New Year’s resolution: focus on finances

Have you made any New Year’s resolutions for 2018? Along with trying to lose weight, stop smoking or make other lifestyle changes, you might resolve to be smarter about financial planning this year. Here are five items that could make your list:

1. Develop a monthly budget.
It can be hard to get a firm grasp on your finances if you do not know how much money is coming in and how much is going out. Keep track of your expenditures and income through a spreadsheet, ledger or other tracking device. This can help pinpoint the types of shortfalls that may have plagued you in the past. With a better idea of how to do it, you can now resolve to save more.

2. Manage your debt.
For many people, one of the biggest financial drains is paying interest to lenders, especially if they have fallen into the trap of high-interest credit card charges.

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Four big retirement plans for self-employed

Years ago, pension plans and other qualified retirement plans were offered only by the “big boys on the block.” But now, many small companies are in the game. In fact, if you are self-employed with just one or two employees—or maybe it is just yourself—you still have a

(see New Year’s resolution on inside page)
Good intentions of charitable remainder trusts

Can you benefit one of your favorite charities while preserving wealth for your heirs with a single stroke of the pen? A charitable remainder trust (CRT) may accomplish both of these common goals. What's more, if the technical requirements are observed, you can walk away with tax breaks to boot, based on the laws in effect at this writing.

Idea in action:
Typically, you transfer appreciated property (e.g., a business interest) to the CRT and designate a beneficiary to receive income from the trust for life or a term of years. For instance, you might name your spouse as the income beneficiary. The beneficiary pays tax on the amounts received from the trust. At the end of the trust term, the property goes to the charity named at the CRT's inception.

What are the benefits? Take a quick look.

- A donor can claim a current tax deduction for the value of the remainder interest that passes to the charity. The value of the donation is based on special government tables.
- The donor may also avoid a potentially large capital gains tax on the sale of appreciated property.
- The designated beneficiary can rely on a steady stream of income from the CRT to sustain him or her in retirement.
- The CRT may be combined with a “wealth replacement trust” in order to achieve additional estate-planning benefits.

The tax savings generated by the CRT fund a wealth replacement trust in whole or in part. The trust then uses the money to purchase life insurance to replace the wealth donated to charity. When all is said and done, your heirs come out even or ahead of where they would have been had you not set up the CRT in the first place.

Although there are several variations, the two main types of CRTs are CRATs (charitable remainder annuity trusts) and CRUTs (charitable remainder unitrusts). No matter which one you use, the beneficiary must be entitled to an annual payment each year for life or for a period of no more than 20 years.

With a CRAT, the payment must be a fixed amount equal to at least 5% of the initial value of the trust property, while a CRUT requires payment of a fixed percentage (not less than 5%) of trust assets. In either case, a trust will not qualify as a CRT if the annual payout exceeds 50%. Also, it must be clear that the charity will receive at least 10% of the donated assets.

Finally, be aware that a CRT is irrevocable. In other words, you can’t change your mind and take your assets back. Also, there are fees for establishing and maintaining the trust.

Does a CRT appeal to your best intentions? When the time is right, talk to a financial adviser to coordinate this planning technique with other aspects of your estate plan.

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Based on your priorities, start chipping away at your debt, typically by paying off the debts with the highest interest rates first. When it makes sense, you might consolidate your debts through one or two reasonable loans.

3. Review your portfolio. Everyone wants to earn more from investments, but much more is involved in constructing an overall plan.

Although there are no guarantees, especially in a declining market, relying on principles such as asset allocation and diversification is often beneficial and may help you reach your investment goals. Of course, the need to seek rewards should be balanced against your personal aversion to risk. Consider all the aspects, including tax implications, of the investment mix. When appropriate, reallocate to reflect changing circumstances.
Estate planning in the digital age

What happens to your online accounts and e-files when you die? What about your treasure trove of photos, music and videos? How will things be handled if you're incapacitated? It is no longer enough to draw up an estate plan—including documents such as a will or power of attorney—that covers only tangible assets; now that we are almost one-fifth of the way into the 21st century, planning should also take "digital assets" into consideration.

