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Most economists believe that GDP will turn upward in the third quarter, but it will take sustained growth to return the economy to its pre-recession level.

The Shape of Economic Recovery

On June 8, 2020, the National Bureau of Economic Research (NBER), which has official responsibility for determining U.S. business cycles, announced that February 2020 marked the end of an expansion that began in 2009 and the beginning of a recession.[1] This was no great surprise considering widespread business closures due to the coronavirus pandemic and the resulting spike in unemployment, but it was an unusually quick official announcement.

The NBER defines a recession as "a decline in economic activity that lasts more than a few months," so it typically takes from six months to a year to determine when a recession started. In this case, the NBER's Business Cycle Dating Committee concluded that "the unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy," warrants the designation of a recession, "even if it turns out to be briefer than earlier contractions."[2]

Another common definition of a recession is two or more quarters of negative growth in gross domestic product (GDP), and it's clear that the current situation will meet that test. The U.S. economy shrank at an annual rate of 5% in the first quarter of 2020 — a significant but deceptively small decline, because the economy was strong during the first part of the quarter.[3]

The first official estimate for the second quarter will not be available until July 30, but the Federal Reserve Bank of Atlanta keeps a running estimate that is updated based on incoming economic data. As of July 9, the Atlanta Fed estimated that GDP would drop at a 35.5% annual rate in the second quarter.[4] By comparison, the largest quarterly drop since World War II was 10% in the first quarter of 1958, followed by 8.4% in the fourth quarter of 2008.[5]

Most economists believe that GDP will turn upward in the third quarter as businesses continue to open.[6] But with the extreme decline in business activity during the first half of 2020, it will take sustained growth to return the economy to its pre-recession level. In its June economic projections, the Federal Reserve Open Market Committee projected a 6.5% annual drop in GDP for 2020, followed by 5.0% growth in 2021 and 3.5% growth in 2022.[7] The simple math of these projections suggests the economy may not return to its 2019 level until 2022.

By the letters

Economists traditionally view economic recessions and recoveries as having a shape, named after the letter it resembles.

V-shaped — a rapid fall followed by a quick rebound to previous levels. The 1990-91 recession, which lasted only eight months and was followed by strong economic growth, was V-shaped. This type of recovery would require control of COVID-19 through testing and treatment, a quick ramp-up of business activity, and a return to pre-recession spending habits by consumers.[8-9]

U-shaped — an extended recession before the economy returns to previous levels. The Great Recession, which lasted 18 months followed by a slow recovery, was U-shaped. If COVID-19 takes longer to control and the economy does not bounce back as expected in the third quarter, the current recession could be prolonged.[10-11]

W-shaped — a "double-dip" recession in which a quick recovery begins but drops back sharply before beginning again. The U.S. economy experienced a W-shaped recession in 1980-82, when a second oil crisis and high inflation triggered a brief recession, followed by a quick recovery and another recession sparked by overly aggressive anti-inflation policies by the Federal Reserve. This type of recession could occur if a second wave of COVID-19 forces businesses to shut down again later in the year, just as the economy is recovering.[12-13]

L-shaped — a steep drop followed by a long period of high unemployment and low economic output. The Great Depression, which lasted 43 months with four straight years of negative GDP growth, was L-shaped. This is unlikely in the current environment, considering the strength of the U.S. economy before COVID-19 and the unprecedented economic support from the Federal Reserve.[14-15]

A swoosh

In the July Economic Forecasting Survey by *The Wall Street Journal,* which polls more than 60 U.S. economists each month, 13.0% of respondents thought the recovery would be V-shaped, 11.1% expected it to be W-shaped, 5.5% indicated it would be U-shaped, and none thought it would be L-shaped.[16]

The vast majority — 70.4% — believed the recovery would take a "Nike swoosh" shape, which suggests a sharp drop followed by a long, slow recovery.[17] This view factors in the possibility that businesses may be slow to rehire, and consumers could be slow to resume pre-recession spending patterns. It also considers that some businesses may be impacted longer than others. Airlines do not expect to return to pre-COVID passenger activity until 2022, and movie theaters, beauty salons, sporting events, and other high-contact businesses may struggle until a vaccine is developed.[18]

