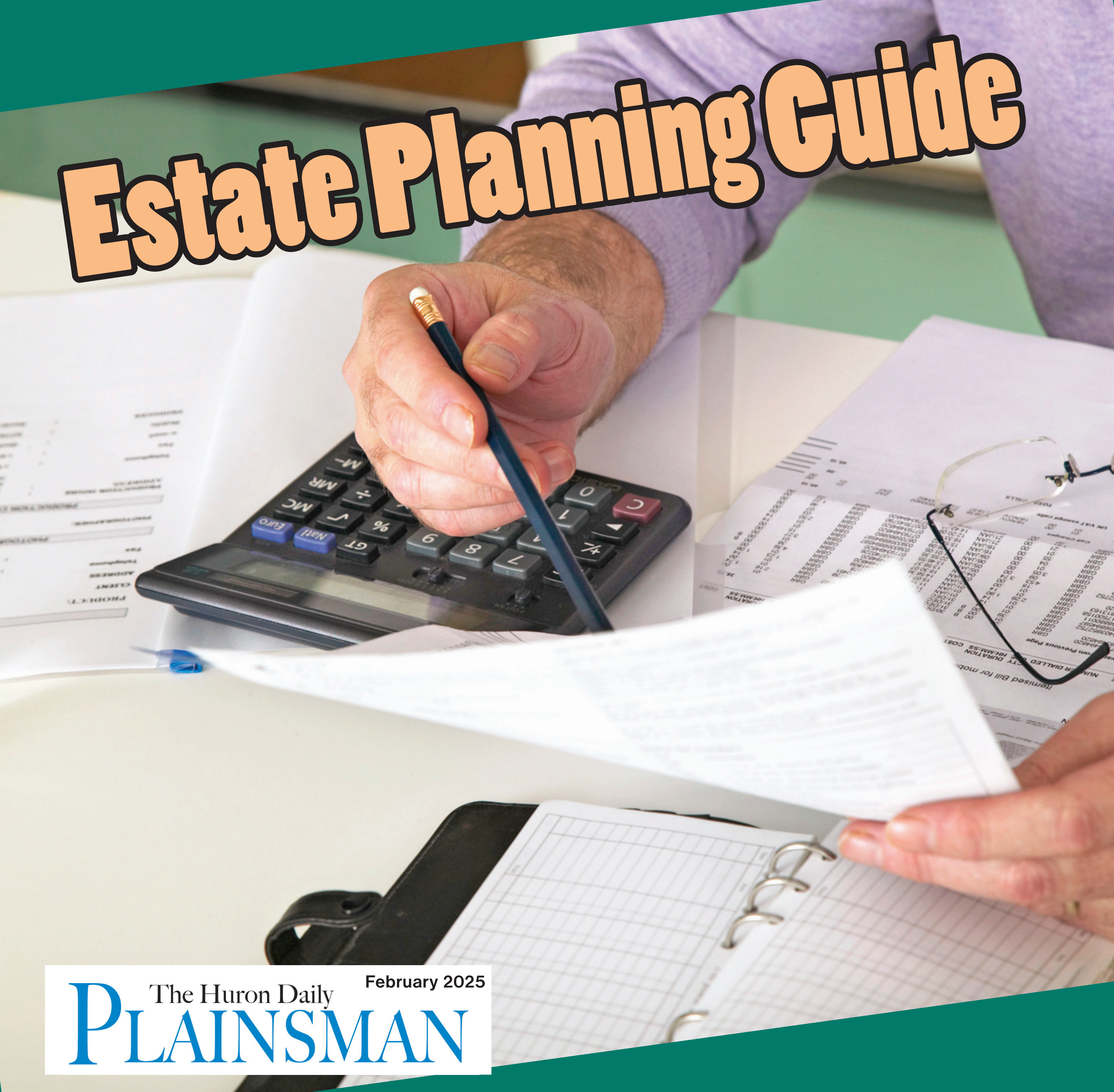
Estate Planning Guide



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Types Of Retirement Accounts

The ability to retire with financial security is a goal for millions of people across the globe. Though people may stop working in retirement, many of their existing bills, and even some new ones, will still need to be paid. Retirement is often imagined as a time of unbridled financial freedom, but that's only possible when individuals, including young professionals, prioritize planning for the day when they call it quits.

