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FEBRUARY 2020

Get Your Finances in Order

Getting your finances in order can be on your to-do list forever, but you never quite seem to get around to it. Making a commitment to change your approach to money matters can be the start of a better, more responsible, and more financially secure future for you and your family.

First, you will need to organize your information. This means breaking down your income and expenses, investments and their annual returns, and net worth. Once you know how much you have and how much you owe, it is time to budget for your expenditures. This can help you determine where your money is going and if there are some expenses you can reduce to divert those savings into your retirement fund or another savings goal.

You will need to develop explicit written goals. Even if you already have a few you are working toward, changes in your life circumstances might require revisiting them. Perhaps you were saving for the vacation home or the boat, but your kids are getting older and you might have a budding surgeon in the family. That's great news — but expensive tuition. Reviewing your short- and long-term financial goals on a regular basis can keep your current priorities on track. Your financial goals should be specific, written down, and include a strategy to track your progress in meeting them.

Part of working toward your goals is a serious commitment to savings. Pay yourself first by automatically saving from each paycheck instead of waiting to see what is left over at the end of the month. You will always find something for that money to go to if it remains discretionary, so make saving a habit you're unwilling to break. While you are at it, make investing automatic as well. People often do

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Encourage the Importance of Saving

Though it's typical for parents to underscore the value of a college education from the time their children are in grade school, what's more commonly overlooked are the benefits of encouraging them to save for their education from a young age. Contributing a small percentage of their allowance, cash gifts, and job income can have a huge impact on their outlook toward both college and their future.

Not only does it teach them the commitment and patience required to save toward a long-term goal, but it also encourages them to take ownership of their own education by asking them to contribute a portion of their own money. Moreover, as they grow, so does the sum of their contributions, affording them with a sense of pride in knowing they've subsidized a part of their college education.

Sit down with your children and explain the reasoning behind your decision, so they fully understand why you're setting aside some of their money for the future. You might even consider showing them the growing balance of their savings from time to time. Stay committed and you'll likely raise a more responsible and devoted student. ❍❍❍

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Get Your Finances

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not miss what they don't see, so set up an automatic payment to your retirement fund.

It can be difficult to save if you have to pay back high-interest loans and consumer debt. Establish an emergency cash reserve so that an unexpected expense doesn't require you to take on costly debt. The dollar amount for this fund depends on factors like your age, health, job outlook, dependents, and obligations, but a general rule of thumb is that you should have 3-6 months of your salary. Then get your debt under control. The interest you pay on consumer debt just reduces the amount you can save and makes the purchases much more expensive in the long run. Pay down this debt as soon as possible and do not add to it by carrying a balance.

While some of the funds you'll need to meet your savings, investing, and debt repayment goals can come from minimizing off-budget spending, you can also free up some cash by shopping around for better rates and looking for tax savings. Assess your insurance needs when it comes to life, health, disability, long-term care, homeowners, automobile, and personal liability. Your needs will change as you age, so your coverage will need to change with you. Insurance companies often have different discounts, packages, and riders that may offer potential for savings, but you will need to do the work by regularly checking to see if there are better options out there for lower premiums with the coverage you need.

While many of these tips may sound familiar, it is the rare individual who takes advantage of all of them. If you'd like help putting these tips into practice or would like to discuss your finances in more detail, please call. ❍❍❍

Don't Underestimate Inflation in Retirement

Inflation has been tame for so long that it's easy to ignore when planning for retirement. However, even inflation of 2% or 3% per year, over a period of many years, can seriously erode the purchasing power of your funds. That can have a major impact on those entering retirement for several reasons:

✔ New retirees are less likely to have defined-benefit pensions. Thus, they must rely more on Social Security benefits and personal savings.

✔ While Social Security benefits are still adjusted for inflation based on the Consumer Price Index (CPI), the methodology for calculating the CPI changed dramatically in 1999, reducing increases in the CPI.

✔ Retirees are living longer. As life expectancies increase, retirees are spending more years in retirement, so their retirement savings are subject to the impact of inflation over a longer time period.

✔ Healthcare costs are becoming more of a burden to retirees. More companies are reducing benefits or eliminating healthcare insurance for retirees, and healthcare costs tend to increase faster than overall inflation.

To combat the effects of inflation on your retirement income, consider these tips:

✔ **Use a conservative inflation rate for planning purposes.** Since your retirement is likely to span decades, consider inflation over long time periods.

✔ **Consider investment alternatives likely to stay ahead of inflation.** Thus, a significant portion of your portfolio should probably be invested in stocks.

