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MICHAEL W. McCONNELL'S FINANCIAL NEWS DIGEST

MONEYLINE



What Does $40 Trillion in Debt Mean?

Courtesy of Michael W. McConnell, CLU, ChFC, CASL

By now, you have seen the $40 trillion debt headlines. As is the case when a market hits a round number, it becomes an event. For me, it's a chance to educate.

First, some definitions:

Deficit is the amount of money that a country takes in, minus the amount of money that the government spends. Most of the spending comes from Medicare, Medicaid, Social Security, national defense, and interest on the debt.

Debt is the cumulative total amount a country must borrow to fund its annual deficit.

The debt and deficit levels have grown substantially over the past 25 years.

The most immediate way that the country's finances impact everyone is through increased interest rates, which is exactly what is happening now. Consumers are paying more for mortgages, car loans, and credit card balances. That said, savers are the beneficiaries of higher interest rates.

One other issue is the future path of tax policy. For years, people like IRA expert Ed Slott have said that current tax rates "can't remain this low. It's simple math. Congress needs money; they're going to have to raise the rates."

While the future might feel scary, a financial strategy that addresses the current situation and considers potential future tax increases is prudent.



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Source: Clark.com

"Gratitude is happiness doubled by wonder."
-G.K. Chesterton



Hidden Costs Of Inheritance

By Coryanne Hicks, Kiplinger's Personal Finance

A million dollars of inherited assets is not necessarily a million dollars of equivalent economic value," says David Simkowitz, founder and CEO of SimkowitzCo. "The type of account, tax basis, embedded tax liability and future income taxation all matter."

Taxes can take a bite out of sale proceeds. Inherited retirement accounts may come with distribution requirements that incur penalties if they're missed.

Inheriting property generally isn't a taxable event, but that doesn't mean it's tax-free forever.

"For most individuals, it's not the inheritance that triggers a tax bill but the sale or distribution" of the assets you inherited, says Erin Wood, senior vice president of advanced planning at AssetMark.

The actual tax consequences will depend on what you inherited and the type of account it was held in. Many taxable investments receive a step-up in cost basis to the fair market value on the date of death. The cost basis is the starting value the IRS uses to determine your gain or loss when you sell an asset.

With a stepped-up basis, "any unrealized capital gains accumulated during the decedent's lifetime are generally wiped away," says Tara Thompson Popernik, executive vice president of wealth planning at LPL Financial.

But make sure the correct basis is reflected in your brokerage account records before you sell to avoid receiving a tax form reflecting significant gains.

Income-producing investments can create other surprises. For example, interest earned on taxable bonds you inherit is generally taxable income. So, if you previously only earned W-2 income, you "may now need to make estimated tax payments to cover the earnings from an inherited portfolio," Popernik says.

Inherited retirement accounts are a different animal entirely. Traditional IRAs, for example, can contain money that hasn't yet been taxed. Many nonspouse beneficiaries are required to fully distribute an inherited IRA within 10 years of inheriting. And along the way, required minimum distributions (RMDs) may also apply.

"Missing an RMD on an inherited IRA is sometimes the biggest surprise, particularly because of the associated penalty," says Justyn Volesko, partner and co-head of the Cerity Partners Family Office.

You could face a 25% excise tax on the amount that should have been withdrawn.

The moral of the story isn't that you should race to empty all inherited retirement accounts. Rather, you want to be aware of which rules and deadlines apply so you can act accordingly.

Then there are the costs of sorting out the inheritance itself. You may end up paying for legal or tax advice, investment management or even estate valuation work. Those bills can sting, but trying to avoid every professional fee can also backfire.

"I would distinguish between a professional cost and a professional value," Simkowitz says. "Paying for coordinated tax, legal and financial advice can sometimes prevent a beneficiary from making a much more expensive mistake."

Just make sure the professionals you work with aren't operating in isolation. "An inheritance should be treated as a coordinated planning event, not simply an asset-transfer event," Simkowitz says.

Winter Weather Getaways

By Rachael Green, Kiplinger's Money Power

Although a winter-weather getaway may require different preparation than a beach outing, it doesn't have to drain your money or time. You don't need to visit Park City or Breckenridge to ski, for example, with countless other options available.

