# Financial Planning

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# Important Notice

This report is intended to serve as a basis for further discussion with your other professional advisors. Although great effort has been taken to provide accurate numbers and explanations, the information in this report should not be relied upon for preparing tax returns or making investment decisions.

Assumed rates of return are not in any way to be taken as guaranteed projections of actual returns from any recommended investment opportunity. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney.

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# The Need for Financial Planning

Building a successful financial plan can be confusing.  As we construct a plan, we find that our financial lives have many scattered pieces.

## The Pieces of the Puzzle

Some of the financial issues that each of us can expect to face during life include:

- **Cash management:** More than just balancing the checkbook, cash management includes preparing (and following) a budget, using credit wisely, and keeping the income tax burden to the lowest level possible.
- **Risk management:** There is risk of loss of both life and property.  Life insurance can be used to protect a family against the risk of premature death. Disability insurance can protect against the loss of a person's ability to earn a living.  Property and casualty insurance can protect our worldly goods against accident and such perils as fire, flood, earthquake and theft.  Health insurance can help pay the cost of needed medical care.
- **Accumulation goals:** We all need to save money for some reason.  Educating our children is one very common goal.  Buying a home and building an investment portfolio are two other typical accumulation goals.
- **Retirement:** Taking action today to insure that the later years are as comfortable and worry-free as possible.
- **Estate planning:** Recognizing that death is inevitable and planning for the ultimate transfer of our assets to our heirs.


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# The Need for Financial Planning

A coordinated financial plan provides a framework for achieving financial security.

## Steps to Achieving Financial Security

Solving financial problems in today's world takes work.  Two basic steps are involved:

- **Step 1:** Choose Your Financial Planning Team: In our complex, ever-changing world, expert help is needed.  Trained specialists such as your attorney, CPA, IRS enrolled agent, life insurance professional, health insurance agent, securities broker, and financial planner are generally members of your team.
- **Step 2:** Develop Your Plan: With the help of your team, the second step can be taken: the development of a systematic, integrated plan for dealing with each of these issues.  This is called developing a financial plan.

You can choose to ignore these problems until it is too late.  Or, you can take steps to put the puzzle together and achieve your financial security.  The most important step is the first one.


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# The Personal Budget

The basic purpose of a personal budget is to plan how an individual's money will be spent. Given limited financial resources, a budget is a method of managing personal cash flow, to meet current needs and save for the future.

## Reasons to Prepare a Personal Budget

- **A planning tool:** Correctly used, a personal budget can ensure that income and expenditures match, both in amount and timing. It can both spotlight potential cash-flow problems, and identify opportunities to make better use of current income.
- **A yardstick to measure progress:** By comparing the planned budget against actual results, an individual can see if progress is being made toward meeting specific goals. This measuring process will often highlight areas where changes should be made.

## Preparing a Personal Budget

- **Past income and expenditures:** This initial step entails recording information on past cash flow, both income and spending. Ideally, a year's worth of data should be gathered, to even out the effect of seasonal variations. Paycheck stubs, check registers, cancelled checks, copies of paid bills and recent income tax returns are excellent sources of this information. An individual may also want to keep a daily spending diary for a short period of time.
- **Set goals:** Clear goals should be set, with both specific dollar amounts and a realistic time frame for accomplishing each goal. A goal can be as simple and immediate as making ends meet each month, or as complex and long term as planning for retirement.
- **Maintain records:** Perhaps the most difficult part of the budgeting process is consistently keeping adequate monthly records of income and expenditures.
- **Periodic review:** A periodic review, comparing the planned budget with actual results, provides a means of measuring progress toward an individual's goals. The review will usually indicate if changes should be made, either in income, expenditures or both.


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## National Spending Patterns

How does your spending compare with these broad national budget averages?[1]

| | National Spending |
|---|---|
| Food | 13.0% |
| Clothing and Services | 2.7% |
| Housing | 33.2% |
| Personal[2] | 25.9% |
| Medical | 8.0% |
| Transportation | 17.2% |
| Totals | 100.0% |

[1] Source: Bureau of Labor Statistics, Consumer Expenditures 2023, September 25, 2024.

[2] "Personal" includes personal insurance and pensions, personal care products and services, education, entertainment, cash contributions, reading, tobacco products, and miscellaneous.


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# Up to Your Neck in Debt?

Are you afraid to open your bills? Do you juggle bills, paying Paul one month and Peter the next? Do you make only the required minimum payment? Do you have to pay for basic necessities like food, rent, or gasoline on credit because you're out of cash?

If some or all of these apply to you, it's a good bet you've taken on too much debt.

## Initial Steps

Many of us have to deal with a financial crisis at some point in our lives. Whatever the cause, there are ways to overcome these financial problems. Often the first step is to recognize that there is a problem. Then you can begin to take action to solve it.

- **Create a budget:** One key step is to create a realistic budget, a cold, hard look at both your income and your necessary living expenses. Are there ways to increase income, as well as reducing expenses?
- **Talk with your creditors:** Contacting your creditors and explaining why you're having trouble paying your bills on time may lead to a reduced payment plan. Setting up an automatic payment plan from your checking or savings account can help establish how serious you are about paying your bills.
- **Check for mistakes:** Your bills or credit report could contain errors that, once corrected, could provide some partial relief.

