Financial Services Advisory
GROW WISER®

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Getting Ready To Retire? 7 Moves NOT To Make

If you're like most soon-to-be retirees, you're looking forward to leaving the rat race and moving into a comfortable lifestyle. But the golden years can lose their luster quickly if you don't consider all of the aspects of retirement. Here are seven things NOT to do when you retire:

1. DON'T live beyond your means. If you've been operating on a monthly budget while you've been working, there's no need to abandon this practice in retirement. You might need a budget now even more than you did before. After all, you won't have the same income from wages coming in. Rather, you're likely to be living on a fixed income that you draw from your investments, retirement plans, IRAs, and Social Security benefits. Splurging on things you really can't afford could do more damage than it would have before retirement.

2. DON'T cut things too closely. When you're fine-tuning your budget in retirement, give yourself some extra breathing room for unexpected expenses, such as repairs to your home or replacement of appliances. Try to save a little each month to build up a "rainy day" fund that you could use for emergencies. At the same time, just because you're retired doesn't mean you won't want to keep up with the latest technology or fashion trends. The trick is to create a budget that is generous enough to let you enjoy your retirement without putting your future at financial risk.

3. DON'T assume that you'll stay in good health. Even if you're in the best of health now, there are no guarantees this will continue in retirement. To hedge your bets, make sure you have insurance that's able to provide plenty of protection. That includes health insurance, disability income insurance, and life insurance coverage that will cover your potential needs. Although Medicare can cover most regular health care costs, you'll also need supplemental coverage to avoid large out-of-pocket expenses. Factor the premiums for all of your coverage into your monthly budget.

4. DON'T become a couch potato. Once you no longer have to wake up and go to work every morning, it's easy to become sedentary, especially if you're not athletically inclined. But one of the keys to staying healthy is to remain active and vibrant. Find activities that interest you, and pursue your hobbies vigorously. And be sure to socialize with friends and family regularly. Spending your days watching TV and eating potato chips likely will shorten your life span.

5. DON'T leave investments on cruise-control. Now more than ever it's important for you to have an exit strategy in place to avoid participating

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New Faces At FSA: Please Welcome Paul, Lauren, and Brooke!

We are pleased to announce three additions to the FSA family! It is our goal to provide you with the best advice and service possible, and having the right people on your financial team is an integral part of your FSA experience.

Brooke Wano is the newest member of our Advice Team. As a Certified Financial Planner™, she utilizes her knowledge and experience to help clients achieve their financial goals through proper planning and investing. Prior to FSA, Brooke was a financial consultant for a regional bank in Harrisburg, PA, where she advised clients on retirement, investment, and insurance planning.

Paul Bucknor and Lauren Bailey have joined our Client Service Team to assist you when you have questions or needs regarding your accounts. Prior to joining FSA, Lauren worked in the long-term care setting, where she learned the importance of giving each client quality attention and care. Paul worked as a financial planning assistant with a financial services firm in McLean, VA. He currently is working diligently toward obtaining the CFP® designation.

Please join me and the rest of our team in a big WELCOME to our newest members!

