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Estate Planning Tips for Baby Boomers

Many boomers have put off estate planning, putting them and their families at risk. These tips can help this generation get back on track with estate planning.

1. Know what your kids expect — and what you plan to give them. Boomers' parents were conservative savers. They came of age in the Great Depression, and that often led them to be cautious with their money. Many of them accumulated far more than they ever spent, and they passed that wealth on to their boomer children. But many baby boomers aren't taking the same approach to money. For one, the world has changed. Even boomers who've saved a lot may end up spending much of what they've accumulated, since retirements are likely to be long and healthcare costs expensive. But there's also an attitude difference. Active boomers may be planning on spending much of their hard-earned money on themselves. They believe they've done a lot for their children already and don't feel the need to leave them substantial assets. That's fine — it's your money, after all — but if you plan on spending most of your assets, you may want to let your children know. It's one thing to not leave money to the next generation, but if they are blindsided by your decisions after your death, they may end up feeling resentful.

2. Have a plan for the end of your life. Many, if not most, boomers are still leading busy lifestyles, and they plan to keep doing so for some time. Boomers who value staying fit and healthy may not really be thinking about what will happen to them when the inevitabilities of aging finally do catch up. But while taking steps to live a healthy lifestyle is important to enjoying a great retirement, boomers shouldn't assume they'll be healthy forever. Sickness and disability can happen, and it will be easier for you and your family to deal with if you have a plan. Not only should you think about long-term care and how you'll pay for it, you should also make sure you have end-of-life planning documents in place, like a health care power of attorney and a living will.

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Should You Serve as a Guardian?

When asked to serve as the guardian of someone's minor children in the event of his/her death, it is usually meant as a compliment that the person trusts you to serve in this important role. While you may fear you'll hurt your relationship with that person by saying no, don't accept this role without giving it serious thought:

✔ **Are your lifestyles compatible?** Go over all details involved in raising the children. Will the children move in with you? If so, will that mean relocating them far from their current home? What are the parents' preferences regarding education, religion, lifestyle, and other factors?

✔ **How much financial support will be available?** Additional children in your house will increase many of your bills, including food, utilities, transportation costs, etc.

✔ **Are you comfortable taking on responsibility for the children's finances?** You may feel more comfortable with another person involved to review how the children's money is spent.

✔ **Has a contingent guardian been named?** Find out if a contingent guardian has been named in case you cannot serve. ❍❍❍

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Estate Planning Tips

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3. Make sure your estate plan is up-to-date. Many boomers have estate plans that they created decades ago. The primary goal of those estate plans may have been to ensure that their children and surviving spouse were protected in the event of unexpected death. But as you get older, your estate planning needs change. If your kids are independent adults, providing for them is no longer as critical. Plus, if it's been two or three decades since you created your will, your life has likely changed in other ways too. You may have grandchildren who you want to receive part of your estate or new property that should be incorporated into your will. Or your family composition might have changed — you may have been divorced or widowed, for example. You may even have received a health diagnosis that is affecting your estate planning goals. For all these reasons and more, boomers need to sit down and review their estate plans to make sure that they properly convey all their wishes.

4. Decide if, and how, you want to leave a legacy. Boomers often want to find a way to leave a lasting impact on the world and to support the causes and organizations closest to their hearts. If you count yourself among those for whom leaving a legacy is important, now is the time to start thinking seriously about how you want to turn those legacy dreams into reality. If your goals are ambitious — like starting a foundation or a charity or endowing a scholarship — you should start planning now. The more lofty your goals, the more important it is that you take clear, concrete steps to turn your dreams into reality — like meeting with the leaders of the organization you support and finding out how you can best help them. After all, you won't be able to do this work after you are gone. ❍❍❍

Financial Rules of Thumb

Financial rules of thumb are designed to provide quick guidelines for your finances. However, you shouldn't blindly follow them without giving thought to your personal circumstances. Some of the more common financial rules of thumb include:

Save 10% of your gross income. While this will give you a good start, it's typically the minimum, not the maximum, you should be saving. Analyze how much you'll need, and then work backward to calculate how much you should be saving.

Plan on spending 80% of your preretirement income during retirement. This may be true if you don't plan to be very active during retirement, but more and more people expect retirement to include extensive travel and expensive hobbies. Review your individual situation and desires for retirement to determine how much you'll need.

