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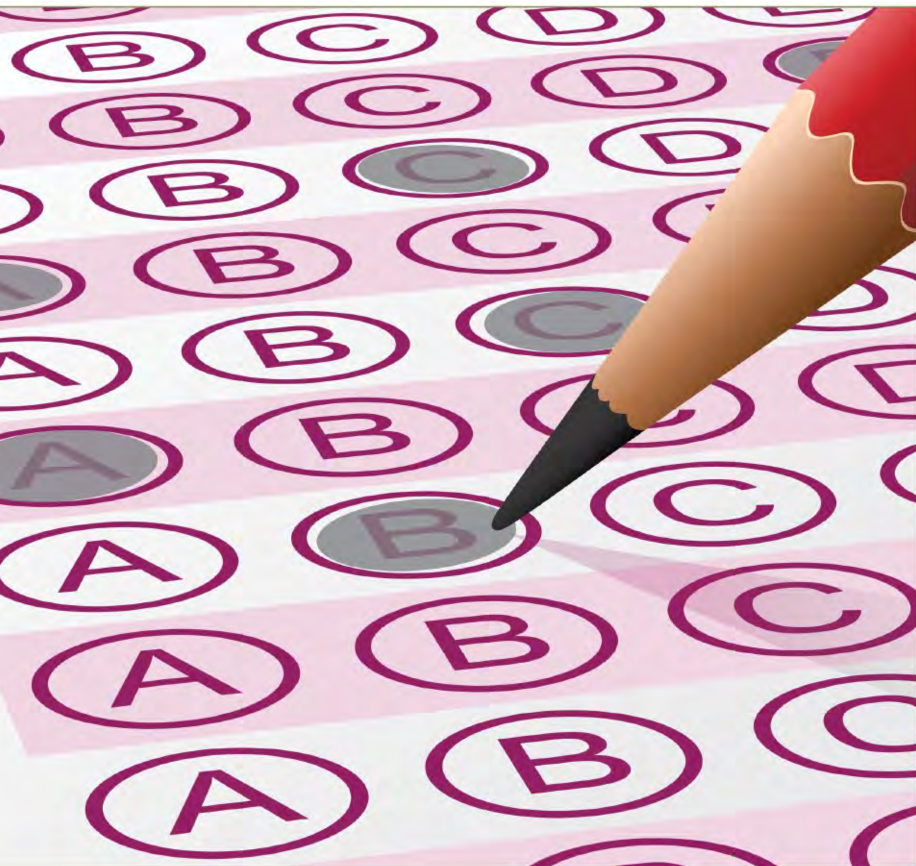
CRAIG WILLEKE'S FINANCIAL NEWS DIGEST



MONEYLINE

The Roth IRA Five-Year Test

Courtesy of Craig Willeke, LUTCF, CLTC

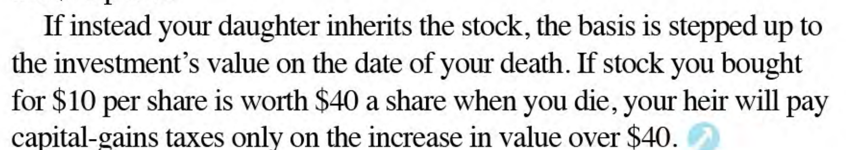
Q. ***I have converted portions of my traditional IRA to a Roth IRA. Is there a separate five-year holding period for each conversion?***

A. There is a separate five-year holding period for each Roth conversion, but that rule only applies to the 10 percent penalty before age 59 1/2.

There is another five-year holding period that applies to taxes on the earnings. As long as five years have passed since you first opened any Roth IRA and you're older than 59 1/2, you won't owe taxes on the earnings. The earnings five-year rule applies once for all of your Roth accounts.

Q. ***If I give appreciated stock to my daughter, what will be her cost basis when she sells it?***

A. When your daughter sells the shares, her basis will be your original cost basis. If you give her stock you bought for $10 per share and she sells it for $60 per share, she'll pay capital-gains taxes on the $50 profit.



