scams. Here’s what to be on the lookout for:

• Text messages asking you to disclose bank account information in order to receive the $1,200 economic stimulus
• Emails, letters, and social media messages that use “coronavirus,” “COVID-19,” and “stimulus” in different ways, requesting personal information and financial account information (e.g., account numbers and passwords)
• Sale of fake at-home COVID-19 test kits
• Fake donation requests for individuals, groups, and areas heavily affected by COVID-19
• “Opportunities” to invest in companies developing COVID-19 vaccines, which also promise these companies will drastically

increase in value as a result

Pro tip. If you receive unsolicited emails or social media attempts that are aimed at gathering your personal information and appear to be from the IRS or an organization linked to the IRS, forward the message to phishing@irs.gov.

Online Identity Theft

One of the most common tax scams remains personal identity theft, which is particularly rampant during tax season. Why? By accessing the social security numbers, addresses, and birth dates of unsuspecting taxpayers, scammers can file phony tax returns and steal refunds. The worst part is this can all be done before the victims even know their identities have been stolen.

Red flags. So, what can you do to help ensure that someone doesn’t file a return in your name? Know the warning signs of this pervasive scam:

• If you receive an IRS notice regarding a duplicate return, that you received wages from somewhere you never worked, additional taxes are owed, the refund will be offset, or collection actions are being taken against you for a year you did not file a tax return, contact the IRS immediately.
• As noted above, ensure that your tax preparer has the appropriate credentials.
• Unless there is a valid reason, don’t give out your social security number—and always know who you’re giving it to.

Pro tip. The best way to avoid this scam is to file your taxes early, before a scammer can access your information. You might also think about using an Identity Protection PIN (IP PIN) to proactively protect yourself from identity theft. The IP PIN is a six-digit number known only to you and the IRS that can be used to help the IRS verify your identity when a paper or electronic tax return is filed.

Never Has the IRS Ever . . .

When it comes to tax scams, one of the most important things to know is how the IRS does (and doesn’t) contact taxpayers. Here are some things the IRS just won’t do:

• Demand that you pay taxes without the opportunity to question or appeal the amount it says you owe
• Call to demand you make an immediate payment using a specific method (e.g., prepaid debit card, gift card, or wire transfer)
• Threaten to bring in local police, immigration officers, or other law enforcement to arrest you for not paying (Threats are a common tactic used by scammers.)

So, if you get a call or email that sounds like any of the above, it’s likely a scam. For steps to take if you suspect fraudulent tax activity, visit the IRS’s Report Phishing and Online Scams page.

Scams Don’t End with Tax Season

Although the focus here is on tax season, we would all be wise to remember that new scams are popping up every day, year-round. So, remain vigilant in keeping your personal information safe and be on the lookout for potential scams.

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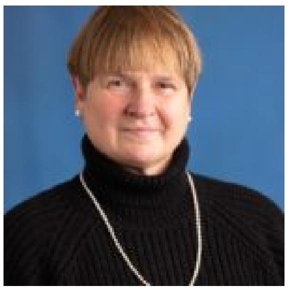
2021 Has Finally Arrived…Now What?



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Originally submitted to PenBayPilot.com

I don't personally know anyone who wanted 2020 to last longer than it did. It was like riding a roller-coaster. But as thrilling as any ride can be, you can only take so much. Especially with the markets.

The year started out with the fall election looming large on the horizon…the outlooks for the economy and financial markets were positive as the year began and then…well, we all know what happened. A force outside the market (deadly pandemic) resulted in a recession and sky-rocketing unemployment and devastation of life as we knew it and sent the markets into a downward spiral…but then, the last 9 months of the year resulted in returns that surprised even the experts in the markets. The S&P returned 18%, the NASDAQ more than a whopping 44% and the Dow

Jones Industrial Average a comparatively “modest” 9%.

Markets thus far in 2021 have responded fairly positively to the rollout of a vaccine and a new administration in Washington. Concerns about radical changes to the tax code have receded and there is a perception of pent-up consumer demand that, once it is safe to shop, dine and travel without the threat of Covid-19, could lead to an economic recovery and continued positive market performance as we move through 2021.

