QUARTER NOTES

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Financial management for single seniors

Facts of life: most retirees will be single for some period of time, and most of those singles will be women. Throughout the life cycle, financial planning for singles differs from planning for couples. Obviously, there is only a single set of assets to work with, and no surviving spouse to plan for. Less obviously, taxes are higher for singles, and they have no partner to fall back upon in case of adversity.

These differences become especially acute for single seniors, as they have less room for error in their financial management. When the single senior is a widow or widower, it often is the case that the deceased spouse was the financial manager for the couple, making singlehood doubly difficult.

Be organized

Getting one's financial house in order is generally the first order of business. One must determine financial needs for the balance of retirement and assess the resources available to meet those needs. Tax planning and investment strategies will need to be reviewed and monitored.

Some experts counsel seniors to consolidate their financial accounts when possible. Fewer accounts will mean less paperwork, freeing up time to

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The challenge of living alone

In this issue of *QuarterNotes,* we review some basic aspects of sound financial preparedness. These issues affect everyone as they age but may be more acute for the single senior. Successful retirements need a plan.

Also in this issue, the story of a day trader who owed $800,000 in federal income taxes on trading profits of $45,000. See page three to learn why.

Wherever you are in the financial life cycle, whatever your level of investment savvy, we are ready to be of service to you. Call on us to learn more.

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Good candidates for a living trust:

Just one of these qualifications makes you an excellent candidate for a living trust

- Worried about financial management upon illness or incapacity
- Own substantial assets
- Own assets in more than one state
- Family will need immediate access to assets after owner's death
- Want financial privacy

Financial management . . . continued

monitor each remaining account more closely. Making the paperwork more manageable will make it easier to stay on top of bills, avoiding late fees and reducing interest charges. One may also notice a discrepancy or be able to take advantage of an opportunity, given more time for review.

A net worth statement may tell you where you stand and help to create organization for your financial management. Your net worth is the sum of your assets minus your liabilities. If it's a negative number, you will need to face reality and develop a plan to get out of debt. A net worth statement will also help you to determine the insurance coverage you need to protect your assets.

Financial planners generally recommend having an emergency fund sufficient to cover nine to 12 months of your expenses. Keep your debt and your recurring expenses as low as possible, and try to have living quarters that fit you.

Delegated powers

For single seniors, the most vexing problems are associated with incapacity. Should you become incapacitated, temporarily by illness or permanently through aging:

Who will pay the bills?

Who will track the investments?

Who will make decisions about real estate?

Who will make certain that the taxes are paid?

Who will balance the checkbook?

The first solution that comes to mind for these questions is the *financial durable power of attorney*. This document allows another person to step into your shoes, financially speaking, and make binding decisions on your behalf. A durable power of attorney may be as broad or as limited in scope as needed to make you comfortable. You'll need to see your lawyer to have the power of attorney drafted and executed.

Another axis of anxiety concerns health care. In this area, you may need:

- a health care power of attorney, with medical instructions to be followed if you are incapacitated;
- a Health Information Portability and Accountability Act (HIPAA) authorization, so that your agent has full rights to your medical records;
- a health care proxy that may give someone decision-making power at the end of life; and
- a living will that outlines your expectations for medical care near the end of your life.

Living trusts

Affluent individuals often rely upon a living trust for financial management in retirement. A living trust can provide financial protection in the event of disability or incapacity, as a durable power of attorney does. However, a living trust offers additional advantages, such as financial privacy at death and probate avoidance.

For more information

Living well in retirement is no easy undertaking. Retirement income management is where we can be most helpful to you. If you have questions about your portfolio and what adjustments should be made as you move through retirement, please call on us.

An expensive lesson in taxation

One side effect of the pandemic has apparently been a surge in new investors. *Forbes* reported that 8 million new brokerage accounts were opened in the first three quarters of 2020. Some of those investors may be unfamiliar with all the tax rules that govern portfolio management.

One such person was discussed by Alexandra Macqueen in *Morningstar* [https://www.morningstar.ca/ca/news/210709/can-you-owe-$800k-tax-on-a-profit-of-$45k.aspx]. A person who kept his day job in the insurance industry opened a new brokerage account with $30,000 in 2020. He borrowed against the account, creating leverage, and soon he was actively buying and selling stocks. He completed 10 to 50 trades per day, with a daily volume that ranged from $200,000 to $2,000,000.