## Lower the Cost of Debt

Lowering the cost of debt is another way to improve the situation:

| Method | Description | Comments |
|---|---|---|
| **Refinance High-Cost Loans** | Lower interest rates may allow you to refinance an existing loan and lower your payment. | Mortgages: Generally, the interest saved must be greater than the cost of acquiring the new loan. Credit cards: You may be able to move balances from one card to another, to take advantage of introductory rates. |


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| Method | Description | Comments |
| --- | --- | --- |
| **Consolidate Loans** | Taking a number of high interest rate debts (often credit card debt) and replacing them with a single loan, often secured by the borrower's home or auto. | If payments are not made on the new loan, the lender often can seize the asset securing the loan. |
| **Reposition Assets** | Using existing assets such as cash, jewelry, or securities to pay down or pay off debt. Loans with the highest interest rates should be paid off first. | There may be negative tax implications if an asset with long-term appreciation is sold. Be sure you keep adequate liquid reserves to cover any future emergency. |

## Outside Help

Many credit counseling agencies are available to help consumers who find themselves in financial trouble. Not all of these agencies work in a consumer's best interest. A reputable credit counseling agency has counselors trained in budgeting, credit, and debt management. A good counselor works closely with you to develop a personalized plan to resolve your individual debt problems.

- **Debt management plan:** A debt management plan, or DMP, may be recommended by a credit counselor. In a DMP, you make monthly payments to the credit counseling agency, which then uses your money to pay your unsecured debts in accordance with an agreement between you and your creditors. DMPs are not for everyone and may have restrictions which are unacceptable to some consumers.
- **Debt negotiation:** For a fee, debt negotiation firms offer to "negotiate" settling a debt with a creditor, often for 10% to 50% of the amount owed. These programs can be highly risky and can have a negative, long-term impact on your credit rating. The IRS may consider any debt forgiven as taxable income.
- **Credit "repair" firms:** Companies or agencies that offer or promise to "repair" your credit record should be regarded as scams. The passage of time and a regular history of repaying your debts are the only way to truly "fix" your credit report.


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## A Last Resort – Personal Bankruptcy

If your debts are truly overwhelming, personal bankruptcy is a drastic option of last resort. Bankruptcy is a court-supervised process in which a debtor either has his debts eliminated (Chapter 7) or a plan is arranged which allows debt repayment under the supervision of the bankruptcy court (Chapter 13). Certain debts, such as most taxes, child support, and alimony, cannot be "discharged" through bankruptcy. Federal law requires a debtor to undergo credit counseling before filing bankruptcy and to complete debtor education before bankruptcy can be finalized. Competent legal advice is highly recommended.

- **Chapter 7:** Also known as "liquidation", Chapter 7 effectively erases your unsecured debts. With the exception of certain "exempt" property,[1] other assets that you own, such as your home, jewelry, or artwork, may be sold and the proceeds used to pay your debts. Not everyone qualifies for Chapter 7 bankruptcy; if you have a regular income that exceeds certain limits, you may be required to file Chapter 13. A Chapter 7 bankruptcy remains on your credit record for 10 years.
- **Chapter 13:** Also known as "wage earner" bankruptcy, Chapter 13 allows you to propose a plan to repay your debts over a three to five year period. To qualify for Chapter 13, you need a steady source of income and your debts must not exceed certain dollar limits. A Chapter 13 bankruptcy remains on your credit record for 7 years.
- **Online resources:** See the website of the Department of Justice, U.S. Trustee, at https://www.justice.gov/ust.

[1] The amount and type of exempt property can vary with state law.


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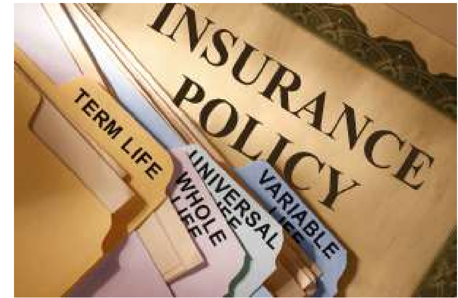
# Types of Life Insurance Policies




In choosing the type of life insurance policy you purchase, consideration must be given to the need which is being filled, e.g., creation of an estate, payment of estate settlement costs (federal and state death taxes, last illness and burial costs, probate fees, etc.), business buy-out, key-man coverage, etc.

## Decreasing Term

**Level premium, decreasing coverage, no cash value:** Used for financial obligations which reduce with time, e.g., mortgages or other amortized loans.

## Annual Renewable Term

**Increasing premium, level coverage, no cash value:** Used for financial obligations which remain constant for a short or intermediate period, e.g., income during a minor's dependency.

## Long-Term Level Premium Term

**Level premium, level coverage, no cash value:** The annual premiums are fixed for a period of time, typically 5, 10, 15 or 20 years. Used for financial obligations which remain constant for a short or intermediate period, e.g., income during a minor's dependency.

## Whole Life

**Level premium, level coverage, cash values:** Cash value typically increases based on insurance company's general asset account portfolio performance. Used for long-term obligations, e.g., surviving spouse lifetime income needs, estate liquidity, death taxes, funding retirement needs, etc.

## Single Premium Whole Life

**Entire premium is paid at purchase, cash values, level coverage:** Provides protection as well as serving as an asset accumulation vehicle.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# Types of Life Insurance Policies

## Universal Life

**Level or adjustable premium and coverage, cash values:** Cash values may increase, based on the performance of certain assets held in the company's general account. Used for long-term obligations or sinking-fund needs, estate growth, estate liquidity, death taxes, funding retirement needs, etc.

