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Keep Plugging Away With Your Retirement Plans

Recent market volatility has given investors plenty of cause for concern. But there's no reason to abandon your long-term investment plans after a temporary setback. The same logic extends to your retirement plans.

Try not to be discouraged by the market turbulence and keep contributing as much as you can to your retirement plans. In fact, if you can, it could make sense to increase your contributions to help make up for any lost ground. It's important to remember that losses (or gains) are not locked in until you sell the assets. Here are the main kinds of retirement plans to which you may contribute:

401(k) plans: The 401(k) is the most popular retirement plan for employers. Employees can make contributions of a percentage of their pre-tax salary, plus the company may choose to add matching contributions. For 2016, the limit for tax-deferred contributions is $18,000 or $24,000 if you're age 50 or over. These plans have to observe strict nondiscrimination testing rules designed to make sure they don't favor higher-paid employees.

Simplified Employee Pensions (SEPs): This alternative is often favored by sole proprietors and other small businesses. With a SEP, an employer can make deductible contributions up to the lesser of 25% of an employee's compensation or $53,000. (Catch-up contributions for older employees are not allowed.) As with other such retirement plans, that 25% amount is based on maximum compensation of $265,000 in 2016.

SIMPLEs: The Saving Incentive Match Plan for Employees (SIMPLE) is an alternative to SEPs for some small business owners. With a SIMPLE, employers generally are required to provide matching contributions of 3% of an employee's compensation. For 2016, the maximum SIMPLE contribution is $12,500 or $15,500 for someone age 50 or over.

Pension plans: The traditional pension plan, a type of "defined benefit" plan, is not as prevalent as it was in your grandfather's generation, but some still exist. The employer contributions made to the plan on an employee's behalf are based on actuarial assumptions. For 2016, the maximum contribution to a defined benefit plan is the lesser of 100% of the participant's average compensation for the three consecutive calendar years of highest earnings or $210,000.

Profit-sharing plans: Like pension plans, profit-sharing plans aren't as popular as they used to be. These plans give the employer discretion in determining contributions to the plans (subject to the usual limits and

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Hot Off The Presses!

When is the last time you enjoyed a really good read... on cybersecurity?

We are pleased to announce the publication of our newest paper, entitled *Client Home Systems Best Practices 2016 – InfoSec Protocols*. Catchy, right? It is a blessedly brief overview of the best ways to set up your home computer, surf the internet, and communicate on social media while avoiding the ever-increasing threats from hackers, spammers, phishers and spies.

There is also a section featuring reminders for protecting your private information off-line, including what to shred, and a how-to for ATMs. This should help keep prying eyes and sticky-fingered filchers at bay.

The best part? It's written in plain English. Easy to understand, simple steps are discussed with actionable recommendations that will make your electronic life more secure.

The other best part? It's absolutely free. If you are a Financial Decisions client, you should have already received a copy. If you aren't, (or aren't yet!), just email **kim@findec.net** with "InfoSec" in the Subject Line, and we will send you a PDF version, or a copy by U.S. Mail upon request.

In other news, please help us welcome Jenny Lam as our newest Investment Management Associate. Many of you already know Jenny as one of our super-star interns. Now, with her degree from Macaulay Honors College newly in hand, she has agreed to stay on as a permanent member of our team. We are looking forward to what 2016 has in store!

Florence Dupont, Ken Gutwillig,
and Linda Schoenthaler

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5 Reasons To Amend Your Estate Plan

It's 2016...do you know where your estate plan is? You may have made a Will, perhaps when your children were born, and you may have even taken additional steps to lay out what will happen after you're gone. But frequently those plans are just gathering dust.

Now's a good time to crack open the vault and take a closer look. Typically, your estate plan will need a minor update, but in some cases a complete overhaul may be in order. Consider these five reasons to revise your plan:

1. Family changes: Your personal situation may have shifted because of a divorce, a separation, or the death of a spouse. You might want to add or subtract beneficiaries to trusts or estates if children or grandchildren have been born since you created your estate plan, if a beneficiary has died, or if your intended heirs have married or divorced, further complicating matters.

