Warren Wealth Insights

Putting Clients First...Always.

Warren Wealth Associates
28 Mountain Blvd
Warren, NJ 07059
908-769-9400
warrenwealthassociates@warrenwealthassociates.com
www.warrenwealthassociates.com

Chris and Sue have been living through some very long overdue home improvement projects and they are done with indoor camping! Their youngest son Garrett just began his Freshman year at University of Hartford and all are dealing with empty nest syndrome as best as possible. Chris hopes all of you enjoyed the summer!

Scott & Jen just returned from a vacation week in Belmar where they relaxed before the birth of their first baby, due in January!

Connie just got her son a new car. She is looking forward to the Fall season and its weather and researching cruises through the Panama Canal.

Jenica spent many summer days at the beach. She is now enjoying a few home improvement projects and will be taking another mandala making class this winter.

September 2018

What to Do If Your Term Life Insurance Policy Is About to Expire

One advantage of term life insurance is that it is generally the most cost-effective way to achieve the maximum life insurance protection you can afford. Many people first purchase term life insurance to protect their family's financial interests after a significant life event, such as getting married or the birth of a child.

You may have done the same for your family when you purchased your policy years ago. And chances are, other than paying the premiums, you probably haven't given it much thought since then. However, if your term life insurance policy is set to expire in the near future, it's important to explore your options now before the coverage runs out.

Before you get started, you first need to reevaluate your life insurance needs and determine if anything has changed. Are your children grown and have they graduated from college? Do you have a mortgage? If you have financial obligations that you need to take care of, you may still need term life insurance. If you are nearing retirement and have fewer financial obligations than you did when you were younger, your need for a term life insurance policy may not be as great as it once was.

Purchasing a new policy

If you are in relatively good health and your current term life insurance policy is about to run out, you might consider purchasing a new term policy altogether. When applying for a new term life insurance policy, you will generally need to pass a medical exam. In addition, since you are older now, your premiums may be higher than they were under your old policy. However, you may not need as large a policy as you did when you first purchased term life insurance years ago. It may pay to shop around and compare because premiums can vary among insurers.

Renewing your existing policy

When the coverage period for your term life insurance ends, you may have the option to renew the policy, depending on the specific policy and limitations. Though you won't be required to take a medical exam if you renew your policy, the rate will generally increase each time it is renewed for an additional term because your age has increased (as has the insurance company's risk of paying a death benefit). These increased premium costs can sometimes make renewing a term life insurance policy an expensive way to cover your life insurance needs.

Converting your policy to permanent life insurance

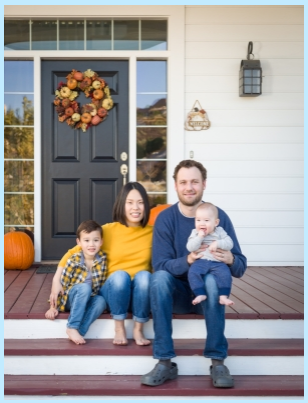
If you have a convertible term life insurance policy, you may be able to convert it to a permanent life insurance policy, such as whole or universal life insurance. Permanent insurance continues throughout your life as long as you pay the premiums. As with term insurance, permanent insurance pays a death benefit to your beneficiary at your death, but it also contains a cash value account funded by your premium dollars. When you convert your policy, you won't need to prove your insurability by taking a medical exam. However, there is usually a conversion deadline, which is the date by which you must convert, typically before your term life insurance is set to expire.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing company.

The rules governing 1035 exchanges are complex and you may incur surrender charges from your "old" life insurance policy. In addition, you may be subject to new sales and surrender charges for the new policy.

WWA
Warren Wealth Associates

Tax Benefits of Homeownership After Tax Reform



Recent tax reform legislation may have reduced the tax benefits of homeownership for some by (1) substantially increasing the standard deduction, (2) lowering the amount of mortgage debt on which interest is deductible, and (3) limiting the amount of state and local taxes that can be deducted. On the other hand, the tax benefits of homeownership may have increased for some because the overall limit on itemized deductions based on adjusted gross income has been suspended. You generally can choose between claiming the standard deduction or itemizing certain deductions (including the deductions for mortgage interest and state and local taxes). These changes are generally effective for 2018 to 2025.

Buying a home can be a major expenditure. Fortunately, federal tax benefits are still available, even after recent tax reform legislation, to help make homeownership more affordable. There may also be tax benefits under state law.

Mortgage interest deduction

One of the most important tax benefits of owning a home is that you may be able to deduct the mortgage interest you pay. If you itemize deductions on your federal income tax return, you can deduct the interest on a loan secured by your home and used to buy, build, or substantially improve your home. For loans incurred before December 16, 2017, up to $1 million of such "home acquisition debt" ($500,000 if married filing separately) qualifies for the interest deduction. For loans incurred after December 15, 2017, the limit is $750,000 ($375,000 if married filing separately).