## Indexed Universal Life

**Level or adjustable premium and coverage, cash values:** Cash values may increase, based on the performance of an underlying stock or bond "index." The death benefit may increase or decrease (but not below a guaranteed minimum) depending on investment performance. Used for long-term obligations or sinking fund needs, estate growth, estate liquidity, paying death taxes, funding retirement needs, etc.

## Variable Life and Variable Universal Life

**Level or adjustable premium, level coverage, cash values:** Used for long-term obligations, by those individuals who are more active investors, for estate growth, and death tax liquidity. The death benefit may increase or decrease depending on investment performance. The policy owner directs cash values to a choice of investment accounts (bond, stock, money market, etc.). However, cash values are not guaranteed.

**Note:** Withdrawals and loans may be available from permanent policies. Withdrawals and policy loans may reduce the death benefit and will reduce the cash value of the policy. There are different income tax consequences if they are modified endowment contracts.


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# Ways to Save for College

In accumulating funds for college, one of the first questions a family will face is, “Where do we invest the money?” Many financial professionals will recommend that money for college be placed in relatively low-risk investments. If there is a long enough time frame, the savings may be placed initially in higher risk (and potentially higher return) investments. As the time for college gets closer, the funds can be shifted into more conservative choices.

The ultimate decision will depend on a range of factors such as the number of years until college begins, the amount of money available to invest, a family’s income tax bracket, risk tolerance, and investment experience. A few of the more traditional approaches are:

- **Savings accounts:** Including CDs, money market accounts, and regular savings.
- **Tax-free municipal bonds:** Held either directly or through a mutual fund.
- **U.S. Treasury securities:** Such as treasury bills or treasury bonds.
- **Growth stocks/growth mutual funds:** For the long-term investor.

## Tax-Advantaged Strategies

Under federal income tax law (state or local income tax law may differ), there are a number of tax-advantaged strategies available to accumulate funds for college expenses. The rules surrounding these strategies can be complicated and they should only be used after careful review with a tax or other financial professional:

- **IRC Sec. 529 qualified tuition program:** These plans allow an individual to either prepay a student's tuition, or contribute to a savings account to pay the student's qualified education expenses. Contributions are not tax deductible, but growth in an account is tax-deferred. If certain requirements are met, distributions to pay qualified educational expenses are excluded from income. 529 plans involve investment risk, including possible loss of funds, and there is no guarantee a college-funding goal will be met. The fees, expenses, and features of 529 plans vary from state to state.


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- **Coverdell education savings account:** Up to $2,000 per year may be contributed to a Coverdell ESA for an individual. Contributions are not tax-deductible, but growth is tax-deferred. Distributions are excluded from income if used for qualifying educational expenses. Other restrictions may apply.
- **Cash value life insurance:** Cash value life insurance can be an attractive, tax-favored means of accumulating school funds. If an insured dies before the student starts school, the policy proceeds can be used to pay educational expenses.
- **U.S. savings bonds:** Interest on series EE savings bonds issued after 1989, or Series I savings bonds, may (certain limits apply) be excluded from income if qualifying education expenses are paid in the year the bonds are redeemed. The exclusion also applies to savings bond interest contributed to an IRC Sec. 529 qualified tuition program or a Coverdell ESA.

## Who Owns the Funds?

A second issue facing families planning for college is the question of "Who will own the funds?" The answer to this question involves issues of control, income and gift taxes, and can impact a future application for financial aid:

- **Parents:** Either in accounts specifically earmarked for college or as a part of a general family portfolio.
- **Child:** Often a custodial account is used, under either the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA).
- **Trust:** In certain situations, usually involving wealthy families, specialized types of trusts may be used, such as a Crummey trust or charitable remainder trust.

## Impact On Financial Aid

For need-based financial aid purposes, assets considered to be owned by the **parents** have a relatively small negative impact. Assets considered to be owned by the **child** have a much greater negative impact. Trust assets are often considered to be owned by the child, but this can vary widely. Frequently, trust provisions restrict access to principal, thus forcing inclusion of the trust assets in the eligibility process each year that a student is in school. Non-trust assets can be "spent down" in a year or two, limiting their financial aid impact.


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## Other Resources

There are a number of excellent references and guides to investments and college planning available in bookstores and public libraries. State and federal agencies involved in higher education also are excellent sources of information. In addition, there are a number of sites on the Internet which can provide information, including the following:

- **The College Board** – https://www.collegeboard.org
- **Finaid:** https://www.finaid.org
- **College Savings Plan Network** – links to state-run web pages on prepaid tuition or college savings plans, at: https://www.collegesavings.org
- **Federal government:** https://studentaid.gov/

## Begin Early and Seek Professional Guidance

Developing a plan to save for a child's college education can be complicated. Questions can arise involving income tax, estate and gift taxes, investment issues, and the impact of asset ownership on financial aid eligibility. Individuals are strongly advised to begin a savings program as early as possible, and seek professional guidance.


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# 529 Education Savings Plan

Federal tax law allows[1] the states to establish tax-advantaged savings programs to pay for a student's qualified educational expenses. In these programs, cash contributions are made to an account established for a named beneficiary. An investment management firm typically manages account funds. The amount ultimately available to pay for the beneficiary's education depends on growth in the account between contribution and withdrawal. Such education savings accounts are not insured and losses are possible.

Under federal tax law, contributions are not tax deductible and any growth in an account is tax-deferred. Distributions used solely to pay for qualified educational expenses are federally tax-exempt. State or local law, however, can vary widely; contributions may or may not be tax deductible, and distributions may or may not be tax exempt.