2. Financial changes: When you created your estate plan, you probably owned fewer or different assets than you own now. You may need to revise your Will or trust documents, especially if the values have changed dramatically. Or perhaps you've acquired a business interest or sold one—another potentially big change to your financial status. A job loss or change could also have an impact on your plan.

3. Tax law changes: It seems like the federal estate tax law is amended every other year, so it's important to keep abreast of the latest developments. For instance, your estate plan may not reflect the ever-increasing federal estate tax exemption. The exemption, which was $650,000 a decade and a half ago, has ballooned to $5.45 million for someone who dies in 2016. Other tax law provisions, such as the "portability" of exemptions between the estates of you and your spouse, may also need to be addressed.

4. Geographic changes: If you've pulled up stakes and moved the homestead, maybe settling down in a place with a warmer climate, this significant change probably needs to be reflected in your estate plan—especially if you've moved to a state with substantially different tax laws.

5. Personal changes: Finally, you may have had a change of heart about beneficiaries or developed different priorities or preferences. For example, you might decide to leave less to a daughter-in-law or son-in-law or to attach conditions to particular gifts or bequests. It's your estate plan, so you can amend it however you like.

Of course, you don't have to undertake all of this on your own. Rely on your financial, tax, and legal advisers for guidance. ●

Passing More Than Money To Your Heirs

In the 2006 film *The Ultimate Gift*, spoiled young Jason Stevens expects a large inheritance from his eccentric grandfather. But when the man passes away, his Will stipulates that Jason will get the money only after he accomplishes 12 unusual, demanding tasks. Each is designed to change the way the young man views wealth, human relationships, and the meaning of life.

You're not likely to demand that kind of quest from your heirs, although these days it's not unusual to include provisions in a Will or estate plan that go beyond financial wealth and relate to personal or social values. It may be possible to encourage your children or grandchildren to continue a family tradition of philanthropy, for example, or to understand the important role your ethnic heritage has played in your life.

Nevertheless, it's tough to pass along your values if your heirs don't know who you really are. Whereas we once routinely gained wisdom and perspective from our elders, that opportunity often gets lost in the shuffle of fast-paced contemporary life. Yet young people still long to comprehend what their families stand for and to feel a sense of belonging and purpose.

Family storytelling is the most natural and direct means of imparting essential elements of your identity. Around the family table, young people can share in the evolution of your attitudes, traditions, and values. When were you happiest? How did you first experience kindness, self-sacrifice, ambition, and generosity? What were the things that mattered to you as a young person, and how have your views changed? What were the turning points in your life, and what do you wish you'd done differently? Though you may worry young people will be bored by your stories, chances are they'll be engaged, especially when the conversation involves them, too. Listening carefully as they relate their

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Tax Pros And Cons Of Municipal Bonds

For many investors, an investment in municipal bonds can be a sweet deal. Like other bonds, munis provide regular interest payments. But whereas interest on Treasury and corporate bonds is taxed as regular income, at a rate as high as 39.6% plus the applicable state income tax rate, the income from munis is exempt from federal tax and may also avoid state taxes. The same is true of distributions from a qualified municipal bond fund. While munis typically offer lower yields than taxable bonds, municipal bonds and bond funds may provide higher after-tax returns to investors in high tax brackets. However, munis also come with several drawbacks, and if you're not careful, your investment in municipal bonds or bond funds could trigger unexpected tax liability.

On the plus side, there are at least four significant tax advantages to investing in munis.

1. First, of course, is the exemption from federal income tax. Suppose you own a $10,000 corporate bond that pays 6% interest, and you're in the 25% federal income tax bracket. Though you'll receive $600 in annual income, you'll lose $150 to the IRS, leaving you with only a 4.5% after-tax return. With a muni, federal tax isn't an issue.