Adding to the prognosis for a slow recovery is the fact that the rest of the world is also fighting the pandemic, including many countries where growth was already more sluggish than in the United States. And if the virus resurges in the fall or early 2021, the recovery may turn jagged with significant setbacks along the way.[19]

While the general consensus suggests that the duration of the actual recession may be brief, it is much too early to know the true shape of the recovery. However, the economy *will* recover, as it has in even more challenging situations. All of these projections indicate that a key factor in determining the shape of recovery will be control of COVID-19. Beyond that, the underlying question is whether the virus has fundamentally changed the U.S. and global economies.

1-2, 8, 10, 12, 14) National Bureau of Economic Research, June 2020

3, 5, 15) U.S. Bureau of Economic Analysis, June 2020

4) Federal Reserve Bank of Atlanta, July 9, 2020

6, 16-17) *The Wall Street Journal* Economic Forecasting Survey, July 2020

7) Federal Reserve, June 10, 2020

9, 11, 13) Forbes Advisor, June 8, 2020

18-19) *The Wall Street Journal,* May 11, 2020

The IRS provided COVID-19 guidance for health Flexible Spending Arrangements and section 125 cafeteria plans related to high-deductible health plans through Notice 2020-29.

IRS Outlines Changes to Health-Care Spending Rules Under CARES Act

The amended rules under the Coronavirus Aid, Relief, and Economic Security (CARES) Act provide flexibility for health-care spending related to the ongoing COVID-19 pandemic.[1]

High-deductible health plans cover telehealth services

Under the CARES Act, a high-deductible health plan (HDHP) can temporarily cover telehealth and other remote care services without a deductible, or with a deductible below the minimum annual deductible otherwise required by law.

Telehealth and other remote care services also are temporarily included as categories of coverage that are disregarded for the purpose of determining whether an individual who has other health plan coverage in addition to an HDHP is eligible individual to make tax-favored contributions to his or her health savings account (HSA). Thus, an otherwise eligible individual with HDHP coverage may still contribute to an HSA despite receiving coverage for telehealth and other remote care services before satisfying the HDHP deductible, or despite receiving coverage for these services outside the HDHP. These changes are effective for services provided on or after January 1, 2020 through December 31, 2021.

Additions to qualified medical expenses

The CARES Act also modifies the rules for "qualified medical expenses" that are reimbursable from tax-advantaged health savings accounts (HSAs), Archer Medical Spending Accounts (MSAs), health flexible spending accounts (FSAs), and Health Reimbursement Arrangements (HRAs). Specifically, the cost of menstrual care products is now reimbursable. These products are defined as tampons, pads, liners, cups, sponges and/or other similar products. In addition, over-the-counter products and medications are now reimbursable without a prescription. The new rules apply to amounts paid after Dec. 31, 2019. Taxpayers should save receipts of these purchases for their records and so that they are able to submit claims for reimbursement.

1) IR-2020-122, June 17, 2020

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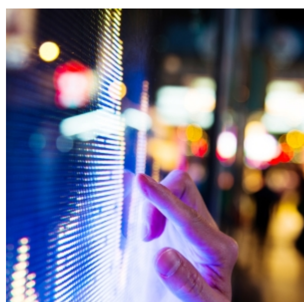

Putting current market volatility into historical perspective can help you stay the course during turbulent times.

Coronavirus Concerns? Consider Past Health Crises

During the last week of February 2020, the S&P 500 lost 11.49% — the worst week for stocks since the 2008 financial crisis — only to jump by 4.6% on the first Monday in March[1]. By all accounts, the drop was largely driven by ever-increasing fears about the potential effects of the coronavirus (COVID-19) and its ultimate impact on the global economy. Although many market observers contend that the market was overvalued and due for a correction anyway, the unpredictability, strength, and suddenness of the historic tumble was unnerving for even the most seasoned investors. If recent volatility is causing you to consider cashing out of your stock holdings, it may be worthwhile to pause and put recent events into perspective, using history as a guide.

