The
# FINANCIAL UPDATE
DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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## Should You Roll Over Or Play Dead? 7 Factors

If you're changing jobs and you have accumulated assets in a 401(k) or another tax-favored company plan, there are several things you can do. You might roll over the funds to an IRA or to a retirement plan with your new employer, spend the money, or leave the money where it is. If you meet all of the legal requirements for a rollover, the transfer is completely tax-free.

Assuming that you do not need the money right away, this decision often boils down to choosing between an IRA rollover and keeping the status quo. Which one is best for you? Every situation is different, but here are seven criteria to help you make up your mind:

**1. Investment options.** Most IRAs offer a wider range of investments than you'll find in a typical 401(k) or other company plan. However, in some cases, an employer-based plan may provide more flexibility than you will have as an investor in an IRA. The key question is how well your choice matches up with your retirement planning objectives.

**2. Fees and expenses.** Don't overlook the importance fees can play. Even paying a relatively modest 1 percentage point more can reduce your retirement nest egg by tens of thousands of dollars over time. Frequently, employer plans have lower fees than IRAs because the company has a lot of assets with a provider and is able to negotiate a better price. Or your company may shoulder some of the cost.

**3. Services.** The flip side of what you pay in fees is what you get for your money. Sometimes, higher fees may be justified if you're receiving good value. That might include access to investment guidance, educational materials, full brokerage services, or financial planning tools.

**4. Fiduciary protections.** Employer-based plans are covered by ERISA (Employee Retirement Income Security Act). Under ERISA, various protections are afforded to plan participants, among numerous requirements. Notably, plan fiduciaries are required to act in their best interests of participants. These fiduciary responsibilities apply to assets rolled over into an IRA.

**5. Distribution rules.** Because a 401(k) plan can restrict withdrawals, you may have to satisfy the plan's definition of "financial hardship" to get access to your funds before retirement. But you don't have to jump through any hoops to obtain an IRA distribution. Just be aware that withdrawals from an IRA, as well as from a 401(k) or other plan, are generally taxable as income. In

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## *Do You Have A Withdrawal Strategy?*

The way you withdraw funds from your investments has a major impact on income taxes and how well you preserve your wealth. The proper withdrawal strategy can save taxes and make you more financially secure. At Day & Ennis, we help clients determine the best combination of withdrawals from taxable accounts, tax-deferred accounts, Roth IRAs, annuities, trusts, etc.

For example, the period from a person's retirement date until age 70 ½ (when minimum distributions are required) is an excellent time for several tax and withdrawal strategies. By managing withdrawals properly, you can keep your taxable income low and reserve the option to convert part of a regular IRA to a Roth IRA at a very low tax bracket.

We have seen situations where people actually have negative taxable income. This provides an excellent opportunity to do a Roth conversion. You'll then have taxable income you can offset by deductions that would otherwise be lost.

These strategies require planning before the end of the year. These are part our ongoing financial planning process for clients.

Please contact us to see how a withdrawal strategy can benefit you.

Sincerely,
Day & Ennis, LLC

# When To Start Social Security?

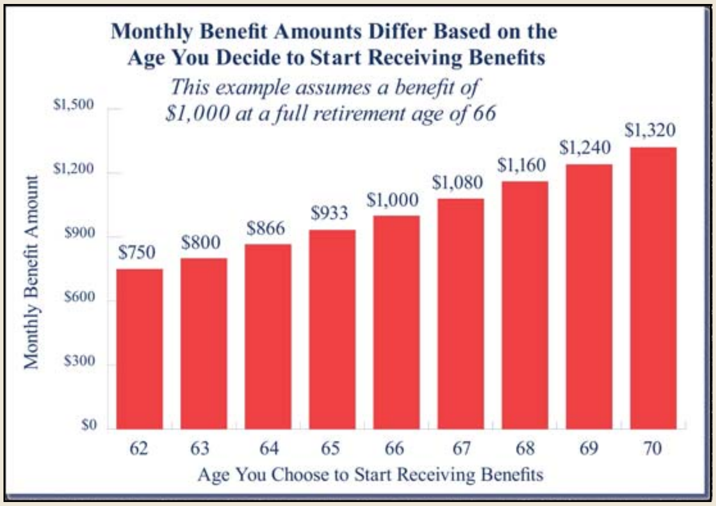
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.




Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

# Be Tax-Smart About Gains And Losses

Tax rules come and go according to the whims of Congress. But year in and year out, one of the most important considerations for tax-savvy investors is how and when to "harvest" capital gains or losses from securities sales.