Kim Scott, CFP®
Financial Advisor

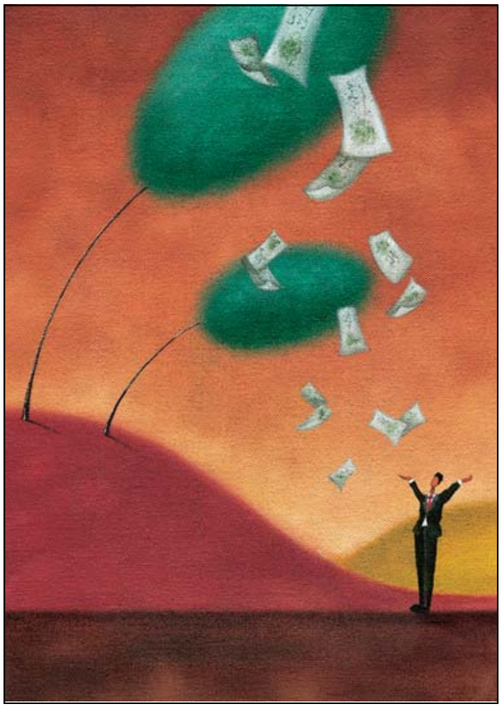
7 Tax Breaks Set To Last Forever

After years of passing "tax extender" laws, Congress finally enacted tax legislation in 2015—the Protecting Americans from Tax Hikes (PATH) Act—that permanently restores several key tax breaks for individuals. These seven tax provisions are now a permanent part of the tax code until, if ever, Congress changes them. They are:

1. American Opportunity Tax Credit. Before PATH, parents could claim a maximum $2,500 American Opportunity Tax Credit (AOTC) for qualifying higher education expenses, subject to phase-outs based on modified adjusted gross income (MAGI). But the maximum credit was scheduled to drop to $1,800 in 2017 with lower phase-out levels. The new law preserves the higher AOTC.

2. Sales tax deduction. Before 2015, taxpayers could choose to deduct state and local sales taxes instead of claiming the usual deduction for state and local income taxes. This optional deduction, especially valuable if your state has no income tax, has been restored retroactively for 2015 and made permanent.

3. IRA transfers to charity. Under a provision that had expired, if you were over age 70½ you could transfer up to $100,000 ($200,000 as a married couple) directly from an IRA to charity—including amounts paid as required minimum distribution (RMDs)—with no tax consequences. The PATH Act restores this rule for 2015 and makes it permanent.



4. Conservation deductions. If you grant a conservation easement for property you own, you get a deduction based on the easement's value. Previously, that deduction could be for as much as 50% of AGI (100% for farmers and ranchers), rather than the usual 30% limit, and there was a 15-year carry forward period for excess amounts instead of five years. Both enhancements are restored permanently, retroactive to 2015.

5. Qualified small business stock. Under a former law, investors could exclude 100% of the gain from the sale of qualified small business stock (QSBS) that they acquired before 2015. That amount was scheduled to drop to 50% for QSBS purchased after 2014. Now the 100% exclusion is permanent.

6. Child tax credit. Parents had been entitled to a child tax credit of up to $1,000, subject to a phase-out, with an additional refundable credit of 15% of earned income that exceeded $3,000. But that threshold was set to increase to $10,000 in 2017. The PATH Act restores the lower threshold and makes it permanent.

7. Educator expenses. Finally, teachers and other educators had been able to deduct up to $250 of their out-of-pocket classroom expenses. The new law restores this deduction, retroactive to 2015, and makes it permanent. Future maximums will increase with inflation.

The PATH Act also extends other individual tax breaks, as well as business provisions, and makes some of them permanent. ●

New Retirement Options In The Works

The Obama administration's budget recommendations for 2017 could help investors save more money for retirement. Several proposals would make saving easier and reduce obstacles for people who have been shut out from setting aside funds in tax-advantaged retirement plans. These suggested changes also could reduce costs for employers. And despite the sharply polarized atmosphere in Congress, these new ideas seem to be gaining traction.

It remains to be seen whether any of the proposals will become law, but two of the main concepts focus on improving saving and investing options in IRA and 401(k) plans:

1. Automatic IRAs. Under current law, most people can choose to put money into a combination of traditional and Roth IRAs that the investors set up on their own. For 2016, the individual contribution limit is $5,500 or $6,500 if you're age 50 or older.

Contributions to a traditional IRA may be partly or wholly tax-deductible, depending on your income and whether you (or your spouse) participate in an employer-sponsored retirement plan. If you use a Roth IRA, contributions are never deductible, but most withdrawals you take after five years are 100% tax-free.

The new proposal would require employers with 10 or more employees to offer IRAs to their employees if they don't provide any other retirement plan. This would open up retirement saving to millions of Americans who can't do it on their own.