A look back

Since the turn of the millennium, the market's negative response to health crises has been relatively short-lived. As this table shows, approximately six months after early reports of a major outbreak, the S&P 500 bounced back by an average of 10.47%. After 12 months, it rebounded by an average of 17.17%. Although there are no guarantees the current situation will follow a similar pattern, it may be reassuring to know that over even longer periods of time, stocks typically regain their upward trajectory, helping long-term investors who hold steady to recoup their temporary losses, catch their breath, and go on to pursue their goals.

Epidemic	Month end*	6-month performance, S&P 500	12-month performance, S&P 500
SARS	April 2003	14.59%	20.76%
Avian (Bird) flu	June 2006	11.66%	18.36%
Swine flu (H1N1)	April 2009**	18.72%	35.96%
MERS	May 2013	10.74%	17.96%
Ebola	March 2014	5.34%	10.44%
Measles/Rubeola	December 2014	0.20%	-0.73%
Zika	January 2016	12.03%	17.45%

Source: Dow Jones Market Data, as cited on foxbusiness.com, January 27, 2020. Stocks are represented by the Standard & Poor's 500 price index. Returns reflect the change in price, but not the reinvestment of dividends. The S&P 500 is an unmanaged index that is generally considered to be representative of the U.S. stock market. Returns shown do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in any index. Actual results will vary.

*End of month during which early incidents of outbreak were reported.

**H1N1 occurred during the financial crisis, when, as during other periods, many different factors influenced stock market performance.

Dollar-cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, this can be an effective way for investors to accumulate shares to help meet long-term goals.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

What should you do?

First, keep in mind that market downturns sometimes offer the chance to pick up potentially solid stocks at value prices, which could position a portfolio well for future growth. Again, there are no guarantees that stocks will perform to anyone's expectations — and decisions could result in losses including a possible loss in principal — but it may be helpful to remember that some investors use downturns as opportunities to buy stocks that were previously overvalued relative to their perceived earnings potential.

Moreover, if you typically invest set amounts into your portfolio at regular intervals — a strategy known as dollar-cost averaging (DCA), which is commonly used in workplace retirement plans and college investment plans — take heart in knowing you're utilizing a method of investing that helps you behave like the value investors noted above. Through DCA, your investment dollars purchase fewer shares when prices are high, and more shares when prices drop. Essentially, in a down market, you automatically "buy low," one of the most fundamental investment tenets. Over extended periods of volatility, DCA can result in a lower average cost for your holdings than the investment's average price over the same time period.

Finally and perhaps most important, during trying times like this, it may help to focus less on daily market swings and more on the fundamentals; that is, review your investment objectives and time horizon, and revisit your asset allocation to make sure it's still appropriate for your needs. Your allocation can shift in unexpected ways due to changes in market cycles, so you may discover the need to rebalance your allocation by selling holdings in one asset class and investing more in another. (Keep in mind that rebalancing in a taxable account can result in income tax consequences.)

Questions?

After considering the points here, if you still have questions about how changing market dynamics are affecting your portfolio, contact your financial professional. Often a third-party perspective can help alleviate any worries you may still hold.

[1] Based on data reported in WSJ Market Data Center, February 28, 2020, and March 2, 2020. Performance reflects price change, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

IRS Clarifies COVID-19 Relief Measures for Retirement Savers

The Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in March 2020 ushered in several measures designed to help IRA and retirement plan account holders cope with financial fallout from the virus. The rules were welcome relief to many people, but left questions about the details unanswered. In late June, the IRS released Notices 2020-50 and 2020-51, which shed light on these outstanding issues.

Retirees who took RMDs in 2020 have until August 31, 2020, to roll the money back into a qualified account. This rollover will not affect the one-rollover-per-year rule.

Required minimum distributions (RMDs)

One CARES Act measure suspends 2020 RMDs from defined contribution plans and IRAs. Account holders who prefer to forgo RMDs from their accounts, or to withdraw a lower amount than required, may do so. The waiver also applies to account holders who turned 70½ in 2019 and would have had to take their first RMD by April 1, 2020, as well as beneficiaries of inherited retirement accounts.