So, as we think about our financial lives in the wake of all this turbulence, are there areas of focus we might be wise to consider?

First, the wisdom of having a reserve fund of 3 to 6 months of living expenses is a timeless piece of advice. 2020 might have made it obvious, and we should all consider this as a goal for 2021. No need to elaborate on that.

If 2020 taught us a second lesson, it is that missing even part of a year of market activity can come at a high opportunity cost. So long as debt is managed and you can afford to, you should take maximum advantage of pre-tax IRA contributions ($6,000 a year or $7,000 if you are 50 or older) and/or retirement plan (401(k), 403(b) and SIMPLE IRA) contributions. Again, this can shelter as much as $26,000 from tax while adding to a retirement account that grows tax-free. Similarly for the self-employed, SEP plans can allow up to 25% of income to be sheltered in the plan (up to $58,000) and is often used by high-earners.

Also, if available to you through work, take advantage of employer matching contributions to your employer-sponsored retirement plan. Even if it’s a small amount, it’s worth having the additional funds to build your retirement.

We also learned that the SECURE Act passed in late 2019 brought a positive change for people working into their 70's. People over age 70 ½ can contribute earned income to IRA's, up to $7,000 a year, which was not possible before the legislation was enacted. There is no longer an age limitation on contributions as long as you have at least as much earned income as you want to add to your IRA.

For many years, 70 ½ was also the age at which people had to begin taking funds out of their retirement plans. The "Required Beginning Date" or RBD triggered the need to take a "Required Minimum Distribution" or RMD. To the extent you did not withdraw the full amount, you risked as much as 50% in tax of the undistributed amount. Now, that RMD doesn't begin until age 72. In other words, age 72 is the RBD for RMD. This recognizes not only that people live longer, but are working longer and not need to withdraw funds so soon.

So while we're all ready for a quiet, stable and peaceful year, let's remember some of the simple, basic things we can do to help ourselves have a productive year and plan for a prosperous future.

Last-Minute Charitable Giving Opportunities

December is the "giving season," when many people consider using their wealth to help others. Because of the urgent need for generosity presented by the COVID-19 pandemic, you may be looking for ways to stretch your charitable donations. As always, the use of tax-efficient giving strategies can help them go further.

This year, it’s also important to be aware of the tax incentives for philanthropy included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The summary below explains how you can maximize these tax-efficient giving incentives during the final weeks of 2020. Two common vehicles for charitable planning—now and in the future—are also covered.

CARES Act Tax Incentives

These incentives, which are set to expire on December 31, 2020, apply only to cash gifts to public charities made by individuals or corporations. Regarding your 2020 tax return, here’s what you need to know:

Are you taking the standard deduction? If you’re not itemizing, you can take an “above-the-line” deduction of up to $300 for cash gifts to charities. The amount you claim will reduce your adjusted gross income (AGI). What about married couples filing jointly? As of this writing, your deduction also seems to be limited to $300, according to IRS draft instructions.

Are you itemizing deductions? Typically, annual charitable deductions are capped at a percentage of a taxpayer’s AGI. For individuals, this cap has been set at 60 percent since 2017. Under the CARES Act, however, you may deduct up to 100 percent of your AGI for gifts of cash to a public charity in 2020. This rule excludes gifts to a donor-advised fund (DAF). For corporations, the AGI cap for cash gifts, previously set at 10 percent, has been raised to 25 percent for the year.

- For both individuals and corporations, any unused deduction under this cap may be carried forward for five years, which can lead to the planning opportunities discussed below. The cap for gifts of appreciated assets has not changed.

Planning Opportunities

If you wish to fund large charitable gifts this year, the 100 percent AGI cap offers huge advantages. Here are several ways this incentive could help you manage high-income events:

- **Stock options and lump-sum payouts.** If you’ve exercised nonqualified stock options from your employer out of concern for market volatility or received a large lump-sum severance package as a result of a layoff, charitable gifts can help offset the tax burden.
- **Roth conversions.** If you’d like to make a large Roth conversion this year, you could also make a large charitable gift to offset the tax liability of the conversion. This strategy is especially beneficial because traditional IRAs have become a less attractive way to leave money to heirs since the 2019 passage of the SECURE Act, which requires most IRA beneficiaries to empty their inherited IRA within 10 years.
- **Business sale.** Let’s say you have an expected AGI of $1 million this year due to a business sale. You could make a charitable contribution that would completely offset the year’s income.
- **Combining gifts.** Although the CARES Act incentive applies only to cash gifts, the IRS does permit taxpayers to combine different types of gifts. For instance, you could maximize your 30 percent AGI cap for gifts of appreciated assets. The 100 percent AGI cap would be reduced by that amount, but you would still be able to deduct another 70 percent of your AGI by making cash gifts.