Retirement accounts and plans are a popular way to save for life after working. Individuals have various retirement plan options at their disposal, and each is unique in its own way.

Individual Retirement Account (IRA)

An IRA is a tax-advantaged way to save for retirement. Anyone with earned income can open an IRA. Money deposited into an IRA cannot be withdrawn prior to account holders reaching 59.5 years of age without incurring a steep tax penalty of 10 percent. There are limits to how much individuals can deposit into an IRA. The Internal Revenue Service notes that the deposit limit for all IRA accounts in 2021 was $6,000 ($7,000 for account holders age 50 and over). In addition, there are different types of IRAs, including traditional IRAs, Roth IRAs, Payroll Deduction IRAs, and SIMPLE IRAs. Each has its rules regarding taxes, eligibility and withdrawals, and individuals are urged to discuss which type of IRA is best for them with a financial professional.

401(k)

A 401(k) is another tax-advantaged retirement account typically offered through an employer, though self-employed individuals can enroll in a Solo 401(k) plan. When enrolled in a 401(k) plan, employees will have a portion of each paycheck direct deposited into a long-term investment account. Contributions to a 401(k) are made pre-tax, which saves account holders a considerable sum of money so long as they continue to make contributions. One significant advantage to 401(k) plans is that many employers will match contributions up to a certain percentage. For example, some may match up to 2 percent, so employees who contribute 2 percent or more will actually be depositing no less than 4 percent of their income each week into their 401(k) accounts. Perhaps most beneficial is that employer matches do not count toward the annual 401(k) contribution limits, which the IRS notes were $19,500 in 2021.

Simplified Employee Pension (SEP) Plan

An SEP plan is typically established by a small business owner or self-employed individual. However, small business owners can set them up for their employees as well. Contributions to an SEP will reduce taxable income, and the money will grow tax-deferred. Individuals enrolled in an SEP will only pay taxes on the money upon withdrawal. One of the advantages to an SEP is it has significantly higher contribution limits, which the IRS notes were $58,000 or 25 percent of the employee's compensation, whichever was lower, in 2021. However, SEPs are employer contribution only, so they rely a lot on employers' available cash.

No retirement accounts are the same. Individuals are urged to conduct their own research and choose the plan that best suits their needs.

Tips to find the right assisted living facility

Millions of seniors across the globe benefit from residing in assisted living facilities. Such facilities feature well-trained and highly skilled staffs that can help aging men and women live full lives even if they're dealing with cognitive and/or mobility issues.

The benefits of assisted living facilities are undeniable, but certain spaces may be a better fit than others depending on an individual's unique needs. Choosing a facility may be up to the individual who will ultimately move in, but such decisions also have a tendency to be family affairs. Adult children of aging men and women often help their parents find a facility, and the following are some strategies families can employ to find the right space for adults who need some help with the tasks of everyday life.

- Get some word-of-mouth recommendations. In its 2023 Local Care Survey, the National Council on Aging found that 63 percent of respondents utilized family and friends as a primary source of information on senior living options. Though it's important that families recognize seniors have their own unique needs and certain facilities may be more experienced at handling certain conditions than others, word-of-mouth recommendations can still yield valuable insight into what life is like at a given facility. And such intel also can provide useful insight as to how well a facility is maintained and how much it prioritizes communication with family members.
- Decide where to look. Proximity to family is an important consideration when choosing an assisted living facility. The NCOA notes that family members willing to drive 20 to 30 minutes outside of their immediate area may have more options to choose from than those who want something closer to home. When considering proximity, each family member involved in the decision should give thought to how likely they are to visit their loved one if the facility is a significant distance away from home. Assisted living facilities often go to great lengths to ensure residents socialize amongst each other, but seniors may feel there's no substitute for visits from their own family members. So a facility that's within a short drive of a resident's relatives might make the best fit if all other boxes are checked.
- Exercise due diligence. It's best to visit as many facilities as possible before making a final decision. Such diligence can provide insight that can be highly valuable to any family, but especially those who have never before had a relative move into an assisted living facility. Families can visit multiple facilities even in urgent situations when seniors need immediate care. In such situations, enlist various adult family members to visit one or two facilities apiece, asking the same questions and taking notes at each one. Notes can then be compared during group discussions. This approach is efficient and ensures as many options as possible are given consideration before a final decision must be made.
- Work with a loved one's physician. If a loved one has a unique condition like dementia or greatly limited mobility, then his or her physician should be consulted. For example, physicians may know of a facility or facilities that excel in handling residents with dementia, and that insight can increase the chances a loved one gets the level of care he or she needs and deserves.