One of the questions left unanswered by the legislation was: "What if an account holder took an RMD in 2020 before passage of the CARES Act and missed the 60-day window to roll the money back into a qualified account?"

In April, IRS Notice 2020-23 extended the 60-day rollover rule for those who took a distribution on or after February 1, 2020, allowing participants to roll their money back into an eligible retirement account by July 15, 2020. This seemingly left account owners who had taken RMDs in January without recourse. However, IRS Notice 2020-51 rectified the situation by stating that *all* 2020 RMDs — even those received as early as January 1 — may be rolled back into a qualified account by August 31, 2020. Moreover, such a rollover would not be subject to the one-rollover-per-year rule.

This ability to undo a 2020 RMD also applies to beneficiaries who would otherwise be ineligible to conduct a rollover. (However, in their case, the money must be rolled back into the original account.)

This provision does not apply to defined benefit plans.

Coronavirus withdrawals and loans

Another measure in the CARES Act allows qualified IRA and retirement plan account holders affected by the virus to withdraw up to $100,000 of their vested balance without having to pay the 10% early-withdrawal penalty (25% for certain SIMPLE IRAs). They may choose to spread the income from these "coronavirus-related distributions," or CRDs, ratably over a period of three years to help manage the associated income tax liability. They may also recontribute any portion of the distribution that would otherwise be eligible for a tax-free rollover to an eligible retirement plan over a three-year period, and the amounts repaid would be treated as a trustee-to-trustee transfer, avoiding tax consequences.[1]

In addition, the CARES Act included a provision stating that between March 27 and September 22, 2020, qualified coronavirus-affected retirement plan participants may also be able to borrow up to 100% of their vested account balance or $100,000, whichever is less. In addition, any qualified participant with an outstanding loan who has payments due between March 27, 2020, and December 31, 2020, may be able to delay those payments by one year.

IRS Notice 2020-50

To be eligible for coronavirus-related provisions in the CARES Act, "qualified individuals" were originally defined as IRA owners and retirement plan participants who were diagnosed with the virus, those whose spouses or dependents were diagnosed with the illness, and account holders who experienced certain adverse financial consequences as a result of the pandemic. IRS Notice 2020-50 expanded that definition to also include an account holder, spouse, or household member who has experienced pandemic-related financial setbacks as a result of:

- A quarantine, furlough, layoff, or reduced work hours
- An inability to work due to lack of childcare
- Owning a business forced to close or reduce hours
- Reduced pay or self-employment income
- A rescinded job offer or delayed start date for a job

These expanded eligibility provisions enhance the opportunities for account holders to take a CRD.

The Notice clarifies that qualified individuals can take multiple distributions totaling no more than $100,000

regardless of actual need. In other words, the total amount withdrawn does not need to match the amount of the adverse financial consequence. (Retirement investors should consider the pros and cons carefully before withdrawing money.)

It also states that individuals will report a coronavirus-related distribution (or distributions) on their federal income tax returns and on Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments. Individuals can also use this form to report any recontributed amounts. As noted above, individuals can choose to either spread the income ratably over three years or report it all in year one; however, once a decision is indicated on the initial tax filing, it cannot be changed. Note that if multiple CRDs occur in 2020, they must all be treated consistently — either ratably over three years or reported all at once.

Taxpayers who recontribute amounts after paying taxes on reported CRD income will have to file amended returns and Form 8915-E to recoup the payments. Taxpayers who elect to report income over three years and then recontribute amounts that exceed the amount required to be reported in any given year may "carry forward" the excess contributions — i.e., they may report the additional amounts on the next year's tax return.

The Notice also clarifies that amounts can be recontributed at any point during the three-year period beginning the day after the day of a CRD. Amounts recontributed will not apply to the one-rollover-per-year rule.

Regarding plan loans, participants who delay their payments as permitted by the CARES Act should understand that once the delay period ends, their loan payments will be recalculated to include interest that accrued over the time frame and reamortized over a period up to one year longer than the original term of the loan.

Retirement plans are not required to adopt the loan and withdrawal provisions, so check with your plan administrator to see which options might apply to you. However, qualified individuals whose plans do not specifically adopt the CARES Act provisions may choose to categorize certain other types of distributions — including distributions that in any other year would be considered RMDs — as CRDs on their tax returns, provided the total amount does not exceed $100,000.

