THE PROSPERITY® CONSULTING GROUP, LLC
A WEALTH MANAGEMENT COMPANY

Winter 2017
www.prosperityconsult.com

THE WEALTH ADVISOR

New Year's Resolution: Review Your Estate Plan

Before you ring in another New Year, you may want to take time out of your busy schedule to observe another annual ritual: a review of your estate plan. If you're like most people, you probably stuck your will and other documents in a drawer or a safe deposit box as soon as you had them drawn up—and have rarely thought about them since. But changes in your personal circumstances or other events could mean it's time for an update.

It normally makes sense to review an estate plan at least once a year, just to make sure it's still meeting your main objectives.

Events That Could Spur Changes

What sort of changes might necessitate a change in your plan? Here are events that require alterations in your will or other estate documents.

- The birth or adoption of a child, grandchild, or great-grandchild;
- The death of a spouse or another family member;
- Marriage, divorce, or re-marriage;
- Illness or disability affecting you or another family member;
- A child or grandchild reaching the age of majority;
- A child or grandchild in need of education funding;
- The death of a guardian, executor, or trustee;
- Taking on or paying off a sizeable debt;
- Significant changes in the value of your assets;
- The sale of your residence or a second home;
- A significant promotion at work or a change in jobs;
- Retirement of you or your spouse;
- A large gift or inheritance;
- Sale of a business interest;
- Revisions in federal or state income tax or estate tax laws.

What You May Need To Do

If one or more of these events happens to you, there are several legal documents you may need to revisit.

Your will: As the centerpiece of your estate plan, your will dictates who gets which assets, and it also specifies a guardian for any minor children. Changes in your life since you had the will drafted could require significant alterations. (Note: If a will is kept in a bank safe, it may be sealed upon death. It's better to keep it in another safe.)

Often that will include revisions in the bequests for some of your heirs. For instance, you might expand the list of beneficiaries to include a newborn in the family or reduce it if you've had a falling-out with a relative. A divorce could necessitate a complete overhaul. Also, you might decide to switch

(Continued on page 4)

Higher Savings Limits For 2018

For 2018, the IRS made increases to some contribution limits. The beginning of the year is a good time to adjust what you are contributing and take advantage of the increases.

- The contribution limit for employees who participate in 401k, 403b, most 457 plans, and the federal government's Thrift Savings Plan is increased from $18,000 to $18,500.
- The contribution limit for IRAs remain the same at $5,500 for people under age 50 (or their earned income if less) and $6,500 for those age 50 or older. However, the IRS did increase the income levels used for determining eligibility to make deductible IRA contributions and contributions to a Roth. The IRA tax deduction is phased out for those who earn more than $63,000 ($101,000 for couples) in 2018, $1,000 more per person than last last year. Individuals who earn less than $135,000 ($199,000 for couples) are eligible to make Roth IRA contributions in 2018.
- HSA contribution limits for individuals with single medical coverage increased from $3,400 to $3,450 in 2018. The contribution limit for family coverage HSAs increased to $6,900 per year. If you're age 55 or older, you can make an additional $1,000 catch up contribution to your HSA.

The Prosperity Consulting Group, LLC

Watch Out For “Grandparent Scams”

It started innocently enough. Bill Frielander picked up the phone one recent morning at around 10 am. The person on the line said, “Hi Grandpa, it’s Jason.” To Bill, the voice sounded close enough to his grandson’s that he didn’t worry. The two chatted amiably a few minutes about family and school and nothing else in particular.

But then “Jason” dropped the hammer. He told Bill that he had been in a drunk driving accident in a neighboring state. Someone else had been injured and Jason needed $1,950 to keep his name out of the records. An attorney who was supposedly advising him could make it all go away for that fee. But Jason said he needed the money right away and that he was afraid to tell his parents. And he asked that Bill not tell anyone else about it because he was ashamed.

Bill was almost convinced and ready to ante up. But when the caller requested the money, there was something about his voice that made Bill pause. He had his wife call Jason’s personal cellphone from her own phone while Bill was still talking to the person asking for money. It turned out Jason was safely at home, hadn’t left the state in weeks and had not been in any accident. When Bill confronted the caller with this information, the imposter quickly hung up.