✔ **Invest in tax-advantaged investment vehicles.** Look into 401(k) plans, individual retirement accounts, and other retirement vehicles. While each has different rules for taxing contributions and earnings, all provide some tax-free or tax-deferred benefits. Since you aren't paying income taxes on earnings throughout the years, that typically means you'll have a larger balance at retirement than if you were paying taxes throughout the years. Thus, you'll start out with a larger retirement base.

✔ **Keep fixed expenses as low as possible.** Try to enter retirement with as little debt as possible. If you aren't using a significant portion of your income to pay a mortgage, car payment, or credit card debts, you'll have more flexibility to deal with prices.

✔ **Decide how you will deal with healthcare costs.** While Medicare will help once you turn age 65, it still does not cover many healthcare costs. Look into Medigap policies and prescription coverage to help with those non-covered expenditures, especially if your employer does not provide health insurance after retirement.

✔ **Minimize withdrawals from your retirement assets, especially during the early years of retirement.** To counter inflation, you need to withdraw larger and larger sums just to maintain the same purchasing power. To make sure you don't run out of funds late in life, keep withdrawals during the early years to a minimum.

✔ **Be prepared for change.** After retirement, keep a close eye on your investments. If inflation increases and you are concerned that increasing withdrawals may deplete your investments, you may want to look for ways to reduce your living expenses or go back to work at least part time. ❍❍❍

How Much Will College Really Cost?

The average cost of a public four-year in-state college education, including room, board, and fees, can add up to approximately $21,000 per year — and that's just in today's dollars (Source: *Trends in College Pricing 2018*). While your first thought may be to protect your child from a lifetime of student loan payments, it's equally important to consider how covering all or a portion of these costs could affect your own future.

Let's assume you're 50 when your child begins attending college and you pay approximately 60% of the cost, for a total of $12,500 per year for four years. That's $50,000 not going toward your IRA, 401(k), or other investment options. Assuming you retire at age 65 and earn a 4% annual average return between now and your planned retirement time, you just forfeited more than $85,000 in potential retirement funds.

You might also be contemplating taking out a loan to cover college costs. Once those loans are due, you're opting to juggle both retirement investing and debt at a time when you should be saving more toward retirement than ever. Keep in mind, there are far fewer options for parents when it comes to loan repayment and/or forgiveness than there are for students. And even if you're willing to sacrifice an extra few years of retirement to finance your children's college educations, you may feel differently as you grow older — especially if factors such as unforeseen health issues or fluctuations in the economy impact your plans to work longer.

On the other hand, your child has his/her entire life to pay off student loan debt, even if it means putting in extra hours or sacrificing discretionary spending for a while. Unlike you, he/she has decades of working years ahead to manage college debt.

The good news is you can still help your college-bound children in ways that significantly reduce their burden without impacting your retirement plans:

Provide Food and Shelter

The average cost of room and board ranged from approximately $11,000 to $12,700 annually for the 2018–2019 school year, accounting for as much as half of the annual costs of college (Source: *Trends in College Pricing 2018*). When you consider that the expense of a dorm room and food can essentially double the costs of college, the simple act of continuing to house and pay for your children's necessities during their college years can save them from accumulating tens of thousands of dollars in debt. While staying home may not hold the same thrills as the traditional college experience, there are numerous benefits that offset forgoing that experience.

Additionally, because your child is taking advantage of your free room and board by attending a local college, you'll inadvertently help them dodge the costs of pricier out-of-state or private colleges that can double the cost of tuition (and accumulated debt).

Cut Back on Unnecessary Spending

Vacations, new car payments, and even the daily latte you enjoy add up quickly. You may be surprised at how much you can contribute by skimping on spending for a few years until your child graduates. To take advantage of extra savings, print out prior credit card and bank statements and scrutinize each expense line by line, asking yourself if it's an essential or simply a want. Forgoing these costs can provide you with hundreds of extra dollars each month to help your son or daughter with tuition. Tip: Make sure everyone is making sacrifices, not just mom or dad. Call a family meeting and discuss the financial advantages of making sacrifices.

Plan Ahead

If your children are still young, investing in a 529 plan, Roth IRA, or alternative investment each month while continuing to maximize your retirement contributions can make a huge difference in college costs down the road. Even encouraging family members and loved ones to give college savings money as gifts can quickly add up.

With your help and encouragement, your children can combine income from savings, part-time jobs, grants, scholarships, and loans to finance their college education in a manageable way once loan payments become due. Furthermore, because they're actively involved in the financial aspects of their educations, they're much more likely to stay on track and value the many gifts college education affords. While they may begin their adult lives with some debt, they have the energy and time you don't to pay it off. And because you were savvy when it came to your retirement, they won't be faced with the obligation to financially help you in your old age.