## Key Definitions Under IRC Sec. 529

- **Qualified higher educational expenses:** For post-secondary education, generally, tuition, fees, books, supplies, and equipment required for attendance qualify. Computers, software, peripheral equipment, and internet access also qualify if they are to be used primarily by the beneficiary while the beneficiary is enrolled at an eligible education institution. Reasonable costs of room and board are also included if the student is attending school at least half time. Additionally, qualified expenses include costs incurred to allow a special needs beneficiary to enroll at and attend an eligible institution.

  Beginning in 2018, the Tax Cuts and Jobs Act of 2017 (TCJA) expanded the definition of qualified higher education expenses to include expenses for tuition incurred in connection with the enrollment or attendance of the designated beneficiary at an elementary or secondary, public, private, or religious school.

[1] "529" refers to Section 529 of the Internal Revenue Code, the section of federal law which authorizes these plans. The discussion here concerns federal income tax law. State or local law may differ.


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The SECURE Act, effective for distributions after December 31, 2018, further expanded the definition of qualified higher education expenses to include expenses related to participation by a designated beneficiary in an apprenticeship program registered with the Secretary of Labor. This act also provided for distributions for the payment of interest or principal of a qualified education loan for the designated beneficiary or a sibling.

- **Eligible educational institution:** Generally, accredited post high-school institutions offering associates, bachelors, graduate level, or professional degrees qualify as eligible. Certain vocational schools are also included. Elementary or secondary public, private, or religious schools, as well as apprenticeship programs registered with the Secretary of Labor also qualify.

## Contributions

Contributions to a savings plan must be in cash and may not exceed the amount necessary to provide the beneficiary's qualified educational expenses. While some donors contribute lump-sum amounts, many 529 savings plan accounts are set up with automatic monthly payments. Other considerations include:

- For federal gift tax purposes, contributions are considered completed gifts of a present interest. Generally, no federal gift tax will be payable if a contribution is limited to the annual gift tax exclusion amount. For 2025, this is $19,000. A married couple can elect to "split" gifts for a total annual contribution of $38,000.
- If a contribution for a single beneficiary in one calendar year exceeds the annual exclusion amount, the donor may elect to treat the contribution as having been made ratably over a five-year period.[1] Thus, for 2025, an individual could contribute up to $95,000 for a single beneficiary in one calendar year. If a married couple elects gift splitting, $190,000 could be contributed.
- Contributions may be made to both a savings plan and a Coverdell Education Savings Account (Coverdell ESA) for the same beneficiary in the same year.

[1] If the donor dies before the end of the five years, a pro-rata portion of the contribution is included in his or her estate. Any amounts in a savings plan when the beneficiary dies will generally be includable in the beneficiary's estate.


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## Distributions

For federal income tax purposes, distributions used to pay for post-secondary qualified educational expenses are excluded from gross income if the amount distributed does not exceed the amount of qualified educational expenses. If a distribution is greater than the amount of qualified educational expenses, a portion of the earnings may be subject to federal income tax and a 10% penalty tax may also apply

Tax-free distributions in connection with the enrollment or attendance of a designated beneficiary at an elementary or secondary public, private, or religious school are limited to $10,000 per year. This limitation applies on a per-student basis, not a per-account basis. Any distribution in excess of $10,000 is subject to tax. No more than $10,000 (a lifetime limit) may be distributed for any one individual in payment of principal or interest on a qualified education loan.

- **Distributions due to the death or disability of the beneficiary, or the receipt of certain scholarships:** The earnings portion of the distribution is taxable as ordinary income to the recipient of the payment.

- **Rollover distributions:** Federal law allows one tax-free transfer every twelve months, from one savings plan to another, for the same beneficiary. Funds may be rolled from a 529 education savings plan to a 529 prepaid tuition plan and vice versa. If there is a change of beneficiary within the same family, the rollover must be completed within 60 days or the earnings portion will be subject to tax. If a new beneficiary is not part of the same family as the original beneficiary, the earnings portion of the transfer is subject to current income tax.
- **ABLE account rollovers:** TCJA, for 2018 – 2025, allows amounts from 529 plans to be rolled over to an ABLE account, provided that the ABLE account is owned by the beneficiary of the 529 account or a member of the beneficiary's family. Such rolled-over amounts count toward the annual limitation ($19,000 in 2025) that can be contributed to an ABLE account. Any amount rolled over in excess of this limit will be included in the beneficiary's gross income.
- **Other distributions:** If a distribution is made from a savings plan for any other reason, the earnings portion of the distribution is included in the taxable income of the recipient. A 10% penalty tax is also applied against the distributed earnings.


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- **529 Plan Rollover to Roth Account:** For distributions after 2023, a beneficiary for whom a Sec. 529 Qualified Tuition Plan has been in existence for at least 15 years may make tax and penalty-free contributions to a Roth IRA from the 529 plan in a direct, trustee-to-trustee transfer. Such contributions are limited to a lifetime maximum of $35,000, are subject to the annal IRA contribution limits ($7,000 in 2025), and may not exceed the aggregate amount contributed to the 529 plan (and earnings thereon) before the five-year period ending on the date of distribution
- **State and local law:** State and local law can vary widely from federal law with regard to the income tax treatment of both contributions and withdrawals.
- **Coordination with other programs:** A beneficiary may generally also claim either the American Opportunity Tax Credit or Lifetime Learning Credit (not both for the same student in the same tax year) or, receive a distribution from a Coverdell ESA, as long as the qualifying educational expenses are not the same.

