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JULY 2018

A SIMPLE WAY TO SAVE

As summer approaches, many businesses begin to plan next year's employee benefit menu. A retirement plan is typically among employees' most desired benefits, and one of the simplest, most cost-friendly ways to provide one is the **S**avings **I**ncentive **M**atch **PL**an for **E**mployees IRA – better known as a SIMPLE IRA plan.

THE BASICS

Small businesses with 100 or fewer employees that don't offer another retirement plan generally may establish a SIMPLE IRA. This retirement plan allows employee contributions of up to $12,500 annually, indexed to inflation, and a $3,000 catch-up contribution for employees age 50 and older.

EMPLOYER CONTRIBUTIONS

Employers may make mandatory contributions to a SIMPLE IRA in one of two ways. The first is to match each employee's contribution dollar for dollar up to 3% of each employee's compensation. This option allows employers to reduce matching contributions to less than 3% but at least 1% in no more than two out of five years.

The second option is to make nonelective contributions of 2% of the employee's compensation up to the annual compensation limit of $275,000 for 2018. This option requires employers to contribute for all eligible employees, whether or not they contribute to the plan.

PROS AND CONS

There are a few caveats that come with a SIMPLE IRA. If you want higher contribution limits or anticipate growing your company quickly (above 100 employees), other options may prove better. Also, employees younger than age 59½ who make early withdrawals during the first two years of participation in the plan may be subject to an additional tax of up to 25% of the withdrawal, with some exceptions.

However, a SIMPLE IRA is a good retirement plan for a newer company, due to startup and operating costs that are generally less than for a traditional 401(k) and ease of administration. Talk to us to learn more.

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Going it Alone Individual/Business

A one-participant 401(k) plan, often known as a solo or self-directed 401(k), is generally a good retirement plan option for solo entrepreneurs. Although this plan typically has the same requirements as any 401(k) plan, providers may offer solo retirement programs that are less complex and more cost-friendly.

Big Savings

One advantage of a solo 401(k) plan, compared to a SIMPLE plan or IRA, is the larger contribution limit. You may contribute up to $18,500 annually (and an extra $6,000 if age 50 or older) as an employee, up to 100% of earned income, plus make an additional contribution as the employer. If you're self-employed, "earned income" is defined as net earnings from self-employment after deducting one-half of your self-employment tax and contributions.

These 401(k) plans also feature tax-deferred contributions and potential growth, and may particularly provide a good retirement solution for higher-income individuals.

BENEFIT NOW, PAY LATER

When companies offer employees deferred compensation in the form of "qualified" retirement plans, including 401(k) and SIMPLE plans, they offer tax-advantaged contributions and potential earnings. "Non-qualified" deferred compensation (NQDC) plans don't typically include the same tax advantages, yet they help companies compete for and retain top employees.

BANG FOR THE BUCK

Companies use NQDC plans to help employees, typically those who are highly paid and most important, put more money away for retirement than allowed by qualified plans. While large companies historically have offered these plans, smaller firms are finding them useful, too.

STRUCTURE MATTERS

There are a few ways to structure these plans, which are governed by signed agreements between participating employees and employers. One way doesn't involve extra compensation, but allows high-earning employees to defer part of their compensation in return for this money, plus interest, at a later date. Other plans may offer extra compensation or bonuses to valued employees, but only as deferred compensation.

Some agreements let employees put this money in company stock or different investments, while others are simply a promise by the employer to pay a certain amount at a later date. There are pros and cons to each approach, including the potential of investments or the company performing badly and jeopardizing deferred money.

TALK TO THE EXPERTS

NQDC is listed as a liability on the company's ledger, so companies might consider buying life insurance or annuities for key employees, reducing their liability while keeping the benefit the same. Either way, the agreement can contractually obligate recipients to remain with the company for a set period of time to receive the deferred compensation.

Talk to your tax and legal professionals before entering into an NQDC agreement.

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Client PROFILE

My mother, Caroline, is 67 years old and will soon amicably divorce my stepfather. Currently, she receives spousal Social Security benefits and shares his pension payments. How will this change, if at all, when the divorce becomes final?

If your mother's marriage lasted 10 years or longer, she can continue to receive benefits on her ex-spouse's record. As a spouse, she gets a combination of benefits equaling the higher spouse's benefit. So, if her benefits as a spouse are higher than her own retirement benefits, she gets the spousal benefits, minus any extra credits for her spouse's delayed retirement.

This benefit as a divorced spouse is equal to one-half of the ex-spouse's full retirement amount, if payments begin at normal retirement age. In other words, your mother should continue to receive the same Social Security benefits as long as she does not remarry.

Most states consider pensions a joint asset of both spouses and typically divide them with other assets upon finalization of the divorce. However, your state's court will make the final determination, so make sure your mother hires an experienced divorce attorney.

