Legacy Financial Group
"We inspire people to create the life they want, on their terms."

The Legacy Report

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Are Your Beneficiary Designations Up to Date?

Who should inherit your IRA or 401(k)? See that they do.

Here's a simple financial question: Who is the beneficiary of your IRA? How about your 401(k) or annuity? You may be saying, "I'm not sure." It is smart to periodically review your beneficiary designations.

Your choices may need to change with the times. When did you open your first IRA? When did you buy your life insurance policy? Was it back in the Nineties? Are you still living in the same home and working at the same job as you did back then? Have your priorities changed?

While your beneficiary choices may seem obvious and rock-solid when you initially make them, time has a way of altering things. In a stretch of five or ten years, some major changes can occur in your life and may warrant changes in your beneficiary decisions.

In fact, you might want to review them annually. Here's why: companies frequently change custodians when it comes to retirement plans and insurance policies. When a new custodian comes on board, a beneficiary designation can get lost in the paper shuffle. (It has happened.) If you don't have a designated beneficiary on your retirement accounts, those assets may go to the "default" beneficiaries when you pass away, which might throw a wrench into your estate planning. An example: under ERISA, your spouse receives your 401(k) assets if you pass away. Your spouse must waive that privilege in writing for those assets to go to your children instead.[1]

How your choices affect your loved ones. The beneficiary of your IRA, annuity, 401(k), or life insurance policy may be your spouse, your child, maybe another loved one, or maybe even an institution. Naming a beneficiary helps to keep these assets out of probate when you pass away.

Many people do not realize that beneficiary designations take priority over bequests made in a will or living trust. For example, if you long ago named a son or daughter who is now estranged from you as the beneficiary of your life insurance policy, he or she will receive the death benefit when you die, regardless of what your will states.[2]

You may have even chosen the "smartest financial mind" in your family as your beneficiary, thinking that he or she has the knowledge to carry out your financial wishes in the event of your death. But what if this person passes away before you do? What if you change your mind about the way you want your assets distributed and are unable to communicate your intentions in time? And what if he or she inherits tax problems as a result of receiving your assets?

How your choices affect your estate. If you are naming your spouse as your beneficiary, the tax consequences are less thorny. Assets you inherit from your spouse aren't subject to estate tax, as long as you are a U.S. citizen.[3]

When the beneficiary isn't your spouse, things get a little more complicated – for your estate and for your beneficiary's estate. If you name, for example, your son or your sister as the beneficiary of your retirement plan assets, the amount of those assets will be included in the value of your taxable estate. (This might mean a higher estate tax bill for your heirs.) And the problem will persist: when your non-spouse beneficiary inherits those retirement plan assets, those assets become part of their taxable estate, and their heirs might face higher estate taxes. Your non-spouse heir might also have to take required income distributions from that retirement plan someday and pay the required taxes on that income.[4]

If you properly designate a charity or other 501(c)(3) non-profit organization as a beneficiary of your retirement account assets, the assets can pass to the charity without your estate being taxed, and the gift will be deductible for estate tax purposes.[5]

Citations.

1 - forbes.com/sites/ashleaebeling/2018/01/08/five-retirement-housekeeping-moves-for-the-new-year/ [1/8/18]

2 - thebalance.com/why-beneficiary-designations-override-your-will-2388824 [8/28/17]

3 - nolo.com/legal-encyclopedia/estate-planning-when-you-re-married-noncitizen.html [2/4/18]

4 - corporate.findlaw.com/law-library/who-should-be-the-beneficiary-of-your-qualified-retirement-plan.html [2/4/18]

5 - ameriprise.com/research-market-insights/financial-articles/insurance-estate-planning/charitable-giving/ [2/4/18]

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What Should You Keep?

Even with less itemizing, there are still tax documents you want to retain for years to come.

Fewer taxpayers are itemizing in the wake of federal tax reforms. You may be one of them, and you may be wondering how many receipts, forms, and records you need to hold onto for the future. Is it okay to shred more of them? Maybe not.

