LET'S TALK MONEY®

November/December 2020

Prepare for the Unexpected

2020 has been exceptionally challenging! With a global pandemic, civil discord, flooding and storms, business owners and individuals alike have a renewed appreciation for the value of risk management. Of course, insurance plays an important role in managing risks.

Protect Yourself and Your Family

The first task is to protect yourself and your family from major financial risks such as the death or disability of a breadwinner or parent. Doing so is pretty straightforward.

In a nutshell, most families should consider layering several types of coverage:

- Life and disability insurance;
- Homeowners or renters insurance, including liability insurance;
- Flood insurance (home insurance doesn't cover flooding);
- Car insurance;
- Umbrella insurance, which inexpensively helps cover any large claims against you over and above your basic liability insurance policy limits;
- Long-term care insurance;
- Professional liability insurance (errors & omissions, malpractice insurance, etc.)

Business Risk Management

Business owners have a more complex risk management task. You have to create systems and contingencies that will allow you to continue operating through any crisis.

Here's a brief checklist to help you get started:

- Business continuity plans;
- Business interruption plans;
- Business owner's policy (BOP) – covers a variety of business risks, including looting;
- Employer risk insurance – protects against lawsuits from employees;
- Cyber risk insurance – protects against liability arising from accidental data breaches, hackers and online theft;

No one knows what form the next emergency will take. But an insurance and risk audit can help identify vulnerabilities and gaps in your coverage. It can also identify what types of insurance are not required for your particular situation. Working closely with an insurance professional who knows you, your family and your business is the best way to reduce your risks. After all, insurance professionals are trained to identify risks and design solutions to help protect you.

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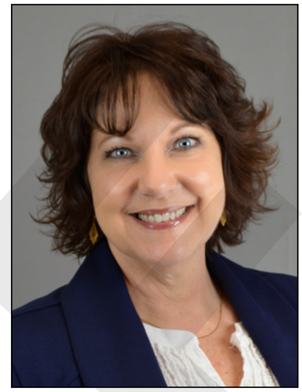

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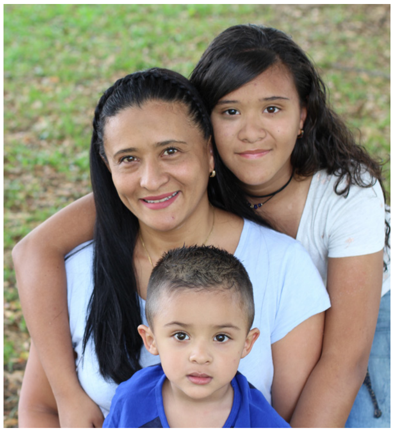
Widowed Parents and Taxes

Life can be turned upside down in a minute. A sudden car accident could result in someone becoming a widow(er). That type of event changes everything, including your tax filing status. It is especially difficult for parents of minor children. Here's a brief overview of what any recently-widowed parent should know.

Filing Status



You may retain the married filing jointly status for the year in which your spouse died, even if you filed separately. This is important, because it lets you keep a much higher standard deduction, which is $24,800 in 2020.

After that, you may be able to file as *qualifying widow(er) with a dependent child* status for up to two years. This would allow you to retain the same standard deduction as married filing jointly.

Who Qualifies?

Here are some general requirements for filing as a qualifying widow(er) with a dependent child:

- You must have qualified for married filing jointly status in the year of your spouse's death;

- You have a dependent child, stepchild, or adopted child (not foster child) living with you, or temporarily at school, and you pay over 50% of the costs of your home;

- You have not remarried. Remarriage in the same year as a death would require the widow(er) to file as either married filing jointly with their new spouse or married filing separately. With either, a married filing separately tax return would need to be filed for the deceased spouse.

Tax tips for Recently Widowed

1. **Claim Your Tax Refund**
You may be entitled to your deceased spouse's tax refund.

2. **File as a Head of Household**
If you were able to file as a qualifying widow(er) for two years you'll have to change your tax filing status in year three. If you are providing support to a child, grandchild, sibling or other relative, you may qualify for head of household status. This is normally preferable to filing as a single taxpayer.

3. **Sell Your Home**
If you have a highly appreciated marital home, consider selling it within two years. This preserves a much larger $500,000 capital gains exclusion than the $250,000 exclusion available to single filers.

4. **Assess Life Insurance Needs**
Your life insurance needs may have changed. Meet with your financial professional to review your new situation.

5. **Social Security**
If you were both taking a Social Security income benefit at the time of your spouse's passing, you will now only be receiving one of those benefits. However, the new benefit should be the larger of the two. Many people compensate for the loss of one monthly Social Security check by taking out more from retirement accounts. But this could trigger tax on up to 85% of your Social Security benefits. Non-taxable income from Roth IRAs doesn't count against you when calculating taxes on Social Security benefits.

