The
# FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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## 10 Steps To Take On The Path To Early Retirement

The new American dream is to retire early, perhaps in your 50s or even your 40s. But how do you make this dream a reality? These steps could help:

1. **Map out a plan.** Retiring early requires starting early with very deliberate planning. Design a road map of how you will get there, including an analysis of your investments and how much income you anticipate getting from other sources, such as Social Security (which won't kick in until your 60s at the earliest), and spell out the details in writing. To accumulate enough to retire early, you'll likely need to take a fairly aggressive approach to investing while working full time. You'll also need continued growth during a phase-down period and a plan for how you'll manage assets when you're completely retired.

2. **Get going now.** Immediate action also is called for if you're going to meet this ambitious goal. Put your plan into motion today instead of waiting for a tomorrow that might never come.

3. **Control your debt.** One of the biggest impediments to early retirement is spending too much while you're working, especially if you build up substantial debt. The more you borrow, the harder it will be save enough to call it quits. Not only do debt payments siphon away money that you could use more productively, you're also paying extra in interest charges. You're bound to have a mortgage and perhaps a car payment, but if you eliminate luxury purchases now you'll be more likely to have the money later to support yourself without working.

4. **Educate yourself.** Knowledge is power, and learning about investing and other financial matters can help you make good choices on the way to early retirement. Understanding the more complex assets you may hold—bonds, exchange-traded funds, annuities, etc.—should enable you to avoid mistakes that could disrupt your progress. Take the time to learn everything you need to know.

5. **Make the process automatic.** Human nature being what it is, it may be difficult for you to remain diligent about saving more and spending less. But you could do yourself a favor by automating some things that can help steer you toward early retirement. Increasing your 401(k) plan contributions—perhaps by directing part of a salary increase into your account—can make a big difference. You also might take a systematic approach to prepaying mortgages or car loans.

6. **Don't ignore taxes.** It's not only how much you earn that makes a difference; it also matters how much

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## *Why You Need A Fiduciary Advisor For Your 401k Or IRA*

The new fiduciary rule proposed by the Department of Labor (DOL) has been a lightning rod for controversy in the financial services community. As you may know, a fiduciary is someone who puts their clients' financial interests ahead of their own.

The proposed rule stipulates that anyone receiving compensation for advising people on 401(k) or IRA plans be a fiduciary. This would eliminate most stock brokers and insurance agents from serving as plan advisors because they receive commissions on the investments they recommend. They have a vested interest in the process.

While the rule is scheduled to be finalized by the DOL in 2016, Congress is debating legislation affecting the rule and it also could face challenges in court. In the meantime, it's good for our clients to know that at Day & Ennis, we are fiduciaries. Being able to count on unbiased advice is a major reason companies rely on us for help administering their 401(k) and IRA plans.

You'll find more information on our website, **www.dayandennis.com** under the Services tab. We'll also be happy to talk with you about designing and implementing your 401(k) or IRA.

Sincerely,
Day & Ennis, LLC

# 5 Reasons To Amend Your Estate Plan

It's 2016...do you know where your estate plan is? If you're like most busy people, you may have made a will, perhaps when your children were born, and it's possible you've taken other 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, and 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 or if a beneficiary has died. Or your intended heirs may have married or divorced, further complicating matters.

**2. Financial changes:** When you created your estate plan, you probably owned fewer assets or different assets than you have now. You may need to revise your will or trust documents, especially if the value has 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 also could 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, also may need to be addressed.

**4. Geographic changes:** If you've pulled up stakes and moved the homestead, maybe downsizing to a place in a warmer climate, this significant change also 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 cut a daughter-in-law or son-in-law out of your will or decide to attach conditions to particular gifts or bequests. It's your estate plan, so you can "fix" 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. ●

# Retirement Plan Choices For The Self-Employed

If you are self-employed, have no employees, and have not yet started a retirement plan for yourself, you have several choices.