Assisted living facilities provide an invaluable service. Finding the right facility for oneself or a family member can be made simpler with various strategies.

Funeral pre-planning with a professional eases anxiety

The death of a loved is difficult to confront. Emotions are elevated and grief is prominent. which can make it hard to make important decisions. Quite often several people need to come together to make decisions necessary for a family member's funeral arrangements. There also is a financial component to consider.

According to Lincoln Heritage Life Insurance Company, the average funeral costs between $7,000 and $12,000, which may or may not include viewing, burial, transport, casket, and other fees. Surviving family members responsible for planning a funeral may be asked to contribute a portion of these expenses if other arrangements have not already been made, which can exacerbate stressful feelings during an already difficult time.

Funeral pre-planning is a good way for individuals to make a difficult time a little more manageable for their survivors. Funeral homes frequently work hand-in-hand with individuals and families to customize pre-planning packages and facilitate the process. Here's a rundown of pre-planning as individuals consider their options.

Explore your options

Pre-planning a funeral enables people to consider all of the options without the time constraints of making funeral arrangements directly after the passing of a loved one. A knowledgeable staff member at a funeral home, can explain the offerings and answer any questions.

Straightforward process

Unless an individual has planned a funeral in the past, there could be a lot of unknowns. Funeral homes handle these events every day and can guide families through the intricacies of the process with ease. Most have pre-planning kits that include all of the essentials of the process, such as choosing caskets, deciding on prayer cards and designing floral arrangements.

Avoid confrontations

Working directly with a professional also helps alleviate the burden on family members, who may not agree on arrangements or concur on what they believe would be a loved one's final wishes. When pre-planning a funeral, individuals can spell out in their own words exactly what they desire and even finance the funeral in advance.

Establish a payment plan

A funeral home staff member can go over the various ways to fund funeral expenses, and may work out a payment schedule to spread out the expense over a period of time. He or she also may explain how funeral prearrangement can be a way to "spend down" assets in a way that protects those monies from look-back periods when determining eligibility for certain assisted living or nursing facilities should that be required in the future.

Work with religious officials

Very often a funeral home is a conduit that facilitates all facets of the funeral process. They may reach out to a preferred house of worship to organize a mass or other religious service, and will also contact the cemetery and work with them to secure a plot and deed. This also alleviates pressure down the line on grieving family members who need time to mourn.

Pre-planning a funeral merits consideration. Working with a trusted funeral home removes much of the pressure during such difficult times.

Explaining The Concept Of “Good Debt”

Debt is a four-letter word, and in many instances, a high amount of debt is perilous. However, debt isn’t always a black mark on individuals’ financial résumés.

Consumers may have heard the term “good debt” at some point and wondered just why owing money to certain creditors is more desirable than owing to others. The debt help experts at Debt.org note that there’s a simple explanation for this distinction. Debt that increases an individual’s net worth or future value is considered “good debt,” while debts that do not positively affect net worth are considered “bad debt.”

So which types of debt qualify as good debt? The following are three types of debts that generally qualify as good debt.

