



## Dispel These 7 Popular Myths About Retirement

**R**etirement is changing. People are living longer, and many stay healthy and vital into their 80s and 90s. Working, at least part time, has become more commonplace. Yet with fewer and fewer corporate pensions to fall back on these days, the money to pay for a long life after work may not be there. And with change comes confusion and misperceptions about what really may happen during your retirement, however you define it.



Consider these seven common ideas that may prove overly optimistic—and then tweak your plans to make sure you don't fall short of your goals:

### **Myth #1: You'll have saved enough for retirement when you get there.**

According to a 2014 survey by the Employee Benefits Research Institute (EBRI), an independent research firm, only 42% of current workers over age 55 say they've saved at least \$100,000, while just 23% have set aside more than \$250,000. The EBRI survey also indicated that just 18% of all workers were "very confident" they've saved enough for retirement. You easily could find yourself facing a shortfall.

### **Myth #2: You'll spend a lot less than you do now.**

Some cash outlays, such as paying off the mortgage and sending the kids to college, no longer may apply. But what do you want your retirement to look like? If you've envisioned globe-trotting or indulging in expensive hobbies, you may find that will erode

your nest egg more quickly than you expected. Unexpected expenses—high-priced dental work, say, or a down payment for a child's home—also can siphon away funds.

### **Myth #3: You'll save a lot of money when you downsize your home.**

Moving to a smaller place probably will reduce maintenance costs and property taxes. But that doesn't mean you won't still have all the usual expenses

associated with home ownership—just on a smaller scale—plus other possible fees that may apply if you've moved into an over-55 community. And if you've relocated to a ritzy neighborhood in a city or resort area, your expenses could go up.

### **Myth #4: You'll continue working past the normal retirement age.**

You may want to stay on the job or shift to something else, but such plans don't always work out, and health problems also could pose obstacles. And if you're counting on job income to shore up your finances through many years of "retirement," not being able to do it—or deciding you're just not up to it—could leave a big hole in your retirement income.

### **Myth #5: You easily can get a part-time job if you need one.**

When you retire from your full-time position, you might seek part-time employment, but those jobs may be harder to find, and to keep, than you

## Market Too Calm?

**U**.S. GDP growth was revised further downward for the first quarter, marking the largest drop since early 2009. Expectations are for growth to rebound in the second half (a very harsh winter depressed activity early in the year). Other indicators were more positive, including continued improvements in the labor market. Global monetary policy continues as a significant swing factor, as do geopolitical conflicts.

For investors, the second quarter was positive. Larger-cap U.S. stocks were up 5.2% for the quarter and 7.0% for the year to date. Smaller-company stocks lagged as they have so far this year. Developed international stocks rose 4.4% as the European Central Bank took further easing steps. After a poor first quarter, emerging-markets stocks rallied, gaining 7.3% for the quarter. Core U.S. bonds shared in the quarter's gains as bond yields continued to fall—a surprise to many investors. The Federal Reserve remained consistent: gradually scaling back its monthly bond purchases while indicating a lack of urgency in raising rates.

While low volatility and high stock prices reflect the market's apparent lack of concern about risk, this seeming complacency could suggest a market more vulnerable to negative surprises. Unfortunately, in the current low-volatility, low-yield, high-stock-price environment, there are no "easy" places to go for returns. This remains a period in which patience and discipline are particularly critical, even if over the shorter-term it may not seem so as markets continue to hit new highs.

As always, we appreciate your confidence and welcome questions about your individual situation.

*(Continued on page 4)*

# Fill Up Tax Brackets To The Brim

**R**emember the days before self-service when you could drive your car to a gas pump and tell the attendant to “fill ’er up”? There are good reasons to take the same approach to selling securities before the end of the year. If you’re careful to fill up your lower tax brackets with long-term capital gains, you can pocket some cash and pay little, if anything, in federal income tax.

Before you start filling up tax brackets, it’s important to understand the basic tax rules affecting capital gains.

Currently, there are six federal income tax brackets ranging from 10% to 39.6%. Most “ordinary income,” as well as short-term capital gains from sales of assets you hold a year or less, is taxed under this graduated rate structure. But long-term capital gains from selling securities you’ve owned longer than a year may be taxed at three capital gain rates:

- The 0% rate applies to long-term capital gains of investors in the two lowest brackets (10% and 15%).
- The 15% rate applies to long-

term gains of those in the middle three brackets (25%, 28%, and 35%).

- The 20% rate applies to long-term gains of investors in the top bracket (39.6%).



With the tax system’s graduated rate structure, even investors whose capital gains eventually will push them into the 39.6% tax bracket may be able to benefit from having part of their capital gains taxed at the lower 0% and 15% rates. That’s what tax bracket management is all about.

The best way to explain the concept of filling up tax brackets with long-term gains may be with an example.

