

The Time of Your Life



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COUNTDOWN TO RETIREMENT: STRATEGIES FOR SAVING IN YOUR 50s

The baby boom generation is about to enter another era: retirement. Never known for accepting the status quo, baby boomers are ready to redefine the “golden years.” Forget about endless days of leisure. This generation seeks adventure, travel, and new business pursuits. While these changes may redefine retirement, will boomers be able to finance their plans? Today, many people age 50 and older have not begun to save for retirement or have yet to accumulate sufficient funds.

If you are in this age group and find yourself facing an underfunded retirement, it is not too late to take charge. There are actions you can take today to get on the right track. Here are some ideas:

What’s it going to take? First, estimate how much money you will need in retirement. Once you have an idea of the amount, you can work toward meeting that goal. A good rule of thumb is that you may need 60–80% of your current annual income in retirement. Your financial professional can help you assess the best amount for your situation.

Maximize your contributions. If your employer offers a retirement plan, contribute as much as the law will allow. In 2012, those age 50 and over can contribute up to \$22,500 to an employer-sponsored 401(k) plan. Many employers also match contributions. Make sure you contribute enough to claim this “free” money, which can add up over time.

Create a spending plan. In other words, make a budget. Many people think a budget is restrictive, but look at it this way: You can spend now, or you can have the money to afford your dream adventures later. To start, it is important that you pay down debt and avoid accruing new debt. Next,

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TAX RELIEF FOR ELDER CAREGIVERS

When you become the caregiver for an aging parent, you are providing an invaluable service. But, the responsibilities of caregiving may involve time spent out of the workforce, especially if you are simultaneously raising children of your own. This can often lead to a considerable loss in wages, and therefore a reduction in contributions to Social Security and employer-sponsored retirement plans. The financial loss per caregiver over the course of caring for an elderly parent can be hundreds of thousands of dollars.

For elder caregivers who need to modify their work schedules or exit the labor force altogether, the Federal government offers some relief from the financial strain with several possible tax benefits. These may include claiming an elderly parent as a dependent for a *qualifying relative exemption* on tax returns, which can reduce a caregiver's taxable income by \$3,650, or deducting caregiver contributions for a parent's medical expenses. However, it is important for caregivers to verify if they qualify for a tax break on their returns by carefully reviewing the related tax information on the Internal Revenue Service (IRS) website at www.irs.gov (*Publication 501, 502, 503*), as well as consulting with a qualified tax professional.

Claiming a Dependent

In order to be eligible for the qualifying relative exemption, a parent must have a gross annual income of less than \$3,650, and live with the caregiver at home, or in an assisted living facility (as long as all other requirements are met). In addition, the caregiver must provide more than half of a parent's financial support for the year.

Taking this exemption can get complicated if several family caregivers share in the responsibilities. For instance, if one adult child contributes at least 10% of the financial support, and additional support from other family members adds up to half of the parent's yearly expenses, then the parent can still be claimed as a dependent. But, *only one* caregiver in the family can claim the exemption per year on his or her tax return. Family members, however, can come to an agreement to alternate taking this exemption from year to year.



A possible tax break for single caregivers to consider involves changing their filing status to "head of household," which would not only tax their income at a lower rate, but bring their standard deduction amount up from \$5,700 to \$8,400.

Deducting Medical Expenses

Another potential tax-saving benefit for caregivers who are contributing to a parent's

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HOW TO WORK WITH YOUR ESTATE PLANNING TEAM

Estate planning often involves the coordinated efforts of an estate planning *team* consisting of your attorney, accountant, and financial services professional. However, whether establishing a new estate plan or revising an existing one, only *you* can provide the guidance, direction, and information needed to develop an effective plan. Most estate planning teams begin by requesting that you complete a questionnaire and asset inventory. It is important to provide your team with comprehensive information, so they can help you achieve your goals.

