AWM Financial Planning

Get Financially Organized

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It's that time of the year again - Holiday Season! Let's start the New Year off right with a resolution that will help you and your loved ones. Consider these ideas to help organize your finances:

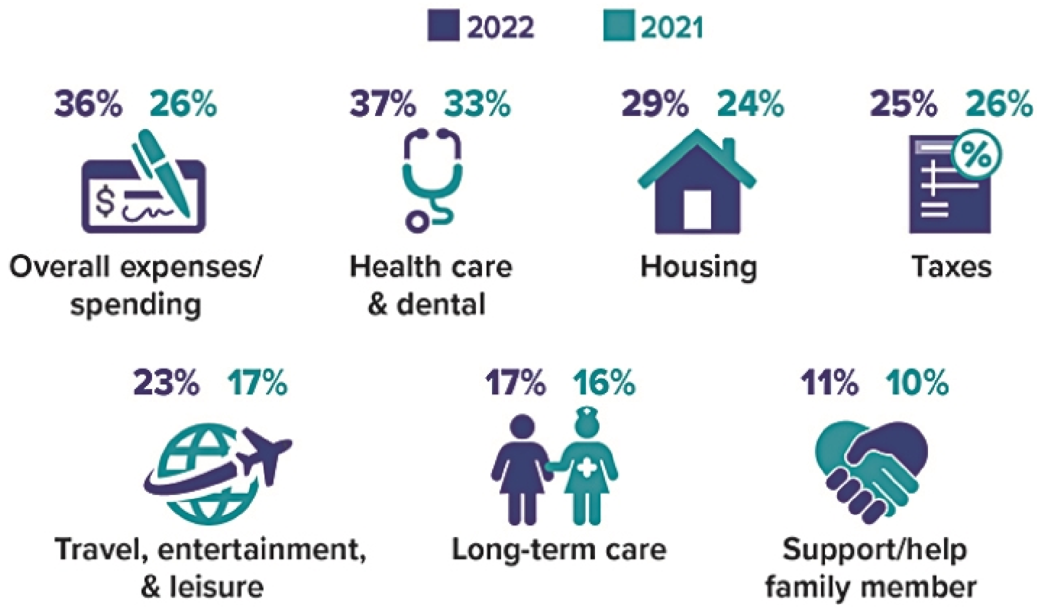
*** Review your Estate Plan** - Is your executor, power-of-attorney and health care surrogate up-to-date? Do the provisions in your will express your wishes? You should review every couple of years and make changes when necessary.

*** Beneficiary Designations** - When was the last time you checked to see who you named as the beneficiary on your retirement accounts, life insurance policies, and annuities? It is amazing the number of people who have prior spouses or deceased relatives still named as a beneficiary on a retirement account at a former employer, or on a life insurance policy purchased long ago.

*** Evaluate your IPS** - your investment policy statement should reflect your investment goals, risk tolerance and liquidity needs. We recommend that you review every other year for appropriateness.

Spending Higher Than Expected for More Retirees in 2022

Considering high inflation, it's not surprising that the percentage of retirees who said their spending was higher than expected increased in 2022 over 2021. These surveys were conducted in January of each year, so with inflation continuing to run high, it's likely that even more retirees may be experiencing unexpected spending.



Source: Employee Benefit Research Institute, 2022

Donor-Advised Funds Combine Charitable Impact with Tax Benefits

A donor-advised fund (DAF) is a charitable account offered by sponsors such as financial institutions, community foundations, universities, and fraternal or religious organizations. Donors who itemize deductions on their federal income tax returns can write off DAF contributions in the year they are made, then gift funds later to the charities they want to support. DAF contributions are irrevocable, which means the donor gives the sponsor legal control while retaining advisory privileges with respect to the distribution of funds and the investment of assets.

Donors can take their time vetting unfamiliar charities and exploring philanthropic opportunities. They can wait to take advantage of matching fund campaigns, have money ready to aid victims when disaster strikes, or build up funds over multiple years to make one large grant for a special purpose. Grants can generally be made to any qualified tax-exempt charitable organization in good standing.