The Internal Revenue Service has not changed its viewpoint. It still wants you to keep a copy of this year's 1040 form (and the supporting documents) for at least three years. If you somehow fail to report some income, or file a claim for a loss related to worthless securities or bad debt deduction, make that six years or longer. (It also wants you to keep employment tax records for at least four years.)[1]

Insurers or creditors may want you to keep records around longer than the I.R.S. recommends – especially if they concern property transactions. For the record, the I.R.S. advises you to keep documents linked to a property acquisition until the year when you sell the property, so you can do the math necessary to figure capital gains or losses and depreciation, amortization, and depletion deductions.[1]

Can you scan documents for future reference and cut down the clutter? Yes. The I.R.S. says that legibly scanned documents are acceptable to its auditors. It wants to you keep digitized versions of paper records for as long as you would keep the hard-copy equivalents. Assuming you back them up, digital records may be more durable than hard copies; after all, ink onreceipts frequently fades with time.[2]

While many itemized deductions are gone, many records are worth keeping. Take the records related to investment transactions. It is true that since 2011, U.S. brokerage firms have routinely tracked the cost basis of equity investments purchased by their clients, to help their clients figure capital gains. Some of the biggest investment providers, like Fidelity and Vanguard, have records for brokerage transactions going back to the 1990s. Even so, errors are occasionally made. Why not save your year-end account statement (or digital trading notifications) to be safe? In addition, you will certainly want to keep any records related to Roth IRA conversions (which as of the 2018 tax year can no longer be recharacterized).[3,4,5]

The paper trail pertaining to health care should also be retained. In 2018, you can deduct qualified medical expenses that exceed 7.5% of your adjusted gross income (the threshold is scheduled to rise to 10% in 2019).[4,5]

Some records really should be kept for decades. Documentation for mortgages, education loans, loans from a retirement plan at work, and loans from an insurance policy should be retained even after the loan is paid back. Documentation pertaining to a divorce should probably be kept for the rest of your life, along with paperwork related to life insurance. You should also keep copies of property and casualty insurance policies, receipts of expenses for home repair or upgrades, and inventories of valuable and moderately valuable items at your home or business.[3]

The big picture of personal financial recordkeeping has not changed much. It is still wise to keep records pertaining to financial, health care, insurance, and real estate matters for at least a few years, and perhaps much longer.

Citations.

1 - irs.gov/businesses/small-businesses-self-employed/how-long-should-i-keep-records [2/23/18]

2 - turbotax.intuit.com/tax-tips/tax-planning-and-checklists/keeping-good-tax-records/L61fGcXtc [3/15/18]

3 - nytimes.com/2018/02/23/your-money/financial-documents-you-should-keep.html [2/23/18]

4- turbotax.intuit.com/tax-tips/health-care/can-i-claim-medical-expenses-on-my-taxes/L1htkVqq9 [3/15/18]

5- irs.gov/retirement-plans/ira-faqs-recharacterization-of-ira-contributions [1/23/18]

The New Rules Of Charitable Gifting For 2018

Brian J. Hood, CFP® - Legacy Financial Group

With the recent change in the Tax Code for 2018, we need to think differently about how we give to our favorite charities. Give because you want to give. Do not let this article sway you one way or another on giving. We all have our reasons for giving, and tax benefits should be a secondary concern.

The old way

To better understand the change, let's review the way giving impacted taxes in 2017. A charitable contribution is a Schedule A itemized deduction. There are four major parts to a Schedule A – charity, interest expense, state and property taxes, and unrecovered medical expenses.

In 2017, a married couple got a standard deduction of $12,500. That means to itemize, the combined total of the above items needed to equal more than $12,500, or you just took the standard deduction. Hence, if you could come up with $13,000, you did gain $500 more than the standard deduction, but $500 is all you gained. If you came up with $11,000, you just took the standard deduction.

So what has changed?

The new standard deduction is now $24,000 – great for people that itemize or that are not getting any tax benefit for giving to charities. There is also a $10,000 limit on the maximum deduction you can take on State Taxes and Property Tax.

Most retirees don't or shouldn't have any interest expenses, and they really don't want to have any unreimbursed medical expense. So that only leaves charity. You would need to give $14,000 ($24,000 standard deduction - $10,000 property tax) before exceeding the new standard deduction. Remember, the standard deduction something you would get, even if you didn't give a dime.