Bill was fortunate that he didn’t fall for this “grandparent scam,” but many others haven’t been as lucky. Scammers are able to find out personal information and sound enough like the people they are impersonating to be believable. They target elderly people and pull on their heartstrings with a story about needing cash in a hurry.

If you get a call that sounds suspicious, the worst thing you can do is to help out the caller by referring to other confidential information (for example, the names and locations of other family members). Here’s what the Federal Trade Commission (FTC) advises:

- Resist the urge to act immediately no matter how desperate the caller’s plight appears to be.
- Verify the person’s identity by asking questions a stranger couldn’t answer.
- Call a phone number for your grandchild that you know is legitimate.
- Check out the story with trusted family members or friends even if you’ve been told to “keep it a secret.”
- Don’t wire money, send a check or money order, or use an overnight delivery service or courier to get cash to your “grandchild.”
- Finally, the FTC advises consumers to report the incident at ftc.gov/complaint or call 877-FTC-HELP. ●

Still Time To Save $1 Million?

The Mazzellis are a typical couple. They married young, saved to buy a nice home, and helped put their children through college. But now, Victor and Debra, both 50 years old, have saved only $80,000 for retirement.

Supposing both spouses retire at age 66, when they will have reached full retirement age (FRA) for Social Security benefit purposes, that gives them just 16 years left to sock away enough for retirement. If the couple’s goal is to have $1 million saved by then, what will they need to do?

It will be difficult, but not impossible. Victor and Debra still can secure a comfortable retirement by following a few basic strategies:

- **Ramp up retirement plan contributions.** If Victor participates in a 401(k) plan he can increase his annual contributions, especially now that he and Debra no longer have to pay the kids’ college expenses. If he has been contributing 5% to the plan each year, Victor might double that to 10%, while Debra could do the same. Suppose that the Mazzellis boost their annual contributions from $10,000 to $20,000. If they earn a 7% annual return over the next 16 years, they’ll have $578,692 when they turn 66. (This figure is hypothetical and not indicative of any particular investment.).
- **Figure out Social Security benefits.** The Social Security Administration (SSA) provides a benefits calculator at www.ssa.gov/retire/estimator.html. It can help you estimate how much you’ll receive in retirement at FRA or if you wait longer to apply for benefits. Benefits increase by 8% for each year after FRA until age 70. For example, if Victor is entitled to $25,000 annually at FRA, that would increase to $33,000 if he waits until age 70 to start taking benefits. He’ll need to weigh that larger delayed benefit against the $100,000 (4

Seven Steps To Get Ready For Your Retirement

Are you among the millions of Baby Boomers counting down the days to retirement? Before you move into the next stage of life, it's important to get all of your financial ducks in line. To prepare yourself, consider these seven practical suggestions.

1. Rebuild the budget. You've probably been living on a monthly budget that takes into account your usual expenditures and income. But that's about to change in a big way. For example, once you stop working, your expenses for a business wardrobe and commuting will also end, but so will the regular paychecks you've been living on.

Come up with a new plan. Identify what you expect to have coming in and going out. Remember that you won't be able to rely on 401(k) deferrals to reduce your taxable income after retirement, but you should still keep saving.

2. Zone in on a homestead. You could be planning to pull up stakes and move to a smaller home, perhaps downsizing from the place where your kids grew up and you might hope to end up in a warmer climate or in a less expensive area (or both). Or perhaps you're contemplating a move to a retirement community. But this kind of upheaval isn't for everyone, and you just might decide to stay put. In any event, your choice will affect numerous other aspects of retirement.

Also, don't assume that you and your spouse share the same vision. If you haven't talked about it yet, bring up the subject before you call it quits.

3. Review your investments. As you head into the home stretch before retirement, compile a list all of the investment assets you own, including amounts parked in taxable accounts, bank savings or checking accounts, and tax-favored retirement accounts such as 401(k)s and IRAs. Consider whether you will want to keep retirement plan assets where they are when you retire or consolidate them into other accounts. Similarly, consider the best use of life insurance policies.

