

# Financial Planning Perspectives

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## Time for a Spring Cleanup: Organizing Your Financial Records

The arrival of spring is always a good time to dust off the cobwebs that have built up in your home during the winter. It's also a good time to clean out and organize your financial records so you can quickly locate something if you need it.

### Keep Only What You Need

If you keep paperwork because you "might need it someday," your home office and file cabinets are likely overflowing and cluttered with nonessential documents. One key to organizing your financial records is to keep only what you absolutely need for as long as you need it.

**Tax records.** Keep all personal tax records for three years after filing your return or two years after the taxes were paid, whichever is later. (Different rules apply to business taxes.) If you underreported gross income by more than 25% (not a wise decision), keep the records for six years, and for seven years if you claimed a deduction for worthless securities or bad debt. It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

**Financial statements.** You generally have 60 days to dispute charges with banks and credit cards, so you could discard statements after two months. If you receive an annual statement, throw out monthly statements once you receive the annual statement. If your statements include tax information (e.g., you use credit-card statements to track deductions), follow the guidelines for tax records.

**Retirement account statements.** Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

**Real estate and investment records.** Keep at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records. Utility bills can be discarded once the next bill is received showing the previous paid bill, unless you deduct utilities, such as for a home office.

**Loan documents.** Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

**Insurance policies.** Keep policy and payment documents as long as the policy is in force.

**Auto records.** Keep registration and title information until the car is sold. If you deduct auto expenses, keep mileage logs and receipts with your tax records. You might keep maintenance records for reference and to document services to a new buyer.

**Medical records.** Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance. If you deduct medical expenses, keep receipts with your tax records.

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These are general guidelines, and your personal circumstances may warrant keeping these documents for shorter or longer periods of time.

## Securely Store Your Records

You can choose to keep hard copies of your financial records or store them digitally. You usually do not need to keep hard copies of documents and records that can be found online or duplicated elsewhere. Important documents such as birth certificates and other proof of identity should be stored in a safe place, such as a fire-resistant file cabinet or safe-deposit box. You can save or scan other documents on your computer, or store them on a portable drive, or use a cloud storage service that encrypts your uploaded information and stores it remotely.

An easy way to prevent documents from piling up is to remember the phrase "out with the old, in with the new." For example, if you still receive paper copies of financial records, discard your old records as soon as you receive the new ones (using the aforementioned guidelines). Make sure to dispose of them properly by shredding documents that contain sensitive personal information, Social Security numbers, or financial account numbers. Finally, review your records regularly to make sure that your filing system remains organized.

## Could Your Living Situation Change as You Grow Older?

Every Health and Human Services suggests that most Americans turning age 65 will need long-term care support during their lifetimes.<sup>1</sup>

If the need arises, how will you handle potential long-term care for yourself or a loved one? Planning for the consequences of aging in general, and long-term care in particular, will depend on your preferences and circumstances. A long-term care plan should account for the different types of care you may need and the different settings in which you might receive that care. These are the most common options.

### Your Home

Given a choice, you might prefer to receive long-term care support in your own home. Family caregivers, friends, or trained homemakers could provide assistance with everyday tasks, and professionals such as nurses and home health aides could provide home health care. In addition, a variety of community support services may be available, including adult day-care centers and transportation services. In any case, receiving care at home offers a measure of independence in a familiar environment.

### Reasons for Care

A 65-year-old has a nearly 70% chance of needing long-term care support and services at some point. The average length of long-term care in 2021 was 3.5 years, up from 3 years in 2018. People need care for a variety of reasons, but the most common is simply the physical limitations of aging.

### Community Care Retirement Communities (CCRCs)

Also known as life plan communities, CCRCs provide a range of services — from independent living to full-time skilled nursing care — all in the same location, allowing you to age in place. Most CCRCs combine housing options at one location and may include townhouses or cottages for

independent living, assisted living apartments, and nursing home accommodations.

