

Perspective

Planning Your Financial Future



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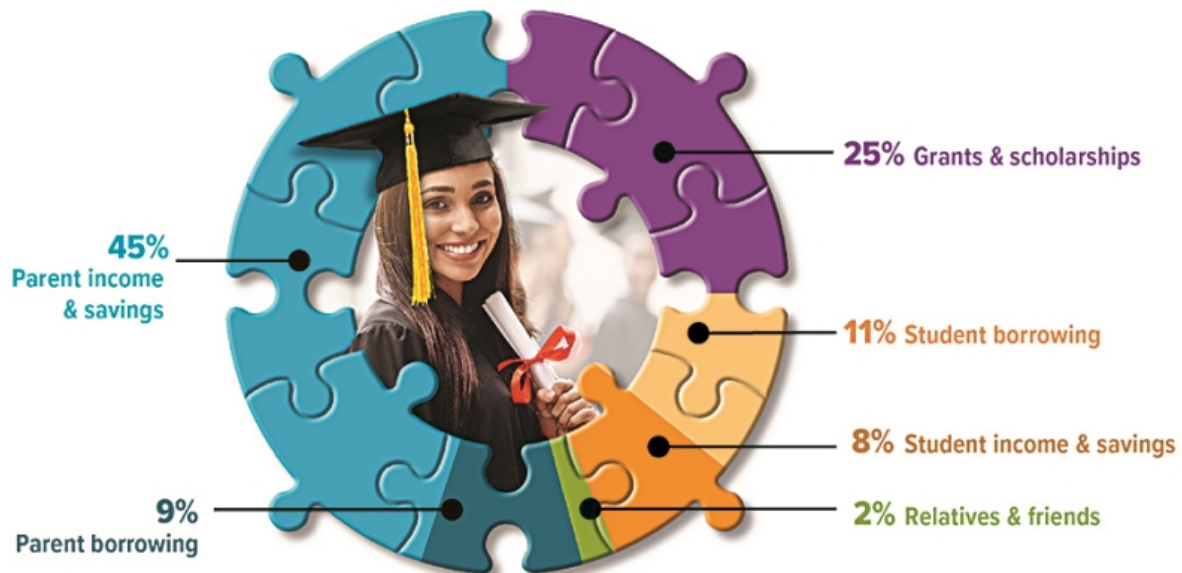
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Paying for College: Pieces of the Funding Puzzle

The typical family uses a combination of income, savings, borrowing, and grants/scholarships to pay for college. Not surprisingly, the largest source of funding — 45% — comes from parents in the form of current income and savings.

Starting a college fund as early as possible and aggressively looking for grant aid at college time can help families reduce the amount they may need to borrow, giving students greater flexibility when making decisions. Colleges are usually the best source of grant aid. A net price calculator (available on every college website) can help students estimate how much grant aid they might receive at specific colleges.

College funding sources for the 2020–2021 school year



Source: *How America Pays for College*, 2021, Sallie Mae

How Life Insurance Could Help Mitigate Taxes in Retirement

Higher taxes could follow in the wake of soaring government spending on pandemic relief measures — a likelihood that shines a new light on the tax advantages of life insurance. Permanent life insurance offers a tax-free death benefit, and a portion of each premium goes into a cash-value account that accumulates on a tax-deferred basis. The policy owner may also access the cash value, if needed, without triggering income taxes.

Assets in tax-deferred retirement accounts will eventually be taxed as ordinary income — whether distributions are taken by the current owner or a beneficiary who inherits the account — so taxpayers with well-funded retirement accounts should bear in mind that today's historically low income tax rates are scheduled to expire after 2025.

Taking IRA distributions while taxes are low and shifting the money to life insurance could provide a hedge against future tax increases. Here are three ways in which permanent life insurance can be used to fund retirement and estate strategies.

Supplement Retirement Income

The cash value is available for emergencies as well as for normal retirement expenses such as housing costs and health care. You can generally make tax-free withdrawals (up to the amount paid in premiums) or use loans to tap into the accumulated cash value. Although policy loans accrue interest, they are free of income tax (as long as they are repaid) and usually do not impose a set schedule for repayment.

