Financial checkup

A simple review of your financial affairs could make a big difference

INTERVIEWED BY ADAM BURROUGHS

Website:
For more information on reviewing your investment and estate documents, visit skodaminotti.com/review.

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As the end of the year approaches, investors should revisit their existing investments, estate documents and beneficiary designations.

"Challenge yourself to get your arms around your investment assets," says Scott J. Swain, CPA, CFA, CFP®, a partner at Skoda Minotti. "Ensure you're taking advantage of year-end tax opportunities, and check beneficiary designations and the progress of your investment strategies."

Smart Business spoke with Swain about what investors should check for in a year-end review.

What should investors know about their existing investments as the year closes?

Investors may have unrealized capital losses that can be harvested before year's end to offset realized capital gains earned during the year, or it may make more sense to wait to take those losses in January. Review your tax situation and see if you can execute a portfolio strategy to save some taxes.

Investors over the age of 70 should make sure they've made the required minimum distributions for any IRAs or retirement plans. And consider applying a portion of any year-end bonuses to a 401(k) or 403(b) plan to take full advantage of any match.

Anyone making sizable charitable contributions, anything over $5,000, should consider gifting appreciated stocks and bonds rather than cash. Gifting publicly traded positions with unrealized long-term gains is a way to avoid the associated tax and get the full value of the position in terms of a charitable deduction. And the charity won't have to pay tax on those gains.

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How are current IRS provisions affecting gifting to family members? Is that expected to change in the coming year?

A person can gift up to $14,000 to any one person. That can take the form of any kind of asset — cash, real estate, anything. Married couples could gift $28,000 to each child under these rules and avoid filing a gift tax return. Going above the $28,000 threshold eats into the lifetime gifting exemption, which is $5.45 million per person for 2016.

New IRS regulations will impact gifting of privately held businesses as the IRS attempts to eliminate the 'discount' from full market value that has been available in the past. Those considering gifting a business in the near future should contact their tax advisers as soon as possible to discuss the impact of these new regulations further.

Why should investors re-examine their estate documents?

An annual review of estate documents is a good habit to get into. The goal in estate planning is to ensure assets are passed on to your heirs as intended. On average, people update their estate documents every 20 years, and within that time, thoughts about how you'd like your assets to pass could have changed.

Besides wills and trusts, many people have also established a financial power of attorney, and have a living will and a health care power of attorney as part of their estate plan. All of those documents need to be updated more frequently to avoid problems when they go to use them. For example, if a person's health care power of attorney hasn't been updated in 20 years, health care providers will almost certainly balk at accepting it.

What should investors look for when reviewing asset titling and beneficiary designations?

These documents bypass a person's will and estate documents based on these designations. Most list a spouse and children as beneficiaries. If that has changed, because of divorce, for instance, it's important to make changes before you forget about it. Ensure beneficiary designations are current on 401(k)s, 403(b)s, IRAs, life insurance policies, annuities, deferred compensation, payable on death accounts, etc.

What might it be costing someone who doesn't work with an adviser to manage his or her assets?

While people today are more empowered to manage their retirement, they tend to neglect their portfolios, often because no one is holding them accountable for it. Having an adviser forces an investor to stay active. Also, people who do it themselves often can be too extreme in their portfolio allocations. A 20 to 30 percent loss in a portfolio due to an overaggressive allocation is devastating if it happens near or during retirement. A financial adviser can help investors hone in on meeting long-term cash flow needs while reducing risk to appropriate levels.

Financial and estate planning is an ongoing process. Spend the time needed each year to get the most out of it. ●