Bunching Deductions

As the year draws near a close, it is time to see if there are any moves you can make that will help reduce your annual income tax bill. The Tax Cuts and Jobs Act, passed in late 2017, complicated the matter of taking deductions, but there are some helpful options if you plan ahead.

The Obstacle

The Tax Cuts and Jobs Act doubled the standard deduction. For tax year 2020, it's now $12,400 for single filers and $24,800 for married filers. That affected many people who had few deductions because they are better off taking the standard deduction.

A Possible Solution

That's where bunching deductions comes in. Here's generally how it works: By paying two years' worth of qualifying deductible expenditures before year's end you may be able to exceed the standard deduction and deduct those expenses on your 2020 return. Then next year, take the standard deduction. Alternatively, you can push deductions into next year and take the standard deduction this year.

What Deductions Qualify?

Some examples of deductions that you could bunch include:

Charitable Giving - Rather than making your usual contribution every year, it may make more sense to make a double contribution every other year – or a triple contribution every third year. That way, you aren't effectively taxed on your charitable deductions.

Medical Expenses - If your medical expenses are in excess of 10% of your adjusted gross income, you can deduct them. So, it may make sense to schedule that elective surgery you had planned before year's end—or next year, if you expect higher medical expenses.

Property Taxes - If this year looks to be a high earning year, you could pre-pay property taxes that have actually been assessed, but this deduction is also now capped at $10,000. If moving to a new state, shift deductions to the higher-tax state.

This is a simplified list of potential deductions. Talk to your tax and financial professionals to see how bunching deductions may help you to maximize your tax breaks.

Safe Deposit Box Tips

Safe deposit boxes are one way to keep valuable documents and other items safe offsite.

Here are some items you might consider keeping in your safe deposit box:

- Deed and title documents
- Paper stock and bond certificates
- Vaccination records
- Birth and adoption certificates
- Marriage and death certificates
- DD-214s and other military records
- Precious metals
- Social Security cards

What *not* to keep in a safe deposit box:

- Original copy of your will
- Cash (no FDIC protection)
- Advance directive and power of attorney documents
- Drugs
- Firearms and ammunition
- Hazardous chemicals

Even though safe deposit boxes are usually in banks, the FDIC does not insure the contents. You may be able to purchase insurance separate, or add the items to your homeowners insurance policy.

Increased Charitable Giving Incentives

During the COVID-19 pandemic, Congress recognized the need to boost charitable contributions. So, they included a section in the CARES Act to encourage Americans to open their wallets to those in need.

Their solution: A $300 "above the line" deduction. That means you can deduct up to $300 for cash donations to qualified charities – and you don't have to itemize your expenses to do it.

This $300 deduction does not apply to contributions to donor advised funds. Nor does it apply to contributions of anything other than cash.

The CARES Act also raised the allowable limit on itemized cash donation deductions for charities from 60% to 100% of adjusted gross income. That means that you can actually donate up to an entire year's AGI to charity, if you want – as long as you do it in cash.

The Need for Long-term Care

Everyone values their independence, but sadly, as we get older or experience medical setbacks, we may need help with daily living tasks. According to the Department of Health, 7 out of 10 people turning 65 today will need long-term care during their lifetime and 20% of those will need care for five years or longer.*

Long-term Care Costs

The high cost of long-term care can deplete most people's savings quickly. According to LongTermCare.gov, the nationwide median cost of a semi-private room in a skilled nursing facility is $7,698 per month, totaling $92,376 per year. This cost is not covered under private medical or disability insurance or even Medicare. Medicaid provides some benefits, but only after your assets are spent down to poverty levels.

Long-term Care Insurance

For those who are concerned about these statistics, there may be a place to turn for some help. Long-term care insurance policies are available to help cover the cost of care. Policies vary greatly, offering different benefits and prices. Some examples of the type of care these policies can help cover include: in-home help, adult day care, assisted living or nursing home facilities and even in-home safety modifications.

Is it for You?

Many factors play into the decision to buy a long-term care policy. First thing to consider is your financial situation. Do you have the resources to pay for long-term care? Or, maybe you want coverage to help you to be able to preserve your assets for your spouse or as an inheritance for loved ones.

There are emotional reasons to consider coverage, too. For example, many feel comforted knowing they have the coverage, if needed. Others are concerned about becoming a burden to their family members.

Get Educated

Whatever your reasons for seeking information about long-term care coverage, an insurance professional who is familiar with elder care or long-term care planning will be able to explain the options and various benefits available.

Premiums increase significantly with age and you will have to health-qualify, so don't wait too long to decide.

**https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html*

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Financial Industry Regulatory Authority

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

July 24, 2020

Reference: **FR2020-0701-0091/E**
Link Reference : FR2020-0420-0308

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1. Lets Talk Money Newsletter Nov - Dec 2020 Insurance

   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Natlyn D. Murrain
Associate Principal Analyst

hrm

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