Client Profile is based on a hypothetical situation. The solutions discussed here may or may not be appropriate for you.

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5 ESTATE PLANNING MUSTS

People of almost any financial means share some basic estate planning concerns, which should be addressed in written plans. Here are some tips that can help.

1. UPDATE YOUR WILL
You already have a will, right? Update this document throughout your life when events including births, deaths, divorces and other changes occur.

2. CHECK YOUR EXECUTOR DECISION
While we're talking about wills, make sure the guardian you named to care for your minor children isn't an immature 40-year-old traveling the world.

3. CREATE A LIVING WILL
Also known as an advanced directive, this document details what medical steps to take if you can't communicate them.

4. UPDATE YOUR BENEFICIARIES
When life changes, make sure your retirement plan, life insurance and estate beneficiary designations are current.

5. TALK TO YOUR TAX PROFESSIONAL
Taxes can sneak up on you when you build wealth or inherit assets. Talk to your tax pro.

OVERCOMING DISABILITY BUSINESS

If you are a small business owner and have a partner, you may have agreements about what will happen to business ownership should one of you die or voluntarily leave. A buy-sell agreement should address these events and should also include the possibility of an owner's major disability.

PUT IT IN WRITING

In the buy-sell agreement or in a separate agreement, clearly define qualifying disabilities that would trigger a buyout, and the parties who get right of first refusal to buy the disabled owner's share of ownership. This document should detail what would trigger mandatory and optional buyouts.

FUNDING OPTIONS

Next, explore funding options for buying the disabled owner's share of the business. You might make regular installment payments taken from profits or investments put aside for this possibility, which could be a problem if either experiences difficulties. Or you could buy cash value life insurance on all the owners, with the business named as beneficiary, directing cash value to the business in the event of a qualifying disability.

Many agreements are funded by including long-term disability income insurance, which the business would buy on all partners. Talk to your tax, insurance and legal professionals to learn more.

Q&A

Q: I heard the new tax changes affect depreciation on business-owned automobiles. What are the specifics?

A: The Tax Cut and Jobs Act increased annual depreciation caps on passenger cars. Depreciation on both new and used vehicles acquired and placed in service during 2018 (with a bonus first year depreciation deduction) is capped at $18,000, $16,000, $9,600 and $5,760 for service years one through four. The latter cap also applies after the fourth year. Depreciation limits for business vehicles without the bonus deduction are $10,000, $16,000, $9,600 and $5,760 for service years one through four.

Q: My parents want to give a gift to my son to help pay his college tuition. Will this affect our financial aid?

A: Yes, it will likely affect what's known as your Expected Financial Contribution (EFC), which the federal government, colleges and universities use to determine scholarships. A dependent student is expected to pay a higher percentage of income for college expenses than parents, so giving your son the money directly will likely decrease any financial aid. Your best bet is to have the grandparents make the gift to you or pay some expenses directly for the least effect on financial aid.

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ClientLine® SHORT BITS ••••

> CONSUMER EXPENDITURES ROSE 2.4% IN 2016, ACCORDING TO THE DEPARTMENT OF LABOR'S BUREAU OF LABOR STATISTICS. Families saw average annual expenditures increase from $55,978 in 2015 to $57,311 in 2016. Spending increased in seven of nine categories: food, housing, healthcare, entertainment, education, cash contributions and personal insurance and pensions. Spending on transportation, as well as apparel and services, declined.

> LIMRA CONDUCTED A SURVEY TO LEARN HOW MUCH AMERICAN WORKERS KNEW ABOUT THEIR BENEFITS, AND FOUND OUT THEY CAN USE MORE EDUCATION. A little more than half of employees weren't aware life insurance benefits could be used for any purpose, and fewer than half were aware that short-term disability income insurance generally pays for leave after childbirth. One-quarter of employees understood that critical illness insurance pays out a lump sum that can be used for anything upon diagnosis, not just medical expenses.

> THE FEDERAL RESERVE BANK OF NEW YORK'S FEBRUARY 2018 SCE HOUSING SURVEY SHOWED THE MAJORITY OF HOUSEHOLDS CONTINUE TO VIEW HOUSING AS A GOOD FINANCIAL INVESTMENT, ALTHOUGH SOME FELT THIS WAY MORE THAN OTHERS. About two-thirds of respondents think that buying property in their zip code is a very good or somewhat good investment, compared to 60% in 2016. In the West, 70% think buying property is a good investment compared to 56% in the Northeast.

> THE FIRST-QUARTER WELLS FARGO/GALLUP INVESTOR AND RETIREMENT OPTIMISM INDEX SURVEY FINDS THAT ONLY 20% OF NON-RETIRED INVESTORS HAVE CALCULATED THEIR FUTURE RETIREMENT INCOME OR EXPENSES. Pre-retirees were more likely to have planned their retirement activities and location.

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