If instead your daughter inherits the stock, the basis is stepped up to the investment's value on the date of your death. If stock you bought for $10 per share is worth $40 a share when you die, your heir will pay capital-gains taxes only on the increase in value over $40.

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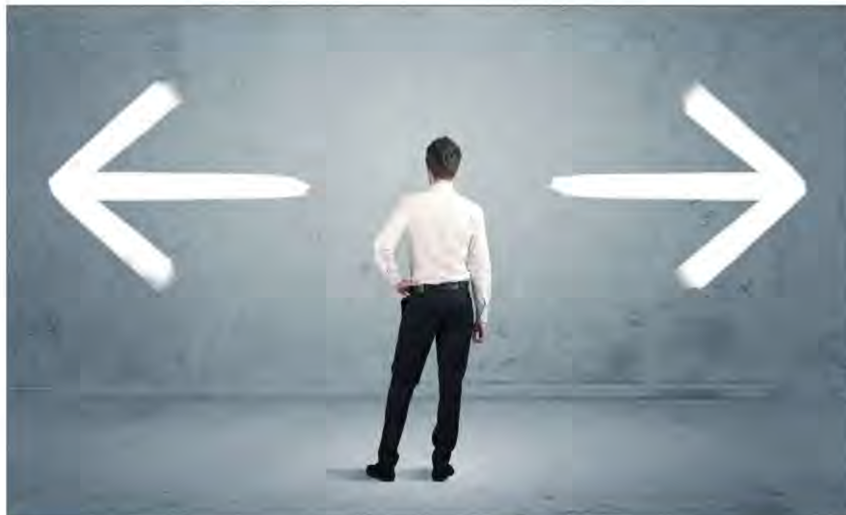
Big discounts on SUVs are available, reports auto-industry expert Jeremy Acevedo. Until recently, the best way to get a great deal on a new vehicle was to buy a sedan. But soaring demand for SUVs caused automakers to overbuild them and cut back on sedans. As a result, dealers are offering incentives to control rising SUV inventories. The average incentive has climbed above $4,000 on a midsize or large SUV and above $3,400 on a compact SUV.
Source: Edmunds.com 2019

Adding someone to the deed of your home can have unforeseen consequences. Once you make the addition, you cannot undo it unless the person you added consents. Once on the deed, a person can take out a loan on the property or, depending on local law, sell his/her part of it or even tear the property down. Adding someone to the deed transfers part-ownership, so your mortgage lender may require immediate payoff of your mortgage. If the person you add gets into tax, credit or family problems, a claim can be made against part or all of the house. And the IRS regards adding someone to a deed as a gift—so gift taxes may apply. Also, the change may affect your ability to sell or refinance the home. *Bottom line:* Adding someone to a deed changes you from sole owner to joint owner and should never be done without legal advice and assistance
Source: WiseBread.com 2019

"Money is the opposite of the weather. Nobody talks about it, but everybody does something about it."
—Rebecca Johnson



Choosing Between 401(k) and Roth 401(k) Accounts

By Elliot Raphaelson, Tribune Content Agency

Some employers offer both traditional 401(k) and Roth 401(k) options. For 2019, the maximum that an individual can contribute is $19,000 for those under 50 and $25,000 for those over 50. There are income restrictions regarding the amount that you can contribute. In 2019, if your income exceeds $280,000, there will be limits regarding the monthly contributions.

With a traditional 401(k), contributions are with pretax income. Any interest, dividends and capital gains are tax deferred. However, when you initiate withdrawals, all of withdrawals will be subject to ordinary income tax liability.

With a Roth 401(k), contributions are made with after-tax income. All interest, dividends and capital gains are tax free. When you make withdrawals from your Roth account, which you can do without restriction after age 59 1/2, your withdrawals are tax free if your contributions were in the account for at least five years.