Although some questions may seem intrusive, each has a specific purpose. When formulating an estate plan, you may be asked to provide any or all of the following information:

Family and Other Beneficiaries

- Names, ages, relationships, and special needs of family members and other beneficiaries
- Copies of property settlements, other financial agreements, and court decrees relating to your family

Health

- Information on your current health and the health of your beneficiaries
- Average health and life span of your ancestors

Assets and Liabilities

- List of estimated net value of your assets, and documentation of ownership
- Identification of your liabilities and those of your spouse

Existing Plans

- Copy of your current will, including information on contractual or legal restrictions on the disposition of your assets

- Documentation of survivorship provisions and beneficiary designations on insurance policies, retirement plans, employee benefit plans, business buy-sell agreements, and other similar assets

Objectives and Purposes

- Goals and aspirations for yourself and each beneficiary
- Assessment of each beneficiary's ability to manage assets

Benefits of Estate Planning

Your estate planning team can help you work toward the following goals:

- a) Determine disposition or retention of your assets during your lifetime, and the need for expertise to value and dispose of your assets.
- b) Identify which assets may be subject to probate and estate taxes, and estimate the potential cost to your estate.
- c) Estimate and plan for the liquidity needs of your estate, your surviving spouse, and other family members and beneficiaries to cover estate taxes, probate costs, and future living expenses.
- d) Select the best domicile, if applicable, to help reduce the net effect of taxes on your estate.

Remember that no estate plan is final. Marriages, remarriages, births, deaths, professional changes, and new legislation may necessitate adjusting an existing plan or creating a new one. Also, the composition of your assets may change over time. To keep your estate plan up-to-date, notify your estate planning team of any relevant changes as they occur, and work with your team if they inform you of any relevant legislative changes. ○

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examine your spending habits and replace some of your discretionary spending with saving. Saving even \$20 more per week is a step in the right direction.

Take initiative. Besides contributing to your employer's plan, you can save more by opening your own Roth IRA. Contributions are made after taxes, but earnings and distributions are tax free, provided the account is at least five years old and you have reached age 59½. Those age 50 and over can contribute up to \$6,000 a year in 2012. Eligibility for these plans begins to phase out with adjusted gross incomes of \$110,000–\$125,000 for single filers and \$173,000–\$183,000 for married joint filers in 2012.

Hang out your shingle. Many boomers hope to start their own businesses in retirement. Why wait? If you begin your entrepreneurial efforts now, your business has the potential to be in full swing by the time you retire, and any profits between now and then can be added to your savings.

Move it or lose it. Your home may have significantly increased in value since you

first bought it, and you may have already paid off the mortgage. With children at or near adulthood, do you really need all that space? Selling now and moving to a smaller, more affordable location may allow you to transfer some of the equity in your home into a savings vehicle.

Reconsider your retirement age. If you want to cushion your retirement savings, consider staying on the job longer. Some people actually leave retirement to re-enter the workforce because they feel more fulfilled while working. Others seek part-time work, consulting, or entrepreneurial endeavors. Such options may enable you to earn more money to save, which may help to postpone spending down your savings.

Regardless of which options you choose, you can benefit from time and compounding interest. Every year that your savings remain untouched allows more time for growth. It is never too late to start preparing for your future. So, take action *now* to get on track to saving for your retirement. ○

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TAX RELIEF FOR ELDER CAREGIVERS

medical expenses is claiming a deduction for some of those expenses. The IRS guidelines allow a deduction for *out-of-pocket* medical expenses of a dependent, that are not compensated for by insurance or otherwise, in excess of 7.5% of the caregiver's adjusted gross income (AGI). Note that for tax years beginning after Dec. 31, 2012, medical expenses will be deductible to the extent they exceed 10% of the AGI. In general, expenses for a medical deduction can include

medical equipment, hospitals, health care providers, and insurance premiums.

To help counter the financial losses that may be involved with caring for an aging parent, be sure to consult with a qualified tax professional to see if you qualify for a tax break. Also, to learn more about possible community-based services for older adults and their families, call the Eldercare Locator, a public service of the U.S. Administration on Aging, at 800-677-1116 or visit www.eldercare.gov. ○