1. Student loan debt: Student loan debt can be tricky, but it’s generally considered good debt. That’s because education has long been linked to a greater earning potential. Data from the U.S. Bureau of Labor Statistics indicates that individuals over 25 who were working full-time and only had a high school diploma had a median weekly income of just under $800. Individuals who had a bachelor’s degree had a median weekly income of more than $1,400. However, it’s important that individuals recognize that certain degrees do more for their earning potential than others. Taking on a high amount of student loan debt to earn a degree in a historically low-earning field could make it harder to make ends meet down the road. That won’t necessarily make the debt “bad” in the eyes of lenders, but it could force borrowers to wonder if they made the right decision.

2. Mortgage debt: Mortgage debt is perhaps the most undeniable source of good debt. Historically, the appreciation value of real estate has made home ownership a worthwhile goal, even if home buyers have to finance their home purchases with bank loans. Perhaps nothing has more successfully illustrated the value of home ownership in recent years more than the skyrocketing value of real estate during the pandemic. The real estate research firm CoreLogic noted that home prices across the United States increased by 18 percent between July 2020 and July 2021. Individuals who already owned their homes, including those who were a long way from paying off their mortgages, saw their equity rise considerably in that time period, even if they continued to make the same monthly payments they’d been making before the pandemic. Though home prices may never again rise that much in a given year, real estate historically has increased in value on a yearly basis. That certainly qualifies mortgage debt as “good debt.”

3. Business loans: A business loan may carry more risk than a mortgage loan, but it still can turn out to be very good debt if the business ultimately succeeds. However, that’s a big “if.” Data from the BLS indicates that 65 percent of new businesses fail within a decade of opening. Many small business owners use personal guarantees to secure business loans, meaning the debt is theirs should the business ultimately fail. But owning a successful business can be a great way to build personal wealth, which is why business loans can be considered good debt.

How To Account For A Rising Cost Of Living

Cost of living is a significant component of financial planning. The cost of living may dictate where people live and work, and a high cost of living can influence how individuals spend their free time.

As Canadians headed to the polls in late September, a survey from Abacus Data found that 38 percent felt reducing their cost of living was a key factor affecting their vote. Similarly, a 2020 survey from TD Ameritrade found that 47 percent of Americans feel that cost of living is the biggest threat to their financial security and long-term investments. It's worth noting that the survey was conducted prior to the pandemic. Since the onset of the pandemic, cost of living has increased considerably.

Though the fight against a rising cost of living can feel like an uphill battle, individuals can take steps to prepare for such increases.

Apply lessons learned during the pandemic. A recent Pew Research Center analysis of U.S. government and Eurostat data found that roughly 9.6 million workers in the United States lost their jobs in the first three quarters of 2020. That period coincides with the onset of the COVID-19 pandemic. When forced to confront sudden and unexpected job losses, millions of individuals learned how to get by on less income. Cost-saving measures adopted during the pandemic can be continued or reimplemented, helping individuals to combat higher energy costs and other rising expenses.

Look for a new job or fresh income streams. A rising cost of living is a concern for people from all walks of life, but it may be especially concerning for retirees or individuals with costs like childcare that can be hard to pare back. In such instances, individuals can look for new a job or fresh income streams. According to the Q3 2021 CNBC | Momentive Small Business Survey, 50 percent of small business owners say it's gotten harder to find qualified people to hire compared to a year ago. And nearly one-third of survey respondents indicate they have open roles they have not been able to fill for at least three months. Individuals can explore local employment opportunities in an effort to find a new, more lucrative job that can help them combat a rising cost of living. Others who want to remain in their jobs can look for part-time work to supplement their existing income.

Consider relocating. The pandemic forced many companies to transition from in office working to remote working overnight. That trial by fire could have lasting results. A 2020 survey of 317 Chief Financial Officers and leaders in the finance industry found that 74 percent will move at least 5 percent of their previously on-site workforce to permanently remote positions after the pandemic ends. The survey, conducted by Gartner, Inc., also found that nearly one-quarter of respondents will move at least 20 percent of their on-site workers to permanently remote positions. That could make it possible for millions of working professionals to relocate to regions with a lower cost of living than their current towns or cities.