## Education Savings Account Characteristics

There are a number of account characteristics that a donor should clearly understand:

- The beneficiary must be identified at the time an account is created.[1] The account owner is usually the primary contributor. However others, such as grandparents, may also contribute.
- The account owner may change the beneficiary. If the new beneficiary is a member of the same family,[2] there is generally no current federal income tax liability.
- Amounts accumulated in a savings plan operated by one state generally may be used at educational institutions in a different state.
- An education savings plan involves investment risk, including the potential to lose money. Contributing to an education savings plan does not ensure that your education funding goals will be met. Further, there is no guarantee that a beneficiary will be admitted to a particular school or college.

[1] An exception exists for organizations accumulating funds for future scholarships.

[2] Generally, siblings, children, grandchildren, parents, grandparents, nieces or nephews, uncles or aunts, their spouses, and first cousins are considered members of the same family.


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- Under federal law, neither the beneficiary nor the account owner is permitted to direct the investments in the account. Account owners may, however, choose among broad investment strategies established by the program sponsor. A change in investment strategy is generally permitted twice each calendar year, or when a new beneficiary is named.
- Most 529 savings plans require that funds contributed for a beneficiary from a custodial account become the property of the beneficiary when the beneficiary reaches his or her majority. A custodial account is one set up under the Uniform Gifts to Minors Act (UGMA), the Uniform Transfers to Minors Act (UTMA), or the local state version.

## Other Issues to Consider

- **Home State Plans:** The fees, expenses, and features of education savings plans vary widely from state to state; some states have more than one plan. Consider whether the plan in your (or the beneficiary's) home state offers any tax or other benefits that are only available to participants in that particular state's plan.
- **Effect on financial aid:** Assets in a 529 savings plan are considered in the "Expected Family contribution" calculations. Tax-free distributions from a 529 savings account (those used to pay for qualified educational expenses) are not counted as income to either the parent or student in the financial aid determination process.[1]

## Internet Resources

- **The College Board:** https://www.collegeboard.org
- **Finaid:** https://www.finaid.org
- **College Savings Plan Network:** links to state-run web pages on prepaid tuition or college savings plans, at: https://www.collegesavings.org
- **U.S. Department of Education – student aid website:** https://studentaid.gov

## Seek Professional Guidance

Individuals considering an education savings plan are faced with a number of income, gift, estate tax, and investment questions. The guidance of appropriate tax, legal, need-based student aid, and financial professionals is highly recommended.

[1] See the U.S. Department of Education "Dear Colleague" letter of January 22, 2004, GEN-04-02.


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# IRAs Compared

There are substantial differences between a traditional (nondeductible) IRA, a traditional (deductible) IRA, and a Roth IRA.

| Item | Traditional IRA (Nondeductible) | Traditional IRA (Deductible) | Roth IRA |
|---|---|---|---|
| **Basic eligibility requirements** | Any person of any age who has compensation. | Any person of any age who has compensation. | Any person of any age who has compensation.[1] |
| **Maximum contribution** | Generally, the lesser of $7,000[2] ($14,000[3] for a married couple) or 100% of compensation.[4] | | |
| **Is the contribution deductible?** | No | Yes, if neither spouse is covered by a qualified plan (QP). If single and covered by a QP, contribution is deductible if modified adjusted gross income (MAGI) is less than $79,000. Deduction phased out for MAGI between $79,000 and $89,000. If MFJ and one spouse is covered by a QP, the nonparticipant spouse may make a deductible contribution if MAGI is $236,000 or less. This deduction is phased out for MAGI between $236,000 and $246,000. The participant spouse may make a deductible contribution if MAGI is $126,000 or less. This deduction is phased out for MAGI between $126,000 and $146,000.[5] | No |

[1] For 2025, the maximum contribution to a Roth IRA is phased out for single taxpayers with modified adjusted gross income (MAGI) between $150,000 and 165,000. For married couples filing jointly, the phase-out range is a MAGI of 236,000 to $246,000. For married individuals filing separately, the phase-out range is a MAGI of $0 to $10,000.

[2] This amount applies to 2025. For 2024, the maximum allowable contribution was $7,000.

[3] This amount applies to 2025. For 2024, the maximum allowable contribution was $14,000.

[4] If an IRA owner is age 50 or older, he or she may contribute an additional $1,000 ($2,000 if the spouse is also age 50 or older).

[5] These are 2025 limits. For 2024 the phase-out ranges were (1) MFJ - MAGI of $123,000 - $143,000; (2) Single - $77,000 - $87,000. For taxpayers using the MFS filing status, the phase-out range is $0 - $10,000, which does not change.


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| Item | Traditional IRA (Nondeductible) | Traditional IRA (Deductible) | Roth IRA |
| --- | --- | --- | --- |
| **Are earnings currently taxed?** | No | No | No |
| **Taxation of withdrawals at death or disability**[1] | Contributions are received tax-free and earnings are taxable. | All distributions are taxable. | No taxation of qualified distributions. |
| **Taxation of $10,000 withdrawn for first-time home purchase**[1] | Proportionate part attributable to earnings is taxable. | All $10,000 subject to income tax. | "Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2] |
| **Taxation of withdrawals to pay for deductible medical expenses, e.g., expenses in excess of 7.5% of adjusted gross income (AGI)** | Proportionate part attributable to earnings taxed as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses, e.g., amounts in excess of 7.5% of AGI. | Entire withdrawal taxable as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses, e.g., amounts in excess of 7.5% of AGI. | "Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2] |
| **Taxation of withdrawals to pay for qualified higher education expenses**[1] | Proportionate part attributable to earnings is taxable. | Entire withdrawal is subject to income tax. | "Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2] |

[1] For individuals under age 59½, the 10% penalty tax does not apply in these situations.