**Hypothetical facts:** Suppose that 2014 will be a low-income year for you because of losses from your S corporation or other business circumstances. Not including your investment income, your taxable income on a joint federal return should be only \$50,000, but the upper threshold of the 15% bracket is \$73,800. That leaves room for another \$23,800 of income (\$73,800 - \$50,000) before you reach the 25% bracket—and the 15% bracket for long-term capital gains. So if you pull down a \$23,800 long-term gain before year-end, the entire amount will be taxed at the 0% rate.

What’s more, consider that the upper threshold for the 35% rate is \$457,600. Any other long-term gains below that threshold will be taxed at the 15% rate.

Of course, there are other factors to consider, including the 3.8% surtax on net investment income. Also, be aware that capital losses offset capital gains plus up to \$3,000 of annual ordinary income. But the long and the short of it all is: You can manage your tax brackets to maximize favorable tax rates for long-term capital gains. ●

## When It Pays To ID Security Sales

**S**uppose you acquired shares of a single stock or mutual fund at various times during the past few years. Now the price has risen, and you may want to sell some of your holding and pocket a profit. Or maybe the price is down, and you want to sell shares to “harvest” a loss that could offset gains in other positions.

Either way, there’s an important question: Which shares are you selling? Unless you say otherwise, the IRS assumes that the first shares you sell are the first ones you acquired. This “first-in, first-out” (FIFO) method acts as a default. However, you are allowed to specify other shares for the

sale, and in some cases this may give you a better result in terms of taxes.

When you sell securities, such as stocks or mutual funds, you generally must recognize a gain or loss for tax purposes, based on the difference between the selling price and your “basis” (generally, your investment cost plus certain adjustments).

• If you have a gain and you’ve held the securities for more than one year, the maximum tax rate on the long-term gain is only 15% (or 20% if you’re in the top tax bracket for ordinary income). Other gains are considered short-term and are taxed at ordinary income tax rates topping out

at 39.6%. Some high-earning investors also may owe a 3.8% surtax on net investment income.

- If you have a loss, it can offset capital gains plus up to \$3,000 of ordinary income. Any excess loss can be carried over to next year.

Calculating your basis in a stock or fund can be confusing, especially if multiple lots of shares are involved. In the past, brokerage firms weren’t required to supply information about your basis when you made a sale, although many did so when the figures were available. But now firms are required legally to report the information to investors, as well as to

# 5 Tips For Getting Your Kids Into College

**S**aving money for college is a daunting proposition. But there's another big challenge—making sure your high school sophomore or junior is doing the right things to improve the odds of being admitted to college. Here are five tips for helping bolster your children's academic standing:

## 1. Selecting the right classes.

The courses your child chooses do make a difference, particularly if the goal is to get into a top-flight college or a particular field of study. For instance, if your child wants to enter one of the top U.S. engineering programs—at Georgia Tech, Purdue, MIT, or another leading school—he or she will need to have taken at least trigonometry and pre-calculus.

College admissions counselors base acceptance decisions on high school coursework completed through the junior year. They'll also want to see a list of classes a student will be taking as a senior. You can help by finding out what courses are required, or preferred, by the colleges on your child's wish list.

**2. Test preparation.** Whether your child is taking the SAT, the ACT, or both, doing well on these tests is likely to require considerable preparation.

Getting ready can take many forms, from buying a guide that walks kids

through the exam and gives test-taking strategies, to completing online SAT practice tests from the College Board, to signing up for a formal SAT/ACT preparation course. At the very least, the published guides and online samples can be a good way for students to become familiar and comfortable with the test format.

If you think your child will need more intensive help to ace the test—many bright, talented students aren't great test-takers—you may find that coursework, tutors, and anxiety-coping strategies can be effective.

**3. Summer experience.** For many high school students, the summer between their junior year and senior year is their last opportunity to gain real-life experience that is relevant to their career interests. It also can provide excellent material for college essays and personal statements that students may be asked to explain why they're interested in a particular college or area of study.

Students might gain experience through a job, an internship (paid or unpaid), or they might interview people in fields that interest them.

**4. Vacation with a purpose.** A summertime family trip could be a great time to visit prospective colleges. While you're there:

- Pick up copies of the student

newspaper to find out what's going on at the school.

- Ask questions of students and residents to learn what the climate will be like when it's not summer.

- Seek out the professors in your child's areas of interest. Faculty schedules in the summer are often less frantic than during the academic year.

- This is also an ideal time to make a positive, lasting connection with an admissions counselor. The summer pace is slower for the admissions staff, too, and they have more time to spend with families.

- While visits are important, it's easy to fall in love with the campus of a college that may be out of reach for a particular student. On the other hand, there's nothing wrong with aiming high, and working harder to get into a dream school could be a benefit no matter what.

**5. Advance planning for the application process.** The more students can find out about the colleges they want to attend, including application requirements, the better prepared they may be to throw themselves into a very selective application process. Two of the most intensive aspects of that process are essays and letters of recommendation.

