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Cape Ann Savings
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Is It Time to Declare Your Financial Independence?

No matter how much money you have or which life stage you're in, becoming financially independent starts with a dream. Your dream might be to finally pay off the mountain of debt you've accumulated, or to stop relying on someone else for financial support. Or perhaps your dream is to retire early so you can spend more time with your family, travel the world, or open your own business. Financial independence, however you define it, is freedom from the financial obstacles that are keeping you from living life on your own terms.

Envision the future

If you were to become financially independent, what would change? Would you spend your time differently? Live in another place? What would you own? Would you work part-time? Ultimately, you want to define how you choose to live your life. It's your dream, so there's no wrong answer.

Work at it

Unless you're already wealthy, you may have had moments when winning the lottery seemed like the only way to become financially secure. But your path to financial independence isn't likely to start at your local convenience store's lottery counter.

Though there are many ways to become financially independent, most of them require hard work. And retaining wealth isn't necessarily easy, because wealth may not last if spending isn't kept in check. As income rises, lifestyle inflation is a real concern. Becoming — and remaining — financially independent requires diligently balancing earning, spending, and saving.

Earn more, spend wisely, and save aggressively

Earn more. The bigger the gap between your income and expenses, the quicker it will be to become financially independent, no matter what your goal is. The more you can earn, the more you can potentially save. This might mean finding a job with a higher salary, working an extra job, or working part-time in retirement. And a job is just one source of income. If you're resourceful and able to put in extra hours, you may also be able to generate regular income in other ways — for example, renting out a garage apartment or starting a side business.

Spend wisely. Look for opportunities to reduce your spending without affecting your quality of life. For the biggest impact, focus on reducing your largest expenses — for example, housing, food, and transportation. Practicing mindful spending can also help you free up more money to save. Before you buy something nonessential, think about how important it is to you and what value it brings to your life so that you don't end up with a garage or attic filled with regrettable purchases.

Save aggressively. Set a wealth accumulation goal and then prioritize saving. Of course, if you have a substantial amount of debt, saving may be somewhat curtailed until that debt is paid off. Take simple steps such as choosing investments that match your goals and time frame, and paying yourself first by automatically investing as much as possible in a retirement savings plan. Time is an important ally in the quest for financial independence, so start saving as early as possible and build your nest egg over time. (Note that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.)

Keep going

Make adjustments. Life changes. Unexpected bills come up. Some years will be tougher financially than others. Expect to make some adjustments to your plan along the way, especially if you have a long-term time frame, but keep going.

Track your progress. Celebrate both small milestones and big victories. Seeing the progress you're making will help you stay motivated as you pursue your dream of financial independence.

Personal Financial Planning July 2019

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Medicaid or Veterans Pension?

For information on Medicaid, see [Medicaid.gov.](Medicaid.gov)

For information on Veterans Pension benefits, see [benefits.va.gov.](benefits.va.gov)

It's a fact: People are living longer today than they used to generations ago. Although that's good news, the odds of requiring some sort of health care increase as you get older. And as the costs of home care, nursing home care, and assisted living escalate, you probably wonder how you're ever going to be able to pay for that care for yourself or your loved ones.

Medicaid and a Veterans Pension such as Aid and Attendance (A&A) are among the government programs available to help pay for some of these costs. While it's possible to qualify for both Medicaid and a VA Pension, very rarely does one receive assistance from both programs at the same time. However, that doesn't mean you should disregard either program when determining how to pay for the costs associated with long-term care.

What's the difference?

Medicaid and the Veterans Pension programs have similarities and many important differences. Very briefly, Medicaid is a joint federal-state program that provides medical assistance to aged, disabled, or blind individuals (or to needy, dependent children) who cannot otherwise afford necessary medical care. Each state administers its own Medicaid program based on broad federal guidelines and regulations. Medicaid is the primary payer across the nation for long-term care services.

The Department of Veterans Affairs administers programs for veterans (or their surviving spouses) with limited incomes who are eligible for a VA pension. The Basic Pension/Improved Income program pays a monthly benefit to healthy veterans over the age of 65 with low incomes. A&A is for veterans over age 65 who require assistance with activities of daily living, such as eating, bathing, and dressing. The Veterans Housebound Pension is similar to A&A, but is available for persons whose disability significantly limits their ability to leave their homes.

Veterans Pension benefits are paid monthly. The recipient is able to use the money as desired. Medicaid is an insurance program that pays for costs of care. While the Medicaid benefit amount is often much more than any Veterans Pension benefit, Medicaid generally pays the service provider directly.

Do you qualify?

There are several factors to consider when determining the program best suited for the type of care needed. First and foremost, will you qualify for either program? Both programs have asset and income limits that are similar, but not identical.