[2] Generally, a "qualified" distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds to pay for first-time homebuyer expenses.


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| Item | Traditional IRA (Nondeductible) | Traditional IRA (Deductible) | Roth IRA |
|---|---|---|---|
| **Taxation of distributions not covered above[1]** | Nondeductible contributions received tax-free. Earnings are taxed at ordinary rate. | All distributions are taxable at ordinary rates. | "Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2] |
| **Are there required minimum distributions (RMDs) during the owner's lifetime?** | RMDs must start by April 1 of the year after the year the account owner reaches age 73[3]. | RMDs must start by April 1 of the year after the year the account owner reaches age 73[3]. | No RMDs is required during the life of owner. |
| **Are direct transfers of funds in an IRA to a Health Savings Account allowed?** | Yes | Yes | Yes |
| **By when must an IRA be set up and funded?** | By the due date for filing the IRA owner's federal income tax return for the year of the contribution, generally April 15 of the following year. | | |
| **Federal bankruptcy protection** | Federal bankruptcy law protects assets in all IRAs, up to $1,512,350. Funds rolled over from qualified plans are protected without limit. State law may vary. | | |
| **Are charitable distributions of up to $108,000 (2025) to a qualified charity by an owner at least age 70½ allowed?** | Yes | Yes | Yes |
| **Are *one-time* charitable distributions of up to $54,000 (2025) to a charitable gift annuity or charitable remainder trust allowed?** | Yes | Yes | Yes |

[1] All taxable amounts are subject to penalty tax of 10% if received prior to age 59½, unless an exception applies.

[2] Generally, a "qualified" distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds to pay for first-time homebuyer expenses.

[3] Under current regulations, the age to begin RMDs increases after 2022 to: (1) age 73 for those born from 1951 to 1959; and (2) to age 75 for those born after 1959. Previously, age 72 was the mandated age to begin RMDs.


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## Comparison of Returns from Various Types of IRAs

The table below is a hypothetical illustration of the impact of time and income taxes on the various types of IRAs.[1] The calculations assume that any tax savings from deductible contributions are invested in a separate, annually-taxable fund and that all funds are withdrawn in a lump sum at retirement.

### Assumptions:

Desired net annual contribution: $7,000
Marginal income tax bracket – pre-retirement: 28.00%
Marginal income tax bracket – post-retirement: 25.00%
Tax-deferred growth rate: 7.00%
After-tax growth rate: 5.04%
Number of years until retirement: 20

| Item | Traditional IRA (Nondeductible) | Traditional IRA (Deductible) | Roth IRA |
|---|---|---|---|
| **A. Pre-Retirement** | | | |
| 1. Contributions are made | After-tax | Before-tax | After-tax |
| 2. Gross amount | $9,722 | $7,000 | $9,722 |
| 3. Income taxes payable | 2,722 | 0 | 2,722 |
| 4. Net annual contribution to IRA | 7,000 | 7,000 | 7,000 |
| 5. Annual tax savings to taxable account | 0 | 1,960 | 0 |
| **Total net annual savings** | **$7,000** | **$8,960** | **$7,000** |
| **B. At Retirement** | | | |
| 1. Net accumulation in the IRA[2] | $307,056 | $307,056 | $307,056 |
| 2. Future value of tax savings | 0 | 68,364 | 0 |
| 3. Total available before taxes | 307,056 | 375,420 | 307,056 |
| 4. Income taxes payable | -41,764 | -76,764 | 0 |
| **Net after income taxes** | **$265,292** | **$298,656** | **$307,056** |

[1] Based on federal law. State or local law may differ.
[2] Assumes annual contributions are made at the beginning of each year.


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# Accumulation Goals

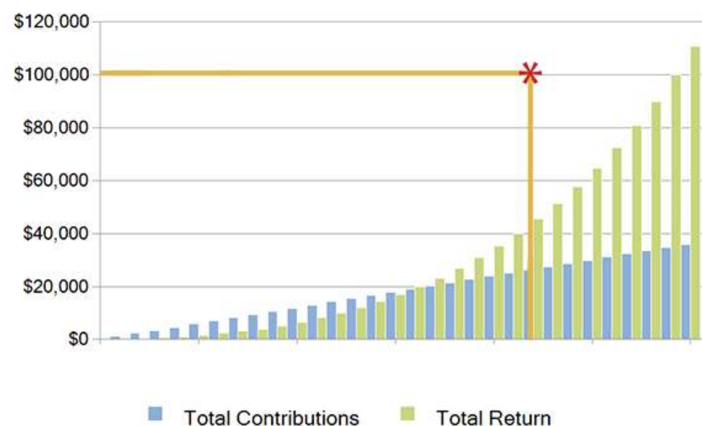
## Four Key Factors

A savings plan to reach an accumulation goal has four distinct, yet interrelated, factors, each of which contributes to the success or failure of the plan.

- **Contribution amount:** How much is being saved? Should more or less be put aside? Is inflation being considered in future contribution amounts?
- **Rate of return (ROR):** How much is being earned in interest, dividends or capital growth? Can a higher return be earned, without greater risk? How is the growth taxed?
- **Time frame:** How much time remains to reach the goal? Can the time frame be shortened or should it be extended? Compound interest will have its greatest impact in later years. Adding a year or two (or more) can be a tremendous help.
- **Amount of the goal:** Can the goal amount be adjusted? How much is really needed? Sometimes the most difficult factor to adjust is the goal amount, due to an emotional attachment.