There's no "one-size-fits-all" essay. Many colleges now require essays of various lengths and topics in addition to the essay prompts on the Common Application. Here, too, preparation can be very helpful, with students thinking about what they want to write and taking the time to develop an effective essay.

As far as recommendations go, keep in mind that the best teachers are likely to be in great demand, and it's important to get a request in early.

Of course, your part in this process, beyond helping your student prepare and not miss important deadlines, is to make sure you're financially ready to foot part or all of the college tab. Good preparation isn't just for the kids. ●

the IRS, for stocks acquired after 2010 and mutual fund shares acquired after 2011.

In addition, you're stuck with the FIFO default unless you opt out of it. Here's a hypothetical example of how you may do better by identifying your shares. (For simplicity, we'll avoid any transaction costs.)

Suppose you bought 1,000 shares of XYZ stock at \$10 a share (Block 1) early this year and then 1,000 shares later at \$15 a share (Block 2). XYZ now sells for \$12 a share. If you sell 1,000 shares, the IRS will assume you're selling Block 1,



so you'll be hit with ordinary income tax on a gain of \$5 a share, or \$5,000. However, if you specifically identify Block 2 as the shares you're selling, you'll have a tax loss of \$3 per share (\$3,000) rather than that \$5 gain. Your proceeds from the sale, of course, are the same in either case.

How can you ID your shares? At the time of the sale, you must notify your broker which shares you are selling.

Make sure you obtain a written or electronic confirmation of the transaction for your records. Then take advantage of your tax loss or gain on this year's return. ●

# Key Aspects Of Key-Person Insurance

Life insurance is a crucial part of most personal estate plans, but it also could be very important for your business. “Key-person” insurance can help ensure continuity and solvency if someone who plays a top role in your company should die unexpectedly. The proceeds could cover the cost of hiring and training a replacement and pay off outstanding bills or loans called in by anxious creditors.

Key-person policies usually cover the owner and the president of the business—often the same person—and can be especially helpful if surviving family members plan to continue running the business. You also might want coverage for other employees who are essential to the operations.

Like other life insurance benefits, the proceeds from a key-person policy are exempt from income tax and generally won’t be considered part of the key person’s taxable estate. However, if the insured employee is the sole or controlling shareholder, the proceeds may be taken into account in determining the value of company stock for estate tax purposes.

How much key person insurance is needed for your business? Consider the following three methods for determining an appropriate amount:

**1. Replacement costs.** For these purposes, you’ll need to calculate what your company would have to spend to train someone thoroughly to do the job of the person who died. That process is likely to take at least a year and may include salary as well as other expenses.

**2. Multiple of salary.** There are various rules of thumb about multiples of salary but you’ll probably want to use at least a multiple of three. So if someone is making \$250,000 a year you would need a key-person policy that would pay a minimum of \$750,000.

**3. Contribution toward earnings.** Estimate what portion of your company’s earnings can be attributed to the key person and then multiply

that amount by the number of years needed for protection. For instance, if you attribute roughly \$100,000 of annual earnings to a key employee, you would need \$500,000 of coverage to protect that employee for a five-year period.

What happens if the key person leaves your company while the policy is in effect? Your business might sell the policy to the departing worker, or surrender it for its cash value,

assuming that it is permanent insurance. There’s no cash value available with a term-insurance policy, but term insurance is generally less expensive than whole life coverage and is usually preferable to having no insurance at all.

Your situation may include special circumstances affecting how much insurance you need. Work with your financial and insurance advisors to choose an appropriate policy. ●



## Myths About Retirement

*(Continued from page 1)*

imagine. You may be competing with youngsters who are more tech-savvy than you for jobs requiring computer skills. What’s more, if you’re living in an area with numerous other retirees, which is often the case, the competition can be fierce.

**Myth #6. You can rely on Medicare for all your medical expenses.**

Retirees often expect Medicare to pick up the entire cost of physician visits, hearing or eye exams, or the like, but that’s simply not how the system works. In fact, Medicare covers only roughly half of such expenses, according to data recently provided by the Kaiser Family Foundation. And

don’t overlook the exorbitant costs of staying in a long-term care facility or paying for in-home nursing care.

Medicare will not cover these expenses and you will need to consider purchasing a private long-term care policy.

**Myth #7. You can rely on Social Security for most of your income.**

Different people have different ideas about Social Security. Some almost disregard those payments from the government, thinking they’ll be too small to make any difference in funding retirement. Others, though, talk about Social Security like it’s the be-all, end-all. It’s neither. The fact is, Social Security can be genuinely helpful, often covering some of your



essential expenses. But for most people it’s not nearly enough to live on. The Social Security Administration says the

average monthly benefit in 2014 is \$1,294, which works out to \$15,528 a year. That’s why it’s vital to take steps to supplement Social Security with income from investments,

employer retirement plans, IRAs, and other sources.

There’s one more myth we would like to expose—that it’s too late to change your destiny. Reexamine your basic assumptions about your retirement and then make a reasonable retirement savings plan based on your needs and realistic objectives. ●