Financial Services Advisory
GROW WISER®

First Quarter 2015 www.FSAinvest.com (800) 235-4567

When Should Millennials Start Retirement Saving?

This is a true story about Jane X, who graduated from a prestigious university five years ago. She's on her third job, but she's now communications director at a private foundation and finally earning decent money.

Jane's student loans are paid off, and her good salary leaves her some money to invest. However, like many of her millennial friends, she doesn't know a lot about investments or the differences between various retirement plans. But she is thinking about her future and wonders when she should start saving for retirement.

There's a short, simple answer: NOW.

The best time to begin saving for retirement is as soon as you can. Granted, relaxing on the deck of a retirement cottage overlooking the ninth green isn't first and foremost in the minds of most 20-somethings. But you can't ignore the sheer weight of the saving numbers. Let's go back to Jane, who's 27. If she manages to save $5,000 a year in a 401(k) for the next 40 years—until she's 67, the Social Security full retirement age for her generation—and she earns an average annual return of 7%, she will end up with $1,035,632. But if she waits 10 years to start saving, when she's 37, her accumulated savings will be just $490,027.

If you're convinced that now would be a good time to get started, consider these seven steps that could help you reach your goals:

1. Budget and save. It's difficult to be diligent about setting aside money for retirement when you're young and have a million things you'd rather do with your money. But if you're able to set objectives for saving and you do your best to stick to them, it could pay off beautifully down the road. Try to train yourself to live within your means while you move ahead in your career and your personal life.

2. Take advantage of employer retirement plans. Your company probably offers a tax-deferred retirement plan—a 401(k) or a 403(b)—and your employer may provide matching contributions (for example, up to 3% of your compensation) to go alongside the pre-tax earnings you put into the plan. With all of that money invested for the long haul, it can grow and compound and you won't be taxed on the growth until you pull out funds during retirement.

3. Don't forget about IRAs. Regardless of whether you participate in an employer-sponsored retirement plan, you also can set up an IRA. With a traditional IRA, the money you put in may be partly or wholly tax-deductible, if your salary is relatively low. But here, too, you'll be taxed on withdrawals during retirement. Another option, a Roth IRA, doesn't give you a tax deduction on money going in but may provide 100% tax-free distributions in retirement.

(Continued on page 4)

A Social Security Benefit Calculator? It's Not Foolproof

One critical financial decision for soon-to-be retirees is when to begin collecting Social Security benefits. Putting aside other concerns—such as whether you're really ready to retire—it often boils down to whether you want to start earlier, and receive lower monthly benefits, or wait longer to receive higher benefits.

In this high-tech age, it's not surprising that online calculators are springing up, designed to do all of the number-crunching for you. However, while these tools can provide valuable insights, they won't necessarily tell you everything you need to know.

Generally, you can begin receiving Social Security retiree benefits as early as age 62, but you won't qualify for 100% of the benefits you've earned until you reach your full retirement age (66 for most baby boomers). If you wait until age 70 to stake your claim, the monthly benefits will be even higher. Benefits increase by about 6% to 8% for every year you wait between ages 62 and 70.

Online calculators can compare payouts, but they don't always factor in variables such as changing life expectancies or spousal or survivor benefits. Without those additional considerations, you may not end up with the optimal recommendation for your situation.

Schedule an old-fashioned sit-down with us to discuss the scenarios.

Kim Scott, CFP®
Financial Advisor

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. ●

10 Easy Steps To Take If Opening A New Business

Starting a business involves planning, making key financial decisions, and completing a series of legal changes. As prepared by the Small Business Administration (SBA), these 10 easy steps can help you plan, prepare and manage your business:

Step 1: Write a Business Plan. Use the tools and resources that are offered by the SBA to create a business plan. A written guide prepared with help from the SBA will help you map out how you will start and run your business successfully.

Step 2: Get Business Assistance and Training. Take advantage of the SBA’s free training and counseling services, from preparing a business plan and securing financing, to expanding or relocating a business.

Step 3: Choose a Business Location. Get advice on how to select a customer-friendly location and comply with zoning laws.

Step 4: Finance Your Business. Find government-backed loans, venture capital, and research grants to help you get started.