## A Hypothetical Example[1]

Consider the following example, illustrated graphically below. A couple wants to accumulate $100,000, 20 years from now, to purchase a vacation home. They are currently saving $1,000 per year and earning 7% per year on their savings. At this rate of savings and growth, at the end of 20 years they will have accumulated $43,865 – well short of the goal. As the graph indicates, they could achieve their goal by continuing to save for 10 more years. They don't, however, wish to wait that long.




[1] The rates of return shown are not indicative of any particular investment and will fluctuate over time.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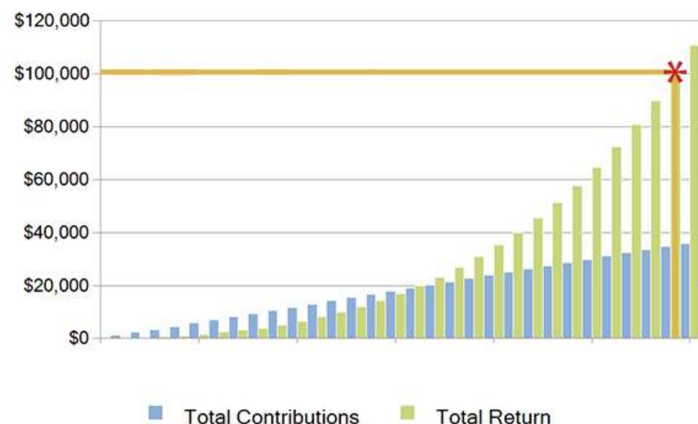
## Small Changes

Now consider how a few coordinated changes can make a difference to the success of the plan. If the couple makes relatively small changes to each of the four factors, the goal can be met. The graph below illustrates the effect of making the following four adjustments:

- Increase their annual contribution to $1,200 – a 20% increase; and
- Reallocate their savings to earn an 8% ROR – a 14.3% increase;[1] and
- Plan to save for an additional four years – a 20% increase; and
- Reduce the goal from $100,000 to $85,000 – a 15% decrease.

With all of these changes, the couple is now on track to meeting their goal. There are, of course, any number of change combinations that can be applied to this example. The right combination will depend on the individuals involved and the importance of the objective.




[1] A higher rate of return generally involves a greater degree of volatility and risk.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# Key Estate Planning Considerations

Although Congressional action has effectively eliminated federal estate and gift taxes for all but the wealthiest Americans, there is still a vital need to do estate planning.

Why? There are several key reasons: (1) to be sure that all of your wishes are followed after death; (2) to plan for *state* inheritance or estate taxes, if you live (or own property) in a state which levies such a tax; and (3) to plan in advance how to pay for any estate settlement costs. Federal estate tax law may have changed, but estate planning *still* matters.

## Transfer of Assets

A primary objective is to insure that your assets go to those you want to receive them.

| Method | Description |
|---|---|
| **Will** | Considered a key element in any estate plan, a will is a legal document, prepared under state law, which names those who should receive your property. An "executor" is generally named in the will to carry out your wishes. After death, "probate" will be required, a process in which the property listed in the will is distributed to the named heirs under court supervision. Unfortunately, the probate process is frequently expensive and time-consuming, and generally makes the contents of a will a public record. If you die without a will (termed "intestate"), your property will be distributed according to state law, which may result in your assets being distributed in a manner *not* in accordance with your wishes. |
| **Revocable Trust** | Also known as a "living" trust, a revocable trust can be changed or revoked during the lifetime of the trust creator (the "grantor," "settlor," or "trustor"). Such a trust is often used as a will substitute, when the grantor transfers assets into the trust during life or at death through a "pour-over" will. A revocable trust can make settling a decedent's estate easier and less expensive than probating a will and can also provide privacy not available in probate. |
| **Irrevocable Trust** | An irrevocable trust – as the name implies – cannot be changed once it is set up. These trusts are often used in estate planning for wealthy individuals. An irrevocable trust which holds life insurance can provide the funds needed to pay death taxes and other estate settlement expenses, while keeping the life insurance proceeds outside of the taxable estate. |


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| Method | Description |
| --- | --- |
| **Joint Tenancy** | Assets held in joint tenancy pass automatically at the time of death to the surviving joint owner, if living. In community property states, community property with right of survivorship has the same result. How ownership of an asset is "titled" can be important. |
| **Beneficiary Designations** | Some assets, such as life insurance policies, qualified retirement plans, and IRAs allow the owner to name a "beneficiary." At death, the policy death benefit or title to the asset automatically passes to the named beneficiary or beneficiaries. In some states, "Transfer-on-Death," (TOD) and "Pay-on-Death" (POD) allow certain types of property to automatically pass to named beneficiaries upon the death of the owner. Proper beneficiary designations are essential to make sure the assets pass according to your wishes. |

## Planning for Estate Transfer Costs

If proper prior planning is not done, estate and inheritance taxes, legal fees, and other estate settlement expenses can significantly reduce the legacy passing to your intended heirs.

**Planning for estate settlement costs:** Making maximum use of non-probate transfer methods such as revocable trusts, joint tenancy, community property with right of survivorship, or named beneficiaries, can help limit estate settlement costs and avoid the delay and publicity of probate.