2. The interest income from munis is also exempt from state tax as long as the bonds are issued within your state. That state tax break effectively increases the after-tax return on your investment.

3. Interest payments from munis don't increase your adjusted gross income (AGI). That's beneficial because many tax breaks are phased out when AGI exceeds specified levels.

4. The higher your income, the more likely you are to gain from an investment in munis. That's because the value of tax-exempt income rises as you move into higher tax brackets. For example, if you're in the 25% bracket, a municipal bond paying 4% will give you as much after-tax income as a taxable bond with a 5.33% yield. But if you're in the 39.6% bracket, it will take a yield of 6.62% to match the muni's 4%.

Yet, it is important to remember that muni bonds can have tax consequences. Consider these six:

1. If your municipal bonds are issued by an entity in another state, you'll owe state income tax on the interest you receive.

2. If you sell a municipal bond for more than its face value, you may owe federal capital gains tax. The prices of munis, like those of other bonds, fluctuate with changes in interest rates, and if rates dip below the coupon rate on a bond you own, another investor may be willing to pay a higher price for it. But if you bought a $10,000 bond at its face value and sell it for $10,500, you'll pay capital gains tax on your $500 profit. (The capital gains rate for most taxpayers is 15% on investments held for more than a year; short-term gains are taxed as ordinary income.)

3. The sale of a municipal bond can also result in ordinary income tax. Suppose you acquire a discounted muni in the secondary market and then sell it. Your profit will be taxed as ordinary income to the extent of the accrued discount. For example, if you pay $9,500 for a muni with a face value of $10,000 and a maturity of 10 years and then sell it for $9,800 after five years—at a $300 gain— $250 of your profit will be taxed as ordinary income and $50 taxed as a capital gain.

4. Selling a muni bought at a premium, however, won't produce any tax benefit. For example, if you buy a bond for $10,500 that will mature at $10,000 and you hold it until maturity, you can't claim a capital loss or any other deduction on your tax return. Tax rules require you to amortize the premium over the life of the bond.

5. Interest payments from "private activity" municipal bonds, used to finance airport construction or other nongovernmental projects, aren't exempt from federal tax for taxpayers who owe the alternative minimum tax (AMT).

6. For taxpayers with lower income, who wouldn't otherwise owe taxes on their social security benefits, owning munis could actually result in their Social Security benefits being taxed! Normally, Social Security benefits are exempt from increased tax. However, if your "provisional income" exceeds specified levels, you'll be taxed on up to 85% of your benefits. Provisional income is equal to the sum of your AGI plus any tax-exempt interest—such as income from munis and municipal bond funds—and 50% of your Social Security benefits.

Weighing munis' potential benefits and drawbacks involves complex calculations and depends on each investor's needs and circumstances. If you'd like to discuss the possible role of municipal bonds or bond funds in your portfolio, please give us a call. ●

own experiences can help you gauge their values and ambitions.

Of course, just helping your heirs get to know you doesn't ensure they'll carry on your passions, but there are ways to expose your children and grandchildren to organizations that matter to you, and to get them involved in your cherished causes. You can take them along when you attend meetings and events, and make sure they connect with key people. Your estate plan can help too:

- Set aside assets to help heirs visit your family's country of origin or places significant to your family's heritage
- Provide funding for family members' business or educational development
- Launch a 501(c)(3) nonprofit organization (or establish a community foundation "support organization") and name family members to the board of directors
- Establish a charitable remainder or lead trust that links philanthropic and financial interests. This can become a donor advised fund upon your death.
- Create a donor-advised fund and let younger family members recommend grant recipients

Discussions with your family can form the foundation of a values-based blueprint. We can help you start these conversations and work with you and your attorneys to create an estate plan that incorporates your goals. ●

reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Financial Decisions, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. If you are a Financial Decisions, Inc. client, please remember to contact Financial Decisions, Inc., in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. A copy of the Financial Decisions, Inc.'s current written disclosure statement discussing our advisory services and fees is available upon request.

