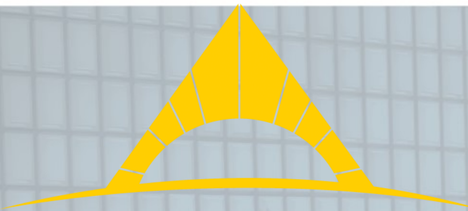
What To Do With A 529 Plan When A Child Doesn't Go To College 2

Eliminating Private Mortgage Insurance 3

The 'Back Door' Roth IRA 4



HORIZON WEALTH STRATEGIES, LLC FINANCIAL NEWS DIGEST

MONEYLINE

QLAC: Tax-Friendly Income For Life

Courtesy of Horizon Wealth Strategies, LLC

Have you heard about a Qualified Longevity Annuity Contract, or QLAC? In 2018 you can contribute up to the lessor of $130,000 or 25 percent of your IRA balance(s) as of the previous year end in a deferred-income annuity. You're not taxed on the transfer and the money you put into the annuity is not included when calculating your required minimum distributions when you reach age 70 1/2.

You don't avoid taxes on the money forever, though. The taxable portion of the money you used is still subject to taxes when you start receiving income from your annuity, no later than age 85. But the tax bite will be delayed if you postpone receiving income from the QLAC until you're in your 70s or 80s. (You'll still have to take required minimum distributions from any qualified accounts that you didn't roll into the QLAC.)

With a QLAC, you contribute a lump sum years before you need the income—say, in your 60s—and decide when you want to start receiving the money, usually in your 70s or 80s (again, up to age 85). Payouts continue for the rest of your life. So the QLAC not only removes a chunk of money from your RMD calculation but also guarantees that you won't outlive that money.

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Deals on new SUVs may be much better later this year. Strong demand for SUVs in recent years has allowed dealers to play hardball. But vehicle sales are slowing now, and automakers are producing so many SUVs that inventories are rising. Huge numbers of SUV leases are scheduled to end this year, flooding the market with low-mileage used SUVs, further tipping the supply/demand balance in buyers' favor by the final quarter of 2018 and pushing down prices by thousands.

Source: Bottom Line Personal Magazine 2018

Bank rewards are taxable if you do not have to spend anything to earn them. *Example:* If you get a $200 reward for opening an account and arranging direct deposit, the reward is taxable — you will receive a form 1099-INT from the bank and must report the amount when doing your taxes. But credit card and travel rewards, including ones earned by using bank-issued cards, are not taxable — even if they can be redeemed for cash back. The reason is that you have to spend money to receive the rewards, which are considered a nontaxable rebate on your purchase. *Caution:* There are some gray areas. If you get a credit card bonus just for signing up, without any purchase required, it is taxable. And if you get airline miles directly from a bank, perhaps for opening a new account, their value—as determined by the bank—is taxable, since you did not have to make a purchase to receive them.

Source: WiseBread.com 2018

"Success is often the result of taking a misstep in the right direction."
— Al Bernstein

What To Do With A 529 Plan When A Child Doesn't Go To College

By Kimberly Lankford, Kiplinger's Personal Finance

Q: *I contributed to a 529 plan for my young son who was diagnosed a few years later with autism and now may not attend college. Can I use the money for anything else without incurring a tax or penalty? I don't have other children.*

A: There are several ways to avoid paying a penalty if your child doesn't end up going to college, including a new option designed specifically to help families who have children with special needs.

You can, for instance, change the beneficiary to another eligible family member, including the original beneficiary's siblings, cousins, parents, aunts, uncles, spouse, children or in-laws.

A new federal law lets you withdraw up to $10,000 from a 529 account each year to pay tuition for kindergarten through 12th grade.

Usually, if you don't use the 529 funds for eligible expenses, you will have to pay taxes and a 10 percent penalty on the earnings portion of the withdrawals. You may, however, be able to withdraw 529 money without penalty if your son meets the IRS's definition of disability, but you will have to pay taxes on the earnings portion of the withdrawals.

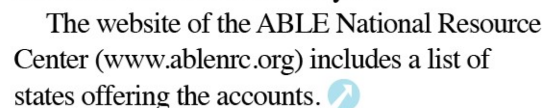
That definition of disability is very specific: You must be able to show proof that the 529 beneficiary can't do "any substantial gainful activity because of his or her physical or mental condition. A physician must determine that the condition can be expected to result in death or to be of long-continued and indefinite duration," according to the IRS.

There's now another option that can be particularly helpful for families who have children with special needs. Under the new tax law, you can roll money over from a 529 account into a state-sponsored ABLE account (the acronym stands for Achieving a Better Life Experience) that can be tapped tax-free for a broad range of expenses. "It can be used for anything that will improve the health, independence or quality of life of the person with the disability," says Kaellen Hessel, with the Oregon Savings Network, which administers the state's ABLE plan.

A big advantage of an ABLE account is that a child can save and invest a significant sum without jeopardizing federal benefits, such as Medicaid. Generally, if people with disabilities have more than $2,000 in their name, they lose Supplemental Security Income or Medicaid. Now they can save up to $100,000 in an ABLE account without affecting SSI benefits, and ABLE balances of any size don't affect Medicaid eligibility.

People who developed a qualifying disability before age 26 can open an ABLE account. You can make a tax-free rollover from a 529 to an ABLE, up to the maximum ABLE contribution limit each year ($15,000 in 2018), minus any other contributions that have already been made to the ABLE account for the year.