Qualified Charitable Distributions (QCDs)

A QCD is a direct transfer of funds from an IRA, payable to a qualified charity. Although the CARES Act allows IRA owners to skip required minimum distributions (RMDs) in 2020, the rules for QCDs have not changed. If you own an IRA (including an inherited IRA) and are 70½ or older, you can make tax-free distributions of up to $100,000 payable to public charities (excluding DAFs).

Here are some ways a QCD could help control your income:

- If you decide to take an RMD this year (or must do so in the future), a QCD could be used to satisfy the distribution. This strategy would remove the tax burden associated with taking the distribution as ordinary income.
- A QCD is not reportable as part of your AGI, which limits its impact on the taxation of social security benefits.
- In future years, a QCD could also limit the impact of income on Medicare premiums, which are based on your AGI from two years prior.

Charitable Remainder Trusts (CRTs)

A CRT can help you (or your beneficiary) spread the tax liability on the sale of appreciated assets over many years. This may result in paying a lower overall effective tax rate. Let’s look at how this works:

- A CRT pays an income stream to a noncharitable beneficiary (or beneficiaries) for a term of years or for life. At the end of the income term, the remaining assets in the trust are distributed to a charity.
- When you move assets into a CRT, you receive a charitable contribution deduction based on the present value of the remainder interest set to pass to the charity at the end of the income distribution term.
- If you contribute appreciated assets (e.g., investment

assets, closely held business interests, real estate, or collectibles), those assets can be sold without creating a tax liability to the trust itself.

As you can see, the primary benefit of a CRT is that the trust is exempt from taxes. But that does not mean taxes are entirely avoided for beneficiaries. In fact, the distributions to the income beneficiaries are taxable based on four buckets of income: ordinary income, capital gains, tax-free income, and return of principal. Each year, when the CRT makes its income distribution, it first pulls the funds available from accumulated ordinary income, such as interest and dividends, before distributing other types of income. The beneficiaries would be subject to the taxation rules in place for these types of income.

Need Additional Information?

If you’re interested in exploring these options, please contact me. We’ll talk through how these giving strategies can help you meet today’s urgent need for generosity—and further your visions for doing good.

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Solutions for Managing Student Loan Debt

Managing student loan debt has become one of the biggest financial planning challenges for many. In the U.S., student loan debt rose to $1.51 trillion last year, according to the Federal Reserve Bank of New York. So, if you or family members are dealing with the burden of budgeting every month for a student loan, you're not alone.

Fortunately, numerous payment and planning solutions are available to help student borrowers. In addition, this year, the **Coronavirus Aid, Relief, and Economic Security (CARES) Act has provided substantial assistance for individuals holding federal student loans.** It's important to remember, though, that the CARES Act's relief provisions are set to expire on December 31, 2020.

If you're looking for a long-term solution for managing student debt, you'll find a variety of considerations and options below to keep in mind.

Student Loan Relief Under the CARES Act

Interest and required payments on federal student loans owned by the U.S. Department of Education are currently suspended, without penalty, through December 31, 2020. On January 1, 2021, interest will start accruing again and borrowers will be responsible for making monthly payments. Auto-debit payments will automatically resume, if this feature was set up prior to payment suspension. If the required payments aren't made, federal loan servicers may report delinquency for the period beginning January 1.

