



**Cape Ann Savings Bank**  
Trust & Financial Services  
John T. Brennan, Esq. CFP®  
Vice President/Senior Trust Officer  
109 Main Street  
Gloucester, MA 01930  
978-283-7079  
john.brennan@castrust.com  
<http://www.capeannsavings.bank>

#### **Personal Financial Planning November 2018**

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How can I safely shop online this holiday season?



# Cape Ann Savings

## *Trust & Financial Services*

### **What to Do If Your Term Life Insurance Policy Is About to Expire**



insurance to protect their family's financial interests after a significant life event, such as getting married or the birth of a child.

You may have done the same for your family when you purchased your policy years ago. And chances are, other than paying the premiums, you probably haven't given it much thought since then. However, if your term life insurance policy is set to expire in the near future, it's important to explore your options now before the coverage runs out.

Before you get started, you first need to reevaluate your life insurance needs and determine if anything has changed. Are your children grown and have they graduated from college? Do you have a mortgage? If you have financial obligations that you need to take care of, you may still need term life insurance. If you are nearing retirement and have fewer financial obligations than you did when you were younger, your need for a term life insurance policy may not be as great as it once was.

#### **Purchasing a new policy**

If you are in relatively good health and your current term life insurance policy is about to run out, you might consider purchasing a new term policy altogether. When applying for a new term life insurance policy, you will generally need to pass a medical exam. In addition, since you are older now, your premiums may be higher than they were under your old policy. However, you may not need as large a policy as you did when you first purchased term life insurance years ago. It may pay to shop around and compare because premiums can vary among insurers.

#### **Renewing your existing policy**

When the coverage period for your term life insurance ends, you may have the option to renew the policy, depending on the specific

policy and limitations. Though you won't be required to take a medical exam if you renew your policy, the rate will generally increase each time it is renewed for an additional term because your age has increased (as has the insurance company's risk of paying a death benefit). These increased premium costs can sometimes make renewing a term life insurance policy an expensive way to cover your life insurance needs.

#### **Converting your policy to permanent life insurance**

If you have a convertible term life insurance policy, you may be able to convert it to a permanent life insurance policy, such as whole or universal life insurance. Permanent insurance continues throughout your life as long as you pay the premiums. As with term insurance, permanent insurance pays a death benefit to your beneficiary at your death, but it also contains a cash value account funded by your premium dollars. When you convert your policy, you won't need to prove your insurability by taking a medical exam. However, there is usually a conversion deadline, which is the date by which you must convert, typically before your term life insurance is set to expire.

*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing company.*

*The rules governing 1035 exchanges are complex and you may incur surrender charges from your "old" life insurance policy. In addition, you may be subject to new sales and surrender charges for the new policy.*



## Infographic: Financial Lessons from Football



### Review your game plan

You haven't saved enough for retirement...or for college. Your credit card debt is spiraling. You've been blindsided by unexpected expenses. When your finances hit a rough patch, call a time out and review your game plan. Rethink your strategy to account for changes in your personal life, the economy, or market conditions.



### Focus on fundamentals

Big plays are important, but so is steady execution. Even seasoned players need to focus on game fundamentals. One important financial fundamental is your budget. Once you know exactly how much money is coming in and how much is going out, you can identify what plays to call to get your finances back in shape.



### Make adjustments

Football teams make adjustments throughout the game. As you begin to make forward progress, keep the momentum going by regularly reviewing and fine-tuning your own game plan to balance competing priorities. Soon you'll be better prepared to tackle the challenges that stand between you and your financial goals.

**"It's not whether you get knocked down, it's whether you get up."  
-Vince Lombardi**



## Ten Year-End Tax Tips for 2018



### **Timing of itemized deductions and the increased standard deduction**

*The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. (After 2025, these provisions revert to pre-2018 law.) It may now be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction.*

### **IRA and retirement plan contributions**

*For 2018, you can contribute up to \$18,500 to a 401(k) plan (\$24,500 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2018 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2018 IRA contributions.*

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

### **1. Set aside time to plan**

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

### **2. Defer income to next year**

Consider opportunities to defer income to 2019, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

### **3. Accelerate deductions**

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2019, could make a difference on your 2018 return.

