The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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5 Steps To Realize An Early Retirement Dream

Have you dreamed about getting out of the rat race and retiring early? You could live a simpler life, pursue personal passions such as travel or recreation, and reduce your stress level. But you might think an early retirement is just for multimillionaires and out of your reach.

Think again. Early retirement doesn't have to be a pipe dream. It could become a reality through some diligent planning and dedication to your goals. These five steps may push you along the way:

Step 1: Plan on spending less. Don't give up if retirement planning calculators show you'll need much more than what you believe you conceivably can set aside. You can put a sizable dent in the "nut" you have to crack by significantly reducing your spending habits.

Remember that you won't be incurring commuting costs and a high-priced wardrobe for your job once you leave work. Furthermore, if you're hoping to travel around the world, you may be able to do it on a tighter budget than you thought. And simplifying your lifestyle—for example, maintaining just one car (or even none) instead of two—will provide savings.

Of course, life likely will throw you some curveballs, so be prepared for that, too. Build a cushion into your plan.

Step 2: Downsize your home. Part and parcel of the first step to early retirement is a reduction in housing costs. For most people, this is the single largest drain on savings. Do you really need that rambling colonial in the suburbs if your kids are grown and out of the house? This can be especially beneficial if the mortgage is paid off. You can sell the home at a sizable gain, move to a less expensive place, and pocket the difference.

Consider a retirement community if you're age 55 or older. If that's not the right fit, look for housing that's affordable but gives you the flexibility you want. For some early retirees, it's an apartment in a city with easy access to restaurants and stores.

Step 3: Secure adequate health insurance. One of those curveballs could be your health. Even if you're in reasonably good shape as you enter early retirement, there's no way to predict what will follow. And your retirement could last longer than you initially expected.

Medicare kicks in at age 65 and you can supplement it with another policy. Prior to that age, the Affordable Care Act (ACA) has made it easier for some people to retire early, but the future of the ACA, as currently written, is in jeopardy. Conduct in-depth research to find health insurance policies that provide the necessary coverage at a cost you can handle. Depending on your situation, you might opt for a high-deductible plan. In any event, you can't go without health insurance!

If you expect to be traveling extensively, include this in your health insurance considerations. For instance, you may decide to obtain temporary travel

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Fiduciary Rule May Be Uncertain, But Our Role Is Clear

On February 3, 2017, President Trump issued an executive order on the new "fiduciary rule," authorizing further review and delay. It was scheduled to take effect on April 10, 2017.

The new rule would require financial advisors to uphold "fiduciary standards" when they are compensated for investment advice related to retirement accounts such as 401(k)s and IRAs. This means that advisors and firms would have to put the best interest of clients before their own.

Most stock brokers and insurance agents (who call themselves "financial advisors") would be prohibited from serving as advisors, because they receive commissions on the investments and products they recommend. They have a vested interest in selling costly securities and products.

While the fate of the rule is uncertain, it's good to know that we remain fiduciaries at Day & Ennis. We have no vested interest in selling you anything. People seek us because we give unbiased independent financial advice. Please give us a call if you have any questions about the rule or if we can help you with your financial plans.

Sincerely,
Day & Ennis, LLC

What Would Estate Tax Repeal Mean?

If President Trump and the Republican-led Congress get their way, the federal estate tax will be repealed. This could be good news for wealthy families that were facing a hefty estate tax bill in the near future. However, if certain changes accompanying the estate tax repeal also are enacted, other families may encounter an unpleasant income tax surprise.

Normally, an unlimited marital deduction shields transfers between spouses from federal estate and gift taxes, while a separate, finite exemption shelters gifts and bequests to other beneficiaries, including your children. The current exempt amount, which is indexed for inflation, is $5.49 million in 2017. The top tax rate on additional amounts is 40%.

In addition, heirs can benefit from a "step-up" in basis when they inherit investment assets—they're valued on the date of death rather than what was paid for them. So if someone acquired securities for $1 million and it was worth $5 million when that person died, the beneficiary's adjusted basis for income tax purposes is $5 million. The $4 million of appreciation that occurred before the death remains untaxed forever.

Assuming the estate tax is repealed effective for 2017, there would be no more federal estate tax worries for families inheriting an estate worth more than $5.49 million. However, under the latest proposals, Congress also would eliminate the step-up in basis (with an $10 million exception for farms and small business interests), and that could result in income tax problems for many families.

Returning to the example of giving $5 million of assets with a basis of $1 million to non-spouse beneficiaries, no estate tax would be due under the current law, thanks to the $5.49 million exemption. But under the proposed reforms (and barring any exemptions), if beneficiaries carry over the basis on those shares and sell the assets for $5 million, they will have a taxable gain of $4 million, subject to the prevailing tax rates for capital gains.