One thing to think about is whether to convert your traditional IRAs to a Roth IRA. Although the conversion is taxable, your future withdrawals from the account will normally be tax-free. Check with a professional to crunch the numbers.

4. Settle on Social Security. If you retire before full retirement age (FRA)—age 66 for most Baby Boomers—you'll receive less in monthly Social Security benefits. You can apply for benefits as early as age 62. Waiting until after you reach FRA, on the other hand, can result in bigger monthly benefits. The longer you wait, until you turn 70, the larger your benefit checks will be.

But if you and your spouse will both receive Social Security payments, there will be other factors to consider. For instance, a higher-earning spouse might wait longer to claim benefits to provide greater protection for a surviving spouse if the higher-earning spouse dies first.

5. Learn all about Medicare. Usually, retirees opt to be covered by Medicare once they become eligible at age 65. But you will have a number of options to consider, so it's best to familiarize yourself with the key elements of Medicare before then. Estimating your future out-of-pocket costs, including premiums, deductibles, and prescription drug costs will help you decide which Medicare benefits to opt for and whether you'll need to supplement Medicare with coverage from a private insurance plan. Try to investigate all of the possibilities before the time comes to make your decisions.

6. Develop a draw-down strategy. Control the distribution of funds in your retirement by deciding which accounts you want to tap first. Although everyone's circumstances are different, often the best plan is to withdraw funds from your taxable accounts first (because you'll owe only capital gains taxes, which are usually much lower than taxes on distributions from 401(k)s and traditional IRAs), then from those other tax-deferred accounts, and finally from your Roth IRAs. This sequence enables you to benefit from tax-free compounding of investment income within a Roth for as long as possible.

But taxes aren't the only consideration. You may have other reasons for withdrawing funds from some accounts and holding onto others.

7. Meet with your financial advisor. As you can see, you'll be facing some difficult decisions during your countdown to retirement, and the financial consequences can be significant. But you don't have to do it all by yourself.

Schedule a meeting with your advisor to assess and review your situation well before your expected retirement. The countdown to retirement won't be as nerve-wracking if you're well prepared. ●

---

years x $25,000) that he would get if he starts taking benefits at 66.

- **Work past FRA and invest more.** Regardless of whether Victor or Debra delays Social Security benefits, they might decide to work a few extra years. That helps in two ways—by letting them save more and by reducing the length of time their savings must last during retirement. For simplicity, let's say that this strategy provides $250,000 more in retirement savings for the couple by the time they're 70.

Making other changes, such as downsizing to a smaller home, cutting back on luxuries, and possibly moving to a less expensive area will provide additional savings. Without even taking those factors into account, the other strategies can enable Victor and Debra to build a nest egg of $1,008,692 ($80,000 + $578,692 + $100,000 + $250,000).

Bottom line: The $1-million goal isn't a pipe dream for this couple—and it doesn't have to be for you either. But the sooner you get started, the better. ●

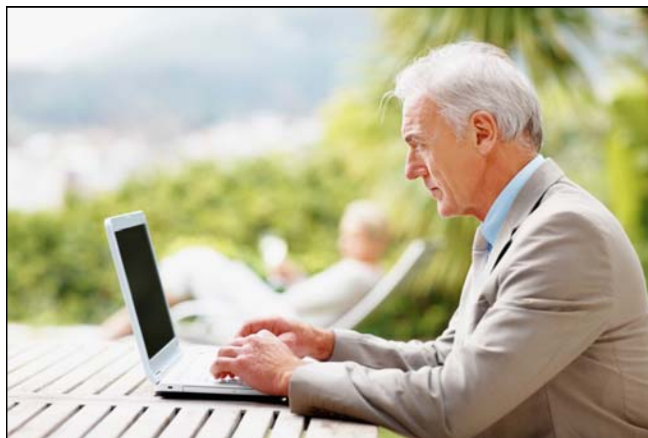
Lending Money? Watch Your Tax Step

Doug Burnside is in a quandary. His daughter, Megan, needs money to get a new business venture going. But Doug can't afford to give her the money outright and she has had trouble getting a loan from a bank.