Also, both programs have look-back periods that can disqualify an applicant from receiving benefits if assets are transferred for less than fair market value, such as by gifting to family members. It is possible to qualify for A&A but not for Medicaid, or vice versa. Pension benefits are generally counted as income for Medicaid eligibility purposes and could cause the recipient to exceed Medicaid's income limits. Consult with an elder law attorney or advisor who specializes in this type of planning.

What type of care is needed?

Another important consideration relates to the type of care required. Generally, if home care or assisted living is the type of care needed, Veterans Housebound or A&A benefits may be more advantageous. If nursing home care is needed, Medicaid is usually the better option. The amount of pension income is rarely enough to make up the difference between the cost of nursing home care and the recipient's income. Conversely, Medicaid will cover this difference in most cases. Equally important, the pension benefit is reduced to $90 per month for a single person (veteran or surviving spouse) who is in a Medicaid-approved nursing facility and is covered by a Medicaid plan for services furnished by the nursing facility.

However, there may be limited circumstances when a pension is appropriate for a beneficiary in a nursing home. For instance, if the beneficiary has to "spend down" assets before qualifying for Medicaid, the pension would continue to be paid while the recipient is paying for nursing home costs "out-of-pocket."

There's another situation in which a married couple may be dually eligible for Medicaid and a Veterans Pension; for example, the veteran spouse is at home or in an assisted-living facility (community spouse), and the non-veteran spouse is in a nursing home. If both spouses are able to meet the respective income and asset qualifications for each program, the veteran community spouse may receive a Veterans Pension and the spouse in the nursing home may qualify for Medicaid.

What's the verdict?

As you can see, coordinating Medicaid with a Veterans Pension can be a complicated process. Often, dovetailing a pension with Medicaid does not work well. It is always a good idea to consult with a professional who is proficient in planning for both Veterans Pension benefits and Medicaid to help you decide the best way to proceed.

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Why Not Do It Now? New Research on Procrastination

Advantage of an Early Start

Saving for retirement may be a low priority when you're young, especially if you're earning a low salary. But starting early can make a big difference, as you can see in the accompanying chart.

This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. It assumes a monthly deferral of salary and monthly compounding of earnings. Fees, expenses, and taxes were not considered and would reduce the performance shown if they were included. Actual results will vary.

Do you have a tendency to push off important tasks? Do you do things at the last minute, or maybe not do them at all? If so, you're not alone. About one in five adults is a chronic procrastinator.[1]

Procrastination can be frustrating in the short term for even the simplest tasks. But it can have far-reaching effects on important activities and decisions such as completing work projects, obtaining medical treatment, and saving for retirement. Recent research offers insights that may be helpful if you or someone you know has a tendency to procrastinate.

Blame the brain

A study using brain scans found that the amygdala, the almond-shaped structure in the temporal lobe of the brain that processes emotions (including fear), was larger in chronic procrastinators, and there were weaker connections between the amygdala and a part of the brain called the dorsal anterior cingulate cortex (DACC). The amygdala warns of potential dangers, and the DACC processes information from the amygdala and decides what action a body will take.[2]

According to the researchers, procrastinators may feel more anxiety about the potential negative effects of an action and be less able to filter out interfering emotions and distractions. The good news is that it is possible to shrink the amygdala and improve brain connectivity through mindfulness meditation exercises.[3]

What's important to you?

Another recent study found that people were less likely to procrastinate about tasks that they personally considered important and were within their own control, as opposed to tasks that were assigned to them and/or controlled by others. This is probably not surprising, but it suggests that procrastination may not be a "weakness" but rather a result of personal values and choices.[4]

Tips for procrastinators

Here are a few suggestions that may help overcome a tendency to procrastinate.

Consider the triggers. One researcher found that people are more likely to procrastinate if a task is characterized by one or more of these seven triggers: boring, frustrating, difficult, ambiguous, unstructured, not intrinsically rewarding, or lacking in personal meaning.[5] You might try to identify the triggers that are holding you back and take steps to address those specific problems. For example, if a task seems too difficult, ambiguous, or unstructured, you could break it down into smaller, more definite, and manageable tasks.

Meet your resistance. If you don't want to work on a task for an hour, determine how long you are willing to work on it. Can you work on it for 30 minutes? What about 15? If you don't want to do it today, what day would be better?

List the costs and benefits. For big projects, such as saving for retirement, make a list of all the negative ways not making progress could affect your life and all the positive outcomes if you were to achieve your objectives. Imagine yourself succeeding.

Take the plunge. Although a big project may seem daunting, getting a start — any start — could reduce the anxiety. This might be just a small first step: a list, a phone call, an email, or some Internet research. For a written project, you might start with a rough draft, knowing you can polish and improve it later.