Income-driven repayment plans. The Department of Education offers several income-driven repayment plans that help you set an affordable monthly payment based on your income and family size. If you're already on a payment plan but your financial situation has changed, you can update your information to see if you qualify for a new, lower payment amount. The plans are:

- **Income-based repayment (IBR) plan.** You'll pay 10 percent of your discretionary income if you're a new borroweron or after July 1, 2014, and 15 percent if you're not a new borrower. You'll never pay more than on the standard plan.
- **Income-contingent repayment (ICR) plan.** You'll pay the lesser of 20 percent of your discretionary income or the amount of a fixed payment over 12 years, adjusted according to your income.
- **Pay as you earn (PAYE) and revised pay as you earn (REPAYE) plans.** Generally, undergraduate borrowers who qualify will pay 10 percent of their discretionary income toward their student loans each month, and after 20 years of on-time payments, the remaining balance may be forgiven (payments may be forgiven after 10 years for those in certain public interest jobs and after 25 years for graduate school borrowers).

Deferment, Forbearance, and Cancellation

Although repaying your student loan may become difficult, ignoring your payments is the worst thing you can do. Instead, talk to your lender about possible solutions. Depending on your situation, you may be able to apply for a deferment, forbearance, or cancellation of your loan.

These programs are not automatic. You'll need to fill out the appropriate application from your lender, attach documentation, and follow up on the application process. Also, it's important to keep in mind that interest accrues for most borrowers on a general forbearance (unlike forbearance under the CARES Act).

- With a deferment, the lender grants a temporary payment reprieve, based on a specific condition, such as unemployment, temporary disability, military service, or full-time enrollment in graduate school. For federal loans, the government pays the interest that accrues during the deferment period, so the loan balance doesn’t increase. A deferment usually lasts six months, and the total number of deferments that can be taken over the life of the loan is limited.
- With a forbearance, the lender has discretion to grant permission to reduce or cease loan payments for a certain period of time, though interest will continue to accrue—even on federal loans. Economic hardship is a common reason for forbearance. A forbearance usually lasts six months, and the total number permitted over the loan’s term is limited.
- With a cancellation, a loan is permanently erased, but qualifying isn’t easy. Cancellations may be allowed due to the death or permanent total disability of the borrower, or if the borrower teaches in certain geographic areas. Typically, student loans can’t be discharged in bankruptcy.

Loan Consolidation

With loan consolidation, you combine several student loans into one loan, sometimes at a lower interest rate, allowing you to write just one check each month. You need to apply, and different lenders have different rules about which loans qualify for consolidation. Generally, you can choose an extended repayment and/or graduated repayment plan in addition to a standard repayment plan.

Student Loan Forgiveness Programs

In addition to the repayment assistance programs described above, the federal government offers student loan forgiveness to qualified borrowers. Although the benefits can be substantial, you should carefully consider the potential long-term costs associated with changing you career path. Available programs include:

- **Public Service Loan Forgiveness (PSLF).** The PSLF program forgives the remaining balance on direct loansafter the borrower has made 120 qualifying payments (10 years' worth) while working full-time for a qualifying employer. A loan simulator tool that can help you assess eligibility is available at studentaid.gov/loan-simulator.
- **Teacher Loan Forgiveness (TLF).** Borrowers must teach full-time for five complete and consecutive academic years in a low-income school or educational service agency and meet other qualifications. The TLF program offers forgiveness of up to $17,500 on direct subsidized and unsubsidized loansand your subsidized and unsubsidized federal Stafford loans.

Refinancing Option

Refinancing may be a good option for lowering your monthly loan payments. But, to do so, you must already have a private loan or be willing to convert your federal loan to a private loan—and this could mean losing some benefits. A federal loan cannot be refinanced as a new federal loan with a lower interest rate. Be sure you understand the cons and pros of refinancing:

Cons:

- Borrowers lose the option for student loan forgiveness.
- Private student loans don't offer income-driven repayment

plans.

- Deferments on private student loans are not as generous as on federal loans.
- Variable interest rates could increase.
- There’s no grace period for starting payments after leaving school.

Pros:

- Interest rates can be reduced, creating substantial savings.
- Less interest means loans can be paid off faster.
- Loan management is easier if multiple loans are combined.
- Monthly payments can be reduced.
- A cosigner can be released from the new loan.

Need Additional Information?

For assistance in evaluating your options, please a member of the Allen Financial team. We’ll talk through these strategies for managing student debt and explore other planning solutions that can help you get on track to financial security.

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