

Remarrying Later In Life? 7 Key Financial Issues

Jack Webster had given up on romance after his marriage splintered five years ago. His two children were now both in college. Rhoda Seaver, divorced with three teen-aged children, also was skeptical about diving back into the dating pool. But Jack and Rhoda found each other through a dating service and are now engaged to be married.

It's not an uncommon story.

According to the Census Bureau, more than 50% of the divorced males in this country over age 50 and more than 40% of the divorced females in the same age bracket end up remarrying. But there's more to creating a union late in life than just melding family units. Several important financial considerations may be difficult to resolve for soon-to-be retirees. Here are seven issues that could cause problems:

1. Social Security and pension benefits. If you're divorced, getting remarried generally will suspend your right to receive Social Security benefits based on your ex-spouse's earnings record. Similarly, if you're widowed and plan on collecting benefits based on your deceased spouse's record, you may have to wait until age 60 to remarry. (Getting married again also could affect the amount you're entitled to from a former spouse's pension plan. Contact the pension plan administrator to determine the impact of remarriage on benefits.)

2. Marriage penalty. Because of

the way federal income tax rates are structured, some couples are hit with a "marriage penalty" if both have substantial incomes. In other words, filing a joint return will produce greater tax liability than they would have to pay if they continued to be single filers. That problem has been exacerbated by the 2013 tax law and its new top income tax rate of 39.6%.

3. Estate planning. It's always crucial to

have a valid will in place so that your heirs won't have to depend on state law to dictate where assets will go. That's even more important if you're remarrying. You'll certainly need to revise an existing will as well as updating beneficiary designations for retirement plans, because those supersede your will. Moreover, even if your will says your home will go to children from a prior marriage, it will automatically go to your new spouse if the two of you own it jointly with rights of survivorship.

4. Commingling funds. It is important to understand the consequences of commingling assets with your new spouse. Generally, any funds that are transferred into a joint account become joint property. If you want to be sure that the funds you've accumulated prior to marriage remain your property (via inheritance, your own savings, etc.) you should keep them in separate accounts. This is especially important if you want to

(Continued on page 4)



Newsletter: Year 2, With FREE Special Anniversary Bonus!

We are pleased to present to you this First Anniversary Issue of our newsletter.

During Year One, we were fortunate to have had a seemingly endless stream of interesting and timely topics to research and share with you, our clients and friends. Thank you for all the positive feedback about our newsletter! We look forward to continuing to bring you the latest planning and investment news for many years to come!

As a regular reader, you may have noticed some recurring themes: getting ahead of changes in the tax code, new developments in estate and insurance planning, and especially how market changes and investor psychology can impact your portfolio. In fact, 75% of our lead articles thus far have dealt with this last topic, and your feedback indicates that these are among your favorites.

It's lucky for us (and you) that one of our favorite writers, Jason Zweig of The Wall Street Journal, recently wrote perhaps the finest article ever penned on the principles and psychology of successful investing. His column, The Intelligent Investor: Saving Investors from Themselves (The Wall Street Journal, 6/28/2013), is an instant classic. We have included a copy inside this newsletter as a Special Anniversary Bonus for you. We hope you enjoy this smart, funny, and poignant memoir by our kindred spirit in investment advice.

Take Steps To Build A Bond Ladder

Are you striving for greater diversification in your portfolio? You could do it one step at a time with a bond ladder.

With this approach, instead of owning bonds that mature at about the same time, you acquire bonds with varying maturities. Suppose, for example, you have \$500,000 to invest in bonds. You might buy five bonds, each with a \$100,000 face value, that mature in one, two, three, four, and five years, respectively. To stretch the bond portfolio further, you could get 10 bonds, with a face value of \$50,000 each, that mature one a year for the next 10 years.

Bond laddering provides some protection from the vagaries of the marketplace. For instance, if you had invested the funds in a single 10-year bond with a yield of 5%, you'd have frozen your ability to respond to market changes for the next decade. As interest rates and inflation fluctuated, you'd be unable to take advantage of rising yields or do anything to counter a drop in yields. 10 years is a long time in the investment world.

With a bond ladder, you'd have

much more flexibility. As each bond matures, you could choose what to do with the proceeds. If yields were on the upswing, you could opt for a new, longer-term bond to fit at the far end of the ladder. You also would have the option of using the cash or buying a bond with an earlier maturity date.



In building a bond ladder, take these three considerations into account:

1. Number of rungs. The simplest method is take the dollar amount you plan to invest and divide it equally by the number of years you want the ladder to cover. That will determine how many bonds (or “rungs”) your ladder will have. Having a greater number of rungs

increases diversification within your portfolio (although this also increases costs). Also, consider your need for income.