Under current law, there are no rules about how quickly money in DAFs should be granted. However, legislation has been introduced — the Accelerating Charitable Efforts (ACE) Act — that would impose a 15-year limit on the donor's advisory privileges, among other changes. You may want to watch for future developments if you are interested in using donor-advised funds to execute a charitable giving strategy. (Any legislation passed in 2022 likely would not take effect until 2023.)

Tax-Efficient Timing

Gifts to public charities, including donor-advised funds, are tax deductible up to 60% of adjusted gross income (AGI) for cash contributions and 30% of AGI for non-cash assets (if held for more than one year). Contribution amounts that exceed these limits may be carried over for up to five tax years.

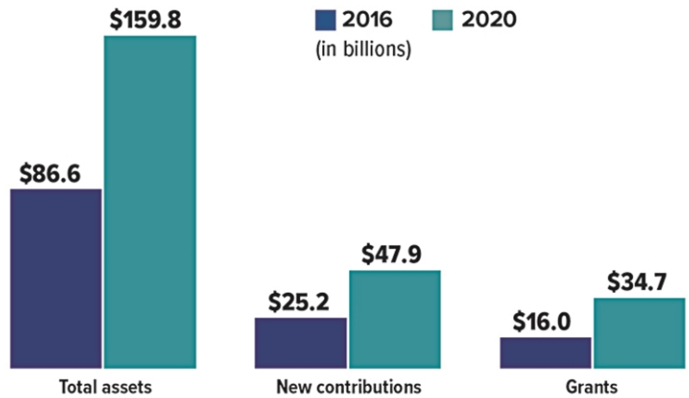
DAF contributions can be timed to make the most of the tax deduction. In an especially high-income year, for example, a larger contribution might keep a taxpayer from climbing into a higher tax bracket or crossing a threshold that would trigger Medicare surcharges or the net investment income tax.

Now that the standard deduction has been expanded ($12,950 for single filers and $25,900 for joint filers in 2022), many taxpayers don't benefit from itemizing deductions, including those for charitable donations. But with advance planning, it may be possible to bunch charitable contributions that would normally be donated over several years in a single tax year, ensuring that itemized deductions surpass the standard deduction.

A similar approach may appeal to pre-retirees in their peak earning years. Those who expect to be in a lower tax bracket and/or might claim the standard deduction during retirement might consider making deductible contributions to a donor-advised fund while they are still working.

Growth in Donor-Advised Funds

Contributions to DAFs accounted for about 10.1% of total U.S. charitable giving in 2020.



Source: National Philanthropic Trust, 2021

Gifting Appreciated Assets

Contributions to a donor-advised fund can be made with cash, publicly traded securities, and more complicated assets such as real estate, valuable art and collectibles, or a stake in a privately held business, offering a convenient way to gift appreciated assets. Fund sponsors typically have experience in evaluating and liquidating donated assets (a qualified appraisal may be needed). This way, a donor can make a single contribution to a DAF that eventually benefits multiple charities, including smaller organizations that are not able to accept direct donations of appreciated assets.

Giving appreciated assets to charity can provide lucrative tax savings. A donor may qualify for a tax deduction based on the current fair market value of the contribution while helping reduce capital gain taxes on the profits from the sale of those assets. This strategy may be helpful when family businesses or shares of privately held companies are sold, or any time a larger tax deduction is needed.

DAFs have fees and expenses that donors giving directly to a charity would not face. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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.

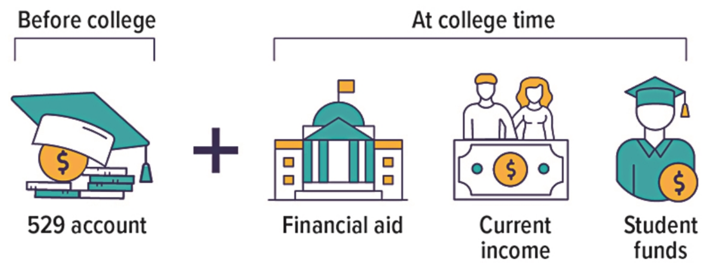
What happens if I open a 529 plan in one state and then move to another state?

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

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