For more information, review IRS Notices 2020-50 and 2020-51, and speak with a tax professional.

[1] Qualified beneficiaries may also treat a distribution as a CRD; however, nonspousal beneficiaries are not permitted to recontribute funds, as they would not otherwise be eligible for a rollover.

Think Twice Before Speculating on a COVID-19 Cure

Headline-induced price swings suggest that investors are making investment decisions driven by hopes and fears, and possibly based on limited information.

As hundreds of companies race to develop vaccines and drug therapies that could help end the COVID-19 pandemic, news reports on successful or failed trials affect individual stock prices and can trigger swings in the broader market.[1] Understandably, this highly contagious virus — and its severe economic repercussions — has a knack for stirring up investors' emotions.

By May 27, 2020, COVID-19 was responsible for more than 100,000 deaths in the United States and about 355,000 worldwide.[2] Investors are human beings first, and most of us are waiting anxiously for a cure that would stop the suffering and allow normal life to resume.

Governments and nonprofits have provided billions of dollars in support, and some red tape has been loosened, all to help speed a costly, complex, and time-consuming drug development process.[3] Even so, this influx of public funding — along with a concerted humanitarian effort — suggests that some of the most important discoveries may not generate profits for investors.

High hopes for a vaccine

A vaccine prepares the body's immune system to recognize and resist a specific disease, preventing it from causing sickness and spreading to others. As of May 27, the World Health Organization (WHO) was tracking 125 experimental vaccine candidates globally, 10 of which had advanced to clinical evaluation. Another 115 candidates are still in the pre-clinical stage, which involves testing in cells and/or animals and waiting for regulators to review results and grant permission for human trials.[4]

Clinical studies are conducted in three phases. During Phase I, a small study of healthy people tests the safety and immune response of the vaccine at different doses. Phase II is a randomized, double-blind, controlled study of hundreds of people that further assesses safety, efficacy, and optimal dosing. If all goes well, clinical studies expand to include thousands of people in Phase III.[5] These larger studies can be challenging because they test how well the vaccine works in an environment where the virus is spreading.[6]

Despite the urgency, COVID-19 vaccine candidates can't skip any of these crucial steps, but timelines have been accelerated.[7] Health officials have said it could take 12 to 18 months before a vaccine may be available.[8]

The U.S. government has struck supply deals with several pharmaceutical companies to support research into leading vaccine candidates and boost the manufacturing capacity needed to produce 300 million doses by fall of 2020, should a candidate prove effective.[9]

Other nations and well-funded nonprofits have made similar deals. Massive public investment allows drug makers to get a head start on manufacturing doses while waiting for human trials to conclude and approval to be granted. In return, at least one drug maker has promised to sell an approved vaccine without making a profit during the pandemic.[10]

A COVID-19 vaccine is not imminent — a point made by the fact that there is no vaccine to prevent HIV after several decades of research. Still, early progress on several fronts offers reasons to be cautiously optimistic.[11]

Testing old and new therapies

The development and approval process for experimental drugs is similar to the one for vaccines. Companies that develop successful treatments are likely to face the same manufacturing challenges and pricing pressures. In the meantime, doctors are testing existing therapies that might help COVID-19 patients.[12]

One existing antiviral drug was approved for emergency use by the U.S. Food and Drug Administration after it was determined to help hospitalized patients with severe COVID-19 recover faster. The pharmaceutical giant that makes the drug has ramped up production and is donating about 1.5 million doses as a public good.[13]

Scientists are also working on targeted antibody therapies, which depend on the identification of specific antibodies that bind with and neutralize the novel coronavirus. At high doses the right antibodies might prevent the disease from worsening in hospitalized patients, and at lower doses the same antibodies could provide short-term immunity for front-line workers.