The cost of living might be on the rise. But individuals can combat that increase in various ways.

How to get ready for in-home care services

Ensuring that aging loved ones can be as independent as possible while also safe and secure may require the services of a caregiver.

According to the Family Caregiver Alliance, on average, caregivers spend 13 days each month on tasks like shopping, food preparation, housekeeping, laundry, transportation, and administering medication. Many caregivers provide help with activities of daily living, whether they are informal caregivers (unpaid family) or formal caregivers (paid caregivers). Skilled nursing homes or assisted living facilities are options, and many families choose to rely on in-home care providers a few days a week or even for 24-hour-per-day care. Here's how to make the transition go more smoothly and prepare a home for the caregiver's arrival.

- Identify the main care space(s) Receiving care at home may necessitate moving the person to a different room or rooms. Ideally that space should be on the ground floor, easily accessible and close to a bathroom. If an in-home caregiver will be a live-in as well, he or she will need a room close to the individual's room.
- Gather important information that will be needed. Companions for Seniors suggests collecting important supplies, paperwork and information, such as contacts for doctors and other important people, and making them easily accessible. A caregiver may need access to healthcare directives and maybe even bills or other financial documents if the person will be helping with tasks of that sort.
- Label and organize the home. Consider labeling cupboards, drawers and storage containers so that caregivers can find things more easily. Also, this is a good time to clear out clutter and organize rooms even further.
- Stock the home. Purchase certain necessities, such as groceries, pet food and supplies, paper products, cleaning supplies, and whatever else is needed. Even if the caregiver agrees to do some shopping, supplementing can be a big help.
- Install safety gear in the home. Be sure that the home is safe to navigate for the senior as well as the caregiver. Remove tripping hazards like area rugs, and take out excess furniture that isn't serving an immediate purpose. Utilize mounted grab bars near the toilet and tub, lower the hot water heater temperature, purchase a shower chair, and ensure that walkers, scooters or canes are in good repair. Ask the caregiver if there is anything else that is needed in terms of home modifications.
- Consider a security system. Installation of cameras and alarms can make everyone in the home feel safer. Be sure the caregiver knows the placement of cameras and that they will be monitored for everyone's protection.

In-home care is a necessity for many aging adults. Certain steps are needed to prepare for the caregiver's arrival at home.

How to handle selling a home when moving into an assisted living facility

Families must make a number of important decisions when an aging relative decides the time is right to move into an assisted living facility. Such facilities help older individuals who are having troubling living independently. In addition to finding the right facility for a loved one, many families have to decide what to do with their aging loved one's home.

Aging individuals with companions such as a spouse or a live-in partner may not need to sell their house if that person will not be moving to the assisted living facility with them. However, many partners choose to move as well, and family members may need to sell their current home in order to pay for their loved one to stay at an assisted living facility. The senior care experts at Caring.com note that selling a home when a loved one decides to move into an assisted living facility can present some emotional aspects that will not necessarily be present when selling one's own home. In recognition of that and some additional difficulties associated with this unique situation, Caring.com offers the following tips to help families navigate the process as smoothly as possible.

- Consider assigning someone power of attorney. Individuals move into assisted living facilities for a number of reasons, so not everyone will do so because of diminishing cognitive abilities. However, Caring.com notes that selling the home of a loved one diagnosed with dementia can present unique challenges, as only a homeowner can transfer a home to a new owner. In such instances, someone may need to step in and assume power of attorney. Contact an elder law attorney to facilitate that process, if necessary. Such professionals also can provide insight into laws that can help families determine if it's best to sell the home or hold onto it if proceeds from a potential sale are not needed to pay for a facility. Arrange for power of attorney or even a guardianship prior to putting a home on the market.