### Assisted Living Facilities

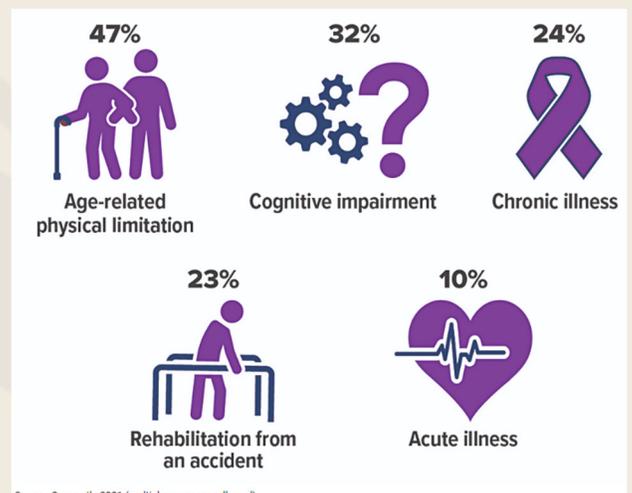
If you want to remain independent but need some assistance with activities of daily living, you might choose to live in an assisted living facility. These home-like facilities offer housing, meals, and personal care services, but generally not medical or nursing services.

### Nursing Homes

People who enter a nursing home usually have a disabling condition or cognitive disorder and can no longer take care of themselves. State-licensed nursing facilities offer more specialized skilled care, intermediate care, and custodial care. This is the most expensive way to receive long-term care.

Take some time to think about what the future might hold. Planning ahead can help ensure that you receive the type of care you need, in the setting that you prefer, as you grow older.

1) U.S. Department of Health and Human Services, 2021



Source: Genworth, 2021 (multiple responses allowed)

# Are You Eligible for Any of These College-Related Federal Tax Benefits?

College students and parents deserve all the help they can get when paying for college or repaying student loans. If you're in this situation, here are three federal tax benefits that might help put a few more dollars back in your pocket.

## American Opportunity Credit

The American Opportunity tax credit is worth up to \$2,500 per student per year for qualified tuition and fees (not room and board) for the first four years of college. It is calculated as 100% of the first \$2,000 of qualified tuition and fees plus 25% of the next \$2,000 of such expenses.

There are two main eligibility restrictions: the student must be enrolled in college at least half-time, and the parents' modified adjusted gross income (MAGI) must be below a certain level. To claim a \$2,500 tax credit in 2023, single filers must have a MAGI of \$80,000 or less, and joint filers must have a MAGI of \$160,000 or less. A partial credit is available for single filers with a MAGI between \$80,000 and \$90,000, and joint filers with a MAGI between \$160,000 and \$180,000. The same limits applied in 2022 (and would be used when completing your 2022 federal tax return).

One key advantage of the American Opportunity credit is that it can be claimed for multiple students on a single tax return in the same year, provided each student qualifies independently. For example, if Mom and Dad have twins in college and meet the credit's requirements for each child, they can claim a total credit of \$5,000 (\$2,500 per child).

## Lifetime Learning Credit

The Lifetime Learning credit is worth up to \$2,000 for qualified tuition and fees for courses taken throughout one's lifetime to acquire or improve job skills. It's broader than the American Opportunity credit — students enrolled less than half-time as well as graduate students are eligible. The Lifetime Learning credit is calculated as 20% of the first \$10,000 of qualified tuition and fees (room and board expenses aren't eligible).

Income eligibility limits for the Lifetime Learning credit are the same as the American Opportunity credit. In 2023, a full \$2,000 tax credit is available for single filers with a MAGI of \$80,000 or less, and joint filers with a MAGI of \$160,000 or less. A partial credit is available for single filers with a MAGI between \$80,000 and \$90,000, and joint filers with a MAGI between \$160,000 and \$180,000. The same limits applied in 2022.

One disadvantage of the Lifetime Learning credit is that it is limited to a total of \$2,000 per tax return per year, regardless of the number of students in a family who may qualify in a given year. So, in the previous example, Mom and Dad would be able to take a total Lifetime Learning credit of \$2,000, not \$4,000. Two other points to keep in mind: (1) the American Opportunity credit and the Lifetime Learning credit can't be taken in the same year for the same student; and (2) the expenses used to qualify for either credit can't be the same expenses used to qualify for tax-free distributions from a 529 plan or a Coverdell education savings account.

## Student Loan Interest Deduction

Undergraduate and graduate borrowers can deduct up to \$2,500 of interest paid on qualified federal and private student loans during the year if income limits are met. In 2023, a full \$2,500 deduction is available for single filers with a MAGI of \$75,000 or less, and joint filers with a MAGI of \$155,000 or less. A partial deduction is available for single filers with a MAGI between \$75,000 and \$90,000, and joint filers with a MAGI between \$155,000 and \$185,000. In 2022, the income limits were slightly lower: a full deduction was available for single filers with a MAGI of \$70,000 or less, and joint filers with a MAGI of \$140,000 or less; a partial deduction was available for single filers with a MAGI between \$70,000 and \$85,000, and joint filers with a MAGI between \$140,000 and \$170,000. The 2022 limits would be used when completing your 2022 federal income tax return.