Effective antibody drugs are easier to develop but more complex to manufacture. Thus, there is limited global capacity to produce the large amounts needed. Governments, nonprofits, and companies that are

normally competitors are reportedly discussing ways to share manufacturing plants if one company's antibody proves to work better than the others.[14]

Antibody treatments could help save lives as long as COVID-19 is a threat, but widespread vaccination could make them obsolete. If a successful vaccine materializes, many valiant efforts to develop beneficial therapies may never make much money.

More implications for investors

As of May 21, 2020, the U.S. government had invested at least $2 billion for the development of coronavirus vaccines and $300 million for antiviral and antibody therapies.[15] New biotechnologies, generous financial support, and unprecedented cooperation between governments and industry leaders could shave several years off typical development timelines.[16]

It's rarely easy to predict which new products will perform well enough in multiple rounds of studies to earn regulatory approval. Moreover, the stock market's mid-May rally and high valuations for biotech and pharmaceutical shares imply that success in developing COVID-19 treatments might already be priced in — especially for newsmakers.[17]

Headline-induced price swings suggest that investors are making decisions driven by hopes and fears, and possibly based on limited information, instead of a realistic assessment of an investment's longer-term earnings potential. Now more than ever, it's important to have a well-researched investment strategy based on your own goals, time horizon, and risk tolerance.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

1, 17) *The Wall Street Journal,* May 18, 2020

2) Johns Hopkins University, May 27, 2020

3, 5, 7-8, 16) World Economic Forum, 2020

4) World Health Organization, May 27, 2020

6) Bloomberg News, May 7, 2020

9-10) *The Wall Street Journal,* May 21, 2020

11) NPR.com, May 12, 2020

12, 14-15) Bloomberg Businessweek, April 20, 2020

13) STAT, April 29, 2020

Caring for an Aging Parent Checklist

General information	Yes	No	N/A
1. Has relevant personal information been gathered? • Name, phone number, and address of parent • Parent's date of birth • Parent's Social Security number • Name, phone number, and address of attorney, physician, geriatric care manager, or other advisor • Parent's legal state of residence • Parent's health status • Parent's marital status • Family members available for support	❑	❑	❑
2. Has the parent's financial situation been assessed? • Income from pension, Social Security, employment, or other source • Expenses • Assets • Liabilities	❑	❑	❑
Notes:			

Insurance planning	Yes	No	N/A
1. Does the parent have life insurance?	❑	❑	❑
2. Does the parent have long-term care insurance?	❑	❑	❑
3. Does the parent have adequate health insurance? • Medicare • Medigap	❑	❑	❑
4. Does the parent have an adequate amount of other types of insurance? • Homeowners insurance • Auto insurance • Umbrella liability insurance	❑	❑	❑
Notes:			

Estate planning	Yes	No	N/A
1. Does the parent have an updated will?	❑	❑	❑

2. Has the parent prepared advanced directives? • Durable power of attorney • Living will • Health-care proxy	❑	❑	❑
3. Has the parent prepared letters of instruction?	❑	❑	❑
4. If the parent's estate is likely to be subject to estate tax, have ways to minimize estate taxes been considered?	❑	❑	❑
5. Has the parent made funeral arrangements?	❑	❑	❑
Notes:			

Housing issues	**Yes**	**No**	**N/A**
1. Is the parent's current housing situation satisfactory?	❑	❑	❑
2. If so, have contingency plans been made in case a housing change is necessary in the future?	❑	❑	❑
3. Have the parent's wishes regarding housing been considered?	❑	❑	❑
4. Have the child's wishes regarding housing been considered?	❑	❑	❑
5. Does the parent currently need nursing home care?	❑	❑	❑
6. Have alternative housing options been explored? • Remaining in home (possibly with in-home care) • Moving in with relative • Assisted living • Continuing care retirement communities • Senior apartments • Nursing home	❑	❑	❑
7. Have adult day-care options been discussed and evaluated?	❑	❑	❑
Notes:			

Financial issues	**Yes**	**No**	**N/A**
1. Does the parent have enough money from income and savings to sustain his or her lifestyle?	❑	❑	❑
2. Is his or her asset allocation still suitable?	❑	❑	❑
3. Is the parent able to make appropriate financial decisions?	❑	❑	❑

