Focus on Financial Fitness

Maintaining Your Financial Health

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Gray Divorce: Dividing Assets Can Impact Retirement

Although most people who marry hope their unions will last forever, about 50% of first marriages in the United States end in divorce.[1] Individuals age 50 and older are still less likely to get divorced than those who are younger. Even so, the divorce rate for Americans under age 40 has declined since 1990, while it has roughly doubled for those age 50 and older.[2]

Unfortunately, a divorcing couple must typically negotiate a property settlement agreement (or seek the assistance of the courts) to divide assets. Retirement plan benefits are often among the most valuable marital assets to be divided, along with houses, cars, and bank accounts. The laws of your particular state will define which retirement benefits are marital assets (or community property in community property states) that are subject to division.

Trading marital assets

You and your spouse may have one or more retirement accounts held by various financial institutions, or pension benefits from past and current employers. In some cases, one spouse may agree to waive any rights to all or some of the other spouse's retirement benefits in exchange for other marital assets (for example, a home).

With 401(k) plans or IRAs where the value is clear, trading the account balance for other marital assets is generally straightforward. On the other hand, trading pension benefits should be done only if you're certain the present value of those future payments has been accurately determined. Before you give up a valuable lifetime income, make sure you'll have other adequate resources available to you at retirement.

Employer plans

If assets in a qualified retirement plan will be divided, a qualified domestic relations order (QDRO) is provided to the employer. Pursuant to a QDRO, one spouse could be awarded all or part of the other spouse's pension plan benefit or 401(k) account balance as of a certain date.

Be sure to consult an attorney who has experience negotiating and drafting QDROs, especially if the QDRO may need to address complex issues such as survivor benefits, benefits earned after the divorce, plan subsidies, and cost-of-living adjustments (COLAs), among others. (For example, a QDRO may state that a first wife is to be treated as the surviving spouse, even if the husband remarries.)

Assuming the transfer is done correctly, the recipient is responsible for any taxes on benefits awarded pursuant to a QDRO. If the distribution is taken from the plan, the 10% penalty that normally applies to early distributions before age 59½ will not apply. The recipient may be able to roll certain distributions into an IRA to defer taxes.

IRAs and taxes

Dividing assets in IRAs or nonqualified plans does not require a QDRO. However, a divorce decree may be needed to avoid the negative tax consequences of IRA distributions resulting from divorce. If the IRA assets are transferred to the former spouse's IRA in accordance with a divorce decree, then the original IRA owner will not be responsible for any taxes on the distribution. Going forward, the recipient spouse must pay ordinary income tax when distributions are taken from the IRA.

IRAs may play another important role in negotiations now that the tax deduction for alimony payments has been eliminated for divorce agreements executed after December 31, 2018. When a recipient spouse is older than 59½ (or doesn't need immediate spousal support), it might make sense to offer a lump-sum payment of alimony from a traditional IRA instead of making after-tax payments going forward.

[1] National Survey of Family Growth, Centers for Disease Control and Prevention, 2017

[2] Pew Research Center, 2017

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Four Tips for Planning a Career Change

In January 2018, the median number of years that wage and salary workers had been with their current employer was 4.2 years.

Source: Employee Tenure Summary, U.S. Bureau of Labor Statistics (September 20, 2018), bls.org.

Changing careers can be rewarding for many reasons, but career transitions don't always go smoothly. Your career shift may take longer than expected, or you may find yourself temporarily out of work if you need to go back to school or can't immediately find a job. Consider these four tips to help make the financial impact of the transition easier.

1. Do your homework

Before you quit your current job, make sure that you clearly understand the steps involved in a career move, including the financial and personal consequences. How long will it take you to transition from one career to the next? What are the job prospects in your new field? How will changing careers affect your income and expenses in the short and long term? Will you need additional education or training? Will your new career require more or fewer hours? Will you need to move to a different city or state? Is your spouse/partner on board?

You should also prepare a realistic budget and timeline for achieving your career goals. If you haven't already done so, build an emergency cash reserve that you can rely on, if necessary, during your career transition. It's also a good time to reduce outstanding debt by paying off credit cards and loans.

Assuming it's possible to do so, keep working in your current job while you're taking steps to prepare for your new career. Having a stable source of income and benefits can make the planning process much less stressful.

2. Protect your retirement savings

Many people tend to look at their retirement savings as an easy source of funds when confronted with new expenses or a temporary need for cash. But raiding your retirement savings, whether for the sake of convenience, to raise capital for a business you're starting, or to satisfy a short-term cash crunch, may substantially limit your options in the future. Although you may think you'll be able to make up the difference in your retirement account later — especially if your new career offers a higher salary — that may be easier said than done. In addition, you may owe income taxes and penalties for accessing your retirement funds early.

3. Consult others for advice

When planning a career move, consider talking to people who will understand some of the hurdles you'll face when changing professions or shifting to a new industry or job. This may include a career counselor, a small-business representative, a graduate school professor, or an individual who currently holds a job in your desired field. A financial professional can also help you work through the economics of a career move and recommend steps to protect your finances.

4. Consider going back to school

You might be thinking about pursuing additional education in order to prepare for your new career. But before applying to graduate school, ask yourself whether your investment will be worthwhile. Will you be more marketable after earning your degree? Will you need to take out substantial loans?

In your search for tuition money, look first to your current employer. Some employers might cover the full cost of tuition, while others may cap reimbursement at a dollar amount. Generally, you'll be able to exclude up to $5,250 of qualifying educational assistance benefits from your taxes.

In addition, it's likely that you'll have to satisfy other requirements set by your employer to be eligible for reimbursement benefits. These may include, and are not limited to:

- Discussing course of study with a manager or supervisor prior to enrolling (and receiving approval)
- Pursuing a degree or training that is job related
- Maintaining a minimum grade-point average
- Working a certain length of time for the company before taking advantage of the benefit
- Meeting eligibility requirements for regular benefits

Check with your human resources department to learn more about tuition reimbursement qualifications. Be sure to find out whether you can continue to work at your company while you attend school part-time.

Students attending graduate school on at least a half-time basis are eligible for Uncle Sam's three major student loans: the Stafford Loan, Perkins Loan, and graduate PLUS Loan. Also, at tax time, you might qualify for certain tax benefits, such as the Lifetime Learning credit. For more information, see IRS Publication 970, *Tax Benefits for Education.*

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Key Retirement and Tax Numbers for 2019

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2019.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,000 in compensation in 2019 (up from $18,500 in 2018); employees age 50 and older can defer up to an additional $6,000 in 2019 (the same as in 2018).
- Employees participating in a SIMPLE retirement plan can defer up to $13,000 in 2019 (up from $12,500 in 2018), and employees age 50 and older can defer up to an additional $3,000 in 2019 (the same as in 2018).

IRAs

The combined annual limit on contributions to traditional and Roth IRAs increased to $6,000 in 2019 (up from $5,500 in 2018), with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2018	2019
Single/head of household (HOH)	$63,000 - $73,000	$64,000 - $74,000
Married filing jointly (MFJ)	$101,000 - $121,000	$103,000 - $123,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Note: *The 2019 phaseout range is $193,000 - $203,000 (up from $189,000 - $199,000 in 2018) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

	2018	2019
Single/HOH	$120,000 - $135,000	$122,000 - $137,000
MFJ	$189,000 - $199,000	$193,000 - $203,000
MFS	$0 - $10,000	$0 - $10,000

Estate and gift tax

- The annual gift tax exclusion for 2019 is $15,000, the same as in 2018.
- The gift and estate tax basic exclusion amount for 2019 is $11,400,000, up from $11,180,000 in 2018.