Of course, this is just a hypothetical example and other rules (e.g., a $1 million exemption) could apply, but the potential for major income tax liability is real. Also, state estate taxes may still be a factor. Once it becomes clear whether estate tax reform will be enacted, and what shape it will take, meet with your financial and tax advisors to map out a strategy. ●

New Opportunity For Stand-Alone HRAs

The 21st Century Cures Act, signed into law in the waning days of the Obama administration, provides funding for cutting-edge medical research and other improvements in the health care system. But it also allows small businesses to offer stand-alone "health reimbursement arrangements" (HRAs) to their employees.

An HRA provides special accounts for health care expenses, much like health care flexible spending accounts (FSAs). Unlike FSAs, however, HRAs are funded solely by employer contributions, rather than by payroll deductions from employees. Contributions are exempt from taxes, as are distributions for qualifying health care expenses.

Funds in an HRA may be used for co-payments, deductibles, and co-insurance, as well as for regular doctor and hospital visits. Frequently, an employer will pair an HRA with a high-deductible health insurance plan.

The rules for HRAs were complicated by the 2010 Affordable Care Act (ACA), which now could be changed substantially or repealed. Under the ACA, employers with 50 or more full-time or full-time equivalent employees (FTEs) must provide minimal essential health insurance to employees or face substantial penalties. Other ACA provisions involving limits and restrictions for "group health plans" effectively barred stand-alone HRAs for smaller businesses.

But now the Cures Act authorizes the use of stand-alone HRAs if five key requirements are met:

1. The plan is maintained by an "eligible employer" that has fewer than 50 employees. The employer can't offer another group health plan to any of its employees.

2. The plan is funded solely by employer contributions. Salary reductions aren't permitted.

3. The HRA is available to all

Take 7 Financial Steps In A Second Marriage

Marrying again after divorce or the death of a spouse may offer great personal benefits. But it also can lead to financial complications, especially if you have children from your first time around.

However, the blessed event doesn't have to be ruined by family squabbles. Discussing matters openly and deploying a range of estate planning strategies can help you develop a plan that meets your needs. Here are seven steps to help move you along:

1. Open the lines of communication. Before you tie the knot, be up-front about your concerns and preferences. Talk to each other about your intentions and how you expect to pass along assets to other family members, including any children and grandchildren. You might find it helpful to include an impartial person, such as your financial advisor, to "broker" the talks.

Consider this checklist of points to discuss:

- Existing financial obligations (for example, a promise to pay for a grandchild's education);
- Plans for future support and funding for retirement;
- Guardianship of any minor children; and
- A prenuptial agreement protecting your personal interests.

2. Conduct an inventory. Now is a good time to compile a list of your assets. This may include: stocks, bonds, mutual funds, and other investments; amounts that you've transferred to trusts; retirement plan and IRA funds; and proceeds that will be available from life insurance policies. Also, review any agreements made during the course of your first marriage. For instance, if you were required to name your then-spouse as the beneficiary of your retirement plan accounts, you may have less flexibility than you thought.

3. Consider the variables. Not everything is cut and dried. It's up to you to decide which assets, if any, you will comingle with your new spouse's. Keep in mind, though, that the laws of your state also may come into play. For instance, in community property states, the law presumes that assets will be owned jointly. But most states mandate "equitable distribution," calling for property to be distributed fairly, but not necessarily equally. Also, you'll want to factor in your age and health status, as well as those of your spouse.

4. Pay attention to titles. The way that property is titled, both prior to marriage and after, can have a profound effect. For example, setting up accounts as joint tenants with rights of survivorship (JTWROS) will make it clear that assets will go directly to the other named person, such as your spouse, when you die. But if a title names you as the sole legal owner of assets, they'll pass to your estate and not directly to your spouse.

5. Name your beneficiaries. If you're entering a new marriage you'll likely need to amend your existing will or replace it entirely. In particular, it's important to review the beneficiaries you've named for various assets in the will. Also, take a look at the beneficiary designations in documents for all of your retirement plans, IRAs, and life insurance policies. Those beneficiary designations take precedence over whatever may be in your will.

6. Show some trust. Your estate plan may include one or more trusts, which can be useful in transferring wealth to children of an earlier marriage while imposing some constraints on the recipients. Here are a few possibilities:

Bypass trust: This vehicle could be designed to provide income to a surviving spouse, with the remainder of trust assets going to other designated family members.

Q-tip trust: With a qualified terminable interest property (Q-tip) trust, a surviving spouse may receive income, but not principal, when the owner dies, with children receiving the remainder from the surviving spouse's estate.

Spendthrift trust: As the name implies, this trust can be helpful in restricting beneficiaries' access to assets until they reach a specified age or meet other requirements.

7. Don't forget about taxes. Last, but not least, it makes sense for both of you to consider how to minimize estate tax on the federal and state levels. That likely means use of the generous estate tax exemption ($5.49 million in 2017) as well as the "portability" provision allowing a surviving spouse's estate to benefit from the unused portion of a deceased spouse's exemption. Such provisions could be included in trust documents or other estate planning devices.