4. Should the child's name be added to accounts?	❑	❑	❑
5. Does Medicaid planning need to be considered?	❑	❑	❑
6. Will the parent be dependent on the child for financial support?	❑	❑	❑
7. If so, have the child's financial needs been considered?	❑	❑	❑
8. Have distribution strategies been discussed and evaluated?	❑	❑	❑
Notes:			

Other	**Yes**	**No**	**N/A**
1. Has a list of important documents and records been prepared? • Bank account records (statements and passbooks) • Stock certificates, bonds, and other investment records • Credit card statements • Mortgage, insurance, utility bills • Retirement plan statements • Income tax returns for the last three years • Real estate deeds, mortgages, and other property ownership records • Vehicle titles • Business agreements • Insurance policies • Will, trust, advanced directives, letters of instruction, and other documents • Location of and key to safe-deposit box • Birth certificate and marriage or divorce certificates • Citizenship records • Passport • Military records	❑	❑	❑
2. If the parent has an interest in a business, have arrangements been made to continue or dispose of the interest in the event of incapacity or death?	❑	❑	❑
Notes:			

Gift and Estate Taxes

If you give away money or property during your life, those transfers may be subject to federal gift and estate tax and perhaps state gift tax. The money and property you own when you die (i.e., your estate) may also be subject to federal gift and estate tax and some form of state death tax. These property transfers may also be subject to generation-skipping transfer taxes. You should understand all of these taxes, especially since the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (the 2001 Tax Act), the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Tax Act), the American Taxpayer Relief Act of 2012 (the 2012 Tax Act), and the Tax Cuts and Jobs Act. The recent Tax Acts contain several changes that make estate planning much easier.

Federal gift and estate tax — background

Under pre-2001 Tax Act law, no federal gift and estate tax was imposed on the first $675,000 of combined transfers (those made during life and those made at death). The tax rate tables were unified into one — that is, the same rates applied to gifts made and property owned by persons who died in 2001. Like income tax rates, gift and estate tax rates were graduated. Under this unified system, the recipient of a lifetime gift received a carryover basis in the property received, while the recipient of a bequest, or gift made at death, got a step-up in basis (usually fair market value on the date of death of the person who made the bequest or gift).

The 2001 Tax Act, the 2010 Tax Act, the 2012 Tax Act, and the Tax Cuts and Jobs Act substantially changed this tax regime.

Federal gift and estate tax — current

The 2001 Tax Act increased the applicable exclusion amount for gift tax purposes to $1 million through 2010. The applicable exclusion amount for estate tax purposes gradually increased over the years until it reached $3.5 million in 2009. The 2010 Tax Act repealed the estate tax for 2010 (and taxpayers received a carryover income tax basis in the property transferred at death), or taxpayers could elect to pay the estate tax (and get the step-up in basis). The 2010 Tax Act also re-unified the gift and estate tax and increased the applicable exclusion amount to $5,120,000 in 2012. The top gift and estate tax rate was 35 percent in 2012. The 2012 Tax Act increased the applicable exclusion amount to $5,490,000 (in 2017) and the top gift and estate tax rate to 40 percent (in 2013 and later years). The Tax Cuts and Jobs Act, signed into law in December 2017, doubled the gift and estate tax exclusion amount and the GST tax exemption (see below) to $11,180,000 in 2018. The amount is $11.580,000 in 2020 ($11,400,000 in 2019). After 2025, they are scheduled to revert to their pre-2018 levels and cut by about one-half.

However, many transfers can still be made tax free, including:

- Gifts to your U.S. citizen spouse; you may give up to $157,000 in 2020 ($155,000 in 2019) tax free to your noncitizen spouse

- Gifts to qualified charities
- Gifts totaling up to $15,000 (in 2019 and 2020) to any one person or entity during the tax year, or $30,000 (in 2019 and 2020) if the gift is made by both you and your spouse (and you are both U.S. citizens)
- Amounts paid on behalf of any individual as tuition to an educational organization or to any person who provides medical care for an individual

Federal generation-skipping transfer tax

The federal generation-skipping transfer (GST) tax imposes tax on transfers of property you make, either during life or at death, to someone who is two or more generations below you, such as a grandchild. The GST tax is imposed in addition to, not instead of, federal gift and estate tax. You need to be aware of the GST tax if you make cumulative generation-skipping transfers in excess of the GST tax exemption ($11,580,000 in 2020, $11,400,000 in 2019). A flat tax equal to the highest estate tax bracket in effect in the year you make the transfer (40 percent in 2019 and 2020) is imposed on every transfer you make after your exemption has been exhausted.