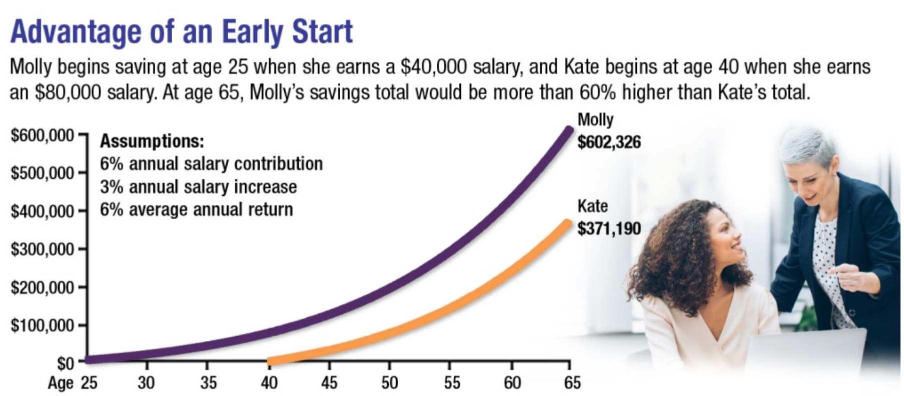
Forgive yourself. If you've postponed a task, don't waste time feeling guilty. In most cases, "better late than never" really does apply!

1 *Frontiers in Psychology,* July 5, 2018

2-3 BBC News, August 26, 2018

4 *Psychology Today,* January 9, 2018

5 *Harvard Business Review,* October 4, 2017



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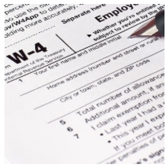

Have you checked your tax withholding lately?

If you were unpleasantly surprised by the amount of tax you owed or the amount of your tax refund when you filed your 2018 tax return, it may be time to check your withholding.

It may also be time if there are changes in your life or financial situation that affect your tax liability. For example, have you recently married, divorced, had a child, purchased a new home, changed jobs, or had a change in the amount of your taxable income not subject to withholding (e.g., capital gains)?

You can generally change the amount of federal tax you have withheld from your paycheck by giving a new Form W-4 to your employer. You can use a number of worksheets for the Form W-4 or the IRS Withholding Calculator (available at *irs.gov*) to help you plan your tax withholding strategy.

If changes reduce the number of allowances you are permitted to claim or your marital status changes from married to single, you must give your employer a new Form W-4 within 10 days. You can generally submit a new Form W-4 whenever you wish to change your withholding allowances for any other reason.

In general, you can claim various withholding allowances on the Form W-4 based on your tax filing status and the tax credits, itemized deductions (or any additional standard deduction for age or blindness), and adjustments to income that you expect to claim. You might increase the tax withheld or claim fewer allowances if you have a large amount of nonwage income. (If you have a significant amount of nonwage income, you might also consider making estimated tax payments using IRS Form 1040-ES.) The amount withheld can also be adjusted to reflect that you have more than one job at a time and whether you and your spouse both work. You might reduce the amount of tax withheld by increasing the amount of allowances you claim (to the extent permissible) on the Form W-4.

You can claim exemption from withholding for the current year if: (1) for the prior year, you were entitled to a refund of all federal income tax withheld because you had no tax liability; and (2) for the current year, you expect a refund of all federal income tax withheld because you expect to have no tax liability.

Do I need to pay estimated tax?

Taxpayers are required to pay most of their tax obligation during the year by having tax withheld from their paychecks or pension payments, or by making estimated tax payments. Estimated tax is the primary method used to pay tax on income that isn't subject to withholding. This typically includes income from self-employment, interest, dividends, and gain from the sale of assets. Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes reported on your income tax return.

Generally, you must pay federal estimated tax for the current year if: (1) you expect to owe at least $1,000 in tax for the current year, and (2) you expect your tax withholding and refundable tax credits to be less than the smaller of (a) 90% of the tax on your tax return for the current year, or (b) 100% of the tax on your tax return for the previous year (your tax return for the previous year must cover 12 months).

There are special rules for farmers, fishermen, and certain high-income taxpayers. If at least two-thirds of your gross income is from farming or fishing, you can substitute 66-2/3% for 90% in general rule (2)(a) above. If your adjusted gross income for the previous year was more than $150,000 ($75,000 if you were married and filed a separate return for that year), you must substitute 110% for 100% in general rule (2)(b) above.

If all of your income is subject to withholding, you probably don't need to pay estimated tax. If you have taxes withheld by an employer, you may be able to avoid having to make estimated tax payments, even on your nonwage income, by increasing the amount withheld from your paycheck.

You can use Form 1040-ES and its worksheets to figure your estimated tax. They can help you determine the amount you should pay for the year through withholding and estimated tax payments to avoid paying a penalty. The year is divided into four payment periods. After you have determined your total estimated tax for the year, you then determine how much you should pay by the due date of each payment period to avoid a penalty for that period. If you don't pay enough during any payment period, you may owe a penalty even if you are due a refund when you file your tax return.

Withholding and estimated tax payments may also be required for state and local taxes.

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