2. Pooled 401(k)s. The 401(k) is the most popular type of employer-based retirement plan. It allows you to defer part of your salary to a separate account in your name. For 2016, your contributions can't exceed $18,000 or $24,000 if you're age 50 or over. In addition, your employer may provide matching contributions up to a stated percentage of salary.

What Are Your Retirement Income Sources?

One day you'll wake up and the financial planning objective that seemed so far in the future—your retirement—will be right around the corner. The big question—how can you maintain a comfortable lifestyle through your golden years—will be a real and present concern. To get ready for that day, you can identify the main sources of your retirement income and concentrate on making them grow.

Although every situation is different, you'll probably get your income from a combination of four main sources:

1. Employer-sponsored retirement plans and IRAs. While you're still working, you may be able to make tax-advantaged contributions to a 401(k) plan or to a Simplified Employee Pension (SEP) or to a Savings Incentive Match Plan for Employees (SIMPLE). Generally, the money you put into such accounts will grow untouched by taxes until it's withdrawn during your retirement. In 2016, you can defer up to $18,000 of salary to a 401(k) or $24,000 if you're age 50 or over, as well as receive possible matching contributions from your employer.

Similarly, you can benefit from saving in a traditional IRA, a Roth IRA or both. The IRA contribution ceiling for 2016 is $5,500 or $6,500 if you're age 50 or over. If you convert traditional IRA funds into a Roth, you'll owe tax in the year you transfer the money, but the Roth may provide tax-free distributions to you in the future.

2. Investments. Beyond withdrawals from 401(k)s, IRAs, and other such plans, you'll likely need other sources of income to help fill out your retirement "paycheck." For your taxable investments, you'll probably want to diversify among various asset classes while still having an exit strategy if they start to drop significantly.

Keep in mind that taxes will erode some of the value of these accounts, now and during retirement.

3. Social Security. This can be another valuable supplement to other sources of income, but don't expect Social Security retiree benefits alone to be enough to fund a comfortable retirement. Your SS benefits normally will be based on your earnings history, your age, and your date of retirement. Although you can begin receiving reduced monthly benefits as early as age 62, the full retirement age (FRA) for most baby boomers is 66. That's when you can get what the government defines as your full benefit—and the longer you wait, up to age 70, the larger your monthly benefits will be.

If you choose to begin receiving Social Security benefits while you continue to work—but before you reach full retirement age—the amount of your benefits will be reduced by $1 for every $2 you earn beyond an earnings threshold that is $15,720 in 2016. During the year that you will reach FRA but before your birthday, you can earn up to $41,880 without penalty; exceed that amount and you'll lose $1 in benefits for every $3 you earn. But beginning in the month you reach full retirement age, you can earn as much as possible without any reduction in Social Security benefits.

4. Other income sources. Finally, you may be able to rely on income from various other sources, expected or unexpected. That might include inheritances or gifts from family members, a profit from selling your home or other property, insurance benefits, deferred compensation, early retirement packages, and other sources. If you have an interest in a business you might continue getting income even after you stop working, or you might sell your interest.

Any or all of these may have special tax implications you'll need to take into account. Note that you can exclude from taxable income a gain on a home sale of as much as $250,000—or up to $500,000 if you're a joint tax filer.

Once you analyze your situation, you may find that these four income sources will be enough for you to live on comfortably in retirement. But if you see that your projected income may be less than you expect to need, you may have to ramp up your savings, perhaps contributing more to your tax-advantaged retirement plans. We can help you map out a plan that will help you meet your goals. ●

The problem is it can be prohibitively expensive for a small employer to set up and administer a 401(k). Although some employers are allowed to band together to reduce costs, this option is currently available only for businesses that are closely related. The new proposal would allow unrelated employers to join in pooled 401(k) plans to keep costs down. It also would provide greater flexibility for employees who change jobs.

These proposals reiterate themes that the Obama administration has put forth previously, but the changes could stand a better chance of being enacted during this presidential election year. Lawmakers also may be encouraged by the development of the MyRA, another retirement-saving idea proposed by the president. The MyRA, which invests solely in a specific Treasury security and includes several other wrinkles, made its official debut earlier this year.