- Discuss the situation and the sale. Aging individuals should be given ample time to process the idea of selling their homes before moving into an assisted living facility. Homeowners make untold sacrifices to buy and maintain their homes, so the decision to sell could elicit a range of emotions that aging individuals have a right to process before a "For Sale" sign is erected in the front yard. Caring.com recommends maintaining an open and honest dialogue about what can be achieved by selling the home and how their quality of life will benefit from moving to the assisted living facility.
- Sort through belongings. Caring.com notes the significance of allowing aging relatives to take special items with them into the assisted living facility. It will be impossible to take a lifetime's worth of possessions into such a facility, but sort through belongings with your aging family member and do everything possible to ensure that especially meaningful items can make the move. Remaining items can be donated, sold, given to younger loved ones, or discarded.
- Make sure all relevant parties remain in the loop. If one person accepts power of attorney or a similar level of responsibility, that person should ensure all interested parties remain in the loop about the sale process. Aging adults without diminished mental faculties should be routinely updated on the sale process. Keeping all interested parties in the loop reduces the risk of objections or other problems when the sale is set to go through.

Selling a home before moving into an assisted living facility presents some unique challenges that families can tackle together to ensure the process goes smoothly.

How To Build And Maintain A Strong Credit Rating

A strong financial history benefits consumers in myriad ways. Individuals with a history of paying their bills on time and avoiding significant consumer debt may be eligible for lower interest rates on big ticket items like homes and automobiles, potentially saving them tens of thousands of dollars over their lifetimes.

Though there are many ways to build a strong financial history, avoiding debt is always part of that equation. Credit scores are used to determine consumers' creditworthiness in the eyes of lenders and can affect eligibility for loans and the terms of those loans. Understanding credit scores and how to build and maintain a good credit rating can be vital to individuals' financial futures.

What is a credit score?

A credit score is a three-digit number between 300 and 850. The higher the number, the better an individual's credit rating is. The lower the number, the less creditworthy consumers become in the eyes of lenders.

What is the average credit score?

According to Equifax, which along with Experian and TransUnion is one of three credit reporting agencies, the average credit score in the United States in February 2021 was 698. Credit scores in Canada range from 300 to 900, and TransUnion reports the average score in Canada is around 650.

Is 698 or 650 good?

There's good news and bad news for Canadian and American consumers. The average rating in each country falls into the "Fair" (Canada) or "Good" (United States) range. However, consumers should aspire for scores that are higher than the average in both countries. A credit score above 720 is considered "Excellent," and the online financial resource Nerd Wallet reports that individuals with scores above 750 are in even better shape. Such individuals may have access to financial products or be eligible for loan terms that people with lower scores are not privy to. Making the most of those advantages can save consumers considerable sums of money over the course of their lifetimes and may help them build the type of generational wealth millions of people aspire to.

How can individuals achieve high credit scores?

The best way to build and maintain a high credit score is to understand the factors that influence that score. FICOTM is a data analytics firm that provides credit scoring services. Equifax notes that FICO scores consider five categories from individuals' credit histories:

- Payment history
- Amounts owed
- Length of credit history
- New credit accounts
- Mix of credit used

Each of these categories are weighted, and none bears more significance than payment history. Consumers who have demonstrated an ability to pay their bills on time and limit the amounts of debt they carry at any given moment are doing themselves a favor as they look to achieve and maintain a high credit rating.

Is all debt the same?

It's important that consumers distinguish consumer debt from student loan debt. Though each type of debt will be reported to the three major credit bureaus, student loan debts that are paid on time each month are generally considered "good debt" because they demonstrate an individual's ability to make installment payments on time over a significant length of time. That's what consumers will need to do if they hope to purchase a home in the future and finance it with a mortgage loan.

Unlike student loans being repaid in installments, consumer debts like credit card balances must be paid in full each month for consumers to avoid potentially hefty interest charges. Consumers who can't pay those balances in full each month are not demonstrating creditworthiness in the eyes of lenders, and that will have an adverse effect on their credit ratings.

Understanding credit and how to build and maintain a strong rating is vital to individuals' financial futures.

Pitfalls To Avoid Falling Into Debt

High consumer debt can compromise individuals' financial futures and have an adverse effect on their overall health. Debt has long been an issue that threatens individuals' well-being, but the good news is that certain debts seem to be on the decline.