2. Height of the ladder. The distance between the rungs is determined by the maturity dates of the bonds. The longer you make your ladder, the higher the average return for your portfolio should be, because longer-term bonds tend to carry higher yields than shorter-term ones. However, the overall return for a higher ladder may be offset by added investment risk and decreased access to the funds. If you shorten the distance between rungs, you may reduce the portfolio's return but give yourself better access to the money.

3. Building materials. We recommend using highly rated corporate and municipal bonds. It is best to avoid bonds that are redeemable or callable by the issuer. Having a bond redeemed early could create a missing rung in the ladder. Laddered bonds are an important part of the portfolios we build for our clients. We would be happy to discuss this topic further with you.●

Dust Off Life Insurance Policies

When was the last time you reviewed your life insurance policies? If you're like most people, you've probably stashed your policies in a drawer, filing cabinet, or safe deposit box where they've been gathering dust. But you should review your policies periodically to see whether they still meet your needs. Depending on the outcome, you might adjust your coverage.

In particular, you should examine your policy if you've experienced one or more major “life events” during the past year. What sort of events are we talking about?

- There may have been a birth,

death, or disability in the family.

- You got married, divorced, or separated.
- You bought or sold a principal residence, vacation home, or other real estate property.
- Your child completed college or graduate school.
- You acquired property as a joint tenant.
- You have switched jobs, retired, or started up a new business.
- There was a significant economic change affecting your business operation.
- Your asset base has increased significantly, potentially triggering an

increase in your estate tax bill.

- You need to revise the beneficiaries of your insurance policies due to a change in circumstances.

Note that other changes that might trigger a life insurance review could be less obvious. For instance, you may need additional coverage if you're now taking on financial responsibilities for an elderly or disabled relative. Conversely, your financial responsibilities may decrease somewhat if you have finished paying off a home.

Furthermore, you should try to view your family's needs as if you were buying life insurance for the

Avoid The Tax Traps In The Fiscal Cliff Law

There's a lot to like for most taxpayers in the American Taxpayer Relief Act (ATRA), the eleventh-hour legislation that Congress enacted just as we were about to go over the "fiscal cliff." The new law generally preserves favorable income tax rates on investment income, although some upper-income investors now must pay higher rates. And ATRA provides much-needed relief from the alternative minimum tax (AMT) and estate taxes, while extending a slew of other tax breaks, though with a few modifications.

But there's also some bad news tucked away in the 157 pages of the law. In particular, there are two new tax traps that effectively could reduce your tax refund for the 2013 tax year or increase the amount you'll have to pay Uncle Sam. The two potential stumbling blocks are commonly referred to as the "Pease rule" and the "PEP rule" (for "personal exemption phaseout").

The Pease Rule. Under the Pease rule (named for the congressman who initially championed this amendment in the 1980s), most itemized deductions are reduced by 3% of the amount that your adjusted gross income (AGI) exceeds a specified dollar threshold, though they can't be cut by more than 80% overall. This provision in the tax

first time. It's your current and future circumstances that are the critical factors—not how things were last year or several years before. And don't forget to review all of your life insurance policies, including any group coverage that your employer (and your spouse's employer) might be providing.

Needless to say, this is an on-going process. The main functions of life insurance are to replace lost income that your family relies on if you should die prematurely, to provide the funds needed for estate



law was phased out gradually by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). However, it was scheduled to return in 2011, before the 2010 Tax Relief Act provided a temporary reprieve through 2012. Now, finally, the Pease rule has been revived permanently.

At least ATRA raises the dollar thresholds from the levels that originally were scheduled for 2013. Previously, the limit would have been \$178,150 for both single and joint filers, based on an inflation adjustment. Under ATRA, the dollar threshold is \$250,000 for single filers and \$300,000 for joint filers. Make more than that, though, and you could stand to lose a portion of your itemized deductions due to this rule.

Example: Suppose you're a joint filer with an AGI of \$400,000 in 2013. That's \$100,000 above the threshold, and so the \$50,000 in itemized deductions that you claimed will be reduced by the Pease rule to \$47,000 – (\$50,000 minus 3% of \$100,000).

Note that the Pease rule applies to many of the deductions that are likely to produce big write-offs, such as charitable donations, mortgage interest, state and local income taxes, and property taxes and miscellaneous expenses. On the other hand, it doesn't apply to deductions for medical expenses, investment interest, or

taxes at your death, or to provide liquidity for your estate. When your financial obligations are small, the amount of life insurance coverage you require is also small. However, as those obligations grow, so does your need to acquire more coverage.

Best approach: Assess your life insurance needs at regular intervals. You may want to do so at the start of a new year or on some other "anniversary" date. In any event, don't let too much time go by without a regular check-up. ●

casualty and theft or gambling losses, because those already have their own built-in thresholds.

The PEP Rule. The PEP rule has followed a path similar to that of the Pease rule. It was phased out gradually by EGTRRA before reinstatement of this provision was postponed by the 2010 Tax Relief Act. Now the PEP rule is back with a vengeance for 2013 and thereafter.