The individual's total trading volume for 2020 came to $45 million. From all those trades he realized a net capital gain of $45,000, a nice supplement to his $60,000 regular salary. At the beginning of this year he input the information from his Form 1099-B into his tax preparation software. He was shocked by the result.

The individual owed $800,000 in federal income tax on his trading activity.

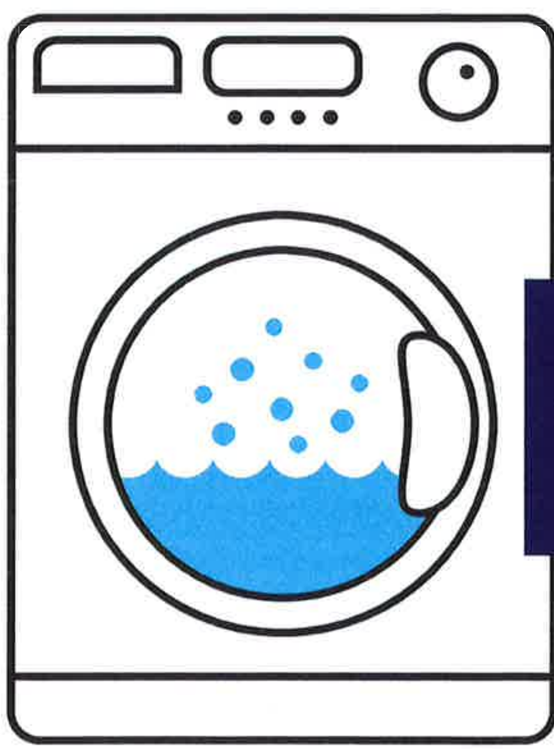
The wash sale rule

During the course of his trading, the individual booked gains and losses, which offset each other to determine the $45,000 net trading profit. Unfortunately, he either ignored or was unaware of the wash sale rule, which operated to disallow those all those losses in his 2020 tax year.

The wash sale rule is intended to prevent investors from claiming an artificial investment loss for tax purposes. Imagine that an investor owns 100 shares of stock purchased for $1,500. The shares are now selling for $12. The individual could sell his shares for $1,200, take the $300 loss, then buy them again for $1,200. His portfolio has not changed, so the loss is artificial. Hence, the tax loss is disallowed.

The wash sale rule requires that the investor endure the risk of market change in the price of the securities. To claim the loss, the investor must not repurchase the shares within 30 days of the date of the sale at a loss. Note that the 30-day period runs before as well as after the loss sale. The rule cannot be circumvented by first purchasing new shares and then selling the shares with the higher basis the next day.

According to the *Morningstar* report, the investor booked all of his losses within 30 days of a purchase, so all of the losses were disallowed.



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Reportedly he is now negotiating an offer in compromise with the IRS.

The value of experience

One element is missing from the stories about this amateur investor experience. His net realized capital gain was reportedly $45,000, but how large are his *unrealized* gains? If those unrealized gains are large, the IRS may not be willing to compromise much.

The barriers to entry in investment management have been lowered by technological advances, and so there are many more newbie investors in the market than in the past. Experience can be a hard teacher. That's where we come in. We can put our experience and training to work for you in managing your investments. Call on us to learn more.

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Just Ask Us

Q. I've been working from home during the pandemic, and my employer has indicated that will probably continue at least part time. Can I take a tax deduction for my home office?

A. Probably not. One of the changes included in the Tax Cuts and Jobs Act of 2017 was the elimination of the deduction for unreimbursed employee expenses. Accordingly, employees will not get a deduction for home office expenses until that tax rule expires in 2026.

Self-employed taxpayers may still be able to take the deduction, however. Three tests must be passed:

(1) the home office must be used exclusively for business;

(2) it must be used on a regular, ongoing basis; and

(3) it must be the taxpayer's principal place of business.

The simplified home office deduction is $5 per square foot, to a maximum of $1,500. The regular deduction is 100% of the direct expenses of the home office and a ratable amount of the indirect expenses, such as taxes, utilities, and rent.

See your tax advisor to learn more.

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The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty.