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Money In Motion

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Keep Your Life Insurance When You Retire

Do you need a life insurance policy in retirement? One school of thought says no. The kids are grown, and the need to financially insulate the household against the loss of a breadwinner has passed.

If you are thinking about dropping your coverage for either or both of those reasons, you may also want to consider the excellent reasons to retain, obtain, or convert a life insurance policy after you retire. It may be the best decision once you take these factors into account.

Could you make use of your policy's cash value? If you have a whole life policy, you might want to utilize that cash in response to certain retirement needs. Long-term care, for example: you could explore converting the cash in your whole life policy into a new policy with a long-term care rider, which might even be doable without tax consequences. If you have income needs, many insurers will let you surrender a whole life policy you have held for some years and arrange an income contract with the cash value. You can pull out the cash, tax-free, as long as the amount withdrawn is less than the amount paid into the policy. Remember, though, that withdrawing (or taking a loan against) a policy's cash value naturally reduces the policy's death benefit.¹

Do you receive a "single life" pension? Maybe a pension-like income comes your way each month or quarter, from a former employer or through a private income contract with an insurer. If you are married and there is no joint-and-survivor option on your pension, that income stream will dry up if you die before your spouse dies. If you pass away early in your retirement, this could present your spouse with a serious financial dilemma. If your spouse risks finding themselves in such a situation, think about trying to find a life insurance policy with a monthly premium equivalent to the difference in the amount of income your household would get from a joint-and-survivor pension as opposed to a single life pension.²

Will your estate be taxed? Should the value of your estate end up (continued on page 2)

Tax Changes Around the Home

How the Tax Cuts & Jobs Act impacted three popular deductions.

Three recent tax law changes impact homeowners and home-based businesses. They may affect your federal income taxes this year.

The SALT deduction now has a \$10,000 yearly limit. You can now only deduct up to \$10,000 of some combination of (a) state and local property taxes or (b) state and local income taxes or sales taxes, annually. (Taxes paid or accumulated due to trade activity or business activity are exempt from the \$10,000 limit.)^{1,2}

If you have itemized for years and are continuing to itemize this year, this \$10,000 cap may be irritating, especially if there is no state income tax or a very high state income tax where you live. In the state of New York, for ex-

ample, taxpayers who took a SALT deduction in 2015 deducted an average of \$22,169.^{1,2}

Connecticut, New Jersey, and New York all recently passed laws in reaction to the new \$10,000 limit, essentially offering taxpayers a workaround – cities and townships within those states may create municipal charities through which residents may receive property tax credits in exchange for charitable contributions.²

So far, the Internal Revenue Service is not fond of this. I.R.S. Notice 2018-54, released in May, warns that "despite these state efforts to circumvent the new statutory limitation on state and local tax deductions, taxpayers should be mindful that federal law controls the proper characterization of payments for federal income tax purposes." Both the I.R.S. and the Department of (continued on page 2)



Keep Your Life Insurance When You Retire *(continued from page 1)*

surpassing federal or state estate tax thresholds, then life insurance proceeds may help to pay the resulting taxes and help your heirs avoid liquidating some assets.

Are you carrying a mortgage? If you have refinanced your home or borrowed to buy a home, a life insurance payout could potentially relieve your heirs from shouldering some or all of that debt if you die with the mortgage still outstanding.²

Do you have burial insurance? The death benefit of your life insurance policy could partly or fully pay for the costs linked to your funeral or memorial service. In fact, some people buy small life insurance policies later in life in preparation for this need.²

Keeping your permanent life policy may allow you to address these issues. Alternately, you may seek to renew or upgrade your existing term coverage.

Citations

1 - forbes.com/sites/forbesfinancecouncil/2018/03/06/using-life-insurance-for-retirement-purposes/ [3/6/18]

2 - nasdaq.com/article/4-reasons-to-carry-life-insurance-in-retirement-cm946820 [4/12/18]

Required Minimum Distribution

DEADLINE IS

DECEMBER 31st

Just what is an RMD? After you turn 70½, the IRS requires you to withdraw some of the money in most retirement savings accounts each year. These withdrawals are officially called Required Minimum Distributions (RMDs).

If you have any questions about RMD's, we are here to help you.



Tax Changes Around the Home *(continued from page 1)*

Treasury are preparing rules to respond to these state legislative moves.^{2,3}

The interest deduction on home equity loans is not quite gone. The Tax Cuts & Jobs Act seemed to suspend it entirely until 2026, but this winter, the I.R.S. issued guidance noting that the deduction still applies if a home equity loan is arranged to help a taxpayer “buy, build or substantially improve” the involved house. So, you may still deduct interest on a home equity loan if your receipts show that the borrowed amount is used for a new 30-year roof, a kitchen remodel, or similar upgrades. Keep in mind that the Tax Cuts & Jobs Act lowered the limit on the total home loan amount eligible for the interest deduction each year – it is

now set at \$750,000. That cap applies to the combined home loans a taxpayer takes out for both a primary and secondary residence.^{1,4,5}

The home office deduction is gone, unless you are self-employed. Before 2018, if you dedicated an area of your home solely to business use and defined it as your principal place of business to the I.R.S., you could claim a home office deduction on Schedule A. This was considered a miscellaneous itemized deduction. Unfortunately, the Tax Cuts & Jobs Act did away with miscellaneous itemized deductions. If you work for yourself, though, you can still claim the home office deduction using Schedule C, the form used to report income or loss from a business activity or a

profession.⁵

Are you strategizing to maximize your 2018 federal tax savings? Are you looking for ways to legally reduce your federal and state tax obligations? Talk to a financial professional to gain insight and plan for this year and the years ahead.

Citations

1 - investopedia.com/taxes/how-gop-tax-bill-affects-you/ [1/3/18]

2 - cnbc.com/2018/05/23/irs-treasury-have-set-their-sights-on-blue-states-tax-workarounds.html [5/23/18]

3 - irs.gov/pub/irs-drop/n-18-54.pdf [5/23/18]

4 - nytimes.com/2018/03/09/your-money/home-equity-loans-deductible.html [3/9/18]

5 - fool.com/taxes/2018/05/20/say-goodbye-to-the-home-office-deduction-unless-yo.aspx [5/20/18]

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