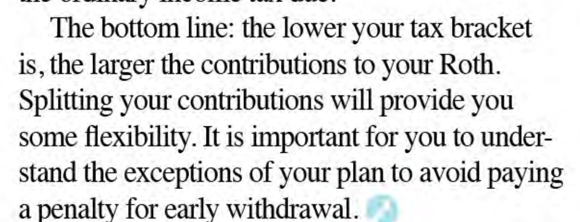
For both types of accounts there can be income tax penalties if you make withdrawals prior to 59 1/2 unless other exceptions apply. Before you make any withdrawals prior to 59 1/2, familiarize yourself with the exceptions so that you can avoid income-tax penalties.

Many employees do not know what proportion of their contribution should be placed in a traditional 401(k) or a Roth 401(k). You have the option to split your eligible contribution any way you choose. There are several factors to take into consideration.

If you are just starting to work and/or are in a low tax bracket (for example, your marginal tax bracket is 15%), it makes sense to maximize the use of the Roth account. The prevailing advice is that a Roth account has definite advantages if you anticipate that you will be in a higher tax bracket when you retire.

For most employees, there is uncertainty as to what their tax bracket will be when they retire. Not only is it difficult to predict what their retirement income will be, but it is also impossible to know how future legislation will impact future tax rates. Because of this uncertainty, it makes sense to split your contributions into both traditional and Roth accounts.

Another factor is unexpected expenses. No one can predict situations that require unplanned withdrawals. Withdrawals for higher education or a first-time home purchase are not allowable exceptions to avoid tax penalties. If you do not have an emergency fund for unexpected one-time expenses, it would be advantageous to have access to funds without penalty. You can make withdrawals of principal from your Roth account at any time without penalty. It makes more sense to make a withdrawal of principal only from a Roth account as opposed to making a withdrawal from a traditional 401(k) prior to 59 1/2, and face a 10% tax penalty in addition to the ordinary income tax due.



The bottom line: the lower your tax bracket is, the larger the contributions to your Roth. Splitting your contributions will provide you some flexibility. It is important for you to understand the exceptions of your plan to avoid paying a penalty for early withdrawal.

New Graduates Need To Put Financial Plan In Place

By Jill Schlesinger, Tribune Content Agency

Recent college graduates need to take control of their financial lives. If you are a parent, grandparent or close friend, you can help in this process by highlighting these financial goals.

It's time to address the three most important issues for any adult: 1) Reduction of consumer debt 2) Establishment of emergency cash reserves (6-12 months of living expenses) 3) Maximizing retirement contributions.

Create a list of each loan (credit card, auto, personal and student) and include lender details, like the interest rates associated with the loans, monthly payment amounts due and contact info.

Parents/grandparents/friends, you can discuss repayment strategies that will eradicate the outstanding debt as quickly as possible. Income will drive how much any graduate can allocate toward this goal, and as a result, how long it will take.

Grads should focus on the highest interest loans and then systematically work their way down to the lower interest ones. Whatever amount will be going to pay down debt should be automatically sent to the lender so that no penalties or late fees accumulate.

If there's no debt to manage, then new grads can quickly aim to accumulate a financial safety net. Remind grads that this money cannot be put into risky investments — it should be liquid in case there is a need to access the funds, especially for any expenses that could arise within the next year.

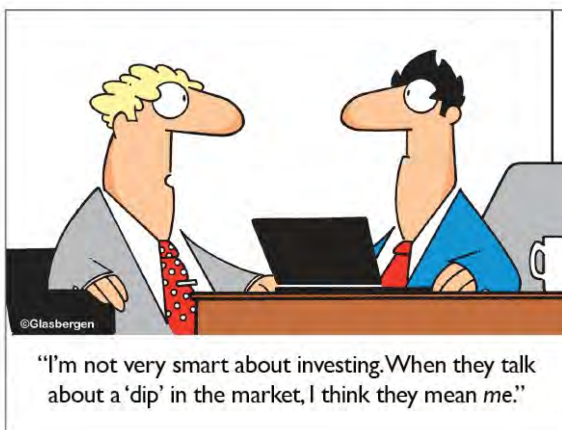
If the new job includes a retirement plan, contribute to it, at least up to the match, if one exists, or to the extent cash flow allows. While there may be some resistance, help him understand the power of saving and investing for the future.

