GWM Monthly Newsletter

Gauthier Wealth Management

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Happy fall! As we finish summer, it is starting to look a lot like a regular fall with football games, schools re-opening, and weddings all being held again. As for the economy, we continue to see strong re-openings with all ten U.S. leading economic indicators registering positive numbers for July, also representing strong economic growth for the rest of 2021. For all of 2021, we are now expecting real GDP growth of 6.0%. For 2022, we are expecting real GDP growth of 4.0%. We may still have lingering fears about COVID-19 and the Delta variant, but the economy is doing well.

All the Best, Jon Gauthier, President, GWM

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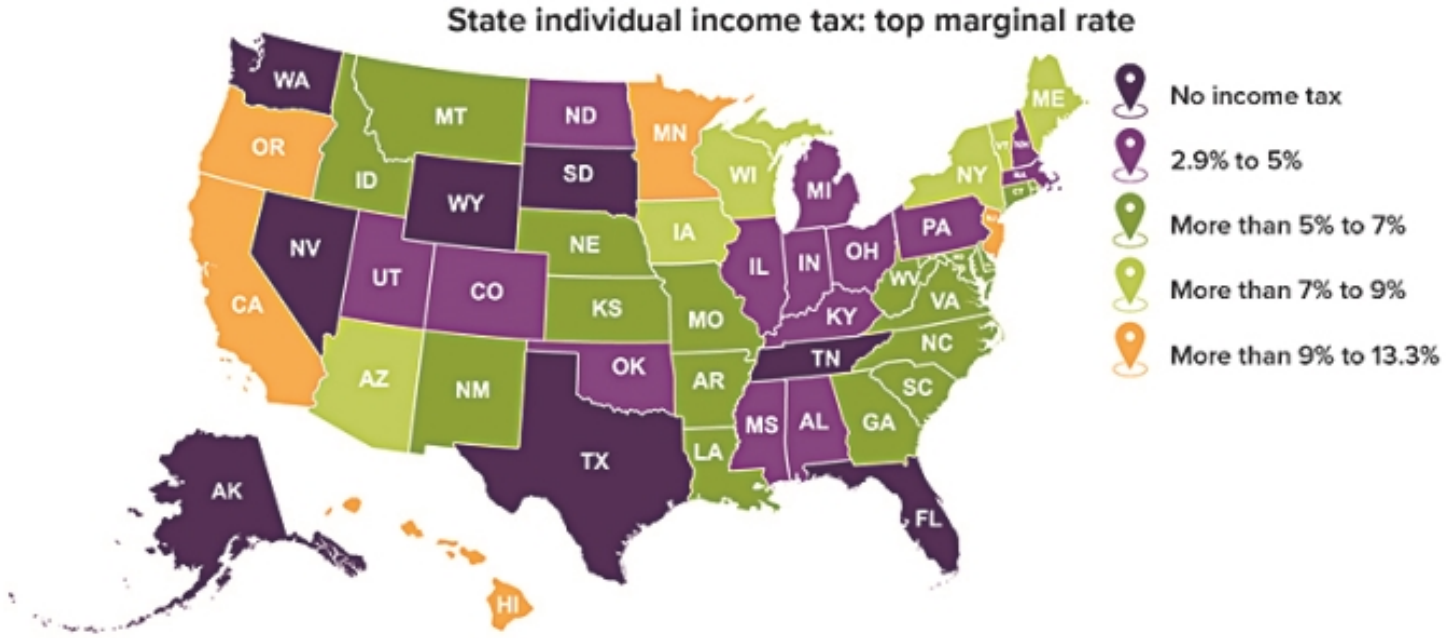
State Income Tax: Depends on Where You Live or Work

Eight states have no state income tax. Of the 42 states with a state income tax (and the District of Columbia), the top marginal income tax rate ranges from 2.9% to 13.3%. Most states (and D.C.) with an income tax have multiple tax brackets with graduated rates; nine states have only a single tax rate.