To be smart about timing your gains and losses you need to understand the rules. Start with the basic premise that capital gains and capital losses that you realize during a tax year offset each other. Short-term gains and losses and long-term gains and losses are netted against each other first. If you end up with a net loss—and thus no capital gains tax liability—you can use that excess amount to offset as much as $3,000 of highly taxed ordinary income. If that doesn't absorb all of your losses, you can carry over the remainder to the next tax year.

Short-term capital gains, on investments you've held for a year or less, are taxed at ordinary income rates as high as 39.6%. However, long-term gains (on sales of securities held longer than a year) are taxed at a maximum rate of 15%, or 20% for investors in the top ordinary income tax bracket.

All other things being equal, it's a smart move to use long-term losses to offset short-term gains, which otherwise would be taxed at high ordinary rates. But it usually doesn't make sense to waste short-term losses reducing long-term gains. Consider these two examples for someone in the top tax bracket:

Example 1: You realize a short-term gain of $10,000 in 2015. Normally, that gain would be taxed at the 39.6% rate, resulting in a tax of $3,960. But suppose you can realize a long-term loss of $5,000 in the same year. Then only $5,000 of the short-term gain is taxable, and your tax is $1,980, half of what it was before.

Example 2: You realize a long-term gain of $10,000 in 2015. Because you're in the top income bracket, your tax rate on long-term gains is 20% and you'd

# Add Up Pluses And Minuses Of A Living Trust

A revocable living trust can be a valuable tool in your estate-planning kit, but it is not without its potential drawbacks. For starters, a living trust generally should be viewed as a supplement to a will rather than a replacement. You likely will need a valid will to tie up all the loose ends of your estate. Furthermore, how well a living trust will work often depends on state laws.

The basic premise is relatively simple: You establish a living trust, transfer assets to it, and name a trustee to handle its administration. If you designate yourself as the initial beneficiary, you're entitled to receive income from the trust for the rest of your life. But you also need to designate secondary beneficiaries—typically, your spouse, your children, or your spouse and your children—who will be entitled to receive the assets in the trust when it terminates.

Unlike with other kinds of trusts, you retain some measure of control of a living trust while you're alive. You may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely if you wish. The trust only becomes irrevocable when you die.

With that basic framework in mind, consider the pluses and minuses of a revocable living trust.

**Pluses of a Living Trust**

• It avoids probate. This is the main reason for using a living trust. Normally, if someone dies with a will in place, surviving family members will need to go through the probate process. Probate can be lengthy or short depending on the circumstances and state law. However, probate doesn't apply to the assets you've transferred to a living trust, so your beneficiaries have immediate access to cash. (Assets transferred by joint rights of survivorship also are exempt from probate.)

• It avoids guardianships and conservatorships: This benefit often is overlooked, but a fully funded living trust can sidestep restrictive rules relating to guardianships and conservatorships. If the trust is structured properly, beneficiaries will have access to assets without interference from a judge if you are incapacitated. Otherwise, a guardianship or conservatorship can last much longer than probate.

• It provides privacy. As opposed to probate, which is open to the public, the provisions of a living trust are protected from prying eyes. A will has to be filed with the appropriate court but a living trust does not. This can be a major advantage if you treasure your privacy.

• It helps you plan ahead. When you contemplate using a living trust, you'll need to examine your current assets to determine what to transfer to the trust. Sorting through your files can provide a snapshot of your financial picture that should have other benefits, too.

**Minuses of a Living Trust**

• It costs money. You'll need to use an experienced professional to set up a living trust, and in addition to that initial cost, you'll also pay annual fees if you use the professional as your trustee. (But you can be the sole trustee during your lifetime.) Generally, it costs more to create a living trust than to establish a will, but the living trust may be less expensive over the long run.

• It can be time-consuming. You're not done when you put your John Hancock on the living trust documents. You'll still need to contact financial institutions and transfer agents to change ownership of accounts; issue new stock certificates; revise business interests; sign and record real estate deeds; and re-title cars and other property.

• It isn't a panacea. Don't expect a living trust to address all of your estate-planning issues. Having an up-to-date will often is still central to an estate plan. Also, if you devise a "pour-over will" to catch the assets that don't go into the trust when you die, that will still has to be probated. For some people, these issues cancel out the benefits of using a living trust in the first place.

• It can be contested just as a will can. In fact, state laws generally allow a longer time to challenge a living trust than they do for a will. And creditors still can make claims against the assets included in a living trust.

Finally, whatever you may have heard, there are no estate tax benefits for transferring assets to a living trust.