The second time around, it's more important than ever to seek expert assistance from your estate planning advisors. Don't hesitate to contact us. ●

eligible employees under the same basic terms. But certain workers may be excluded, including those with less than 90 days of service and part-time and seasonal employees. Also, reimbursements may vary in different geographic areas, within certain parameters.

4. The maximum annual contribution is $4,950 per year for an HRA covering only the employee and $10,000 for an HRA covering a worker's family. These amounts will be indexed for inflation.

5. The plan must provide payment or reimbursement for medical care expenses, including premiums for individual health insurance. Employees must provide documentation of services to receive payments.

The new law also coordinates these new rules for HRAs with other parts of the ACA. For instance, it prevents employees from claiming a tax credit for a health insurance premium in an exchange for any month in which they are provided HRAs with affordable coverage. Finally, the law specifies reporting and notification requirements for employers. ●

IRS Adjusts Retirement Plan Limits

Every year, the Internal Revenue Service (IRS) adjusts the amounts you can contribute to employer retirement plans and IRAs, based on inflation indexing. For 2017, the limits are slightly higher in some cases, while others stay the same. Here's a rundown on the key limits for participants:

Limits that will change for 2017

Defined contribution plans – The limit on total annual additions to 401(k), profit-sharing plans, and other such vehicles is increased to $54,000 for 2017 (up from $53,000).

Defined benefit plans – The maximum size of the annual benefit for traditional pensions and related retirement plans increases to $215,000 for 2017 (up from $210,000).

Annual compensation – The maximum amount of compensation that can be taken into account for most employer retirement plan calculations increases to $270,000 (up from $265,000).

Deductible IRA contributions – Phase-outs in 2017 for deductible IRA contributions will reflect the following changes:

- For single filers participating in an employer plan, the phase-out range increases to between $62,000 and $72,000 for 2017 (up from $61,000 and $71,000).
- For an IRA contributor filing jointly who participates in an employer plan, the phase-out range increases to between $99,000 and $119,000 (up from $98,000 through $118,000).
- For an IRA contributor filing jointly whose spouse participates in an employer plan, the phase-out range increases to between $186,000 and $196,000 for 2017 (up from a range of $184,000 to $194,000).

Roth IRA contributions – For single filers, phase-outs for the ability to make contributions increase to a range of from $118,000 to $133,000 for 2017 (up from $117,000 to $132,000). For joint filers, the phase-out range increases to between $186,000 and $196,000 for 2017 (up from $184,000 to $194,000 for 2016).

Limits that won't change in 2017

Elective deferrals – The deferral limit for those who participate in a 401(k), 403(b), most 457 plans, and the government's thrift savings plan remains at $18,000 for 2017. The limit for catch-up contributions to these plans for participants age 50 or over remains at $6,000.

SIMPLE plan deferrals – The limit on earnings deferrals to a SIMPLE plan remains at $12,500 for 2017. The limit for catch-up contributions for participants age 50 or over holds steady at $3,000.

Highly compensated employees – The dollar limit used to define highly compensated employees (HCEs) for employer plans stays at $120,000 for 2017.

IRA and Roth contributions – The maximum amount you can contribute to traditional and Roth IRAs stays at $5,500 for 2017. The $1,000 limit on catch-up contributions for participants 50 or over isn't subject to inflation indexing. ●

An Early Retirement Dream

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insurance, based on your destinations.

Step 4: Maximize your investments. Saving more for retirement—and that includes how you invest your funds—may enable you to call it quits early.

Of course, everyone's situation is different. Put together a diversified portfolio that is aimed at your objectives while taking into account your personal risk tolerance. Frequently, your assets will involve a mix of stocks, bonds, mutual funds, and perhaps other investments such as real estate and exchange-traded funds (ETFs).

International investments, too, may be part of that mix, though such holdings bring special risks, including the potential that economic and political turmoil and currency fluctuations could affect the value of your investments.

Step 5: Count on taxes. Finally, don't dismiss taxes as a factor. Even if tax rates fall soon, they could rise again, and taxes always will erode your retirement savings to some degree. One strategy that may help is to move to a state with lower state tax rates.

Cashing in stocks during your retirement will result in capital gains, currently taxed at favorable rates, while distributions from retirement plans such as 401(k)s and traditional IRAs are taxed at higher rates for ordinary income. Also, payouts you take before age 59½ may be hit with a 10% tax penalty. (Roth IRA distributions can be tax-free, but you still may be penalized if you withdraw funds too early.) Remember that you must begin taking required minimum distributions (RMDs) from most retirement plans and traditional IRAs after age 70½. In addition, Social Security benefits may be subject to tax.

These and other steps can help take you closer to your dream of early retirement. ●

Income-generating investments such as stocks, bonds, mutual funds, ETFs and real estate may offer attractive yields and other benefits, but they are complex investments with unique tax characteristics and significant risks. As a result, these investments may not be suitable for all clients. It is important to understand all the features, characteristics and risks of any particular investment offering under consideration. Consult with a tax advisor before investing in such income-generating investments.

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