It's important to take advantage of retirement saving options whenever you can. We can help formulate a plan for your situation. ●

5 Ways To Boost Retirement Savings

The federal government recently announced that practically all of the maximum contribution amounts for tax-advantaged retirement plans remain the same for 2016. For example, the most you can defer to a 401(k) plan—without a catch-up contribution if you're 50 or older—is still $18,000, while the IRA contribution limit stays at $5,500. Relatively low inflation is the reason these statutory thresholds didn't budge.

But that doesn't mean you can't increase your saving for retirement this year. Here are five ideas for expanding your retirement nest egg:

1. Go the max. Many people fail to contribute anywhere near the maximum amount allowed for retirement plans. So your first step this year could be to move closer to the 401(k) limits. If you don't have a 401(k) you may be able to contribute up to 25% of compensation or $53,000—whichever is less—to a Simplified Employee Pension (SEP), or $12,500 to a Savings Incentive Match Plan for Employees (SIMPLE) in 2016. Each plan can be supplemented by IRA contributions of up to $5,500.

2. Take time to catch up. The tax law also permits "catch-up contributions" if you're age 50 or over. For a 401(k), the extra amount is $6,000 in 2016, which could boost your total contribution to $24,000. And older IRA contributors can kick in an extra $1,000.

3. Be a matchmaker. Beyond raising your own contributions as much as is possible, also be sure to take full advantage of any matching contributions offered by your employer. Typically, a company might provide a match of 50 cents for every dollar you put into your plan, up to 6% of compensation. In this case, if you were earning $100,000 and contributed $10,000 to the plan, $6,000 of that amount would qualify for an employer match of $3,000.

4. Convert to a Roth. Although the maximum salary for eligibility to contribute to a Roth IRA did rise slightly for 2016, you still may earn too much to qualify. But anyone, regardless of income, can convert assets in a traditional IRA to a Roth. Although you'll owe current tax on the amount you convert, most distributions from a Roth during retirement—and after your account has been in existence for at least five years—will be completely tax-free.

5. Avoid unnecessary penalties. If you violate the rules for early withdrawals from employer-sponsored retirement plans and IRAs, you generally will owe a 10% penalty tax on top of the regular income tax liability. Although there are a few exceptions, this applies to most withdrawals that you make before you reach age 59½. You also can be hit with a 50% penalty for failing to take required minimum distributions after age 70½. These penalties can erode your savings substantially.

These are among the ways to make sure that this year is a good one in terms of making your retirement savings grow. ●

7 Retirement Moves NOT To Make

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in large, continued downturns in the market. This goes for your old employer 401k accounts as well, which can be rolled into an IRA giving you more flexibility with investment options. It's important to revisit your portfolio holdings and strategies on a regular basis. We're always more than happy to walk through that process with you.

6. DON'T forget about taxes. When you're counting on your income to sustain you through retirement, keep in mind how much of your projected earnings will be eroded by taxes. For example, if you sell securities to raise cash, your capital gains will be taxable, although you may benefit from a preferential tax rate of 15% on net long-term gains (20% if you're in the top regular income tax bracket). Most distributions from retirement plans are taxable as ordinary income and even Social Security benefits are subject to taxation. However, qualified distributions from a Roth IRA at least five years old are completely tax-free.

7. DON'T stop saving for retirement. Just because you're retiring doesn't mean that you should stop saving for retirement. In fact, with life expectancies continuing to expand, the opposite is true. You can continue to take advantage of tax-favored savings vehicles, including employer-sponsored retirement plans and IRAs if you work at least part-time. For instance, if you quit your main job but work as a freelance consultant, you could set up a Simplified Employee Pension (SEP) or another plan for your self-employed business. Note that plans such as 401(k)s and SEPs allow older workers to add "catch-up contributions" on top of the usual limits.

It takes a long time to build up sufficient savings for retirement but this can be undone quickly through a few costly missteps. DON'T make these mistakes. ●