Set the percentage of stocks in your portfolio to 100 minus your age. With increased life expectancies, this can result in a portfolio that is too heavily weighted in income investments. Set your asset allocation based on your risk tolerance and time horizon for investing. Stocks should be considered for long-term financial goals of 10 years or more. Even after retirement, stocks may comprise a significant portion of your portfolio.

Keep three to six months of income in an emergency fund. While an emergency fund is a good idea, how much you keep in that fund will depend on your circumstances. You may need a larger fund if you are the sole wage earner in the family, work at a seasonal job, own your own business, or rely on commissions or bonuses. A smaller fund may be required if you have more than one source of income, can borrow significant sums quickly, or carry insurance to cover many emergencies.

Pay no more than 20% of your take-home pay toward short-term debt. Once considered a firm rule by lenders, you may now be able to obtain loans even if you exceed this amount. However, don't become complacent if you meet this rule of thumb, since a large percentage of your income is still going to pay debt. Try to reduce your debt or at least reduce the interest rates on your debt.

Keep your mortgage or rent payment to no more than 30% of your gross income. While you can obtain a mortgage for more than that, staying within this rule will help ensure you have money to devote to other financial goals.

Obtain life insurance equal to six times your annual income. Different individuals require vastly different amounts of insurance, depending on whether one or both spouses work, minor children are part of the family, or insurance is being obtained for other needs, such as to fund a buy-sell agreement or to help pay estate taxes. Thus, you should determine your precise needs before purchasing insurance. ❍❍❍



Tax Planning and Retirement

There are numerous benefits to tax planning in your golden years. Payroll taxes may be a thing of the past, but the money you plan to support yourself with, such as retirement and investment accounts, savings accounts, pension payouts, and potentially even Social Security benefits, could be taxed.

Couple that with the possibility of higher future tax rates, and you could find yourself with less retirement income than you had planned. However, with sound tax planning, you can protect your golden years from becoming tarnished by unnecessary taxes.

If You're Thinking Ahead to Retirement...

Consider Investing in a Roth IRA/Roth 401(k)

It's critical to strategize how you invest your money. Anticipating how much you need to save is just the first step; planning on where you will allocate these savings is a critical component if you want to make the most of your retirement funds. Many people assume that contributing solely to a tax-deferred employer-sponsored plan translates to a comfortable retirement.

However, when many people retire, they're surprised to learn that their tax-deferred account withdrawals are not only taxed, but quite possibly at a higher rate than they may have anticipated. Diversifying your retirement-savings plan by contributing to a Roth IRA or Roth 401(k) could give you more flexibility when it comes to tax savings. While you can't take advantage of tax-savings benefits now, withdrawals from Roth accounts are tax free, allowing for more latitude in retirement. In addition to future tax-savings benefits, Roth IRA accounts also provide the flexibility of penalty-free withdrawals of your contributions should you need access to monies.

Don't Forget about Other Taxable Investments

Unless you have funds that aren't tax deferred, safeguarding your retirement money from taxes could prove challenging. Like a Roth IRA or Roth 401(k), brokerage and/or mutual fund accounts can be valuable tax-free income sources in retirement. Unless you want to pay taxes on every withdrawal you make during your retirement years, you'll likely want income sources that aren't subject to taxes down the road. A diversified plan that includes non-retirement accounts can protect you from higher tax brackets and maximize your income throughout your retirement years.

At Retirement Age...

Have a Withdrawal Strategy

Just as you had a retirement savings plan, you'll now need a strategic withdrawal plan to shelter as much of your retirement income as possible from taxes. The more diversified your investments are, the more options you'll have available when it comes to tax savings. Both the timing and sequence of the accounts you draw from can significantly impact what you owe. For example, if you have taxable investments you've held for longer than a year, it may be more prudent to tap into these first, since the maximum 20% long-term capital gains tax could be less than the income tax rate you'll pay once you begin withdrawing from your tax-deferred retirement accounts.

If you're over 72 (73 if you reached age 72 after December 31, 2022), don't forget about your minimum required distributions; though there are exceptions, failure to take these distributions can invoke a penalty as high as half of the amount you neglected to withdraw.

Plan Ahead: Targeted Tax Brackets

You might also consider meeting with your financial and/or tax advisor to plan ahead. You can precalculate taxable income, living expenses, and deductions before deciding how much you'll need to withdraw from your investment accounts.

