

Financial Update

Ideas and Action Steps for Achievers



Les Jepsen

Jepsen Financial

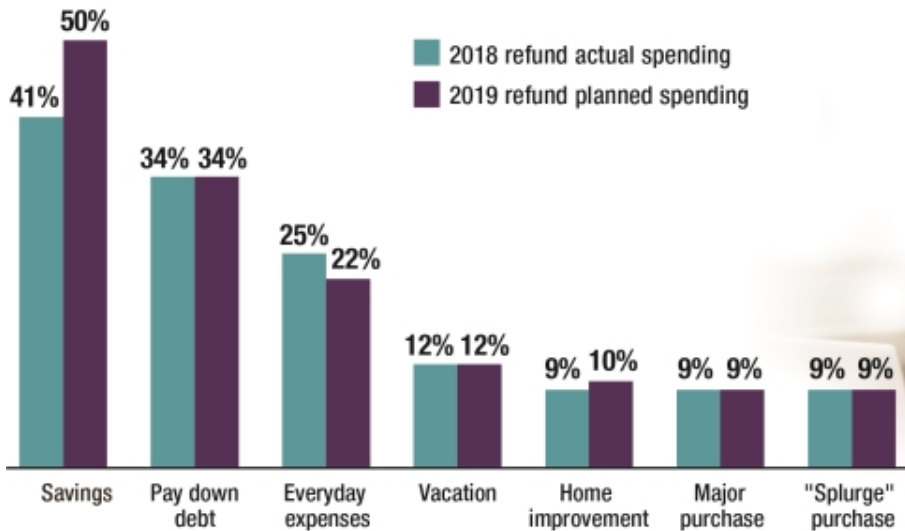
8075 9th Street Way N • Saint Paul • 55128

Office: 651-264-1979

jepsenfinancial@gmail.com • JepsenFinancial.com

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.



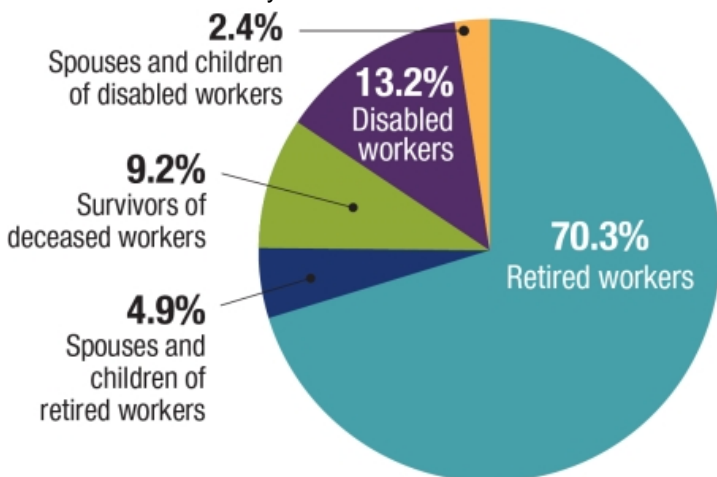
Sources: Internal Revenue Service, 2019; National Retail Federation, 2019 (multiple responses allowed)

Social Security May Offer a Lifetime of Protection

Social Security is much more than a retirement program. Most Americans are protected by the Old-Age, Survivors, and Disability Insurance (OASDI) program — the official name of Social Security — from birth through old age. Here are four times in your life when Social Security might matter to you or the people you care about.

A Wide Safety Net

Current Social Security beneficiaries



Source: Social Security Administration, 2019

When You Start Your Career

Your first experience with Social Security might be noticing that your paycheck is smaller than you expected due to FICA (Federal Insurance Contributions Act) taxes. Most jobs are covered by Social Security, and your employer is required to withhold payroll taxes to help fund Social Security and Medicare.

Although no one likes to pay taxes, when you work and pay FICA taxes, you earn Social Security credits, which enable you (and your eligible family members) to qualify for Social Security retirement, disability, and survivor benefits. Most people need 40 credits (10 years of work) to be eligible for Social Security retirement benefits, but fewer credits may be needed to receive disability benefits or for family members to receive survivor benefits.

If You Become Disabled

Disability can strike anyone at any time. Research shows that one in four of today's 20-year-olds will become disabled before reaching full retirement age.¹

Social Security disability benefits can replace part of your income if you have a severe physical or mental

impairment that prevents you from working. Your disability generally must be expected to last at least a year or result in death.

When You Marry...or Divorce

Married couples may be eligible for Social Security benefits based on their own earnings or on a spouse's earnings.

When you receive or are eligible for retirement or disability benefits, your spouse who is age 62 or older may also be able to receive benefits based on your earnings if you've been married at least a year. A younger spouse may be able to receive benefits if he or she is caring for a child under age 16 or disabled before age 22 who is receiving benefits based on your earnings.