So what is the planning opportunity?

Remember, if you are age 70.5 or older, you may need to make Required Minimum Distribu-tions (RMDs) from your retirement plans.

This is the opportunity - give directly from your IRA as part of your RMD, rather than writing a check to your charity. That way, you don't need to claim the income, hence lower taxable income and lower taxes.

Case Study – Bill and Betty Giver

Bill and Betty are ages 73 and 74, and they have a $70,000 income between pensions and Social Security. Their RMD is $20,000 for the year. They normally give about $12,000 to their church each year, and property and state income tax is $12,000.

Here is the old way of giving with the new tax law

$70,000	Social Security & pension
20,000	RMD
$90,000	Gross income
-24,000	Less Schedule A standard deduction $10,000 property/state income tax + $12,000 gifting = $22,000 $22,000 is less than the $24,000 standard deduction, so no need to itemize.
$66,000	Taxable income
$ 7,539	**Taxes paid** $1,905 = 10% of $19,050 (Tax bracket: $0 to $19,050) $5,634 = 12% of $46,950 (Tax bracket: $19,051 to $77,400)

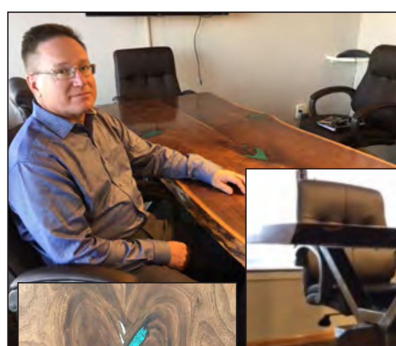
The new way of giving

$70,000	Social Security & pension
8,000	RMD – minus $12,000 sent directly to the church from their IRA
$78,000	Gross income
-24,000	Less Schedule A standard deduction
$54,000	Taxable income
$ 6,099	**Taxes paid** $1,905 = 10% of $19,050 (Tax bracket: $0 to $19,050) $4,194 = 12% of $34,950 (Tax bracket: $19,051 to $77,400)

Your tax savings is $1,440.

If you are over age 70 and have charitable aspirations, **QUIT WRITING CHECKS!** Give from your IRA instead. Let's have a conversation about your real situation before you give, making sure you're not missing out of the new opportunities for tax savings.

New Conference Room Table



Brian J. Hood created a beautiful new conference room table made from a plank of black walnut.

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Our Advisers are here for you...

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515-334-5266

FREE EVENT

College Planning: Insider Tips to Save Money on College

There's more to college planning than opening a 529 plan!

College funding goes to those who know the most about the process today! You may think you know how it works. But the reality is, things have changed since you last looked, and it can cost you thousands!

Legacy Financial Group is proud to sponsor **national college-search expert Cozy Wittman of College Inside Track**, for must-know details on how to navigate the complicated college process.

- Avoid common mistakes in college selection.
- Know what questions you should be asking of every college BEFORE you apply—questions that others don't ask until it's too late.
- Understand what financial factors contribute to your FAFSA and determine your family "need."
- Expel myths that lead families to believe they won't qualify for college aid.
- Learn where the bulk of scholarship and grant money actually comes from.
- Strategize how to maximize your financial award.

Healthiest State Initiative ENDORSED

Don't wait until your child is a senior in high school to implement your strategies. As one of our team members stated, "I wish I'd known this when my son was in sixth grade!" A must for people who know college-bound students—parents, grandparents, family members, friends.

Evening
Tuesday, May 1, 2018 ▪ 6:00-7:00 PM
Timberline Middle School, Commons
2605 SE LA Grant Pkwy ▪ Waukee
RSVP Waukee:
https://saveoncollege-waukee.eventbrite.com

Morning
Wednesday, May 2, 2018 ▪ 7:30-8:30 AM
FFA Enrichment Center
1055 SW Prairie Trail Pkwy ▪ Ankeny
RSVP Ankeny:
https://saveoncollege-ankeny.eventbrite.com