Consider Delaying Social Security Benefits

This strategy actually provides you with multiple money-saving options. By delaying your Social Security benefits, you'll avoid a higher tax bracket while beefing up your distributions. Anyone who reaches his/her full-benefit age receives an annual 8% increase for each year distributions are delayed until age 70. While not everyone can afford to postpone Social Security benefits, you may decide that delaying these benefits as long as possible is financially advantageous.

Move to an Income-Tax-Free State

Many retirees don't just move to states like Arizona for the scenery. The tax-saving incentives can be just as appealing. Willing to embrace the cold? Alaska has no state income or sales tax, and once you establish permanent residency, you'll even receive an annual dividend check from the state's oil wealth savings account. If you had plans involving temperatures of a warmer sort, consider moving to an income-tax-free state such as Nevada or Florida. You might also consider states that offer tax immunity solely to retirees, exempting Social Security benefits and even qualified retirement accounts from state income tax.

Please call if you'd like to discuss these strategies in more detail. ❍❍❍

Challenges to Your Retirement

We all know saving for retirement is becoming more and more challenging. Longer life expectancies, fewer traditional pensions, and lower investment portfolios are the most obvious challenges. But there are other threats to your retirement:

✔ **Even if you have a traditional pension plan, those benefits can change.** Your employer can't take away benefits you've already earned, but benefits going forward can be reduced.

✔ **Switching jobs can affect your retirement benefits.** If you have a traditional pension plan, don't change jobs without considering your pension benefits. The same applies to 401(k) plans with matching employer contributions.

✔ **Don't forget about pension benefits at previous employers.** Many employees leave a company without realizing they are entitled to pension benefits.

✔ **Early retirement can significantly reduce your retirement benefits.** There are many reasons for this — you don't have as many years of service, salary increases you would have earned aren't considered, and those extra years of benefits cause a large actuarial deduction in benefit calculations.

✔ **You may not be able to count on health insurance benefits after retirement.** Many companies are either phasing out health insurance benefits for retirees or increasing retirees' share of the cost. While Medicare is still available once you turn age 65, those benefits don't cover all medical costs.

✔ **Social Security benefits are changing.** Normal retirement age is gradually increasing from age 65 to age 67, a change affecting anyone born in 1938 or later. You can still receive reduced benefits at age 62, but the permanent reduction in benefits is increasing from 20% to 30%, depending on your year of birth. These changes are meant to encourage you to retire at a later date.

✔ **Decide carefully before taking a lump-sum distribution.** Some traditional pension plans allow lump-sum distributions instead of monthly pension benefits. Use that option with care. While the amount of money might seem large, are you sure you can invest it and earn more than the monthly pension option? ❍❍❍

Jennifer

Financial Aspects of a Death

If you have to handle the financial aspects of someone's death, consider these items:

✔ Your most immediate concern will be to notify family and friends of the death and to make funeral arrangements.

✔ If a surviving spouse and/or minor children are involved, evaluate their means of support and determine whether care for the dependents needs to be obtained.

✔ Locate any safe deposit boxes and follow necessary procedures to have them opened.

✔ If the deceased was employed, contact his/her employer to start the process of collecting pay and benefits. If the deceased was retired, notify Social Security and any pension plans.

✔ Locate important documents, including wills, trusts, deeds, investment records, insurance policies, business and partnership arrangements, and other evidence of assets and liabilities.

✔ Meet with an attorney to discuss the deceased's estate matters. You may need to retain an attorney, accountant, and/or financial advisor. ❍❍❍

Financial Thoughts

The average distance between people's homes and their workplaces was 27 miles in 2023, up from 10 miles in 2019. In 2019, only 0.8% of people lived more than 50 miles from where they worked, but now that's jumped to 5.5%. The shift has happened mostly among white-collar workers making more than $100,000 (Source: Stanford, 2024).

These days, most transactions aren't happening with cash — cash is only the third most popular payment method in the U.S., with 60% of payments being made with credit or debit cards (Source: *The Wall Street Journal*, 2024).

More than half of college graduates are in jobs that don't use their degrees, according to a research study of 10 million Americans. The statistics are worse for some areas of study than others: 68% of public safety and security graduates, for instance, are underemployed, while just 23% of graduates with health-related degrees are. The research found that internships play a huge role in determining a student's odds of landing a college-level job after graduation (Source: *The Wall Street Journal*, 2024). ❍❍❍