Tibbitts Financial Consulting

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Hi Everyone,

Well, that was fun! Now that the election is over we can get back to focusing on the upcoming holidays and time with friends and family. Hopefully the weather will continue to cooperate so all travel plans go smoothly.

These articles represent questions I hear fairly regularly, so hopefully they might answer one you have had. If you have questions or concerns regarding your situation, please don't hesitate to call. As always, if I can be of help to you or anyone you care about, please let me know.

Happy holidays to all! Thank you.

Steve

November 2016

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Information to chew on...

Will vs. Trust: Is One Better Than the Other?

When it comes to planning your estate, you might be wondering whether you should use a will or a trust (or both). Understanding the similarities and the differences between these two important documents may help you decide which strategy is better for you.

What is a will?

A will is a legal document that lets you direct how your property will be dispersed (among other things) when you die. It becomes effective only after your death. It also allows you to name an estate executor as the legal representative who will carry out your wishes.

In many states, your will is the only legal way you can name a guardian for your minor children. Without a will, your property will be distributed according to the intestacy laws of your state. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next.

What is a trust?

A trust document establishes a legal relationship in which you, the grantor or trustor, set up the trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust most often used as part of a basic estate plan. "Revocable" means that you can make changes to the trust or even end (revoke) it at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs.

A living trust is created while you're living and takes effect immediately. You may transfer title or "ownership" of assets, such as a house, boat, automobile, jewelry, or investments, to the trust. You can add assets to the trust and remove assets thereafter.

How do they compare?

While both a will and a revocable living trust enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. Here are a few important ones.

- A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.
- In order to exclude assets from probate, you must transfer them to your revocable trust while you're living, which may be a costly, complicated, and tedious process.
- Unlike a will, a trust may be used to manage your financial affairs if you become incapacitated.
- If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.
- A trust can be used to manage and administer assets you leave to minor children or dependents after your death.
- In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

Which is appropriate for you?

The decision isn't necessarily an "either/or" situation. Even if you decide to use a living trust, you should also create a will to name an executor, name guardians for minor children, and provide for the distribution of any property that doesn't end up in your trust. There are costs and expenses associated with the creation and ongoing maintenance of these legal instruments.

Whether you incorporate a trust as part of your estate plan depends on a number of factors. Does your state offer an informal probate, which may be an expedited, less expensive process available for smaller estates? Generally, if you want your estate to pass privately, with little delay or oversight from a probate court, including a revocable living trust as part of your estate plan may be the answer.

See disclaimer on final page

Are You Ending 2016 Healthy, Wealthy, and Wise?

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Although the year is drawing to a close, you still have time to review your finances. Pausing to reflect on the financial progress you made in 2016 and identifying adjustments for 2017 can help you start the new year stronger than ever.

How healthy are your finances?

Think of a year-end review as an annual physical for your money. Here are some questions to ask that will help assess your financial fitness.

- Do you know how you spent your money in 2016? Did you make any progress toward your financial goals? Look for spending habits (such as eating out too much) that need tweaking, and make necessary adjustments to your budget.
- Are you comfortable with the amount of debt that you have? Any end-of-year mortgage, credit card, and loan statements will spell out the amount of debt you still owe and how much you've been able to pay off this year.
- How is your credit? Having a positive credit history may help you get better interest rates when you apply for credit, potentially saving you money over the long term. Check your credit report at least once a year by requesting your free annual copy through the federally authorized website annualcreditreport.com.
- Do you have an emergency savings account? Generally, you should aim to set aside at least three to six months' worth of living expenses. Having this money can help you avoid piling up more credit-card debt or shortchanging your retirement or college savings because of an unexpected event such as job loss or illness.
- Do you have an adequate amount of insurance? Your insurance needs may change over time, so it's a good idea to review your coverage at least once a year to make sure it still meets your needs.

How wealthy are you really?

It's easy to put your retirement savings on autopilot, especially if you're making automatic contributions to a retirement account. But market swings this year may have affected your retirement account balances, so review any statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relation to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions*?

Finally, look for ways to save more. For example, if you receive a pay increase this year, don't overlook the opportunity to increase your employer-sponsored retirement plan contributions. Ask your employer to set aside a higher percentage of your salary.

How wise are you about financial matters?

What you don't know can hurt you, so it's time to honestly assess your financial picture. Taking into account your income, savings and investments, and debt load, did your finances improve this year? If not, what can you do differently in 2017?

What are your greatest financial concerns? Do you have certain life events coming up that you need to prepare for, such as marriage, buying a home, or sending your child off to college? You can't know everything, so don't put off asking for assistance. It's a wise move that can help you prepare for next year's financial challenges.

Year-End Financial Checklist	
✓	Review your benefits during your employer's open enrollment season, and make any necessary changes before your employer's deadline.
✓	Use up any contributions to your flexible spending account (FSA) before the use-it-or-lose-it deadline (this may be the end of the year–check with your employer).
✓	Update estate planning documents such as wills, trusts, and health-care directives to account for life changes.
✓	Review and update beneficiaries for your financial accounts and insurance policies.
✓	Make year-end donations to charity. If you itemize, these may help reduce your taxable income for 2016.*
✓	Consider gifts to family members. For 2016, you may give up to $14,000 to each individual without owing gift taxes.*
✓	Begin organizing your financial records for tax time.
✓	Check your Social Security Statement at ssa.gov to find out about future benefits.
	*Talk to a tax professional for help with your individual situation.

