



FINANCIAL NAVIGATORS, INC.

The NAV

Winter 2020



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THE SECURE ACT Brings important changes

To make saving for retirement accessible for more US citizens, in late 2019, Congress passed the **Setting Every Community Up for Retirement Enhancement [SECURE] Act** (the Act). The Act introduces key provisions that could affect your family's ability to grow, save money, pay for education, and retire with dignity. If you are a worker, have a family, or participate in a retirement plan, the FNI advisors believe it is essential for you to understand these changes.

Part-time employee? For years, workplace retirement plans, e.g., 401(k), 403(b), etc., were permitted to exclude certain workers from participating. The Act liberalizes some of these permitted exclusions. Now individuals who work at least 500 hours a year, in at least three consecutive years, will be

allowed to contribute in a workplace retirement plan; this translates to under 10 hours a week. In addition, there are some credits available to small businesses that wish to adopt new plans.

Working past the age of 70? Along with those significant changes for the workplace plan is the shift in the contribution age cap on Traditional IRAs. The contribution age limit was previously capped for Traditional IRAs at 70 ½. Beginning January 1st, 2020, the age cap has lifted, and now you may continue to contribute, so long as you are employed.

RMD There are other changes to your retirement accounts starting in 2020. The age to commence **Required Minimum Distributions (RMD)** has increased from 70 ½ to age 72 starting January 1, 2020. However, if you have already been required to take these distributions prior to 2020 you must continue to do so.

Key Points of the Act

Participate in a work retirement plan sooner.

Contribute to a traditional IRA longer.

Birth or adoption penalty-free withdrawals.

529 Plan expansion for apprenticeships and student loan repayments.

Expecting a child? If you are expanding your family, you may take a penalty-free distribution of up to \$5,000 from your workplace plan or Traditional IRA to cover the costs of birth or adoption.

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The Secure Act

Inheriting a Retirement Account? If you are the spouse, there are no changes, you can still take distributions over your lifetime, spreading out the income and the tax. But, for any non-spouse beneficiaries, most of you will be required to receive the entire account over a period of ten years. This will allow the government to collect taxes earlier, but your taxable income will be higher, and you may need a strategy to invest those funds for later in your life.

Please contact your advisor for an investment approach, or to find out if you qualify for an exemption.

College Versus Apprenticeship Programs? Many of us push our children toward four-year colleges, but some young learners prefer the skilled trades. In the past, the rules surrounding 529 plans have not been kind to students who attend trade schools or apprenticeship programs. Now, 529 plans allow for payments to cover fees, books, supplies, and required equipment for

apprenticeship programs.

Student Loan Debt? 529's allow for the repayment of student loans for the account beneficiary and siblings to repay up to \$10,000 of student loan debt each.

As you can see, some considerable changes are starting this year that may affect you. There are still restrictions and limits on workplace plans, IRAs, and 529 Plans, for further information, please contact FNI as well as your tax professional.



Q What is a Required Minimum Distribution (RMD)?

A Many of us have never been taxed on the contributions that we and our employers have made to retirement plans over the years, called pre-tax contributions. The government is expecting to collect taxes on those balances eventually. Eventually now arrives at age 72. The IRS provides tables, but just assume around 3.9% when you're 72 and 4.04% when you're 73, increasing each year. (5.4% by the time you're 80)

Q Do I have to take the withdrawal precisely at age 72?

A You can take the withdrawal any time during the calendar year in which you turn 72. But, in case you forget, and only for that first distribution, you can delay the payment until April 1st of the following year. However, we do not recommend this practice. If you wait until the following year, you will be required to take two distributions in one calendar year, possibly placing you in a higher tax bracket that is then applied to all of your income for the year. And don't forget, Medicare is income based, so any additional income may increase your Medicare premiums.

Q What if I don't comply?

A If you don't take these taxable distributions, you will be subject to a 50% penalty, which might be one of the stiffest penalties in the tax code. (\$10,000 RMD = \$5,000 penalty).

Q Why do I have to take an RMD?

A It's all about taxes. You have been allowed to defer the tax and now it's the IRS's turn to collect their taxes.

Q But what if I don't need the income and would like to gift my distribution?

A When the standard deduction increased in 2018 many taxpayers realized they could no longer deduct charitable donations (QCD). Obviously, the charities are still hoping to get help and many of us feel strongly about helping the charities of our choice. Can you get a tax benefit from donating to a charity? Here is a summary of the rules:

- You must be at least age 70 ½, subject to RMD's.
- You must have the Custodian (Fidelity Investments) make the contribution directly to the 501(c)(3) charity out of your account. (It cannot be made payable to you.)
- The only accounts this rule applies to are IRA's, SEP IRA's, SIMPLE IRA's and Inherited IRA's. In some cases, Roth IRA's may apply.

The amount of the QCD is not included in your adjusted gross income. Be sure to talk to your Tax Professional and Financial Advisor about the details and keep the acknowledgment of the donation from the charity.

The Umbrella Policy

An umbrella insurance policy is an additional liability coverage that “covers” the standard liability limits of your home, auto, or watercraft insurance. It provides an additional layer of security to those who are at risk of being sued for damages to other people’s property or injuries caused to others in an accident. The premium may be less expensive if the policy is purchased from the same insurer. Good candidates for this insurance are people who own property, have significant savings, own dangerous items that can cause injury such as pools, trampolines, or dogs. \$1-2 million is the typical minimum coverage. A general rule of thumb is to roughly match the umbrella insurance to your individual or household net worth. Your FNI advisor is available to discuss your specific risk mitigation needs along with your property & casualty insurer.

EMPLOYEE LISTING

Main Office: 978.952.6800

We request you use your Client Service Manager, Jennifer Versoy or Hilaire Quinn, as the first point of contact. To schedule an appointment, please contact Paula Gorman.

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REVERSE MORTGAGE OR HOME EQUITY LOAN?

Many of us started saving for retirement later in our careers, or we have spent more than we anticipated, and our accounts are dwindling. Where can we turn, and what is our best solution?

Reverse Mortgages: Although these products are more affordable than in the past, they are still far too expensive as a short-term solution to cash flow problems. Our research shows that these mortgages are a good option for people who present an income need in their early 60’s that will span throughout their retirement. Reverse mortgage products should only be contemplated if they will exist for more than 18 years. As all the fees for these products are front-loaded, the expense of these products far exceeds that of a traditional mortgage or home equity loan, especially in the first ten years.

Home Equity Loan (HELOC): This is the go-to product for up to a 10-year interest-payment-only option. People who are low on cash but high on home equity can withdraw significant sums to age-in-place in their homes. For many this is a wonderful option compared

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WHAT HAPPENS WHEN YOUR ADVISOR RETIRES?

Since the inception of Financial Navigators, Inc., several of our professionals have retired. At FNI, we are religious about Succession Planning, and you should rest assured that your accounts will never go unattended. We intend to have the firm outlast all of us so we may serve you and your family for generations. When any advisor nears retirement, we plan two or more years out to replace that advisor either from within or through hiring. The new advisor goes through rigorous training and schooling and is required to maintain the certifications necessary to perform all work on your behalf. As we continue to observe our field becoming more specialized, we are forming FNI into a more departmentalized firm, allowing clients to enjoy the skills of all of our advisors. This more well-rounded philosophy has enriched the client experience. If you’d like to learn more, please contact your advisor or client service manager.

DAD, CAN YOU CO-SIGN THIS LOAN FOR ME?

Our hearts go out to our children and grandchildren any time we see them in the throes of the approval process for school loans, homes, cars, or any other life-changing purchase, but how far can or should we go to aid them in their efforts? Especially college loans, which in almost all cases require a co-signer these days. You may be thinking, my credit is excellent, and this would surely help my child. But should you, and if you do, how should it be handled?

- Any time you co-sign a loan, YOU OWN IT. That loan will now reside on both your and your child’s credit report. Any missed, or late payments will affect both of you.
- Student loans, in particular, can span 30-40 years, can you guarantee that your child will not miss a payment in 40 years?
- If you feel you must co-sign a loan, then we suggest that you become the bank. Make all payments for the loan yourself and collect the cash from your budding college graduate.

Check your credit at:

www.creditkarma.com and **www.freecreditreport.com**

You don’t want any surprises when you need the credit.

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Reverse Mortgage or Home Equity?

to forcing the sale of their home for the cash. The loan would need to be paid in full in 10 or less years or at the sale of the home. It’s also an option to extend or reapply for the HELOC.

Traditional Mortgage: In some cases, if the borrower cannot be approved for a home equity loan, a conventional mortgage, although with a lower cash outlay, may be another option. Payments of both principal and interest are required, but the loan can be stretched over a 30-year term to lessen the burden of the monthly payment.

In any case, good credit is essential to making any of these options work. Most of our clients have excellent credit after years of paying off mortgages, but unknown credit issues may haunt you. Run your credit through www.creditkarma.com and www.freecreditreport.com to get both your credit score and your full credit report.

COMPLIANCE

Since the filing of our most recent annual ADV update, Ms. Legault is now CEO & CFO of the Firm, Mr. Tilden is now President & CIO and Ms. Lewis is now the Executive Vice President & CCO.

Our standard fee language has also been updated as follows. Ongoing Asset Management services now include:

Up to \$1 Million	1.00%
\$1,000,001 – \$2 Million	0.80%
\$2,000,001 - \$4 Million	0.70%
\$4,000,001 and up	0.60%

Your fees will adjust automatically based on your overall monthly account value with FNI.

The Firm has adopted a new fee schedule for financial planning services to be provided to specific client demographic groups. The fees will be based upon a percentage (%) of income versus a flat fee for planning or a fee applied to the client’s assets under management (AUM). Fees based on % of income will be billed prior to or at the signing of your contract and annually based on your original contract date. Specific fee

arrangements will be set forth in your Agreement with us. The client agreement will detail more specific information as to the services to be provided under the financial planning offering.

Consulting/Coaching services now include Divorce Financial Consulting and Student Loan Advisory. For Consulting/Coaching services we charge fees on an hourly basis. Our hourly fee rate for the services described in this section, except for Student Loan Advisory is \$250. Our hourly fee rate for Student Loan Advisory is \$175.

Additional information about Financial Navigators, Inc. or any of our supervised persons (who are registered under our firm) and our firm’s most recent Form ADV and Part 2A (Brochure) is available on the SEC’s Investment Adviser Public Disclosure (“IAPD”) which can be found at <https://adviserinfo.sec.gov/>. For easy reference, we have also posted these documents in your Client Web Portal. In addition, the MA Securities Division can be contacted at any time to obtain the disciplinary history of the investment adviser and its representatives’ individual disclosure history.

<https://www.sec.state.ma.us/sct/sctidx.htm>

Financial Navigators’ Privacy Statement is included with this newsletter.