Source: Tax Foundation, 2021

Four Reasons to Review Your Life Insurance Needs

You may have purchased life insurance years ago and never gave it a second thought. Or perhaps you don't have life insurance at all and now you need it. When your life circumstances change, you have a fresh opportunity to make sure the people you love are protected.

Marriage

When you were single, life insurance might have seemed like an unnecessary expense, but now someone else is depending on your income. If something happens to you, your spouse will likely need to rely on life insurance benefits to meet expenses and pay off debts.

The amount of life insurance coverage you need depends on your income, your debts and assets, your financial goals, and other personal factors. Even if you have some low-cost life insurance through work, this might not be enough. Buying life insurance coverage through a private insurer could help fill the gap.

Parenthood

When children arrive, revisiting your life insurance needs could help you protect your growing family's financial security. Life insurance proceeds might help your family meet both their current obligations, such as a mortgage, child care, or car payments, and future expenses, including a child's college education. Even if you already have life insurance, children are among the most important reasons to review your policy limits and beneficiary designations.

Retirement

As you prepare to leave the workforce, reevaluate your need for life insurance. You might think that you can do without it if you've paid off all of your debts and feel financially secure. But if you're like some retirees, your financial picture may not be so rosy, especially if you're still saddled with mortgage payments, student loan bills, and other obligations. Life insurance protection could still be important if you haven't accumulated sufficient assets to provide for your family, or you want to replace retirement income lost when you are no longer around.

Life insurance can also be an important tool to help you transfer wealth to the next generation. Or perhaps you're looking for a way to pay your estate tax bill or leave something to charity. You may need to keep some of your life insurance in force or buy a different type of coverage.

Health Changes

A common concern is that life insurance coverage will end if your insurer finds out that your health has declined. But if you've been paying your premiums, changes to your health will not matter.

Consumers Understand the Value of Life Insurance

Source: 2021 Insurance Barometer Study, Life Happens and LIMRA

Some life insurance policies even offer accelerated (living) benefits that you can access in the event of a serious or long-term illness.

You may be able to buy additional life insurance if you need it, especially if you purchase group insurance through your employer during an open enrollment period. Purchasing an individual policy might be more difficult and more expensive, but check with your insurance representative to explore your options.

Of course, it's also possible that your health has improved. For example, perhaps you've stopped smoking or lost a significant amount of weight. If so, you may now qualify for a lower premium.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.

Grandparent 529 Plans Get a Boost Under New FAFSA Rules

529 plans are a favored way to save for college due to the tax benefits and other advantages they offer when funds are used to pay a beneficiary's qualified college expenses. Up until now, the FAFSA (Free Application for Federal Student Aid) treated grandparent-owned 529 plans more harshly than parent-owned 529 plans. This will change thanks to the FAFSA Simplification Act that was enacted in December 2020. The new law streamlines the FAFSA and makes changes to the formula that's used to calculate financial aid eligibility.

Current FAFSA Rules

Under current rules, parent-owned 529 plans are listed on the FAFSA as a parent asset. Parent assets are counted at a rate of 5.64%, which means 5.64% of the value of the 529 account is deemed available to pay for college. Later, when distributions are made to pay college expenses, the funds aren't counted at all; the FAFSA ignores distributions from a parent 529 plan.

By contrast, grandparent-owned 529 plans do not need to be listed as an asset on the FAFSA. This sounds like a benefit. However, the catch is that any withdrawals from a grandparent-owned 529 plan are counted as untaxed student income in the following year and assessed at 50%. This can have a negative impact on federal financial aid eligibility.