**Planning for estate taxes:**[1] If the dollar value of an estate is large enough to be subject to estate and/or inheritance taxes, these taxes can add appreciably to transfer costs. In 2025, an estate with a net value of $13,990,000[2] or less is exempt from federal estate tax. This federal estate tax threshold is also known as the "applicable exclusion amount." However, most states with an estate or inheritance tax have estate tax thresholds which are considerably lower. Thus, an estate which has no federal estate tax liability could easily be subject to state death taxes.

Under federal estate tax law there are a number of ways to shrink the taxable estate:

- **Lifetime gifts:** each individual has an annual gift tax exclusion, currently $19,000[2] per person per year, generally allowing for tax-free gifts to others.

[1] The discussion here primarily concerns federal law; state or local law may differ.

[2] These values apply to 2025 and are subject to adjustment for inflation in future years.


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- **Marital deduction:** spouses who are both U.S. citizens can gift any amount to each other, generally with no estate or gift tax consequences. The survivor's now larger estate could face a greater estate tax problem when he or she later dies.
- **Charitable giving:** gifts to charities, during life or at death, reduce the estate size.
- **Bypass trust:** A type of trust known as a "bypass" trust allows the first-to-die of a married couple to set aside a portion of his or her assets. In years before 2011, such trusts were used in an effort not to "waste" the first-to-die's applicable exclusion amount. With the applicable exclusion amount currently set at a very high level, plus the introduction in 2011 of the "Deceased Spousal Unused Exclusion" (see below), for *federal estate tax* purposes at least, the bypass trust is less useful than before. When planning for *state death taxes*, however, often with much lower taxability thresholds, the bypass trust remains a useful estate planning tool.[1]
- **Deceased spouse unused exclusion (DSUE):** Beginning in 2011, a change in federal estate tax law provided that any portion of the applicable exclusion amount that remained unused at the death of a spouse could be held over and made available for use by the surviving spouse, in addition to the surviving spouse's own applicable exclusion amount. This "portability" opened up new planning opportunities that did not exist under prior law.

**Paying estate settlement costs**: While careful planning can help reduce estate settlement expenses, the planning process also needs to consider how to pay for the costs that do remain. There may be a need for funds to sustain the family until the estate is settled, to pay off debt or otherwise provide for the surviving spouse or children. An estate will often need to sell assets to raise the needed cash. While some assets are relatively liquid, others may take months or even years to be sold. Working with your investment advisor, you may need to rearrange some of your assets to provide increased liquidity to your estate. If there are currently not enough liquid assets in the estate, consider life insurance as a way to provide the needed funds.

## Caring for Survivors

Your survivors – a spouse, minor children, or a disabled child of any age – must also be considered in the estate plan.

[1] There may also be other, *non-tax* reasons, for including a bypass trust in an estate plan.


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**A guardian for dependents:** In case both parents are deceased, a guardian (and one or more alternates) should be named to care for minor children or other dependents.

**Asset management:** Professional asset management may be necessary to insure that financial resources are not squandered.

## Who Makes Medical Decisions When I Cannot?

Modern medicine can now keep someone "alive" in situations that formerly would have resulted in death. Those who do not wish to have their lives artificially prolonged by such techniques must plan ahead and put their wishes in writing:

**"Living Will":** Also known as a "Directive to Physicians", this document provides guidance as to the type of medical treatment to be provided or withheld and the general circumstances under which the directive applies.

**Durable power of attorney for health care:** Many states have laws allowing a person to appoint someone to make health care decisions for them if they become unable to do so for themselves.

**Durable power of attorney for financial affairs:** Allows another individual to act on your behalf with regard to financial matters in the event of your incapacity.

## Outside the Legal Framework

Most of the documents involved in an estate plan are legal in nature and should be prepared by an attorney. However, not all documents involved in an estate plan are legal ones:

**Letter of Instructions:** A "Letter of Instructions" is an informal document that can include information such as your wishes regarding disposition of your remains, contact information for key advisors and family members, the location of important documents, the description and location of assets, user names and passwords for online accounts, or notes on family history. It is used to provide, in a private manner, direction and guidance to your family or executor in settling your estate.

**Ethical Will:** While a legal will or a trust is used to distribute assets, an "Ethical Will" serves to transfer values and beliefs. It is a very personal expression of the writer's life and values as


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well as the people, events, and experiences that influenced that life.  In a very real sense, an ethical will is a spiritual legacy to future generations.

## Seek Professional Guidance

Although an estate plan can be as simple as a set of hand-written instructions, there are a number of situations where legal guidance is considered vital:

**To create a will or trust:** An experienced attorney, familiar with local law, can prepare the legal documents required to meet the needs of your individual situation.

**Estate taxes:** If your estate is large enough to be subject to estate tax, your attorney can suggest ways to lighten the tax burden.

**Squabbling heirs:** Planning may be needed to minimize potential conflicts between your heirs or beneficiaries.  Such disputes can occur when siblings don't get along or there are children from more than one marriage.

**Property elsewhere:** If you own property in more than one state or country, there may be a need for an ancillary probate.  Living trusts are often used to transfer these assets and avoid the additional probate.

In addition to your attorney, your estate planning "team" will likely include experts from other disciplines such as income tax, life insurance, trust administration, charitable giving, and investment management.  The professional guidance provided by such advisors is a key part of creating and implementing a successful estate plan.

## Periodic Review

Because tax law and personal lives are never static, don't just put your estate plan in a drawer and forget about it.  Many financial professionals recommend a periodic estate plan review.


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