With that in mind, here are four fun activities to try this winter, along with some of the best places in the U.S. that offer them. At many of these destinations, you'll find plenty of other things to do, too, from ice fishing to cross-country skiing.



Gaze at the Northern Lights

If seeing the northern lights is on your bucket list, head to Fairbanks, Alaska, where you can take them in at your own pace. For a tranquil experience, dip into the Chena Hot Springs. "Imagine soaking in steamy outdoor hot springs during subzero temperatures while the northern lights rage overhead," says J.J. Krehbiel, an Alaska-based filmmaker who runs the Alaska travel guide and tourism website AlaskaExplored.com.

Try dogsledding

Deemed the nation's "sled dog capital," Ely, Minnesota, just south of the Canadian border, is a prime destination for the sport. One of the best parts of planning a dogsledding trip: No extra personal equipment is required.

Just make sure you bundle up. "All a first-time dogsledder needs are warm layers — a base layer, an insulating mid layer, a waterproof/windproof outer layer and a hat that covers your ears," says Randolph Briley, deputy director of outdoor recreation for Explore Minnesota.

Take a "winter optional" ski trip

While Mammoth Mountain might be California's better-known ski destination, Big Bear Mountain Resort is a great choice for those who enjoy winter sports but aren't sold on spending their entire trip in the cold. Nestled in the San Bernardino Mountains of Southern California, Big Bear is about two hours from the coast, so you can ski all morning and then head down the mountain to sip a cocktail at a boardwalk bar in the evening.

You could also combine your ski trip with a visit to Temecula Valley, one of California's less-crowded wine regions.

Go ice bathing

Ice bathing (also known as cold plunging) is a popular wellness trend that involves an invigorating dip in an icy lake. If you want to give it a try without booking a trip to Scandinavia, then Glacier National Park, in Montana, is a great alternative.

The best ice-bathing options at the national park in winter are at Grinnell Lake and Iceberg Lake. If you choose the latter, you'll combine ice bathing with a 10-mile round-trip hike through breathtaking winter wilderness.



When claiming Social Security early might work. Starting at age 62 and investing 100% of your Social Security can bring higher lifetime benefits than waiting until full retirement age. With full retirement age set at 67 for those born in 1960 or later, anyone claiming benefits at 62 gets 30% less per month… and the reduction is permanent. Waiting to age 70 adds two-thirds of a percentage point to your payment per month, an 8% annual return. For retirees who do not need Social Security for living expenses, claiming at age 62 and investing it could be beneficial if the stock market keeps to its historical average return. But: A big market drop shortly after you start investing can permanently reduce the total. And if you are married and were the primary breadwinner when working, claiming early reduces spousal Social Security if your spouse outlives you.
Source: Money.com

"If you would know the value of money, go and try to borrow some."
-Benjamin Franklin

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Planning Beats Prediction

By Jill Schlesinger, Jill on Money

Every bull market produces what some call "perma-bears" — market watchers, money managers — who see doom in every rally and eventually get to say "I told you so" when a downturn finally arrives.

The trouble with perma-bears isn't that they're always wrong. It's that they're rarely useful. A prediction with no firm timeframe, no clear catalyst, and no acknowledgment of the cost of being wrong along the way isn't really actionable advice — it's entertainment.

If you move to cash every time one of them sounds the alarm, you may miss the continued market gains. And even if you avoid the losses if a crash were to occur, how would you know when to get back in? That's the hard part of timing the market: You need to execute two sides — the selling and then the buying back — in order to make it work.

Missing out on the S&P 500's best days over the past 20 years significantly reduces overall return. So, if you are clever and get out of the market, know that seven of the best 10 days for the S&P 500 occurred within 15 days of the 10 worst days.

That's why the saying goes, "It's about time *in* the market, not timing the market."



So, when you see someone on TV or social media warning about the "crash to come," remind yourself that there is ample evidence that trying to time the market just does not work. Try to tune out the noise, stick to your game plan, and periodically rebalance your diversified portfolio.

Sooner or later, one of the perma-bears will be right, but your financial plan, built for your circumstances and revisited on a regular schedule, will serve you far better than any single prediction, no matter how confidently — or how loudly — it's delivered, or how often it's repeated.