Focus on Financial FItness

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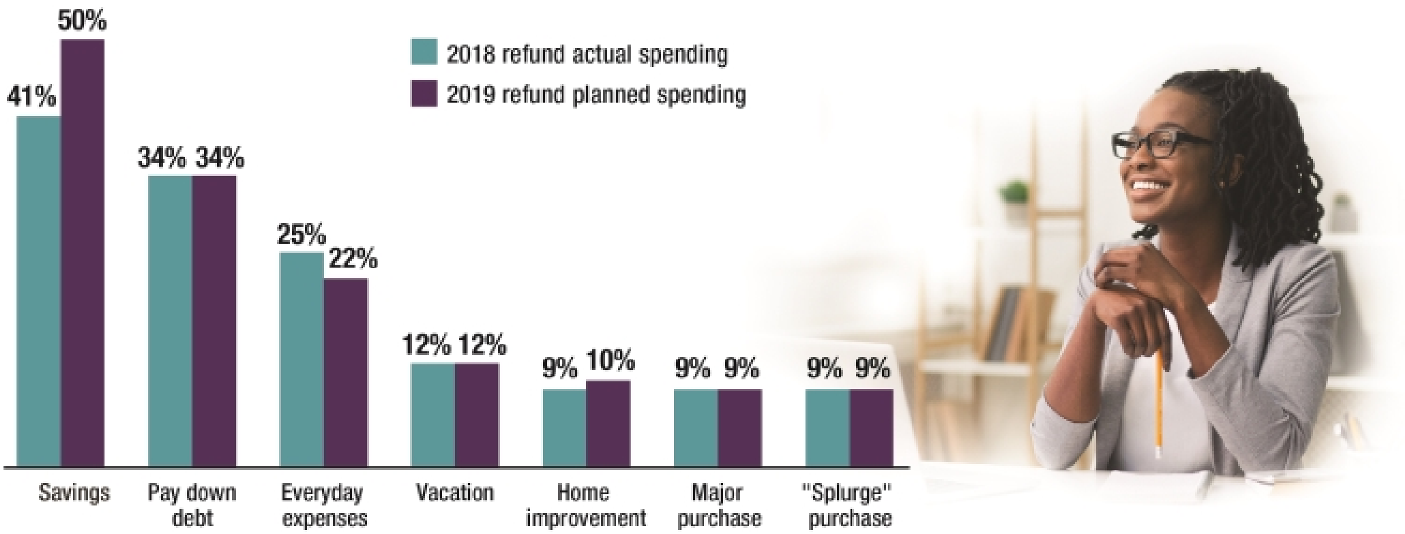
Tax Refund: Spend or Save

About 72% of taxpayers received a refund in 2018 and 2019. Here's how consumers spent the tax refunds they received in 2018 and what they planned to do with their 2019 refunds.



Sources: Internal Revenue Service, 2019; National Retail Federation, 2019 (multiple responses allowed)

Will vs. Trust: Know the Difference

Wills and trusts are common documents used in estate planning. While each can help in the distribution of assets at death, there are important differences between the two.

What Is a Will? A last will and testament is a legal document that lets you direct how your property will be dispersed (among other things) when you die. It becomes effective only after your death. It also allows you to name a personal representative (executor) as the legal representative who will carry out your wishes.

What Is a Trust? A trust is a legal relationship in which you, the grantor or trustor, set up a trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust used most often as part of a basic estate plan. "Revocable" means you can make changes to the trust or even revoke it at any time.

A living trust is created while you're living and takes effect immediately. You may transfer title or ownership of assets, such as a house, boat, automobile, jewelry, or investments, to the trust. You can add assets to the trust and remove assets thereafter.

How Do They Compare? While both a will and a revocable living trust enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. Here are some important ones.

1. A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.

2. A will can only control the disposition of assets that you own at your death, including property you held as tenancy in common. It cannot govern the distribution of assets that pass directly to a beneficiary by contract (such as life insurance, annuities, and employer retirement plans) or by law (such as property held in joint tenancy).

3. Your revocable trust can only control the distribution of assets held by the trust. This means you must transfer assets to your revocable trust while you're living, which may be a costly, complicated, and tedious process.

4. Unlike a will, a trust may be used to manage your financial affairs if you become incapacitated.

5. If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.

6. A trust can be used to manage and administer assets you leave to minor children or dependents after your death.

7. In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

Generally, most estate plans that use a revocable trust also include a will to handle the distribution of assets not included in the trust and to name a guardian for minor children. In any case, there are costs and expenses associated with the creation and ongoing maintenance of these documents. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next. You should consider the counsel of an experienced estate planning professional and your legal and tax advisers before implementing a trust strategy.