This onerous rule reduces the total amount of personal exemptions you may claim—including for yourself, your spouse (if you're married), and your dependents—by 2% for each \$2,500 (or portion thereof) by which your AGI exceeds a specified dollar threshold. Each exemption in 2013 is \$3,900. Unlike the Pease rule, there's no limit on the overall amount of the reduction with the PEP rule, so personal exemptions could be phased out completely for some high-income taxpayers.

As with the rule for itemized deductions, however, ATRA raises the applicable thresholds for the PEP rule to \$250,000 for single filers and \$300,000 for joint filers. Without this change, the thresholds for 2013 would have been \$178,150 for single filers and \$267,200 for joint filers. Yet the reduction of exemptions still can be significant.

Example: Suppose you're a joint filer with an AGI of \$400,000 in 2013 and you're entitled to a total of four personal exemptions. Under the PEP rule, your exemptions are reduced by 2% of each \$2,500 above the limit for AGI, or a total of 80%—40 (\$100,000 divided by \$2,500) times 2%. Therefore, your personal exemptions of \$15,600 (\$3,900 times four) are reduced all the way down to \$3,120.

The reinstatement of the Pease and PEP rules could affect tax planning for high-income people. For instance, when appropriate, you might accelerate or postpone certain deductible expenses at the end of the year, depending on your personal circumstances. We take these rules into account when tax planning for our clients. ●

Five Financial Steps For Widows

Barbara Weinglass is still in shock. Three months ago, her husband, Marty, unexpectedly passed away at age 67. Marty had been retired for less than two years and the couple was finally getting to do some of the things they'd long dreamed about, including traveling and spoiling the grandchildren. To complicate matters, Marty had always handled all of the couple's financial affairs. Now Barbara, 65 years old, is left to pick up the pieces on her own. Her two children are doing what they can, but they live far away and have their own lives to lead.

It's a common scenario, so at least Barbara has some company. And she can begin to move into the next phase of her life by taking these five sensible steps.

1. Meet with your financial advisor. The initial meeting should be a "get to know you" session. If possible, encourage adult children to attend. You may need to discuss some immediate challenges—locating and gathering the assets—as well as the emotional support you may need. At this point, it's crucial to make sure

bills are paid on time—a necessity often neglected in the aftermath of a sudden death.

2. Avoid any knee-jerk reactions. While a spouse may not be able to postpone all decisions during a time of grief, acting too quickly on important matters could be worse than doing nothing at all. For instance, deciding to put a home up for sale, give extra-generous gifts to other family members, or buy or sell large investments all might be moves you'll regret later. Take a deep breath and assess your options.

3. Review the financial landscape. Do an accounting of assets, liabilities, sources of income, and living expenses. Collect all of your financial statements and begin to develop a long-range plan that sets some concrete financial goals. Of

course, the financial advisor is instrumental in this process.

4. Coordinate with professionals. Bring your attorney, accountant, and other professional advisors into the loop. The financial advisor can help navigate and coordinate, but the best results are usually achieved through teamwork. Make sure financial and other plans are synchronized so everyone is pulling in the same direction.

5. Follow up with additional meetings. You should expect to meet several times with the financial advisor. Future sessions may focus on retirement needs, the allocation of investment assets, and changing needs for cash.

Finally, be aware that while well-intentioned friends may offer advice, you should rely on the professionals to see you through the ordeal. ●



7 Key Financial Issues

(Continued from page 1)

make sure the funds pass to your children at your death. You may even want to consider putting assets in trust to provide further protection in case of divorce or a lawsuit.

5. Health-care expenses. Your state may impose special rules relating to payments of medical expenses, and the rules for nursing home care could be particularly significant. Typically, if someone requires nursing home care, it may be possible to transfer some of that person's assets in attempt to qualify for assistance under Medicaid (subject to certain imposing restrictions).

However, in some states, you may still be responsible for the costs of a spouse, even if the spouse has transferred assets

out of his or her name. Such rules could affect your financial arrangements with a new husband or wife.

6. Alimony. If you receive alimony from your ex-spouse, it likely will come to a halt when you remarry, though remarriage generally doesn't affect child support. Consider how this will affect your family's lifestyle. Figure out whether you still will be able to afford some of the luxuries you enjoy now or whether you'll have to scale back. Look at options for replacing the lost income.

7. Beneficiary designations. When you get remarried, it's common practice to review the designated

beneficiary (or beneficiaries) on insurance, retirement plan accounts and annuity contracts (see #3). If you forget, these assets will pass to the current beneficiary- which could be your children or even your former spouse! It is important to make sure your beneficiaries are consistent with your current wishes.

It's only prudent for Jack and Rhoda to consider these financial issues before saying "I do." Other considerations, such as whether to use joint checking accounts or a prenuptial agreement, also may come into play. Having an open discussion before you remarry may avoid problems that could fester later.