Please call to discuss in detail how you can maximize both retirement and college savings. ❍❍❍

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The SECURE Act of 2019

Without the fanfare of the Tax Cuts and Jobs Act of 2017, new tax legislation was passed in December 2019. After being approved by the House over the summer, and after months of speculation about the bill's future, the Setting Every Community Up for Retirement Enhancement (SECURE) Act was unexpectedly attached to a year-end appropriations bill that "had to pass" in order to keep our government running. And so it did…the bill was quickly passed by the House and Senate on December 17th and 19th, and then signed into law by the President on December 20th.

As the name suggests, the more significant provisions of this bill relate to retirement accounts. Perhaps the most significant is the elimination of the so-called "Stretch IRA" for beneficiaries of IRAs and defined contribution (401k and 403b) plans. Designated beneficiaries of those who passed away prior to January 2020 were able to spread withdrawals over their lifetime, and may continue to do so. However, for most non-spouse designated beneficiaries of those who pass away in 2020 and beyond, the new standard under the SECURE Act will be the 10-Year Rule. Under the 10-Year Rule, beneficiaries are required to empty the account by the end of the 10th year following the year of death. Withdrawals within this ten-year period are flexible.

Note that there are four groups of "Eligible Designated Beneficiaries" for whom the 10-Year Rule will not apply:

- Spouses
- Disabled persons
- Chronically ill
- Certain minor children, but only until they reach the age of majority, at which time the 10-Year Rule kicks in

Of concern are situations in which trusts are named as retirement account beneficiaries. The new tax rules may have unexpected consequences. For example, some trusts are written in a manner that only allows for the Required Minimum Distribution (RMD) to be disbursed each year. Under the new rules, there is only one year where there is an actual RMD…the 10th year! Trust documents should be reviewed in light of the new distribution rules, and other relevant changes in the new law.

Another significant retirement provision represents a change to the start of RMDs. Previously, owners of IRAs and certain retirement accounts were subject to the RMD in the year in which the owner turned 70½. This has been pushed back to the year in which the owner turns 72. Interestingly, this change slightly favors those who were born in the first half of the year (and want to delay their RMD) pushing back the first withdrawal by two years. For those born in the second half of the year, the RMD is only pushed back one year.

Note that consistent with current law, the first RMD can actually be delayed until April 1 of the following year, but the next RMD is still due by 12/31 of that same following year, resulting in two withdrawals in the same calendar year.

The SECURE Act also lifts the prohibition on traditional IRA contributions once an individual reaches age 70½. Beginning in 2020, individuals of any age will be allowed to contribute to a traditional IRA, as long as that individual has enough earned income to support the contribution.

Shown below are some additional retirement account provisions in the Act:

- A "Qualified Birth or Adoption Distribution" of up to $5,000 is not subject to the 10% early withdrawal penalty
- A Fiduciary "Safe Harbor" provision covers the addition of annuity options (Lifetime Income Provider) to a retirement plan
- Annuity "portability" provisions have been added
- Small business incentives for retirement plan adoption and use
- Various provisions designed to increase 401k participation
- Employers may adopt employer-funded retirement plans up to the due date of employer's tax return
- Increased penalties for failure to file retirement plan tax returns

The SECURE Act also expanded the list of Qualified Education Expenses for Section 529 College Savings Plans. Beginning in 2020, tax-free withdrawals can be taken from 529 plans to cover Apprenticeship Program costs, such as fees, books, supplies and required equipment.

A lifetime maximum of $10,000 can also be withdrawn from a 529 Plan for "Qualified Education Loan Repayments." This lifetime limit is per person. An additional $10,000 may be distributed to satisfy outstanding debt for each of a 529 plan beneficiary's siblings.

The Kiddie-Tax reverts back to the old rules, reversing the change made by the Tax Cuts and Job Act of 2017. Once again, any income subject to the Kiddie Tax is taxed at the child's parents' marginal tax rate. The change is effective in 2020, however taxpayers can elect to apply the change to the 2018 and 2019 tax years.

There are many more provisions of the new tax law, and nuance to a number of the changes listed above. We will discuss relevant changes with clients that are impacted. In the meantime, please let us know if you have any questions, or if we can provide additional information.

Please note, changes in tax laws or regulations may occur at any time and could substantially impact your situation. While familiar with the tax provisions of the issues presented herein, Raymond James financial advisors are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.