**1. Traditional or Roth IRAs.** You don't have to be self-employed to set up and contribute to these IRAs. For 2016, you can put up to $5,500 into a traditional or Roth IRA if you're under age 50. Contributions to a traditional IRA may be tax-deductible, depending on your income and whether you also contribute to a plan at work, and earnings in your account grow tax-deferred. A Roth is funded with after-tax dollars but withdrawals during retirement are normally tax-free. You can't contribute to a Roth if you're single and earn more than $117,000 in 2016 or are married and earn more than $184,000. But there are no income limits on converting a traditional IRA to a Roth; you just have to pay income tax on the amount you convert.

**2. Simplified Employee Pension (SEP) IRA.** If you can put more than $5,500 into a retirement plan for 2016, this may be the vehicle for you. You can put up to 25% of your self-employment income, up to a maximum of $53,000 in 2016, into a SEP. Contributions are tax-deductible and earnings grow tax-deferred.

**3. SOLO 401(k).** With this kind of plan, you may be able to contribute more than you can put into a SEP IRA. As an employee, you're able to contribute 100% of your earnings up to a maximum of $18,000, or $24,000 if you're 50 or older. Then, as your own employer, you can add up to 25% of your earned income—your net earnings from self-employment minus one-half of your self-employment tax and the amount you already contributed to the retirement plan—up to a maximum of $53,000 for 2016.

We can help with any of these plans. ●

# What To Do About That Old 401(k) Account

If you have participated in a 401(k) plan where you work, you probably made investment choices when you signed up for the plan and you may have stuck with those investments with few modifications, watching as your account grew, with some inevitable setbacks, over the years. But now you're getting ready to leave the workforce or you're changing jobs. That raises this question: What should you do with that 401(k) at your old job?

Answer: It depends on several variables as well as your personal needs and preferences. However, depending on your circumstances, there are generally four options:

**Option 1.** Keep the status quo. Assuming the plan permits it (and many do), you can leave your money where it is, even if you stop working for the company. The plan administrator is legally required to observe the same requirements with regard to your account as it does for participants who are current employees. You, meanwhile, are still subject to the basic tax rules regarding distributions and penalties. For instance, you can't take penalty-free withdrawals from the plan unless you qualify under a tax law exception, such as for payouts to someone who is at least 55 years old and has "separated from service." Also, you're generally required to begin taking distributions once you reach age 70½. But if you choose this option and you haven't adjusted your investment mix in a while, you probably should review the portfolio to make sure it still meets your objectives.

**Option 2.** Roll over the assets into a new 401(k). If you're leaving your old job for a new one, you generally can roll over the money in your old 401(k) plan into a 401(k) or another plan provided by your new employer. It can be convenient to consolidate all of your 401(k) assets in one place, or you might prefer the investment options offered under the new plan. In any event, you won't face any income tax liability for making the transfer as long as the rollover is completed within 60 days of the job change. All of the assets you move still will be subject to the usual rules for distributions and penalties. However, if you continue working for this employer past age 70½ and you don't own 5% or more of the business, you can postpone mandatory distributions until you actually retire.

**Option 3.** Roll the assets into an IRA. As when you make a rollover to another employer's retirement plan, you can choose to roll over assets tax-free to a traditional IRA, even if you're retiring for good. The rollover must be completed within the 60-day deadline. To avoid having income tax withheld (which you could recoup when you file your tax return), you can arrange a trustee-to-trustee transfer so that the money never touches your hands. You might decide to roll over the assets into a Roth IRA, rather than a traditional IRA. With a Roth, you'll owe income tax on the amount you convert, but then you'll be in line for future tax-free distributions. And with a Roth IRA, you're not required to take mandatory distributions after age 70½ as you are with a traditional IRA.

**Option 4.** Cash in your chips. Of course, the money that has accumulated in your 401(k) all of these years is yours to keep. If you really need it now, you can simply take the money, whether you're retiring or switching to another job. But cashing in your 401(k) account when you leave your job means you'll have to pay income tax now on the amount representing pre-tax contributions and earnings. In addition, if you're under age 59½, you'll generally owe a 10% penalty tax on the taxable amount, unless a special tax law exception applies. Finally, you will lose the ability to continue to generate tax-deferred earnings within the cozy confines of a 401(k), traditional or Roth IRA, or other tax-advantaged retirement plan. And you'll have less in your nest egg when you do retire.