Example: *Ben is the beneficiary of two 529 plans: a parent-owned 529 plan with a value of $25,000 and a grandparent-owned 529 plan worth $50,000. In Year 1, Ben's parents file the FAFSA. They must list their 529 account as a parent asset but do not need to list the grandparent 529 account. The FAFSA formula counts $1,410 of the parent 529 account as available for college costs ($25,000 x 5.64%). Ben's parents then withdraw $10,000 from their account, and Ben's grandparents withdraw $10,000 from their account to pay college costs in Year 1.*

In Year 2, Ben's parents file a renewal FAFSA. Again, they must list their 529 account as a parent asset. Let's assume the value is now $15,000, so the formula will count $846 as available for college costs ($15,000 x 5.64%). In addition, Ben's parents must also list the $10,000 distribution from the grandparent 529 account as untaxed student income, and the formula will count $5,000 as available for college costs ($10,000 x 50%). In general, the higher Ben's available resources, the less financial need he is deemed to have.

New FAFSA Rules

Under the new FAFSA rules, grandparent-owned 529 plans still do not need to be listed as an asset, and distributions will no longer be counted as untaxed student income. In addition, the new FAFSA will no longer include a question asking about cash gifts from grandparents. This means that grandparents will be able to help with their grandchild's college expenses (either with a 529 plan or with other funds) with no negative implications for federal financial aid.

However, there's a caveat: Grandparent-owned 529 plans and cash gifts will likely continue to be counted by the CSS Profile, an additional aid form typically used by private colleges when distributing their own institutional aid. Even then it's not one-size-fits-all — individual colleges can personalize the CSS Profile with their own questions, so the way they treat grandparent 529 plans can differ.

Use of 529 Savings Plans

	2019	2020
Total number of accounts	13.4 million	13.9 million
Total account assets	$346 billion	$398 billion

Source: ISS Market Intelligence, 529 Market Highlights, 2019 and 2020

When Does the New FAFSA Take Effect?

The new, simplified FAFSA opens on October 1, 2022, and will take effect for the 2023-2024 school year. However, grandparents can start taking advantage of the new 529 plan rules in 2021. That's because 2021 is the "base year" for income purposes for the 2023-2024 FAFSA, and under the new FAFSA a student's income will consist only of data reported on the student's federal income tax return. Because any distributions taken in 2021 from a grandparent 529 account won't be reported on the student's 2021 tax return, they won't need to be reported as student income on the 2023-2024 FAFSA.

Consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. This information and more is available in the plan's official statement and applicable prospectuses, including details about investment options, underlying investments, and the investment company; read it carefully before investing. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits and other benefits, such as financial aid, scholarship funds, and protection from creditors. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. For withdrawals not used for higher-education expenses, earnings may be subject to taxation as ordinary income and a 10% federal income tax penalty.

A Map for Your Family

A will is an essential legal document that describes how your estate should be distributed upon your death. It is the basis for the probate process and can serve as a guide for your heirs.

A letter of instruction — which has no legal status — provides information that can help your loved ones settle your estate and move forward with their lives. You might consider it a map for your family.

Unlike a will, which must follow legal guidelines for your state and may require an attorney, a letter of instruction can be written yourself in any way you choose. Here are some topics you may want to address.

Financial accounts and account numbers, including online user names and passwords. If you prefer not to write down user names or passwords, the executor of your estate should be able to access accounts with the account numbers and your Social Security number.

List of documents and their locations, including (but not limited to) your will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.

Contact information for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant. Also include others who may be helpful, such as a business partner or trusted friend.

Bills and creditors, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.

A letter of instruction could be just as important as a will to help your heirs settle your estate and move forward with their lives.

Your final wishes for burial or cremation, a funeral or memorial service, organ donation, and charitable contributions in your memory.

You might also include more personal thoughts or life lessons that you want to pass on, or you could write a separate letter. Keep your letter of instruction in a safe, yet accessible place and tell your loved ones where it can be found. It might be wise to give a copy of the letter to the executor of your estate and other trusted friends or advisers.

Be sure to review the letter regularly and update it as appropriate. Your heirs will thank you for taking the time to prepare.

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