This interest deduction is also still available for home equity loans or lines of credit used to buy, build, or substantially improve your home. [Prior to 2018, a separate deduction was available for interest on home equity loans or lines of credit of up to $100,000 ($50,000 if married filing separately) used for any other purpose.]

Deduction for real estate property taxes

If you itemize deductions on your federal income tax return, you can generally deduct real estate taxes you pay on property that you own. However, for 2018 to 2025, you can deduct a total of only $10,000 ($5,000 if married filing separately) of your state and local taxes each year (including income taxes and real estate taxes). For alternative minimum tax purposes, however, no deduction is allowed for state and local taxes, including property taxes.

Points and closing costs

When you take out a loan to buy a home, or when you refinance an existing loan on your home, you'll probably be charged closing costs. These may include points, as well as attorney's fees, recording fees, title search fees, appraisal fees, and loan or document preparation and processing fees. Points are typically charged to reduce the interest rate for the loan.

When you buy your main home, you may be able to deduct points in full in the year you pay them if you itemize deductions and meet certain requirements. You may even be able to deduct points that the seller pays for you.

Refinanced loans are treated differently. Generally, points that you pay on a refinanced loan are not deductible in full in the year you pay them. Instead, they're deducted ratably over the life of the loan. In other words, you can deduct a certain portion of the points each year. If the loan is used to make improvements to your principal residence, however, you may be able to deduct the points in full in the year paid.

Otherwise, closing costs are nondeductible. But they can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Home improvements

Home improvements (unless medically required) are nondeductible. Improvements, though, can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

Capital gain exclusion

If you sell your principal residence at a loss, you can't deduct the loss on your tax return. If you sell your principal residence at a gain, you may be able to exclude some or all of the gain from federal income tax.

Capital gain (or loss) on the sale of your principal residence equals the sale price of your home minus your adjusted basis in the property. Your adjusted basis is typically the cost of the property (i.e., what you paid for it initially) plus amounts paid for capital improvements.

If you meet all requirements, you can exclude from federal income tax up to $250,000 ($500,000 if you're married and file a joint return) of any capital gain that results from the sale of your principal residence. Anything over those limits may be subject to tax (at favorable long-term capital gains tax rates). In general, this exclusion can be used only once every two years. To qualify for the exclusion, you must have owned and used the home as your principal residence for a total of two out of the five years before the sale.

What if you fail to meet the two-out-of-five-year rule or you used the capital gain exclusion within the past two years with respect to a different principal residence? You may still be able to exclude part of your gain if your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances. In such a case, exclusion of the gain may be prorated.

Other considerations

It's important to note that special rules apply in a number of circumstances, including situations in which you maintain a home office for tax purposes or otherwise use your home for business or rental purposes.

Warren Wealth Associates

Protect Your Heirs by Naming a Trust as IRA Beneficiary

While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisers before implementing such strategies.

Often, tax-qualified retirement accounts such as IRAs make up a significant part of one's estate. Naming beneficiaries of an IRA can be an important part of an estate plan. One option is designating a trust as the IRA beneficiary.

Caution: *This discussion applies to traditional IRAs, not to Roth IRAs. Special considerations apply to beneficiary designations for Roth IRAs.*

Why use a trust?

Here are the most common reasons for designating a trust as an IRA beneficiary:

- Generally, inherited IRAs are not protected from the IRA beneficiary's creditors. However, IRA funds left to a properly drafted trust may offer considerable protection against the creditors of trust beneficiaries.
- When you designate one or more individuals as beneficiary of your IRA, those beneficiaries are generally free to do whatever they want with the inherited IRA funds, after your death. But if you set up a trust for the benefit of your intended beneficiaries and name that trust as beneficiary of your IRA, you can retain some control over the funds after your death. Your intended beneficiaries will receive distributions according to your wishes as spelled out in the trust document.
- Through use of a trust as IRA beneficiary, you may "stretch" IRA payments over the lifetimes of more than one generation of beneficiaries. Payments to IRA trust beneficiaries must comply with distribution rules depending on the type of IRA plan.

What is a trust?

A trust is a legal entity that you can set up and use to hold property for the benefit of one or more individuals (the trust beneficiaries). Every trust has one or more trustees charged with the responsibility of managing the trust property and distributing trust income and/or principal to the trust beneficiaries according to the terms of the trust agreement. If the trust meets certain requirements, the beneficiaries of the trust can be treated as the designated beneficiaries of your IRA for purposes of calculating the distributions that must be taken following your death.

Special rules apply to trusts as IRA beneficiaries

Certain special requirements must be met in order for an underlying beneficiary of a trust to qualify as a designated beneficiary of an IRA. The beneficiaries of a trust can be designated beneficiaries under the IRS distribution rules only if the following four trust requirements are met in a timely manner:

- The trust beneficiaries must be individuals clearly identifiable from the trust document as designated beneficiaries as of September 30 following the year of the IRA owner's death.
- The trust must be valid under state law. A trust that would be valid under state law, except for the fact that the trust lacks a trust "corpus" or principal, will qualify.
- The trust must be irrevocable, or by its terms become irrevocable upon the death of the IRA owner.
- The trust document, all amendments, and the list of trust beneficiaries must be provided to the IRA custodian or plan administrator by October 31 following the year of the IRA owner's death. An exception to this rule arises when the sole trust beneficiary is the IRA owner's surviving spouse who is 10 years younger than the IRA owner, and the IRA owner wants to base lifetime required minimum distributions (RMDs) on joint and survivor life expectancy. In this case, trust documentation should be provided before lifetime RMDs begin.