Kiddie tax

Under the kiddie tax rules, unearned income above $2,200 in 2019 (up from $2,100 in 2018) is taxed using the trust and estate income tax brackets. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

Standard deduction

	2018	2019
Single	$12,000	$12,200
HOH	$18,000	$18,350
MFJ	$24,000	$24,400
MFS	$12,000	$12,200

Note: *The additional standard deduction amount for the blind or aged (age 65 or older) in 2019 is $1,650 (up from $1,600 in 2018) for single/HOH or $1,300 (the same as in 2018) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Alternative minimum tax (AMT)

	2018	2019
Maximum AMT exemption amount		
Single/HOH	$70,300	$71,700
MFJ	$109,400	$111,700
MFS	$54,700	$55,850
Exemption phaseout threshold		
Single/HOH	$500,000	$510,300
MFJ	$1,000,000	$1,020,600
MFS	$500,000	$510,300
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	$95,550	$97,400
All others	$191,100	$194,800
*Alternative minimum taxable income		

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Can a flexible work schedule help you stay in the workforce after having children?

Yes, it just might be the key. Your job is the foundation for general financial security, including retirement. In addition to providing you with a steady salary and valuable employee benefits, it typically brings with it the ability to save in a tax-advantaged employer-sponsored retirement plan like a 401(k), and if you're lucky, a pension. It also allows you to start qualifying for Social Security retirement benefits.

Women and men may start out on relatively equal financial footing in their 20s. But when children come along, women are much more likely to take time out of the workforce to care for them.[1] A common refrain is "my salary would just go to daycare costs anyway, so what's the point?" This is often true. But it's really not fair for one parent to assume sole responsibility for child-care costs; it is a *shared* financial responsibility that both parents should take on.

Many women want to keep at least one foot in the workforce after having children, not only for financial reasons but also for career mobility and personal fulfillment. If you'd like to keep working but can't accommodate the traditional, 40-hour-per-week, in-office schedule, consider requesting a modified schedule if your job allows it. This could mean telecommuting from home one or more days per week, having a flexible work schedule (such as 11 a.m. to 7 p.m.), working part-time, or some combination thereof. In many cases, a flexible work arrangement can be the difference between staying in the workforce or having to leave it, so consider exploring this possibility before you exit prematurely.

Think about what your ideal work arrangement would be and request a meeting with your manager to discuss your well-thought-out proposal. This plan should include a trial period after which both sides can come back to the table and evaluate how things are working. Employers are increasingly recognizing that flexible schedules are key to having a diverse, gender-neutral workforce. In the end, asking for a flexible schedule might just allow you to keep that steady salary and continue saving for retirement.

1) U.S. Department of Labor Blog, Women and Retirement Savings, March 2017

Is bulk buying worth it?

In theory, buying goods in bulk seems like a smart, money-saving strategy. But in practice, is it really worth it? Next time you're out shopping, consider the following before you stock up on large quantities of your favorite products.

An obvious benefit of bulk buying is that it tends to be an economical way to shop because you're often paying a lower price per unit of each individual item. For example, buying a five-pound bag of potatoes will typically cost you less per pound than buying individual potatoes.

In addition to saving you some money, buying items in bulk can also save you time and energy. You won't need to take as many trips to the store if you've stocked up on essentials.

But there are some drawbacks to bulk buying. Unless you have a large family who will go through items bought in bulk quickly, it probably won't make as much sense for you to stock up on groceries and other household goods. Plus, items sold in bulk are often packaged in larger containers. You'll need to store these somewhere, and you might not necessarily have space to accommodate everything.

Also consider that some wholesalers charge membership fees. The cost of membership and frequency of renewal could be pricey.

While there are advantages and disadvantages to bulk buying, you can help determine whether it is worthwhile by asking yourself the following questions:

- Have you compared prices of bulk-packaged products to see if you're really getting a deal?
- Have you previously tried and liked the product? Can you bear the risk of having it go to waste if you discover that you don't like it after you've purchased a bulk quantity?
- Do you actually need that much of a particular item? Will it spoil before you can use it?
- Do you have enough storage space for items purchased in bulk?

Avoid buying in bulk just because you can. Take the time to consider your needs, and weigh wholesale rates against supermarket rates in order to help yourself save as much as possible.

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