For these issues, the laws in individual states continue to evolve. In some states, executors are given access to online accounts. Also, Internet providers have their own rules governing user accounts. Keeping that in mind, here are several practical suggestions for managing digital assets:

- **Create an inventory.** Make a list of all your online information, including e-mail addresses, financial accounts, social media sites and any other forums where you conduct business online. Record the vital information—including username and password—for each account, as well as for your other digital devices, such as smartphones and iPads.

- **Grant access to personal representatives.** Once you have created your inventory, notify the people who will need to act if you are incapacitated or pass away. Most important, let them know where to find the necessary information and how to access it. Remember that they need to adopt the same security measures that you do, so family members might decide to enlist the same online service you use.

- **Store information for safekeeping.** There are several places you can store this information, but you must be careful. For instance, if you write it down on paper, it can fall into the wrong hands. Alternatively, you might keep it in a safe-deposit box or give it to your attorney to hold. But remember that others will still need to know where it is located. If you decide to store the information online, use a secure and reputable service.

- **Coordinate planning with paper documents.** These will work hand in hand with your digital assets. Typically, you should ensure that both your attorney-in-fact, named in a durable power of attorney, and the executor designated by your will have the authority to deal with your online accounts. Your attorney can provide the necessary language to tie up any loose ends.

- **Stay up to date.** When you acquire new accounts and adopt additional services and devices—or change usernames and passwords—update your list so that it remains current. Check it periodically—at least once a year.

Finally, take advantage of the positives of modern technology, but beware of the potential negatives, such as identity theft, that may result. Your financial and legal advisers can provide assistance.
number of retirement plan options at your disposal. Here are four popular choices for self-employed business owners:

**SEPs:** Frequently, a self-employed individual will adopt a Simplified Employee Pension (SEP) plan, which is comparable to a traditional IRA. If you have employees, they must be covered. Generally, you contribute to the plan based on a percentage of compensation, up to the tax law limits, although annual contributions are not required. For 2018, deductible SEP contributions cannot exceed the lesser of 25% of the employee's compensation or $55,000. As with all qualified plans, the maximum compensation taken into account in 2018 is limited to $275,000.

**SIMPLEs:** A Savings Incentive Match Plan for Employees (SIMPLE) is available only to a business with 100 or fewer employees and no other retirement plan. You must make a matching contribution equal to a certain portion or percentage of each employee's contribution or a minimum nonelective contribution for all plan participants. For 2018, you can contribute up to $12,500 ($15,500 if age 50 or older) to a SIMPLE. As a further enticement, you do not have to file an annual return for the plan.

**Solo 401(k) plans:** These plans may cover a business owner with no employees (not counting a spouse). Generally, the rules and requirements for traditional 401(k) plans apply. For instance, in 2018, a self-employed person can defer up to $18,500 ($24,500 if age 50 or older), while overall deductible contributions for this defined contribution plan, including matching contributions, cannot exceed the lesser of 25% of compensation or $55,000 ($61,000 if age 50 or older). Key advantage: Elective deferrals by the business owner do not count toward the 25% cap.

**Keogh plans:** These "dinosaur" retirement plans, specifically designed for self-employed individuals, may be considered relics of the past by some, but they are still kicking around. There are two main types: defined contribution Keoghs and defined benefit Keoghs. The basic rules apply for these types of plans, but with a twist: The annual contribution limit is based on "earned income" instead of "compensation" and thus effectively reduces the percentage cap for self-employed individuals. In contrast to a defined contribution plan (e.g., a 401[k]), in 2018, a defined benefit plan may provide an annual retirement benefit equal to the lesser of 100% of earned income for the three highest-paid years or $220,000.

When choosing a plan for your business, investigate all the possibilities. Then you can make a well-informed decision suitable for your situation.

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**myRA, No More**

The myRA, a recently introduced retirement savings account program similar to a Roth IRA, is going the way of the five-cent cup of coffee and VCRs.

The Treasury Department announced in 2017 that it is closing down the myRA program, citing unreasonable costs. myRAs were designed to appeal to moderate-income individuals, but they did not catch on with the public during their brief tenure.

Future contributions will not be accepted, and funds in existing accounts must be moved into private Roth IRAs. Contact us for more details.