Note: *Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn by the IRA owner prior to age 59½, with certain exceptions as outlined by the IRS.*

Disadvantages of naming a trust as IRA beneficiary

If you name your surviving spouse as the trust beneficiary of your IRA rather than naming your spouse as a direct beneficiary, certain post-death options that would otherwise be available to your spouse may be limited or unavailable. Naming your spouse as primary beneficiary of your IRA provides greater options and maximum flexibility in terms of post-death distribution planning.

Setting up a trust can be expensive, and maintaining it from year to year can be burdensome and complicated. So the cost of establishing the trust and the effort involved in properly administering the trust should be weighed against the perceived advantages of using a trust as an IRA beneficiary. In addition, if the trust is not properly drafted, you may be treated as if you died without a designated beneficiary for your IRA. That would likely shorten the payout period for required post-death distributions.

Warren Wealth Associates

Warren Wealth Associates
28 Mountain Blvd
Warren, NJ 07059
908-769-9400
warrenwealthassociates@warrenwealthassociates.com
www.warrenwealthassociates.com

Should I enroll in a health savings account?

A health savings account (HSA) is a tax-advantaged account that you can establish and contribute to if you are enrolled in a high-deductible health plan (HDHP). Because you shoulder a greater portion of your health-care costs, you'll usually pay a much lower premium for an HDHP than you would pay for traditional health insurance. This allows you to contribute the premium dollars you're saving to your HSA. Then, when you need medical care, you can withdraw HSA funds to cover your expenses, or opt to pay your costs out-of-pocket if you want to save your account funds. An HSA can be a powerful savings tool, especially if your health expenses are relatively low, since you may be able to build up a significant balance in your HSA over time. Before you enroll in an HSA, ask yourself the following questions:

What will your annual out-of-pocket costs be under the HDHP you're considering? Estimate these based on your current health expenses. The lower your costs, the easier it may be to accumulate HSA funds.

How much can you afford to contribute to your HSA every year? Contributing as much as you can on a regular basis is key to building a cushion against future expenses. For 2018, you can contribute up to $3,450 for individual coverage and $6,900 for family coverage.

Will your employer contribute to your HSA? Employer contributions can help offset the increased financial risk that you're assuming by enrolling in an HDHP rather than traditional employer-sponsored health insurance.

Are you willing to take on more responsibility for your own health care? For example, to achieve the maximum cost savings, you may need to research costs and negotiate fees with health providers when paying out-of-pocket.

How does the coverage provided by the HDHP compare with your current health plan? Don't sacrifice coverage to save money. Read all plan materials to make sure you understand benefits, exclusions, and all costs.

What tax savings might you expect? HSA funds can be withdrawn free of federal income tax and penalties provided the money is spent on qualified health-care expenses. Depending on the state, HSA contributions and earnings may or may not be subject to state taxes. Consult your tax adviser for more information.

Should I cut the cord on cable?

In the last few years, it's become common for consumers to ditch cable television in favor of streaming services and devices. Many affordable streaming options are available, making it easier for consumers to give up cable without necessarily sacrificing their favorite shows. But there are some drawbacks to relying exclusively on streaming services for television viewing. Consider the following before you decide to cut the cord.

The most obvious benefit of cutting cable is the money you'll likely save each month. Compare what you spend on your monthly bill to how much of your cable subscription you actually use. Are you regularly watching all the channels you pay for, or do you watch only a few of them? Are the channels you watch worth what you pay each month? If not, it might make sense to cancel cable and switch to an alternative entertainment source.

You may decide to replace cable with a streaming service or device. In addition to being less expensive than cable, most services are user-friendly. You won't need to flip through hundreds of channels to find your favorite shows, and as long as you have an Internet connection, you can view them on the go on your cell phone or tablet. Plus, streaming services typically let you stop and start month to month without termination fees.

But depending on your viewing preferences, a streaming service might not be the right option for you. There is often a delay in the online release of many television shows, which can be frustrating for dedicated viewers. And if you're a sports fan, you might be disappointed to learn that you won't have access to live sports coverage through most streaming services. Comprehensive sports packages are offered by some services, but they can be expensive and are not available in all regions.

Another disadvantage of switching to streaming is that you may need to subscribe to multiple packages or invest in special streaming devices to access the programs you want. You might also consider the cost of high-speed Internet — you won't be able to stream without a relatively fast Internet connection. Between multiple subscriptions and reliable Internet, the cost of streaming can add up quickly. Be sure to compare prices and take advantage of any free-trial offers.

Warren Wealth Associates