CAPTRUST

Client Conversations – Fall 2020

Q: I have inherited jewelry and collectibles from family members over the years. Are they covered under my homeowner’s policy?

It depends. Typically, insurance carriers don’t assume you have expensive items or rare collections. If you have valuable jewelry, a coin collection, furs, or a room full of expensive guitars, it might be worth getting extra coverage to insure them. You don’t want to find out too late that your policy doesn’t cover them.

Start by understanding what your homeowner’s policy includes and how much coverage is in place to ensure your items are going to be covered in the event of a claim. Know what situations the policy does cover: fire, theft, accidental breakage, water damage, and damage while traveling, for example. And be sure to understand what your responsibilities are under the policy requirements, such as storing your collection under certain conditions like out of direct sunlight, in a temperature-controlled room, or in a dry space.

If the value of your items exceeds the limits on your policy, you can increase your coverage by purchasing either an endorsement or floater. You can also purchase a standalone policy designed to cover specific valuables, such as a collection of expensive handbags or couture clothing.

Your insurer will require you to have a professional appraisal to obtain additional coverage for your valuables. The appraisal establishes an objective value for your property, which may be significantly different from what you think it’s worth. And remember that you’re adding premium for the endorsement on top of what you’re paying on your regular homeowner’s insurance policy.

If you're interested in such a standalone policy, talk with the insurance professional from whom you purchased your homeowner's policy. That's the best place to start. You may also be able to save money by insuring your valuable items with the same company that carries your auto, life, or homeowner's insurance.

When you're confident that you've purchased the proper coverage at a good price, then it's time to go enjoy your possessions with the peace of mind that comes from being well-protected.

Q: I want to go live in a warmer state. What do I need to think about from a tax perspective?

Moving to another state for the weather, greater access to the outdoors, or to be closer to loved ones is a big life decision—one that will impact the taxes you pay no matter where you land.

But to make a good decision, it's important to consider all the taxes that can apply to a state resident. In fact, it's possible you could pay higher or lower property taxes, income taxes, or sales taxes when you move. How much you'll pay depends on the individual state's laws:

- **Property taxes.** Many states, such as Nevada and Florida, that don't have income taxes make up for them with property taxes. These spots draw a lot of retirees, but it's important to consider that they have relatively high property taxes. Some states offer property tax relief programs for older individuals or those with limited income or disabilities. If you're set on moving to a high property tax state like Texas or California, consider renting as a cheaper alternative to owning a home.
- **Income taxes.** Many states' income tax rates range between 1 percent and 10 percent. Some states have no income tax. In Tennessee, for example, regular income is generally not subject to state tax, but a flat tax rate applies to dividends and interest income. Income tax rates will affect different forms of retirement income, as well, such as Social Security, retirement accounts, and other investments. New Mexico and West Virginia are two of the 13 states in the country that apply taxes to Social Security benefits.
- **Sales taxes.** Thirty-eight states have local sales taxes that can vary widely. A state with a moderate statewide sales tax rate like Louisiana and Alabama could actually have a very high combined state and local rate compared to other states.

Paying attention to tax efficiencies can help you stretch your savings; however, these implications are just one piece of the bigger picture.

It's important to get an accurate analysis of the true cost of living in your desired location. In addition to state and local taxes, get familiar with the day-to-day life and expenses in the areas you are interested in moving to, such as transportation, groceries, access to good health care, and cultural resources. While it's important to consider taxes, deciding to move solely based on this factor might have you missing the bigger picture.

Moving to another state can save you money if you plan ahead to maximize all available benefits. Just be sure to consider all the implications before you start packing those boxes. Do some research and contact a financial planner and a tax professional for perspective on your new state. Taking these steps will help you look at the many factors that come with moving and help you avoid making a bad decision that could be difficult and expensive to unwind.

Q: I am planning to retire next year. What should I be doing to prepare given uncertainties in the markets and economy?

Your question is understandable in light of current economic and market circumstances. In addition to the pandemic's human and healthcare impacts, we will feel the economic fallout for years to come. But that doesn't necessarily mean you have to rethink or postpone your retirement.

Much of what you should do has nothing to do with the pandemic or current market realities. If you have not worked with an advisor to create a plan for your retirement, do so. If you already have a plan, now is a good time to refresh it to make sure it provides the assurance you need to retire with confidence.

Here are a few recommendations as you enter your home stretch before ending career work:

- **Understand your income sources.** Social Security benefits provide a foundation for most Americans' retirements. When do you plan to file for benefits? What benefits do you expect? Do you have other sources of income, such as a pension plan or rental real estate? While you may not be thinking about work during retirement, it's a great way to stay engaged and keep you from dipping into your savings.
- **Get a handle on your expenses.** This can be tough. While you will spend less on some things during retirement, you will probably spend more on others. Less on dry cleaning, for example, and more on travel or entertainment. Paying off your mortgage or downsizing your home can also have a big impact on your expenses. Keep a log of expenses to get a sense of your current spending—and note items you think will increase, decrease, or go away altogether. This can provide a good starting point.
- **Assess your portfolio.** It's important to remember that, even if you're retiring in your 60s, you are still a long-term investor. You should plan for your portfolio to sustain your expenses (plus inflation) for 30 years—more if you have extra-long-lived family members. Your portfolio needs a growth element that is balanced with more stable investments to moderate volatility. Make sure to use up-to-date capital market assumptions that reflect the low-interest-rate environment we expect for quite a while.
- **Run the numbers.** With an understanding of your income, expenses, and portfolio mix, you can validate your plan. Try a retirement calculator that uses Monte Carlo simulation. This kind of simulation incorporates a range of potential market conditions and provides a sense of best case, worst case, and expected outcomes. Tweak the inputs to come up with a plan that you can live with. You may decide to work a little longer to provide a bigger margin of safety—or to retire immediately if the numbers look good.
- **Stress test your plan.** While a Monte Carlo simulation incorporates a wide range of market conditions, you may find it comforting to further stress test your plan. What if the market falls 20 percent during your first year of retirement? What if you decide to spend more early in

retirement? What if you run into a big healthcare expense? Exploring these possible scenarios can provide further confidence in your plan's durability.

It's important to realize that retirement is not a set-it-and-forget-it endeavor. Make your decision to retire based upon a thorough analysis that builds in a comfortable margin of error in case things don't play out as expected. Then, rerun your plan every three to five years or when something significant happens—like a big market move, selling your home, receiving an inheritance, or the death of your spouse.

Remember: Your goals and situation are unique, so make sure that you sit down with your financial, tax, and legal advisors to make sure that your plan is right for you.