What can be done? One idea is for Doug to lend his daughter the cash. Megan can repay Doug, with interest, if the business succeeds. Everyone wins.

But this kind of intra-family loan brings several potential tax pitfalls. As long as the loan is for $10,000 or less, there won't be a problem. However, if the borrowed amount is larger and he doesn't charge the going rate of interest, the IRS will "impute" interest for him, based on its own assumptions. He'll end up being treated as if he had charged his daughter interest, even though he hadn't, and he'll owe tax on that "phantom income" that he didn't receive.

In such cases, if the loan is for $100,000 or less, the interest you will be considered to have received annually for tax purposes is limited to the amount of your child's net investment income for the year. And if that amount doesn't exceed $1,000, you can avoid taxable interest income on the intra-family loan. But the IRS may still intercede if it suspects that you're trying to dodge the tax liability.



How do you figure out what the "going rate" for interest is? It depends on several factors, including the type of loan, its length, and the interest rates in your local area. You might be able to charge slightly less than a local bank would get, but you can't go overboard.

What happens if Megan's business fails and she can't pay Doug back? The IRS could determine that the "loan" was always meant to be a gift. To avoid that problem, it's best to have an attorney draft a formal loan document. It should include the usual terms that would be found in a bank loan. For instance, the document will usually indicate:

- The amount of the loan;
- The time allowed for repayment;
- The interest rate structure;
- A description of the collateral securing the loan.

Finally, have the loan document witnessed and notarized. This is the best proof you can have if the IRS ever challenges the deal. Also, keep records showing repayments to demonstrate that the arrangement is a bona fide loan. ●

Review Your Estate Plan

(Continued from page 1)

executors. Finally, your will may need to be updated to reflect changes in state or federal laws.

Revocable living trusts: Similar to a will, a revocable living trust provides for the distribution of assets transferred to the trust. Unlike a will, however, these assets don't have to pass through probate upon your death. This can save both time and money, and you might decide to use a living trust to supplement your will.

Because the trust is "revocable," you retain the right to change beneficiaries and reallocate assets designated for certain beneficiaries. The same sort of additions and subtractions used for a will might apply to the trust. In addition, depending on your situation, you could amend other terms, such as changing the guardian of minor children, a trustee, or successor trustees.

Durable power of attorney: A power of attorney is a legal document authorizing someone (the "attorney-in-fact") to act on your behalf in financial affairs. A "durable" power of attorney stays in force if you become incapacitated. This can be a vital component of your estate plan.

Are you planning to buy or sell assets or undergo life-threatening surgery? A durable power of attorney may be especially beneficial in these situations. Include this document in your estate plan if you haven't already done so.

Living will: Finally, a living will can provide guidance to your loved ones should they face difficult end-of-life scenarios. This can be combined with a health care power of attorney to ensure that your physicians and the hospital comply with your wishes.

Living wills are often associated with elderly people, but issues can arise at any stage of life. In your review of your estate plan, look again at this document to see whether it still accurately reflects how you feel. And if you don't have these documents yet, consider adding them to your plan.

Once you've completed the year-end review of your estate plan, circle back to your professional advisors for assistance in implementing any changes that are needed. When you're done, you can look forward to a happy New Year! ●

The Prosperity Consulting Group, LLC | 10055 Red Run Blvd., Suite 130, Owings Mills, MD 21117 | 410-363-7211 | www.prosperityconsult.com
Securities offered through Triad Advisors Member FINRA, SIPC. Advisory Services offered through The Prosperity Consulting Group LLC. The Prosperity Consulting Group, LLC is not affiliated with Triad Advisors. The articles and opinions expressed in this document were gathered from a variety of sources, but are reviewed by The Prosperity Consulting Group, LLC prior to its dissemination. All sources are believed to be reliable but do not constitute specific investment advice. In all cases, please contact your investment professional before making any investment choices. Any articles written by The Prosperity Consulting Group, LLC will include a 'by line' indicating the author. ©2018 API