Step 5: Determine the Legal Structure of Your Business. Decide which form of ownership is best for you: sole proprietorship, partnership, limited liability company (LLC), corporation, S corporation, nonprofit, or cooperative. It’s wise to consult an attorney and an accountant before making a final decision on the legal structure of the business you plan to open.

Step 6: Register a Business Name ("Doing Business As"). Register your business name with your state government.

Step 7: Get a Tax Identification Number. Learn which tax identification number you'll need to obtain from the IRS and your state revenue agency.

Step 8: Register for State and Local Taxes. Register with your state

7 Steps To Take After A Spouse's Sudden Death

The funeral is over, the mourners are gone, and now you're left with the rest of your life after the unexpected death of your beloved spouse. What's a devastated widow or widower to do? For starters, DON'T do anything rash, such as selling the homestead or cashing in all of your stock holdings right away. It may be difficult, especially from an emotional standpoint, but you can pick up the pieces slowly and get your finances in order. Here are seven steps for moving forward:

1. Meet with your professional advisors. One of the first steps – if not the absolute first – should be to contact your attorney, accountant, and us at FSA. These professionals can provide guidance for handling all of the legal, tax, and financial matters relating to you and your deceased spouse. Their counsel will be valuable as you work your way through the remaining six steps on this list.

2. Get the will probated. Assuming your spouse had a valid will and you're the executor—typically the case with married couples—you must begin to probate the will by filing a petition with the appropriate county office. Depending on the particulars, it can take as little as a few weeks or as long as a few years for the process to be completed. Keep your attorney in the loop the entire way.

3. Apply for benefits. Normally, you'll be entitled to Social Security benefits, including a one-time death benefit, plus Veteran's Administration (VA) benefits if your spouse was a military veteran. A surviving spouse over age 60 at the time of the other spouse's death may claim survivor benefits from Social Security. But don't continue to cash Social Security checks for a deceased spouse; you'll likely have to pay those back. It may be necessary to visit the local Social Security office and to contact the VA when appropriate. Also, don't forget to inquire about benefits from your spouse's employer if your spouse was still working.

4. Collect life insurance proceeds. Once reality sets in, you have to go about the regular business of making payments on the mortgage, the car loan, and other debts. Life insurance proceeds could be needed sooner rather than later. Examine your records to determine what you're entitled to receive through any private and employment-based policies. Your insurance agent can help, and we can also consult with you on how best to deploy any insurance benefit.

5. Review the books. Once you've had a chance to catch your breath, make a comprehensive review of your financial affairs. Go over your checkbooks, files, and online ledgers covering living expenses, loans, and other financial obligations. Separate accounts according to whether they're in your spouse's name, your name, or were held jointly. Then let banks, insurance companies, and other entities know about your spouse's death. And keep copies of these communications and verifications.

6. Change account titles. Begin the tedious process of re-titling accounts at banks, brokerage houses, and the like. Generally, you automatically will be granted a change on accounts owned as joint tenants with rights of survivorship (JTWROS), but the financial institution may require documentation. Contact each institution and comply with its procedures. Make sure you have enough death certificates to meet all of the obligations.

7. Start planning for the long term. Last, but not least, after you've addressed all of the issues requiring prompt attention, look to the future. It's time to circle back to the advisors who helped you at the outset. Reevaluate your investment portfolio, taking your evolving circumstances into account. Update your estate plan with an emphasis on passing wealth to your heirs, such as children and grandchildren, with minimum tax erosion. An estate tax return generally has to be filed within nine months of death. Finally, make those lifestyle choices – perhaps selling a home, heading off on extended travel, or both – that suit your changing needs.

Also make cancellation notices. Your review may reveal gym and club memberships and magazine and journal subscriptions that you can cancel right away. Re-titling your financial accounts will take precedence over this type of bookkeeping, but try not to let this linger, either. Usually, a phone call or a quick note will be enough to take care of things. ●

---

to obtain a tax identification number, workers' compensation, and unemployment and disability insurance.

Step 9: Obtain Business Licenses and Permits. Get a list of federal, state, and local licenses and permits required for your business.

Step 10: Understand Employer Responsibilities. Learn the legal steps you need to take to hire employees.

The SBA also points out that a number of programs are available to assist startups, micro businesses, and underserved or disadvantaged groups.

