Capital Asset Management, Inc.

Helping People Make Smart Decisions About Money

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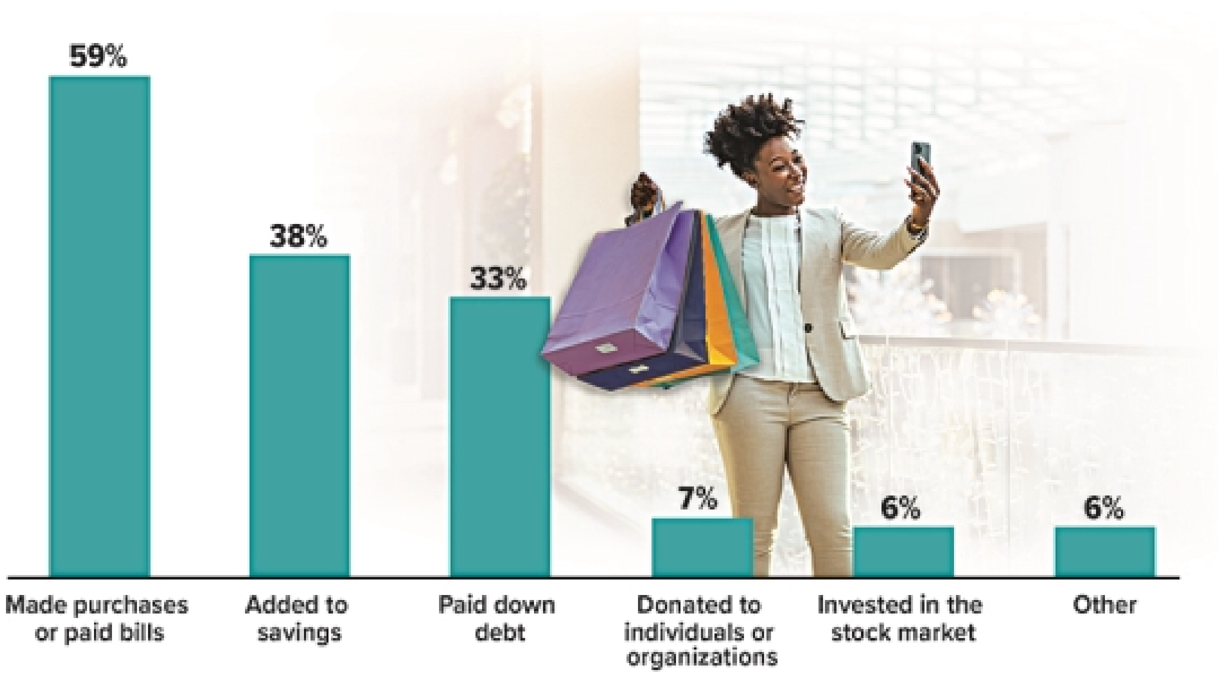
Stimulus Payments: Spending, Savings, or Both?

About three out of five Americans who received COVID-19 stimulus payments used the funds to make purchases or pay bills, which was consistent with the federal government's intention to stimulate the economy. However, many people used at least part of the funds to improve their overall financial position by building savings or paying down debt.



Source: 2021 National Financial Capability Study, FINRA Investor Education Foundation, 2022 (multiple responses allowed)

Three Stretch IRA Alternatives

The passage of the SECURE Act in 2019 effectively eliminated the stretch IRA, an estate planning strategy that allowed an inherited IRA to continue growing tax deferred, potentially for decades. Most nonspouse beneficiaries, including children and grandchildren, can no longer stretch distributions over their lifetimes. Moreover, proposed IRS regulations require most designated beneficiaries to take annual required minimum distributions (RMDs) within the 10-year distribution period if the original account owner died on or after his or her required beginning date. This shorter distribution period could result in unanticipated and potentially large tax bills for nonspouse beneficiaries who inherit high-value IRAs.

You may be looking for alternative ways to preserve your wealth and pass it on to your beneficiaries. Here are three options you might consider.

Roth Conversion

If you are willing to pay income taxes now instead of your beneficiaries paying them later, you could convert your IRA to a Roth IRA. Anyone can convert a traditional IRA to a Roth IRA. However, you generally have to include the amount you convert in your gross income for the year converted. Not only would you have to pay taxes on the amount converted, but the beneficiaries of your Roth IRA will generally have to liquidate the account within 10 years of inheriting it, although they won't pay federal income taxes on the distribution(s).

