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Settling an Estate: Executors Inherit Important Title

Being named as the executor of a family member's estate is generally an honor. It means that person has been chosen to handle the financial affairs of the deceased individual and is trusted to help carry out his or her wishes.

Settling an estate, however, can be a difficult and time-consuming job that could take several months to more than a year to complete. Each state has specific laws detailing an executor's responsibilities and timetables for the performance of certain duties.

If you are asked to serve as an executor, you may want to do some research regarding the legal requirements, the complexity of the particular estate, and the potential time commitment. You should also consider seeking the counsel of experienced legal and tax advisors.

Documents and details

A thoughtfully crafted estate plan with up-to-date documents tends to make the job easier for whoever fills this important position. If the deceased created a letter of instruction, it should include much of the information needed to close out an estate, such as a list of documents and their locations, contacts for legal and financial professionals, a list of bills and creditors, login information for important online sites, and final wishes for burial or cremation and funeral or memorial services.

An executor is responsible for communicating with financial institutions, beneficiaries, government agencies, employers, and service providers. You may be asked for a copy of the will or court-certified documentation that proves you are authorized to conduct business on behalf of the estate. Here are some of the specific duties that often fall on the executor.

Arrange for funeral and burial costs to be paid from the estate. Collect multiple copies of the death certificate from the funeral home or coroner. They may be needed to fulfill various official obligations, such as presenting the will to the court for probate, claiming life insurance proceeds, reporting the death to government agencies, and transferring ownership of financial accounts or property to the beneficiaries.

Notify agencies such as Social Security and the Veterans Administration as soon as possible. Federal benefits received after the date of death must be returned. You should also file a final income tax return with the IRS, as well as estate and gift tax returns (if applicable).

Protect assets while the estate is being closed out. This might involve tasks such as securing a vacant property; paying the mortgage, utility, and maintenance costs; changing the name of the insured on home and auto policies to the estate; and tracking investments.

Inventory, appraise, and liquidate valuable property. You may need to sort through a lifetime's worth of personal belongings and list a home for sale.

Pay any debts or taxes. Medical bills, credit card debt, and taxes due should be paid out of the estate. The executor and/or heirs are not personally responsible for the debts of the deceased that exceed the value of the estate.

Distribute remaining assets according to the estate documents. Trust assets can typically be disbursed right away and without court approval. With a will, you typically must wait until the end of the probate process.

The executor has a fiduciary duty — that is, a heightened responsibility to be honest, impartial, and financially responsible. This means you could be held liable if estate funds are mismanaged and the beneficiaries suffer losses.

If for any reason you are not willing or able to perform the executor's duties, you have a right to refuse the position. If no alternate is named in the will, an administrator will be appointed by the courts.

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The Standard Deduction and Itemized Deductions After Tax Reform

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The Standard Deduction and Itemized Deductions After Tax Reform

The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. After 2025, these provisions revert to pre-2018 law.

The Tax Cut and Jobs Act substantially increased the standard deduction amounts for 2018 to 2025. It also eliminated or restricted many itemized deductions for those years. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Standard deduction

The standard deduction amounts are substantially increased in 2018 (and adjusted for inflation in future years).

	2017	2018
Single	$6,350	$12,000
Head of household	$9,350	$18,000
Married filing jointly	$12,700	$24,000
Married filing separately	$6,350	$12,000

Note: *The additional standard deduction amount for the blind or aged (age 65 or older) in 2018 is $1,600 (up from $1,550 in 2017) for single/head of household or $1,300 (up from $1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Itemized deductions

Many itemized deductions have been eliminated or restricted. The overall limitation on itemized deductions based on the amount of adjusted gross income (AGI) was eliminated. Here are some specific changes.

Medical expenses: The AGI threshold for deducting unreimbursed medical expenses was reduced from 10% to 7.5% for 2017 and 2018, after which it returns to 10%. This same threshold applies for alternative minimum tax purposes.

State and local taxes: Individuals are able to claim an itemized deduction of up to only $10,000 ($5,000 for married filing separately) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income taxes). Previously, there were no dollar limits.