If a grad is living independently, she needs to review the lease. Keep in mind that many landlords hike the rent after the first year. Every time you move, it will cost money, so there may be an incentive to sign a longer lease that has a slightly higher rate in the first year.

If your grad will be boomeranging back home with you (about one-third of all 18-34-year-olds live with their parents), it's a good idea to create ground rules, which may include how long the arrangement will last and whether or not you will charge rent. I recommend putting these types of agreements in writing to make sure everyone is on the same page.

Grads should understand the different items that are detailed on their paychecks, including: federal and state income tax withholding; Social Security and Medicare taxes - also known as FICA taxes; health insurance premiums; and retirement contributions.

New grads, you will develop your own credit record, and it is vitally important to pay bills on time and to guard your personal information. Review your credit report every 12 months at annualcreditreport.com, and if there are errors, flag them.



"I'm not very smart about investing. When they talk about a 'dip' in the market, I think they mean *me*."

Common student-loan scams and how to avoid them: *Student-loan-debt-consolidation scam:* Companies say that they can put all your loans from various lenders together for a fee—typically called a processing, consolidation or administrative fee—so that you have only one monthly payment. But you never have to pay for this—just go to the Student Loans website, and you can consolidate on your own. *Advance-fee-for-better-loans scam:* Scammers say that they can get you a better deal on loans if you pay them in advance. They normally ask for 1% to 5% of the loan amount or just a payment of $1,000 up-front. This is a pure scam—you should never pay up-front for claims such as this and should apply for all student loans directly and on your own. Student loans may have fees, such as a 1% default fee, but these fees are never paid in advance.

Source: Credit.com 2019

Did you know that kids' allowances averaged $471 in 2018? That's an increase of 3.7% compared with 2017. Kids also saved 42% of their weekly allowances, compared with the 2.4% that the average adult saves.

Source: Rooster Money's annual "Kids Allowance Report" 2019

"When your work speaks for itself, don't interrupt."
—Henry J. Kaiser

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Age Gap Creates Planning Wrinkles

By Eleanor Laise, Kiplinger's Personal Finance

Retirement decisions are always complex, but they can be doubly so when there's a big age gap between spouses. Much of the standard retirement advice may not work for age-gap couples.

"You have to throw away the playbook that you would use for a couple retiring at a similar age," says Steve Parrish, director of the retirement income center at The American College.

Here are four common problems that age-gap couples face:

1. Disagreement on the retirement date. Staggered retirement dates can be a boon for age-gap couples. A younger spouse who continues to work, for example, might maintain employer health coverage until both partners are eligible for Medicare, and her earnings can reduce the need to draw down the portfolio, helping the nest egg last longer.

2. Uncertainty over when to take Social Security. The Social Security claiming decision is critical for age-gap couples. That's because the younger spouse may live decades longer than the older partner, and a Social Security survivor benefit could make or break her later retirement years.

3. Not knowing which drawdown strategy to use. Age-gap couples' combined retirement could easily last 40 years, and their Social Security, pensions and other retirement income sources may phase in over a period of a decade or more. In such scenarios, the standard advice on safe withdrawal rates "can be misleading," says Dana Anspach, of Sensible Money, in Scottsdale, Ariz. Some couples, for example, may need to make large portfolio withdrawals in the early retirement years, but their drawdown rate drops substantially after Social Security and other income sources kick in.

4. Paying for long-term care. Age-gap couples have one advantage: The younger spouse will likely be able to care for the older spouse if needed. But what about the younger spouse's long-term-care needs?