Life Insurance

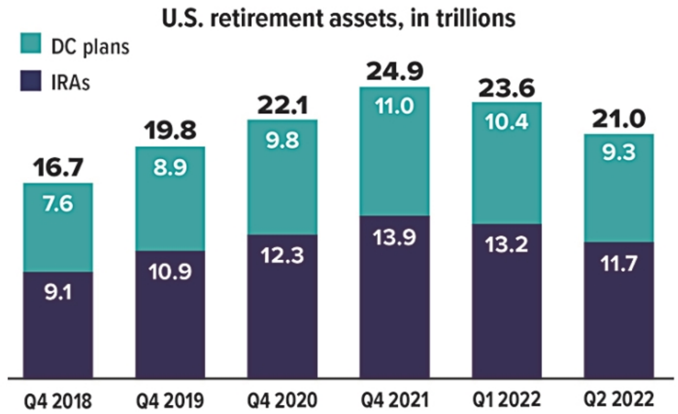
You could take distributions from your IRA and use them to buy life insurance on your life. The beneficiaries you name in the life insurance policy will receive those proceeds tax-free at your death. The policy beneficiaries could use the tax-free proceeds of the life insurance to pay any income taxes they would owe on the balance of the IRA they inherit from you. Or, if you've been able to liquidate or spend down your IRA during your lifetime, the tax-free life insurance death benefit would replace some or all of the taxable IRA that otherwise would have been inherited by the beneficiaries.

Irrevocable Trust

You could create an irrevocable trust and fund it with non-IRA assets. An irrevocable trust can't be changed or dissolved once it has been created. You generally can't remove assets, change beneficiaries, or rewrite any of the terms of the trust. Often, life insurance is used to fund the irrevocable trust. You can direct how and when the trust beneficiaries are to receive the life insurance proceeds from the trust after your death. In addition, if you have given up control of the property, all of the property in the trust, plus any future appreciation on the property, is removed from your taxable estate.

Wealth Cache

Assets held in individual retirement accounts (IRAs) and defined-contribution plans such as 401(k)s dipped in the first half of 2022 to $21 trillion. Even so, that total was up more than 25% from year-end 2018.



Source: Investment Company Institute, 2022

While trusts offer numerous advantages, they incur upfront 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 professionals before implementing such strategies.

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

To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet the five-year holding requirement, and the distribution must take place after age 59½ or due to the owner's death, disability, or a first-time home purchase ($10,000 lifetime maximum). Under current tax law, if all conditions are met, the Roth IRA will incur no further income tax liability for the rest of the owner's lifetime or for the lifetimes of the owner's heirs, regardless of how much growth the account experiences.

A 529 Plan Can Help Jump-Start Your College Fund

Busy, cash-strapped parents might welcome all the help they can get when saving for college. Building a college fund, even a small one, can help families feel more in control and less stressed during the college research and admission process. Think of a college fund as a down payment. Then at college time, it can be supplemented by financial aid (grants, scholarships, loans, and work-study), current income, and student funds. A good benchmark is to try and save at least 50% of your child's projected college costs, but any amount is better than nothing.

A 529 savings plan can be instrumental in building a college fund. This individual investment account offers the opportunity for tax-free earnings if the funds are used for college, making every dollar count. (For withdrawals not used for qualified education expenses, earnings may be subject to taxation as ordinary income and a 10% penalty.) You can set up monthly electronic fund transfers from your bank account to put your savings on autopilot. But one-off contributions are allowed, too, and the holidays can be an excellent time for grandparents or other relatives to make a small contribution as a gift. The new year is also a good time to re-double your efforts on building a college fund. Here are some common questions on opening a 529 savings account.

Can I open a 529 savings account in any state's plan?

Yes. Currently, all states except Wyoming offer one or more 529 savings plans, and they are generally open to residents of any state. However, it's a good idea to look at your own state's 529 plan first, because some states may restrict any tax benefits (e.g., tax deduction for contributions, tax-free earnings) to residents who participate only in the in-state plan. Why open an account in another state's 529 plan? There could be a number of reasons, including a wider range of investment options, a solid investment track record, an excellent investment manager, or lower management fees. For a list of all 529 plans by state, visit the [Saving for College website.]