### **4. Factor in the AMT**

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2018, prepaying 2019 state and local taxes probably won't help your 2018 tax situation, but could hurt your 2019 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

### **5. Bump up withholding to cover a tax shortfall**

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding in 2018.

### **6. Maximize retirement savings**

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2018 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

### **7. Take any required distributions**

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

### **8. Weigh year-end investment moves**

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

### **9. Beware the net investment income tax**

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

### **10. Get help if you need it**

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.



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Trust & Financial Services  
John T. Brennan, Esq. CFP®  
Vice President/Senior Trust  
Officer  
109 Main Street  
Gloucester, MA 01930  
978-283-7079  
john.brennan@castrust.com  
<http://www.capeannsavings.bank>

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## How can I protect my personal and financial information from credit fraud and identity theft?

In today's digital world, massive computer hacks and data breaches are common occurrences. And chances are, your personal or financial information is now susceptible to being used for credit fraud or identity theft. If you discover that you are the victim of either of these crimes, you should consider placing a credit freeze or fraud alert on your credit report to protect yourself.

A credit freeze prevents new credit and accounts from being opened in your name. Once you obtain a credit freeze, creditors won't be allowed to access your credit report and therefore cannot offer new credit. This helps prevent identity thieves from applying for credit or opening fraudulent accounts in your name.

To place a credit freeze on your credit report, you must contact each credit reporting agency separately either by phone or by filling out an online form. Keep in mind that a credit freeze is permanent and stays on your credit report until you unfreeze it. This is important, because if you want to apply for credit with a new financial institution in the future, open a new bank account, or even apply for a job or rent an

apartment, you will need to "unlock" or "thaw" the credit freeze with each credit reporting agency.

A less drastic option is to place a fraud alert on your credit report. A fraud alert requires creditors to take extra steps to verify your identity before extending any existing credit or issuing new credit in your name. To request a fraud alert, you only have to contact one of the three major reporting agencies, and the information will be passed along to the other two.

Recently, as part of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, Congress made several changes to credit rules that benefit consumers. Under the new law, consumers are now allowed to "freeze" and "unfreeze" their credit reports free of charge at all three of the major credit reporting bureaus, Equifax, Experian, and TransUnion. In addition, the law extends initial fraud alert protection to one full year. Previously, fraud alerts expired after 90 days unless they were renewed.



## How can I safely shop online this holiday season?

Shopping online is especially popular during the holiday season, when many people prefer to avoid the crowds and purchase gifts with a few clicks of a mouse. However, with this convenience comes the danger of having your personal and financial information stolen by computer hackers.

Before you click, you might consider the following tips for a safer online shopping experience.

**Pay by credit instead of debit.** Credit card payments can be withheld if there is a dispute, but debit cards are typically debited quickly. In addition, credit cards generally have better protection than debit cards against fraudulent charges.

**Maintain strong passwords.** When you order through an online account, you should create a strong password. A strong password should be at least eight characters long, using a combination of lower-case letters, upper-case letters, numbers, and symbols or a random phrase. Avoid dictionary words and personal information such as your name and address. Also create a separate and unique password

for each account or website you use, and try to change passwords frequently. To keep track of all your password information, consider using password management software, which generates strong, unique passwords that you control through a single master password.

**Beware of scam websites.** Typing one word into a search engine to reach a particular retailer's website may be easy, but it sometimes won't bring you to the site you are actually looking for. Scam websites may contain URLs that look like misspelled brand or store names to trick online shoppers. To help you determine whether an online retailer is reputable, research sites before you shop and read reviews from previous customers. Look for <https://> in the URL and not just <http://>, since the "s" indicates a secure connection.

**Watch out for fake phishing and delivery emails.** Beware of emails that contain links or ask for personal information. Legitimate shopping websites will never email you and randomly ask for your personal information. In addition, be aware of fake emails disguised as package delivery emails. Make sure that all delivery emails are from reputable delivery companies you recognize.