Home mortgage interest: Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married filing separately) of qualifying mortgage debt. For mortgage debt incurred before December 16, 2017, the prior $1,000,000 ($500,000 for married filing separately) limit will continue to apply. A deduction is no longer allowed for interest on home equity indebtedness. Home equity used to substantially improve your home is not treated as home equity indebtedness and can still qualify for the interest deduction.

Charitable gifts: The top percentage limit for deducting charitable contributions is increased from 50% of AGI to 60% of AGI for certain cash gifts.

Casualty and theft losses: The deduction for personal casualty and theft losses is eliminated, except for casualty losses attributable to a federally declared disaster.

Miscellaneous itemized deductions: Previously deductible miscellaneous expenses subject to the 2% floor, including tax preparation expenses and unreimbursed employee business expenses, are no longer deductible.

Alternative minimum tax (AMT)

The standard deduction is not available for AMT purposes. Nor is the itemized deduction for state and local taxes available for AMT purposes. If you are subject to the alternative minimum tax, it may be useful to itemize deductions even if itemized deductions are less than the standard deduction amount.

Year-end tax planning

Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

With the substantially higher standard deduction amounts and the changes to itemized deductions, it may be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction. Thus, while this might seem counterintuitive from a nontax perspective, it may be useful to make charitable gifts in years in which you have high medical expenses or casualty losses.

In this environment, qualified charitable distributions (QCDs) may be even more useful as a way to make charitable gifts without itemizing deductions. QCDs are distributions made directly from an IRA to a qualified charity. Such distributions may be excluded from income and count toward satisfying any required minimum distributions (RMDs) you would otherwise have to receive from your IRA. Individuals age 70½ and older can make up to $100,000 in QCDs per year.

Four Points to Consider When Setting a Retirement Income Goal

Although there are certainly no guarantees that any future plans will pan out as expected, taking time now to assess these four points can help you position yourself to pursue a comfortable retirement.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

No matter what your age or stage of life, targeting a goal for monthly retirement income can seem like a daunting task. Following are four considerations to help you get started.

1. When do you plan to retire?

The first question to ponder is your anticipated retirement age. Many people base their target retirement date on when they're eligible for full Social Security benefits, and for today's workers, "full retirement age" ranges from 66 to 67. Other folks hope to retire early, while still others want to work as long as possible. As you think about your anticipated retirement date, keep the following points in mind.

If you plan to retire early, you'll need significant resources to provide income for potentially decades. You can typically tap your employer-sponsored retirement plan without penalty as early as age 55 if you terminate your employment, but if you try to access IRA assets prior to age 59½, you will be subject to a 10% early withdrawal penalty, unless an exception applies. In both cases, regular income taxes will apply. Also consider that you generally won't be eligible for Medicare until age 65, so unless you are one of the lucky few who have employer-sponsored retiree medical benefits, health insurance will have to be funded out of pocket.

If you plan to delay retirement, consider that unexpected circumstances could throw a wrench in that plan. In its 2017 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that current workers plan to retire at a median age of 65, while current retirees reported a median retirement age of 62. And although four in 10 workers plan to work until age 70 or later, just 4% of retirees said this was the case. Why the difference? Nearly half of retirees said they retired earlier than planned, with many reporting unexpected challenges, including their own health concerns or those of a family member.[1]

2. How long will your retirement last?

The second important consideration, which builds on the first, is how long your retirement might last. Projected life spans have been lengthening in recent decades due in part to advancements in medical care and general health awareness. According to the National Center for Health Statistics (NCHS), a 65-year-old woman can expect to live 20.6 more years, while a 65-year-old man can expect to live 18 more years.[2] To estimate your own life expectancy based on your current age and health profile, visit the online longevity calculator created by the Society of Actuaries and American Academy of Actuaries at longevityillustrator.org.

3. What will your expenses look like?

The third consideration is how much you will need to meet your basic living expenses. Although your housing, commuting, and other work-related expenses may decrease in retirement, other costs — including health care — will likely rise.