According to the "Quarterly Report on Household Debt and Credit" that was released in May 2021 by the Federal Reserve Bank of New York, credit card balances were $157 billion lower by the end of the first quarter of 2021 than they had been at the end of 2019. Authors of the report credit that decline to paydowns by buyers and reduced consumption opportunities related to the pandemic.

Individuals who want to avoid debt can keep an eye open for these pitfalls.

Retail credit cards: Many retailers offer their own credit cards. Consumers may be enticed to sign up for such cards by the opportunity for instant, and often significant, savings. For example, a home improvement store may offer an immediate 25 percent discount to customers who sign up for a store credit card and use the card to make a purchase. As enticing as such savings can be, consumers should recognize that a recent study by CreditCards.com found that the average retail credit card APR is 25.9 percent. That's more than 6 percent higher than a general purpose credit card. Consumers who cannot pay balances in full each month could end up paying much more in interest if they use retail credit cards instead of general purpose cards.

Too many accounts: A 2019 study from the credit reporting agency Experian found that the average American has four credit cards. Though many consumers can effectively manage that many cards, the more cards an individual has, the easier it can be to lose track of spending. More cards also means a greater potential for more debt, as each card has its own limit that is unrelated to the limits on other cards.

Bonus hunting: Another pitfall to avoid is the temptation to use credit cards instead of cash in an effort to accumulate more travel miles or cash back bonuses. Consumers should aspire to use cash over credit whenever possible. Doing so ensures consumers are not spending money they don't have, which is one of the most common ways that individuals build significant consumer debt.

Failure to budget: A budget is the most effective way for individuals to gain control of their spending. That lesson seems to resonate more with young people than older men and women. A 2019 poll from Debt.com found that 74 percent of consumers between the ages of 23 and 38 use a budget to govern their spending, while only 67 percent of consumers between the ages of 39 and 54 use a budget. A failure to budget can increase the risk of spending impulsively and make it hard for consumers to see what's coming in and what's going out. That's a recipe for accumulating debt.

Avoiding certain pitfalls can help consumers avoid accumulating debt that can adversely affect their financial futures.

How To Make Early Retirement A Reality

Retirement is something millions of professionals aspire to. Retirement isn't necessarily when a person stops working forever. In fact, many retirees continue working as part-time volunteers and consultants.

Individuals have traditionally retired at the age of 65. However, the United States Social Security Administration indicates the normal retirement age (NRA) is the age at which retirement benefits are equal to the primary insurance amount. Primary insurance amount is based on a certain formula that includes year of birth. For most people born in 1960 and later, NRA is 67. Choosing to retire earlier may result in reduced benefits. But people who have financially planned for an early retirement may not view a decline in SSA benefits as a deterrent. If early retirement is a goal, these strategies could make it happen.

Use a retirement formula. The retirement planning resource New Retirement says that the basic formula for retirement is to accumulate 25 times your annual expenses and then plan to draw down no more than 4 percent of that value every year. For example, if you spend $50,000 per year, then you need to have $1,250,000 in savings to be able to retire. Budget to realize that savings goal. For those who have trouble calculating retirement figures, utilize this planner: www.newretirement.com/retirement/planner-signup/, which offers various retirement strategies.

Trim extra expenses. Reduce your spending to put more cash toward your future. Comb through credit card statements and look at various bills to see where you can save.

Reduce your biggest expenses. Food, transportation and housing comprise most people's largest expenditures. Instead of routinely buying new cars, look for certified pre-owned models, which are equally reliable. Carpool to save money on commutes. Reduce food expenses by shopping sales and making eating out a luxury and not a regular thing. Downsize your home, or rent out a room (or apartment if it is a two-family) to offset mortgage costs.

Consider a government gig or another pension-backed job. Pensions used to be part of many companies' benefit packages, but now they're harder to come by. Focus employment on companies or careers that offer retirement perks that go beyond what a 401(k) offers. A pension waiting for you may mean you don't have to do as much personal scrimping and saving for an early retirement.

With the right savings strategies, early retirement can be a reality.