If you paid at least \$600 in student loan interest during the year, your loan servicer should send you a Form 1098-E showing how much you paid. If you don't receive a 1098-E, you can still claim the deduction. You just need to call your loan servicer or log in to your online account to find the amount of interest you paid.

Student Loan Debt Statistics

Outstanding U.S. student loan debt in 2022:  
**\$1.745 trillion**

Loan source breakdown:  
**92.7% federal**  
**7.3% private**

Number of borrowers with federal student loan debt:  
**42.8 million**

Average federal student loan balance:  
**\$37,787**

Source: EducationData.org, 2022

## 50 and Older? Here's Your Chance to Catch Up on Retirement Saving

If you are age 50 or older and still working, you have a valuable opportunity to super-charge your retirement savings while managing your income tax liability. Catch-up contributions offer the chance to invest amounts over and above the standard annual limits in IRAs and workplace retirement plans.

### 2023 Limits

In 2023, the IRA catch-up limit is an additional \$1,000 over the standard annual amount of \$6,500. Participants in 401(k), 403(b), and government 457(b) plans can contribute an extra \$7,500 over the standard limit of \$22,500. For SIMPLE plans, the catch-up amount is \$3,500 over the standard limit of \$15,500.<sup>1</sup>

### Tax Benefits

Contributions to traditional workplace plans are made on a pre-tax basis, which reduces the amount of income subject to current taxes. Contributions to traditional IRAs may be deductible, depending on certain circumstances.

If you are not covered by a retirement plan at work, your traditional IRA contributions are fully tax deductible. If you are covered by a workplace plan, you may deduct the full amount if your adjusted gross income is \$73,000 or less as a single taxpayer or \$116,000 or less if you're married and file jointly. If you are not covered by a workplace plan but your spouse is, you are eligible for a full deduction if you file jointly and your income is \$218,000 or less.<sup>2</sup>

Contributions to Roth accounts do not offer immediate tax benefits, but qualified distributions are tax-free at the federal, and possibly state, level. A qualified distribution is one made after the account has been held for five years and the account owner reaches age 59½, dies, or becomes disabled.

Distributions from traditional accounts prior to age 59½ and nonqualified distributions from Roth accounts are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

### Still Time for 2022 Contribution

If you qualify, you can make a deductible IRA contribution for 2022 up until the tax filing deadline on April 18, 2023. The total contribution limit for someone age 50 or older in 2022 is \$7,000. You can open a new IRA or invest in a current one, but be sure to specify the contribution is for the 2022 tax year. The income limits for a full deduction in 2022 are \$68,000 for single taxpayers, \$109,000 for married taxpayers filing jointly, and \$204,000 for taxpayers who aren't covered by a workplace plan but their spouse is.<sup>2</sup>

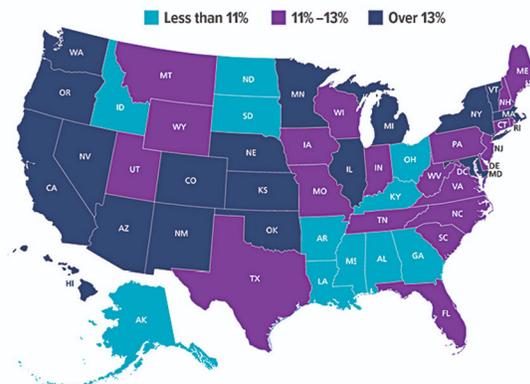
*1) Participants in 403(b) and 457(b) plans may benefit from other catch-up contributions specific to each plan type. Participants in government 457(b) plans cannot combine age 50 catch-up contributions with other catch-up contributions. When calculating allowable annual amounts, contributions to all plans except 457(b)s must be aggregated.*

*2) Phaseout limits apply. Married couples filing separately cannot take a full deduction. You must have earned income at least equal to your IRA contribution. Talk to a tax professional.*

## Child-Care Affordability Is All Over the Map

The typical fees charged for child care vary widely by state. The U.S. Department of Health and Human Services considers child-care costs to be affordable when they are at or below 7% of annual household income — but many families face costs far above that threshold.

The annual price of center-based care as a percentage of median income, by state



Source: Child Care Aware® of America, 2022 (data for 2021; CO data for 2020)

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