State transfer taxes

Currently, a few states impose a gift tax, and a few states impose a generation-skipping transfer tax. Some states also impose a death tax, which could be in the form of estate tax, inheritance tax, or credit estate tax (also known as a sponge or pickup tax). Contact an attorney or your state's department of revenue or taxation to find out more information

Starting Out Checklist

General information	Yes	No	N/A
1. Has relevant personal information been gathered?	❑	❑	❑
2. Has financial situation been assessed? • Income • Expenses • Assets • Liabilities	❑	❑	❑
Notes:			

Savings and cash management	Yes	No	N/A
1. Have financial goals been discussed and prioritized? • Cash reserve for emergencies • Saving for down payment on home • Saving for other major expense (e.g., car, travel) • Saving for retirement	❑	❑	❑
2. Have saving and investment vehicles been established? • Savings account • Checking account • Money market account • Certificates of deposit • Mutual funds • Stocks • Bonds • Annuities • IRA • 401(k) or other retirement plan	❑	❑	❑
3. Has making appropriate investment decisions been discussed? • Risk tolerance • Liquidity needs • Time horizon • Types of investments (e.g., income, growth) • Diversification • Tax consequences • Dollar cost averaging	❑	❑	❑
4. Has a budget been prepared?	❑	❑	❑
5. Is an appropriate financial record-keeping system being used?	❑	❑	❑

Notes:			
Credit management	**Yes**	**No**	**N/A**
1. Has good credit history been established?	❑	❑	❑
2. Have ways to maintain a good credit history been discussed?	❑	❑	❑
3. Has outstanding consumer debt (including interest rates) been listed? • Credit cards • Auto loans • Student loans • Mortgages • Other secured or unsecured loans or lines of credit	❑	❑	❑
4. Have ways to reduce consumer debt been discussed? • Paying cash vs. using credit • Lowering interest rates on loans and credit cards • Consolidation of student loans • Debt consolidation loans • Use of home equity loan	❑	❑	❑
Notes:			
Insurance planning	**Yes**	**No**	**N/A**
1. Have insurance needs been reviewed? • Health • Life • Disability • Auto • Homeowners/renters • Liability	❑	❑	❑
2. Is group coverage available from employer or other source? • Health • Life • Disability • Auto • Homeowners/renters • Liability	❑	❑	❑

3. Does insurance need to be purchased or upgraded? • Health (including short-term coverage) • Life • Disability • Auto • Homeowners/renters • Liability	❑	❑	❑
Notes:			

Retirement planning	**Yes**	**No**	**N/A**
1. Have retirement income needs been evaluated?	❑	❑	❑
2. Have retirement income sources been discussed? • Social Security • Pension • 401(k)s and other retirement plans • Personal savings (including IRAs)	❑	❑	❑
Notes:			

Estate planning	**Yes**	**No**	**N/A**
1. Is there a will?	❑	❑	❑
2. If so, was it drafted recently (i.e., within the last five years)?	❑	❑	❑
3. Have durable powers of attorney been executed?	❑	❑	❑
4. Have health-care directives been executed?	❑	❑	❑
Notes:			

Tax planning	**Yes**	**No**	**N/A**
1. Has appropriate income tax filing status been chosen?	❑	❑	❑
2. Has proper income tax withholding amount been calculated?	❑	❑	❑
3. Will estimated income tax payments need to be made?	❑	❑	❑

4. Is self-employment income a consideration?	❑	❑	❑
5. Has personal deduction planning been explained? • Taking standard deduction vs. itemizing deduction • Timing of deductions • Limits on deductions	❑	❑	❑
6. Have relevant deductions and credits been reviewed?	❑	❑	❑
Notes:			

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