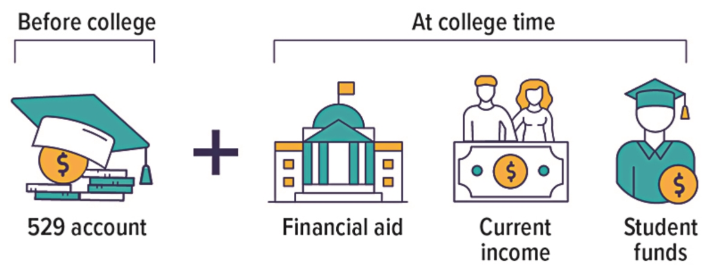
What happens if I open a 529 plan in one state and then move to another state?

Essentially nothing. You can simply leave the account open and keep contributing to it. Alternatively, you can switch to a different 529 plan by rolling over the assets from the original plan to a new 529 plan. You can keep the same beneficiary (under IRS rules, you are allowed one 529 plan same-beneficiary rollover once every 12 months), but check the details of each plan for any potential restrictions. If you decide to stay with your original 529 plan, just remember that your new state might limit any potential 529 plan tax benefits to residents who participate in the in-state plan.

Should I open one 529 account for both of my kids or a separate account for each?

That depends on your personal preferences, but opening separate accounts often makes sense. Two accounts let you contribute different amounts for each child as needed, tailor your investment portfolios to each child's age, and avoid commingling funds. If you choose one account and invest too aggressively, you might incur losses when your older child is close to college. And if you invest too conservatively, your investment returns may not keep pace with college inflation for your younger child. You also run the risk of depleting most or all of the funds for your oldest child.

How a 529 Account Helps at College Time



Does it make sense to open a 529 account if my child is a few years from college?

It might. Even if your child is only a few years from college, you could theoretically save for another four or five years, right up through junior year of college. You could open a 529 account, contribute monthly, and any earnings would be tax-free if the money is used for college. Having a designated college account instead of a general savings account might also lessen the temptation to dip into it for non-college expenses.

As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Most states offering their own 529 plans may provide advantages and benefits exclusively for their residents and taxpayers, which may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional.

Tips for Safe Online Shopping

According to the National Retail Federation, online sales accounted for over $1 trillion of total U.S. retail sales in 2021.[1] Online shopping is especially popular during the holiday season, enabling you to avoid the crowds and conveniently purchase gifts using your smartphone or computer. Unfortunately, the popularity of online shopping also means that cyber criminals and online scams are more prevalent than ever. Here are some tips to help protect yourself when shopping online.

Check your device. Make sure that all of your devices (e.g., mobile phone, computer, and tablet) are up-to-date and configured to update automatically or notify you when updates are available.

Maintain strong passwords. Create strong passwords, at least 8 characters long, using a combination of lower- and upper-case letters, numbers, and symbols, and don't use the same password for multiple accounts.

Use multi-factor authentication when available. Two-factor or multi-factor authentication, which involves using a one-time code sent to your mobile device in addition to your password, provides an extra layer of protection.

Watch out for phishing emails. Beware of emails that contain links or ask for personal information. Legitimate shopping websites will never email you and randomly ask for your personal information.

In addition, don't be fooled by fake package delivery updates. Make sure that all delivery emails are from reputable delivery companies you recognize.

The increase in popularity of online shopping means that cyber criminals and online scams are more prevalent than ever before.

Beware of scam websites. Typing one word into a search engine to reach a particular retailer's website may be easy, but it might not take you to the site you are actually looking for. Scam websites often contain URLs that look like misspelled brand or store names to trick online shoppers. To help determine whether an online retailer is reputable, research sites before you shop and read reviews from previous customers. Look for *https://* in the URL and not just *http://,* since the "s" indicates a secure connection.

Use credit instead of debit. Credit cards generally have better protection than debit cards against fraudulent charges. In addition, consider using a mobile payment service (e.g., Apple Pay or Google Pay), which doesn't require you to give your credit-card information directly to a merchant.

1) National Retail Federation, 2022