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How to Get a Bigger Social Security Retirement Benefit

Sign up for a my Social Security account at [ssa.gov](ssa.gov) to view your online Social Security Statement. It contains a detailed record of your earnings, as well as benefit estimates and other information about Social Security.

[1] Social Security Administration, Annual Statistical Supplement, 2015

Many people decide to begin receiving early Social Security retirement benefits. In fact, according to the Social Security Administration, about 72% of retired workers receive benefits prior to their full retirement age.[1] But waiting longer could significantly increase your monthly retirement income, so weigh your options carefully before making a decision.

Timing counts

Your monthly Social Security retirement benefit is based on your lifetime earnings. Your base benefit--the amount you'll receive at full retirement age--is calculated using a formula that takes into account your 35 highest earnings years.

If you file for retirement benefits before reaching full retirement age (66 to 67, depending on your birth year), your benefit will be permanently reduced. For example, at age 62, each benefit check will be 25% to 30% less than it would have been had you waited and claimed your benefit at full retirement age (see table).

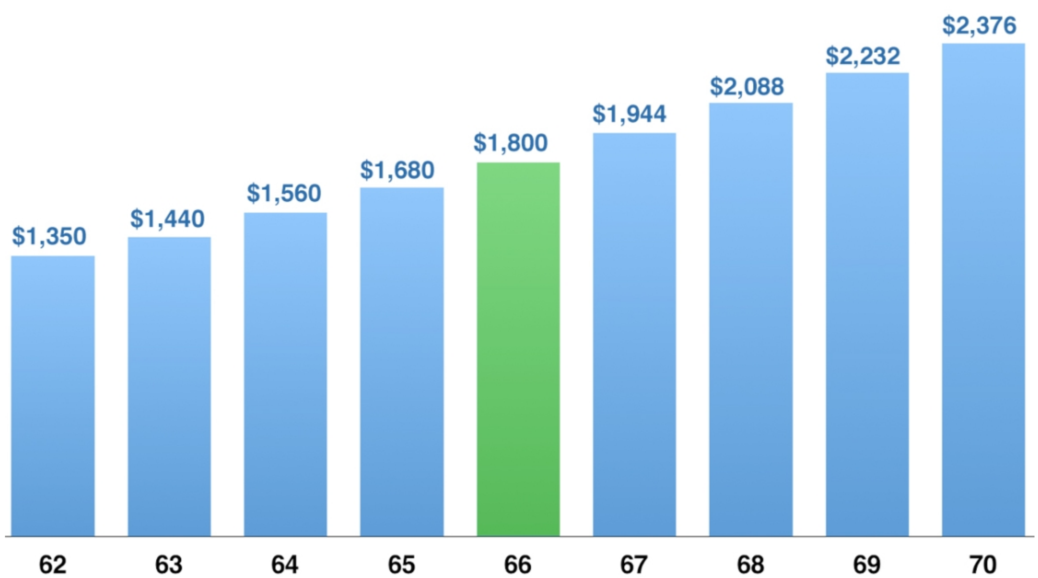
Alternatively, if you postpone filing for benefits past your full retirement age, you'll earn delayed retirement credits for each month you wait, up until age 70. Delayed retirement credits will increase the amount you receive by about 8% per year if you were born in 1943 or later.

The chart below shows how a monthly benefit of $1,800 at full retirement age (66) would be affected if claimed as early as age 62 or as late as age 70. This is a hypothetical example used for illustrative purposes only; your benefits and results will vary.

Birth year	Full retirement age	Percentage reduction at age 62
1943-1954	66	25%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 or later	67	30%

Early or late?

Should you begin receiving Social Security benefits early, or wait until full retirement age or even longer? If you absolutely need the money right away, your decision is clear-cut; otherwise, there's no "right" answer. But take time to make an informed, well-reasoned decision. Consider factors such as how much retirement income you'll need, your life expectancy, how your spouse or survivors might be affected, whether you plan to work after you start receiving benefits, and how your income taxes might be affected.



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What are my health-care options if I retire early?

If you're eligible for an early-retirement package from your employer, determine whether post-retirement medical coverage is included. These packages sometimes provide medical coverage until you reach age 65 and become eligible for Medicare. Given the high cost of medical care, you might find it hard to turn down an early-retirement package that includes such coverage.

If your package doesn't include post-retirement medical coverage, or you're not eligible for an early-retirement package at all, you'll need to look into alternative sources of health insurance, such as COBRA continuation coverage or an individual health insurance policy, to carry you through to Medicare eligibility.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), most employer-provided health plans (typically employers with 20 or more employees) must offer temporary continuation coverage for employees (and their dependents) upon termination of employment. Coverage can last for up to 18 months, or 36 months in some cases. You'll generally have to pay the full cost of coverage--employers aren't required to continue their contribution toward coverage, and most do not. Employers can also charge an additional 2% administrative fee.

Individual health insurance is available directly from various insurance carriers or, as a result of the Affordable Care Act, through state-based or federal health insurance marketplaces. One advantage of purchasing coverage through a marketplace plan is that you may be entitled to a premium tax credit if your post-retirement income falls between 100% and 400% of the federal poverty level (additional income-based subsidies may also be available).

Some factors to consider when comparing various health options are (1) the total cost of coverage, taking into account premiums, deductibles, copayments, out-of-pocket maximums, and (for marketplace plans) tax credits and subsidies; (2) the ability to continue using your existing health-care providers (and whether those providers will be in-network or out-of-network); and (3) the benefits provided under each option and whether you're likely to need and use those benefits.