In 2017, EBRI calculated that Medicare recipients with median prescription drug expenses may need about $265,000 just to pay for basic medical expenses in retirement.[3] And that doesn't even include the potential for long-term care. According to the Department of Health and Human Services (HHS), 52% of people over age 65 will need some form of long-term care during their lifetimes, which could add another $69,000, on average, to the out-of-pocket costs.[4]

In addition, remember to account for the impact inflation will have on your expenses over time. For example, say you need an estimated $50,000 to cover basic needs in your first year of retirement. Ten years later, at a 3% annual inflation rate (the approximate historical average as measured by the consumer price index), you would need more than $67,000 to cover those same costs.

4. How much can you accumulate?

This is perhaps the most important consideration: How much can you *realistically* accumulate between now and retirement based on your current savings rate, timeframe, investment portfolio, and lifestyle? Once you project your total accumulation amount based on current circumstances, you can gauge whether you're on track or falling short. And if you appear to be falling short, you can begin to think about how to refine your strategy, either by altering your plans for retirement (e.g., delaying retirement by a few years), saving more, or investing more aggressively.

[1] EBRI Issue Brief, March 21, 2017

[2] NCHS Issue Brief, Number 293, December 2017

[3] EBRI Notes, January 31, 2017

[4] HHS, "Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief," February 2016

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What are some tips for creating a budget and sticking to it?

It's a common problem for many individuals — wondering exactly where your paycheck goes each month. After paying expenses, such as your mortgage, utilities, and credit card bills, you may find little left to put toward anything else.

Creating a budget is the first key to successfully manage your finances. Knowing exactly how you are spending your money each month can set you on a more clear path to pursue your financial goals. If you become sidetracked when it comes to your finances, consider these tips for creating a budget and staying on the right path.

Examine your financial goals. Start out by making a list of your short-term goals (e.g., new car, vacation) and long-term goals (e.g, your child's college education, retirement) and prioritize them. Consider how much you will need to save and how long it will take to reach each goal.

Identify your current monthly income and expenses. Add up all of your income. In addition to your regular salary and wages, be sure to include other types of income, such as dividends, interest, and child support. Next, add up all of your expenses. Sometimes it helps to divide expenses into two categories: fixed (e.g., housing, food, transportation) and discretionary (e.g., entertainment, vacations). Don't forget to factor in any financial goals you would like to pursue.

Evaluate your budget. Once you've added your income and expenses, compare the two totals. Ideally, you should be spending less than you earn. If this is the case, you're on the right track, and you'll need to look at how well you use your extra income toward achieving your financial goals. On the other hand, if you are spending more than you earn, you should make some adjustments to your budget. Look for ways to increase your income or reduce your expenses, or both.

Monitor your budget. Finally, you should monitor your budget periodically and make changes when necessary. Keep in mind that any budget that is too rigid is likely to fail. Keep your budget flexible as your changing circumstances demand.

Is buying an extended warranty worth it?

If you've ever purchased an electronic device, a major appliance, or a vehicle, chances are you've been asked if you also wanted to purchase an extended warranty or service contract. Extended warranties are offered by retailers for an additional cost to customers and provide repair or product maintenance for a specific period of time.

Selling extended warranties may be quite profitable for retailers. It's an easy way for them to make money because they get to keep a percentage of what they charge for the service contracts.

Before you purchase an extended warranty, consider the following questions.

- Does your purchase come with a manufacturer's warranty? Many products already come with a warranty from the manufacturer that covers replacement or repairs within a certain time period. Even if the warranty period is short, manufacturers may offer low-cost repair or replacement of items if they are known to be defective, although there are no guarantees unless state or federal laws apply.
- Will the manufacturer's warranty overlap with the extended warranty? You may want to forgo purchasing an extended warranty if it will result in duplicate coverage.
- If you're using a credit card, does your card issuer automatically extend the manufacturer's warranty? Some double the warranty period or extend it up to a year for products purchased using the card.
- Do you plan on purchasing your product from a well-known manufacturer? Research online product reviews to gauge reliability and the potential for problems to occur before you spring for an extended warranty.
- If the product you've purchased needs repairs, will they be costly? You should weigh the cost of the extended warranty against what it will cost to pay for the repairs out of pocket.

If you decide to purchase an extended warranty, read the terms carefully. Extended warranties contain coverage exclusions and limitations. In addition, some extended warranties may require you to pay additional charges to have a covered product serviced (e.g., deductibles, fees, and shipping costs).

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