Still, you should generally have a need for life insurance protection and evaluate a policy based on its merits as such. Loans from a life insurance policy will reduce the policy's cash value and death benefit, could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured. Additional out-of-pocket payments may be needed if actual dividends or investment returns decrease, if you withdraw policy cash values, or if current charges increase.

Help Pay for Long-Term Care

Many retirees worry that their savings could be depleted later in life by the escalating cost of long-term care. A long-term care rider attached to a life insurance policy could help pay for these expenses if they are ever needed. Any payouts for covered expenses would reduce (and are usually limited to)

the death benefit, and they are typically much less generous than those of a traditional "use-it-or-lose-it" long-term care policy. Optional benefit riders are available for an additional cost and are subject to the contractual terms, conditions, and limitations outlined in the policy; they may not, however, benefit all individuals.

Budgeting for Long-Term Care

Medicare pays for up to 100 days in a skilled nursing facility after a qualifying hospital stay of three or more days, and provides limited coverage for home health care. Medicaid pays for some long-term care services, but eligibility is based on the person's income and assets, and often requires "spending down" to qualify.

National monthly costs, 2021



*Based on 44 hours per week

Source: Genworth Cost of Care Survey, 2022

Leave a Tax-Free Legacy

Most nonspouse beneficiaries who inherit IRAs must now empty the account within 10 years, and heirs who are forced to take distributions in their peak earning years could face large income tax bills. By contrast, the death benefit from a life insurance policy could provide a tax-free inheritance.

Before implementing a strategy involving life insurance, it would be prudent to make sure you are insurable. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. In addition to the life insurance premiums, other costs include mortality and expense charges. If a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Finding Forgotten Funds

As a child, you may have dreamed about finding buried treasure, but you probably realized at an early age that it was unlikely you would discover a chest full of pirate booty. However, the possibility that you have unclaimed funds or other assets waiting for you is not a fantasy.

Billions of dollars in unclaimed property are reported each year, and 10% of people have some form of property waiting to be returned by state unclaimed property programs.¹ So how do you find what is owed to you, even if it's not a fortune? One of the challenges of finding lost property is knowing where to look.

State Programs

Every state has an unclaimed property program that requires companies and financial institutions to turn inactive account assets over to the state if they have lost contact with the rightful owner for a period of time. In most states, this dormancy period is three to five years, but may be shorter or longer depending on the type of property and on state law. It then becomes the state's responsibility to locate the owner.

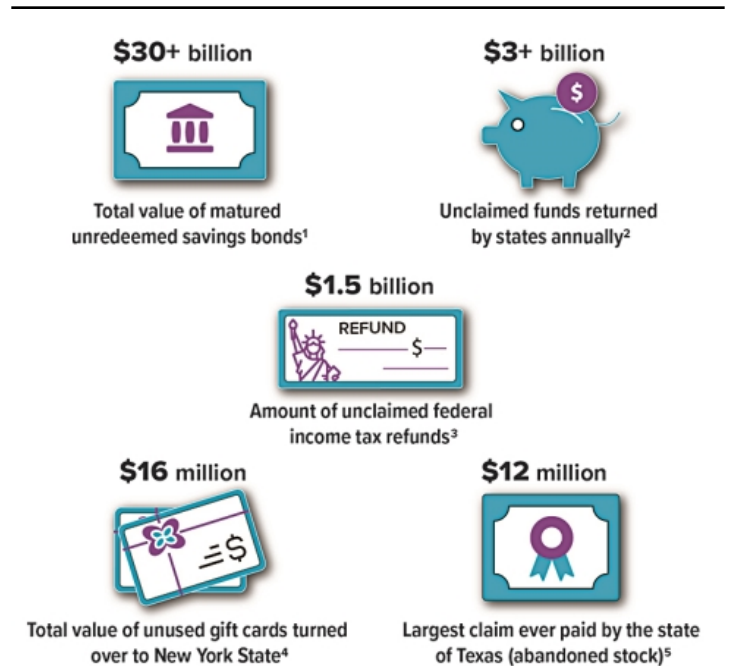
For state programs, unclaimed property might include financial accounts, stocks, uncashed dividends and payroll checks, utility security deposits, insurance payments and policies, trust distributions, mineral royalty payments, gift cards, and the contents of safe-deposit boxes. State-held property generally can be claimed in perpetuity by original owners and heirs.