Different Documents, Different Features

Even if you have a revocable living trust, you should have a will to control assets not captured in the trust.

Features	Will	Revocable living trust
Control distribution of assets	Yes	Yes
Assets included	Only probate assets	Assets transferred to the trust
Effective date	At death	Immediately
Avoid probate	No	Yes*
Public record	Yes	No*
Creditors' claims	Limited time to file claims	Claims may be made at any time
Avoid estate taxes	No	No
Appoint guardian for minor-age children	Yes	No

*Depends on applicable state laws.

The Cost of Family Caregiving

There are around 41 million family caregivers in the United States providing an estimated 34 billion hours of care to adults with limitations in daily activities. The estimated annual value of this unpaid work is $470 billion, more than all out-of-pocket spending on U.S. health care.[1]

As staggering as this figure may be, it is only part of the cost of caregiving. Many caregivers have to reduce hours at their regular jobs or quit the workforce entirely. The estimated value of these lost earnings is $67 billion.[2] More than three out of four caregivers incur out-of-pocket costs (see chart). And then there are the physical and emotional costs that cannot be quantified.

OUT-OF-POCKET EXPENSES

More than three out of four family caregivers spend their own funds on such items as home modifications, paid care at home, and transportation; the average annual expenditure is nearly $7,000. Caregivers took the following actions to help fund these expenses.

Source: AARP Public Policy Institute, 2019 (2016 data)

If you are a family caregiver, or know someone who is, here are some ideas that may help.

Preserve your own assets. Although it's noble to help an aging parent or other relative financially, be realistic about your own present and future needs. It might make more sense to spend down an older person's assets, which could reduce the taxable estate and/or qualify him or her for long-term care benefits under Medicaid.

Take advantage of available benefits. Make sure the person you are caring for has all the benefits to which he or she is entitled. The U.S. Administration on Aging Eldercare Locator (eldercare.acl.gov) and the Benefits CheckUp website from the National Council on Aging (benefitscheckup.org) are helpful places to start.

Also take advantage of benefits offered by your employer. Many companies include family care in their sick-leave policies, and you may be eligible for up to 12 weeks of unpaid leave under the Family and Medical Leave Act. You might want to discuss your situation with your supervisor and human resources department.

Educate yourself. Unlike professional caregivers, family caregivers are typically thrown into a complex role with no training. Make sure you fully understand your loved one's condition, medications, and appropriate methods of care. Ensure that you are authorized to speak to the patient's physician(s). Don't hesitate to call with questions, and keep a running list of issues for the next office visit.

Take care of yourself. Caregiving can take a physical and mental toll on family caregivers, who are especially vulnerable to back conditions, exhaustion, depression, and loneliness. Take regular breaks to rest or enjoy a favorite activity. Ask for help from other family members and friends. Consider support groups. Don't be afraid to seek professional help for yourself.

More information on family caregiving is available from the Family Caregiver Alliance (caregiver.org) , the Caregiver Action Network (caregiveraction.org) , the National Institute on Aging (nia.nih.gov) , and AARP Family Caregiving (aarp.org/caregiving) .

1) AARP Public Policy Institute, 2019 (2017 data)

2) Health Affairs, June 2019 (2013 data)

How Long Should You Keep Financial Records?

Once tax season is over, you may want to file your most recent records and discard older records to make room for the new ones. According to the IRS, personal tax records should be kept for three years after filing your return or two years after the taxes were paid, whichever is later.* (Different rules apply to business taxes.) It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

The rules for tax records apply to other records you use for deductions on your return, such as credit card statements, utility bills, auto mileage records, and medical bills. Here are some other guidelines if you don't use these records for tax purposes.

Financial statements. You generally have 60 days to dispute charges with banks and credit card companies, so you could discard statements after two months. Once you receive your annual statement, throw out prior monthly statements.

Retirement plan statements. Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

Real estate and investment records. Keep these at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records.

Loan documents. Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

Auto records. Keep registration and title information until the car is sold. You might keep maintenance records for reference and to document services to a new buyer.

Medical records. Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance.

Other documents you should keep indefinitely include birth, marriage, and death certificates; divorce decrees; citizenship and military discharge papers; and Social Security cards. Use a shredder if you discard records containing confidential information such as Social Security numbers and financial account numbers.

*Keep tax records for at least six years if you underreported gross income by more than 25% (not a wise decision) and for seven years if you claimed a deduction for worthless securities or bad debt.