The website of the ABLE National Resource Center (www.ablenrc.org) includes a list of states offering the accounts.



Eliminating Private Mortgage Insurance

By Jill Schlesinger, Tribune Content Agency

The housing market has a problem: There are too few homes for sale. Persistently low inventory means that there are a lot of frustrated would-be buyers out there spending weekends at open houses.

Adding to the pressure for homebuyers is the fact that mortgage rates increased to a seven-year high of 4.8 percent in April, pushing the National Association of Realtor's mortgage affordability index to its lowest level since the end of 2008.

Even with prices and mortgage rates up, many still want in on the housing market because they are worried that increases will persist or because renting has become less affordable.

As interest rates rise, refinancing becomes less compelling. Refinancing activity has slowed down to 10-year lows, but there may be other ways for current homeowners to save a few bucks. For those who bought property with less than 20 percent down, now is a great time to see if you can eliminate your private mortgage insurance (PMI).

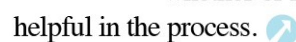
PMI acts as an extra layer of protection for the lender if you stop making payments on your loan. Many don't focus on PMI after the closing because premiums are usually added to the mortgage payment. But with prices up, there could be a good opportunity to find extra money.

To remove PMI, you need to demonstrate that you have at least 20 percent equity of the original value of your home. "Original value" generally means either the contract sales price or the appraised value of your home at the time you bought it, whichever is lower. (If you have refinanced, the appraised value is at the time you refinanced.)

When the mortgage balance drops to 78 percent, the mortgage servicer is supposed to automatically eliminate PMI, but that does not happen as quickly as many would like.

To speed up the PMI removal process, the Consumer Financial Protection Bureau notes that you must meet these requirements:

- The cancellation request must be in writing.
- You must be current on your payments and have a good payment history.
- You might have to prove that you don't have any other liens on the home (for example, a home equity loan or home equity line of credit).
- You might have to get an appraisal (costs vary, but they are usually about $500-$700) to demonstrate that your loan balance isn't more than 80 percent of the home's current value. Before shelling out this dough, confirm with the lender whether or not it is necessary or helpful in the process.



"I'm worried about my investments. My broker has stopped quoting Warren Buffett and started quoting Jimmy Buffett."

Keep your home-equity borrowing rate down by asking your lender to let you lock in the current interest rate on all or a part of your outstanding balance. Many lenders allow this on a home equity line of credit (HELOC) within the first 10 years. If possible, choose a fully amortizing payment that will not leave a balance at the end of the repayment period—when rates likely will be higher because of the rising-rate cycle now under way.

Source: Kiplinger's Personal Finance 2018

Hotel discounts for older travelers: Many chains offer discounts even before you turn age 65. *Best Western* gives discounts of at least 10% for anyone age 55 or older. *Choice Hotels* offers up to 10% off for anyone age 60 or older—and for AARP members of any age, which can be as young as 50. *La Quinta* offers discounts of 10% for AARP members. *Marriott* starts its discounts—of at least 15%—at age 62. *Motel 6* gives 10% off the standard or lowest rate to anyone age 60 or older. *Red Roof Inns* offers 10% off to those age 59 and older. The discounts usually will get you a better price than the standard rate, but discounts change frequently and vary due to many factors, so shop around.

Source: MoneyTalksNews.com 2018

"My riches consist not in the extent of my possessions, but in the fewness of my wants."
— J. Brotherton

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The 'Back Door' Roth IRA

By Elliot Raphaelson, Tribune Content Agency

The advantages of a Roth IRA are well known. Income earned in a Roth IRA is tax free. Roth IRA owners are not subject to required minimum distributions (RMDs) from the account. They can make contributions to the account after age 70 1/2—something you can't do with a traditional IRA.

Unfortunately, there are income limits for eligibility to make Roth IRA contributions. In 2018, those limits are as follows: Those who are married filing jointly with adjusted gross income (AGI) of less than $189,000 can make the full allowable contribution; with AGI above that they can make smaller contributions up to an AGI limit of $199,000. For those filing singly, the relevant AGI thresholds are $120,000 and $135,000. Individuals within these ranges can contribute up to $5,500 in 2018 ($6,500 for those 50 or older).

For those who make too much to qualify for Roth contributions, there is a "back door" Roth conversion option. You can make a nondeductible traditional IRA contribution and convert these funds to a Roth IRA at any time. If you do this, you have to be aware of the tax consequences if you have other traditional IRAs that have not been taxed. In this case, some of your conversion will be taxed on a pro-rata basis.

For example, let's say you have $10,000 total in your IRA. Let's say $4,000 has not been taxed and $6,000 is associated with non-deductible contributions from prior years. Assume you want to convert $5,000 out of your IRA into a Roth. Since 40 percent of your IRA has not been taxed, 40 percent of your conversion—or $2,000—would be taxable; 60 percent of your conversion would not be taxable.

Tax-law updates: Roth IRA conversions made in 2018 and later can no longer be undone.

Disclaimer: *Contributions to a Roth IRA may generally be withdrawn at any time without tax consequences. Earnings may generally be withdrawn tax-free if the account is held at least 5 years and withdrawals are made after the account owner reaches age 59 ½. If earnings withdrawals are made before the 5-year period or age 59 ½, income taxes are due and a 10% federal tax penalty may apply.*