If you were to die, your spouse may be eligible for survivor benefits based on your earnings. Regardless of age, your spouse who has not remarried may receive benefits if caring for your child who is under age 16 or disabled before age 22 and entitled to receive benefits based on your earnings. At age 60 or older (50 or older if disabled), your spouse may be able to receive a survivor benefit even if not caring for a child.

If you divorce and your marriage lasted at least 10 years, your former unmarried spouse may be entitled to retirement, disability, or survivor benefits based on your earnings.

When You Welcome a Child

Your child may be eligible for Social Security if you are receiving retirement or disability benefits, and may receive survivor benefits in the event of your death. In fact, according to the Social Security Administration, 98% of children could get benefits if a working parent dies.² Your child must be unmarried and under age 18 (19 if a full-time student) or age 18 or older with a disability that began before age 22.

In certain cases, grandchildren and stepchildren may also be eligible for benefits based on your earnings.

Know the Rules

To receive any type of Social Security benefit, you must meet specific eligibility requirements, only some of which are covered here. For more information, visit [ssa.gov](https://www.ssa.gov).

1-2) Social Security Administration, 2019

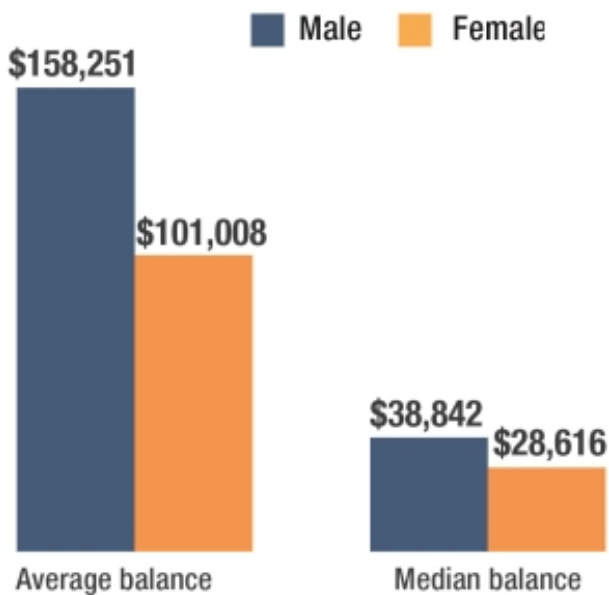
Stay-at-Home Spouse? Consider a Spousal IRA

An ongoing study of IRA accounts has consistently found that women, on average, have lower retirement savings balances than men (see chart). Though there may be multiple reasons for this disparity, the most fundamental are the wage gap between men and women and the fact that women are more likely than men to take time off to care for children and other family members.¹

The wage gap is narrowing for younger women, and more men are stay-at-home dads. But the imbalance remains.² Obviously, earning less makes it more difficult to save for retirement. And a mother — or father — who stays at home to take care of the children may not be contributing to a retirement account at all. The same situation could arise later in life if one spouse works while the other takes time off or retires.

Savings Gap

Average and median IRA balances, by gender



Source: Employee Benefit Research Institute, 2018 (2016 data)

Additional Savings Opportunity

A spousal IRA — funded for a spouse who earns little or no income — offers an opportunity to help keep the retirement savings of both spouses on track. It also offers a larger potential tax deduction than a single IRA. A spousal IRA is not necessarily a separate account — it could be the same IRA that the spouse contributed to while working. Rather, the term refers to

IRS rules that allow a married couple to fund separate IRA accounts for each spouse based on the couple's joint income.

For tax years 2019 and 2020, an individual with earned income from wages or self-employment can contribute up to \$6,000 annually to his or her own IRA and up to \$6,000 more to a spouse's IRA — regardless of whether the spouse works or not — as long as the couple's combined earned income exceeds both contributions and they file a joint tax return. An additional \$1,000 catch-up contribution can be made for each spouse who is 50 or older. Contributions for 2019 can be made up to the April 15, 2020, tax filing deadline.

All other IRA eligibility rules must be met. If a spousal contribution to a traditional IRA for 2019 is made for a nonworking spouse, she or he must be under age 70½; the age of the working spouse does not matter for purposes of the spousal IRA. For contributions made in 2020 and later years, the age 70½ restriction has been eliminated by the SECURE Act.

Traditional IRA Deductibility

If neither spouse actively participates in an employer-sponsored retirement plan such as a 401(k), contributions to a traditional IRA are fully tax deductible. However, if one or both spouses are active participants, federal income limits may affect the deductibility of contributions.

For 2019, the ability to deduct contributions to the IRA of an active participant is phased out at a joint modified adjusted gross income (MAGI) between \$103,000 and \$123,000, but contributions to the IRA of a nonparticipating spouse are phased out at a MAGI between \$193,000 and \$203,000. (For 2020, phaseout ranges increase to \$104,000–\$124,000 and \$196,000–\$206,000, respectively.)

Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution for a nonparticipating spouse.

Withdrawals from traditional IRAs are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.

1-2) Pew Research Center, 2019

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.

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