Most states participate in a free national database sponsored by the National Association of Unclaimed Property Administrators called [MissingMoney.com](https://www.missingmoney.com). You might also check specific databases for every state where you have lived. For more information and links to individual state programs, see the National Association of Unclaimed Property Administrators at [unclaimed.org](https://www.unclaimed.org).

Even if your search isn't fruitful the first time you look, check back often because states regularly update their databases.

Federal Programs

Unclaimed property held by federal agencies might include tax refunds, pension funds, funds from failed banks and credit unions, funds owed investors from U.S. Securities and Exchange Commission enforcement cases, refunds from mortgages insured by the Federal Housing Administration, and matured unredeemed savings bonds. There is no single searchable database for federal agencies, but you can find more information and links to sites you can search at [usa.gov/unclaimed-money](https://www.usa.gov/unclaimed-money).



Sources: 1) U.S. Department of the Treasury, 2022 (as of December 2021); 2) National Association of Unclaimed Property Administrators, 2022; 3) Internal Revenue Service, 2022 (data for 2018 tax year); 4) Office of the New York State Comptroller, 2022 (data for 2021); 5) Texas Comptroller of Public Accounts, 2022

Submitting a Claim

To claim property, follow the instructions given, which will vary by the type of asset and where the property is held. You'll need to verify ownership, typically by providing information about yourself (such as your Social Security number and proof of address), and submit a claim form either online or by mail. What if the listed property owner is deceased? A claim may be made by a survivor and will be payable according to state or federal law.

Avoiding Scams

Finding and receiving any unclaimed property to which you are entitled should not cost you money. Some states allow legitimate third-party "finders" to offer to help rightful owners locate property for a fee, but you do not need to pay them in order to receive the property. Be on the lookout for scammers who pretend to have unclaimed property in order to trick you into revealing personal or financial information. Before you sign any contracts or give out any information, contact your state's unclaimed property office.

1) National Association of State Treasurers, 2022

Uncle Sam Wants to Know About Your Gig Income

If you earn money through an app or online digital platform, you may be affected by a tax reporting change that took effect on January 1, 2022. A provision of the 2021 American Rescue Plan requires third-party payment processors to report business transactions totaling over \$600 per year by issuing a Form 1099-K to the taxpayer and the IRS. In prior years, the reporting threshold was much higher (200 business transactions and \$20,000).

Here are a few things you should probably know about this far-reaching new rule.

It's not personal. Business transactions are defined as payments for goods or services, including tips. Money received from the online sale of personal items like old clothing or furniture, which are normally sold at a loss, is not taxable and does not need to be reported. However, those in the business of reselling goods for a profit should carefully track the original costs of their purchases. Peer-to-peer payment apps are not required to report personal transactions intended as gifts or used to pay back friends for dinner or trips, or to split other costs. How will third-party apps know the difference? The payer will be asked to indicate the purpose of each transaction so it can be categorized correctly.

It's not a tax change. Taxpayers who sell goods, regularly rent out a vacation home, walk dogs, or perform any other type of freelance work through

digital platforms were already responsible for self-reporting all income for tax purposes. But now the IRS will have a way to cross-reference the information sent by third parties with amounts reported by individuals and businesses on their tax returns.

It's not foolproof. This change may cause confusion that could result in costly mistakes. If a payer (such as a roommate making a shared rent payment) accidentally clicks on the wrong box, the recipient could receive a Form 1099-K for a transaction that is not taxable. It's also possible that a freelancer will receive a Form 1099-K from the payment processor and a Form 1099-MISC from the client for the same transaction. In such cases, the taxpayer may need to explain the discrepancy to the IRS.

Using separate accounts for business and personal digital transactions could make things simpler at tax time. Keeping detailed and organized records will help ensure that your tax return is accurate, so you don't overpay or raise any red flags with the IRS.

Because the new reporting requirement may have unintended consequences that frustrate taxpayers, some lawmakers have proposed raising the threshold to a less onerous level. While it's far from certain that Congress will backtrack on this issue, you may want to watch for future developments. If you have questions about how the new rule might affect you, don't hesitate to consult a qualified tax professional.

Please contact Branch Ads Supervision to obtain the appropriate Raymond James disclosure.