The following resources provide information to help specialized audiences start their own businesses:

- Environmentally friendly "green" business
- Home-based business
- Online business
- Self-employment
- Minority-owned business
- Veteran-owned business
- Woman-owned business

Finally, you can save money when starting or expanding a business by using government surplus. From commercial real estate and cars, to furniture, computers, and office equipment, find what you need for your business in one place.

Go to SBA.gov for help in following these 10 steps and for gaining access to the resources that are available for small businesses. You also should engage the assistance of an attorney and an accountant up front. ●

Should You Move To A Different State?

Are you happy where you're living now? You may be comfortable in your location because it's close to where you work, it's a great place to raise your kids, and it's close to your friends and family. But it doesn't have to be forever. In fact, you might contemplate a move in the near future, especially if you're nearing retirement or are already retired.

Why would you move? For starters, there could be personal issues. You might enjoy living in a warmer climate, getting away from congestion, and living closer to a golf course or by water. But economic considerations, especially with regard to taxes, also may be part of the equation. Depending on your situation, it may be far less costly for you to live somewhere else when you take state and local taxes into account. Consider the following:

- You may be living in a state with high income tax rates. When you add state and local taxes to your federal tax load (including a top income tax rate of 39.6% and a new 3.8% Medicare surtax), your top tax rate could exceed 50%. You could save money by moving to a state with lower rates. A few—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—don't have an income tax.

- You may be living in a state with high taxes on retirement income. The tax treatment of retirement income varies widely around the country. For example, some states don't tax any income from retirement plans and Social Security benefits, some provide a partial exemption, and some tax all retirement income.
- You may be living in a state with high sales taxes. Almost all states impose sales and use taxes, but there's wide variation in the rates. Only five states—Alaska, Delaware, Montana, New Hampshire, and Oregon—don't have a sales tax. This could be a prime consideration if you expect to make substantial taxable expenditures during retirement.
- You may be living in a state with high property taxes. Although the real estate market generally has been soft recently, there has been little relief from property taxes for homeowners. And that town whose high property taxes may have seemed worthwhile when you were sending your kids to its great schools could be less appealing when your nest is empty.
- You may be living in a state with high inheritance taxes. This is a final factor that could influence where you choose to retire. The rules differ from state to state, and in several states the laws deviate from federal estate tax law. For example, only three states—Delaware, Hawaii, and North Carolina—also provide the current federal exclusion of $5 million (indexed to $5.25 million in 2013).

All of these tax considerations could affect what you'll spend during retirement. With a little homework, you may be able to find a place with low taxes and one that appeals to you for other reasons. ●

Millennials Retirement

(Continued from page 1)

4. Invest wisely. This is good advice not only for money in tax-advantaged retirement accounts but also for money you invest in taxable brokerage accounts. We can help you find the investment balance that best suits your personal needs, objectives, risk tolerance, and other circumstances. Although there's no foolproof method, you should have more leeway to be aggressive now than you would when you're nearing retirement or already retired. Of course, past performance is no guarantee of future results, but you can use historical stock market trends to help shape your investment strategies.

5. Expect the unexpected. Even the best-laid plans of retirement saving can be derailed by an emergency such as a hospital stay or the loss of a job. Try to leave enough wiggle room within your budget to account for some unforeseen financial trouble. Rather than put yourself in a position to have to skip or slash retirement plan contributions, remember to put aside cash in a "rainy day" fund. Most experts recommend building up enough to sustain you for at least half a year during which you may have no other income.

6. Avoid debt like the plague. One of the biggest impediments to retirement saving is a crushing debt load. You're not doing yourself any favor by deferring part of your salary to an employer plan at the same time that you're charging luxury items on a credit card with sky-high interest rates. That's not to say that borrowing isn't warranted at times—perhaps to help buy a home or car—but make sure it fits into your overall plan.

7. Educate yourself. Finally, you can improve the chances for a secure, comfortable retirement by learning all of the rules of the road, including the nuances of investments and the tax differences between various accounts. Knowledge is your friend. Rely on us to give you a solid foundation for going forward. ●

Financial Services Advisory | One Church Street, Suite 901, Rockville, Maryland 20850 | 301.949.7300 | Fax: 301.949.7034