In the end, the decision whether to a use a living trust is a purely personal one. Obtain all the information and guidance you need. ●

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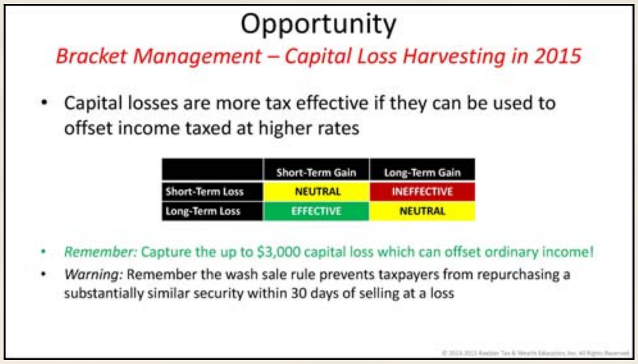
owe $2,000 in taxes. If you also take a short-term loss of $5,000, you could use that to halve your tax—but it would be worth more if you waited until the following year to sell, when you could use the loss to offset a short-term gain that otherwise would be taxed at 39.6%.

There also are other tax considerations that may affect your investment decisions, including the 3.8% surtax on net investment income for upper-income investors and the "wash sale rule" that prevents you from claiming a loss on the sale of securities if you buy back a substantially identical investment within 30 days.

Finally, you need to weigh all of the relevant investment factors—rather than just tax considerations—that could affect when you decide to sell a holding. Harvesting capital gains and losses only makes sense when it helps you achieve your larger financial goals. ●



# 3 Ways To Deduct Mortgage Interest

Your home is more than an investment and a place to live—it also can be a valuable source of tax deductions. For many homeowners, one of the biggest itemized deductions on Form 1040 is the one for qualified residence interest (commonly called the "mortgage interest deduction"). In the usual situation, you can write off all, or almost all, of the mortgage interest you've paid for the year.

But this generous tax break might not stay intact forever. Recent proposals in Congress would scale back some of the tax benefits. Keep an eye out for future developments.

Under current law, you may claim deductions for three basic types of mortgage interest, up to certain limits:

1. Acquisition debt. This involves mortgage proceeds you use to buy, build, or substantially renovate a home. The loan must be secured by a qualified residence (either your principal residence or a second home such as a vacation home). Interest on such debt is deductible on amounts of up to $1 million. Acquisition debt often amounts to the lion's share of your mortgage interest deduction.

2. Home equity debt. If it's allowed by the laws of your state, you also may deduct the interest on home equity loans secured by a qualified residence, regardless of how you use the proceeds. But with home equity debt, deductions are limited to interest paid on loans of up to $100,000. In addition, the loan amount can't exceed your equity in the home.


3. Points. Although points really aren't mortgage interest, the tax law essentially treats them as if they were. These are the charges a lender may impose when you obtain a mortgage. (One point equals 1% of the amount you borrow.) You can deduct any points you paid for acquisition debt, but you'll need to deduct charges for refinancing over the term of the loan. For instance, if you refinance a $200,000 mortgage with a 10-year loan and pay two points – or $4,000 – you may deduct $400 in points ($4,000 divided by 10) annually for 10 years.

Mortgage interest deductions are claimed as itemized deductions on Schedule A of Form 1040. You can claim the deduction only if you're an owner of the home and pay the interest. Other special rules may apply, but this overview covers the basics.

Keep in mind, though, that the "Pease rule" may reduce your itemized deductions, including mortgage interest deductions, if your income is sufficiently high. The reduction equals 3% of the excess adjusted gross income (AGI) over an indexed threshold (but not by more than 80% overall). For 2015, the AGI threshold is $258,250 for single filers and $309,900 for joint filers. ●

## Roll Over Or Play Dead?

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addition, a 10% penalty tax is imposed on withdrawals from IRAs and 401(k)s before you reach age 59½, unless one of a handful of special exceptions applies. With both kinds of plans, you generally have to begin taking withdrawals after age 70½.

**6. Borrowing power.** If you have a dire need for cash, you generally can borrow from a 401(k) plan within generous limits. Also, when you repay the loan, the interest and principal go back into your account. (But not all 401(k) plans permit loans.) Technically, you cannot borrow from an IRA, although you can get 60 days of interest-free use of funds by taking a withdrawal and then making a timely deposit back into the IRA. That technique can be used only once a year.

**7. Estate planning.** If you're fortunate enough not to need the money in your 401(k), you might roll over the funds to an IRA, which would enable your heirs to "stretch" out payments over a longer period of time than you're allowed with a 401(k). A 401(k) plan requires a spouse to be the primary beneficiary (unless the spouse agrees to an alternative), but with an IRA you can name your children as beneficiaries if you prefer. Thus, the IRA may offer greater flexibility for estate planning purposes.

Are those the only considerations? Not by a long shot. This brief article covers only a few of the basic factors that may influence your decision. And there's another option that may be available to you—to transfer the funds into a Roth IRA, rather than into a traditional IRA. Although you'll pay income tax on the conversion, future payouts from a Roth IRA are usually tax-free, plus you're not required to take distributions during your lifetime. ●

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