What's the best option? There is no definitive right or wrong answer. If you urgently need the money, you may be forced to cash in the account now. Otherwise, you may want to stick with one of the other options, or perhaps a combination of a couple of them. We would be glad to discuss the alternatives and help you formulate a plan that suits your situation. ●

# Are You Afraid Of The Estate Tax?

Who has to worry about federal estate taxes? They're an afterthought if you believe they affect only families such as the Rockefellers and DuPonts. But the truth is that the reach of this tax may extend further than you think, according to the latest IRS statistics.

Estate Tax Returns Filed in 2014, published in an IRS Statistics of Income report, shows that 11,931 estate tax returns were filed in 2014 on estates with a total value of $169.5 billion. Those figures represent a significant increase from the 2013 IRS statistics when 10,568 returns were filed on estates valued at a total of $138.7 billion, continuing a recent upward trend.

In other figures of note, the breakdown for 2014 estate tax return filings based on gross estate valuation were as follows:

- For returns under $5 million, 1,631 returns were filed on estates totaling $5.4 billion in value.
- For returns of $5 million to $10 million, 6,735 returns were filed on estates with a total value of $46.2 billion.
- For returns of $10 million to $20 million, 2,283 returns were filed on estates with a total value of $30.9 billion.
- For returns of $20 million to $50 million, 938 returns were filed on estates worth a total of $27.9 billion.
- For returns of $50 million or more, 345 returns were filed for estates worth $59.1 billion in total.

The figures are interesting on a couple of levels. First, they indicate that more families are being hit by the federal estate tax. Second, they would be even higher if taxpayers didn't avoid federal estate tax complications through some smart legal maneuvering.

Consider these basic tax breaks that are at your disposal: Under the unlimited marital deduction, any amount transferred from one spouse to another, whether by gift or bequest, is completely exempt from tax. In addition, amounts you leave to other beneficiaries such as your children and grandchildren are covered by the unified estate and gift tax exemption of $5.45 million in 2016. Also, the annual gift tax exclusion allows you to give each family member and others up to $14,000 free of gift tax in 2016. Gifts above this limit may be sheltered by the unified estate and gift tax exemption, although this will erode the amount available to reduce estate taxes.

Furthermore, the "portability" provision in the tax code provides extra flexibility for married couples. If a proper election is made, the estate of a surviving spouse can benefit from any unused portion of the estate tax exemption of the first spouse to die.

By utilizing and combining these tax breaks through various estate-planning devices, including sophisticated trusts, you may avoid the high tax bills awaiting unsuspecting families. Finally, don't overlook the potential impact of state inheritance taxes. Contact our office for more details. ●

## The Path To Early Retirement

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you keep after taxes, and it's smart to make taxes a prime consideration in most of your investment and financial dealings. Tax-deferred growth inside a 401(k) and IRAs or investing in tax-free municipal bonds in taxable accounts could have a big impact, especially if you're in a high tax bracket. Savvy tax bracket management over time can save you tens or even hundreds of thousands of dollars.

7. **Go "all in."** Retiring early almost certainly will require an all-out effort over many years. It may help to work toward this goal as if you were running a business by keeping a steady eye on building toward the future. Try not to be unrealistic about the returns you expect to get from your investments and retirement plans, and follow through on the saving and spending objectives you've outlined in your early-retirement plan.

8. **Assume full responsibility.** Assuming you don't hit the jackpot in a lottery or receive a big, unexpected inheritance, you can succeed financially only if you take charge of all aspects of your life. That means correcting mistakes, making necessary adjustments, and striving for sound financial decisions. Part of taking responsibility can involve getting guidance from a knowledgeable professional advisor.

9. **Manage your risk.** Avoiding substantial investment losses can be just as important as generating big gains. That's why it makes sense to emphasize risk reduction as you formulate your investment strategy. Keep in mind that financial markets go up and down. And while that doesn't mean you should sink all of your money into U.S. Treasury bills and other traditionally safe investments, you probably will need to include such holdings in your overall portfolio mix to minimize the inherent volatility that can work against your goal of retiring early.

10. **Use common sense.** Finally, be as logical and rational as you can be in pursuing your goal. In particular, try to avoid panicking during inevitable market downturns. If you save diligently and stay the course with a well-diversified portfolio, early retirement might not be a pipe dream. It could happen to you! ●

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