Donations Offset Roth Conversion Tax

Due to a recent law change, conversions to a Roth IRA are now available to anyone, regardless of income. The Roth's chief selling point is tax-free income for you and your heirs, which makes it tempting to convert. But there's also a primary drawback: the requirement that you pay income tax on the money you move out of your traditional IRA. One way to reduce or eliminate that tax bite is to offset conversion income with deductions for charitable giving.

If you convert a large IRA to a Roth, your income tax bill may be significant. Coming up with the money without tapping your retirement funds could be difficult. Yet while a Roth conversion will add to your taxable income, a charitable deduction could reduce it. If you're planning to make a major philanthropic gift, timing it to coincide with your Roth conversion could result in substantial tax savings.

Suppose you own a block of appreciated stock in your company that you'd like to contribute to your alma mater. If you've held the stock for at least a year, you can generally deduct its fair market value from your taxable income as long as the value of the gift doesn't exceed 30% of your adjusted gross income (AGI) for the year. So if your annual AGI is $200,000, you could deduct a donation of shares worth $60,000. If you don't have a specific charity in mind, you could set up a donor-advised fund. Your donations will be deductible immediately, but you can choose recipients later. In this scenario, you avoid gains tax on the appreciated stock and offset the extra tax from the conversion!

Deductions for charitable gifts can fully or partially offset your tax liability for a Roth conversion. With the top tax rate on ordinary income at 39.6%, the value of charitable deductions can be truly substantial.

Just as tax considerations shouldn't dictate investment decisions, the immediate tax consequence of choosing a Roth conversion—or the deduction for making a charitable contribution —isn't likely to be your primary consideration for making either move. Whether it makes sense to convert some or all of a traditional IRA to a Roth involves such factors as your age, your expected tax rate during retirement, and whether you expect to leave retirement plan assets to your heirs. We can help you weigh the pros and cons of a conversion and consider the impact of your charitable giving plans. ●

Keep Plugging Away

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nondiscrimination rules for defined contribution plans). The maximum deductible contribution for 2016 is the lesser of 25% of compensation or $53,000 ($59,000 if age 50 or over).

Traditional IRAs: If you have earned income from a job, you can contribute to a traditional IRA in addition to your contributions to other retirement plans. Contributions may be deductible on your tax return but that deduction is limited or eliminated if your income exceeds relatively low thresholds and you (or your spouse, if married) participate in an employer's retirement plan. The maximum IRA contribution in 2016 is $5,500 or $6,500 if you're age 50 or over. In traditional IRAs you must begin taking taxable distributions after age 70½.

Roth IRAs: Similar to a traditional IRA, you can contribute to a Roth if you have earned income, subject to certain annual thresholds. Like a traditional IRA, the maximum contribution is $5,500 or $6,500 if age 50 or over. Unlike a traditional IRA, contributions are never tax deductible, but qualified distributions from a Roth after five years are tax-free. In comparison, withdrawals from traditional IRAs are generally taxed at your rate for ordinary income.

As part of your retirement savings strategy, you may choose to convert funds from a traditional IRA into a Roth. You'll owe income tax in the year of conversion but you can then take tax-free withdrawals during retirement or preserve the assets indefinitely as there are no distribution requirements.

Note that you can "undo" a conversion from earlier in the year by recharacterizing a Roth back into a traditional IRA. For instance, suppose the value of your IRA account was $250,000 when you converted on January 1, 2016, but the value has dropped by more than 10%. You would pay the conversion tax on the higher value of $250,000. However, you would have until the due date for filing your 2016 tax return plus any extensions—October 16, 2017—to recharacterize the conversion. It would be as if the conversion never happened.

No matter which plan is best for you, it is important not to be deterred by market swings. Keep your eye on the long-term goals. ●

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