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Hi Everyone,

A few articles on things you hear about often, but may not fully understand, and a great one on Page 3 to pass along to anyone you know that is just starting out. I cannot stress enough the importance of starting your savings discipline while you're young, regardless of how small the amount is.

Hopefully these articles will provide some insight, or maybe raise a few questions. If you have questions or concerns regarding your situation, please don't hesitate to call. As always, if I can be of help to you or anyone you care about, please let me know. Enjoy the colorful show that Fall provides every year.

Thank you!

Steve

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FINANCIAL TID-BITS

Information to chew on...

Quiz: Test Your Interest Rate Knowledge

In December 2015, the Federal Reserve raised the federal funds target rate to a range of 0.25% to 0.50%, the first rate increase from the near-zero range where it had lingered for seven years. Many economists viewed this action as a positive sign that the Fed had finally deemed the U.S. economy healthy enough to withstand slightly higher interest rates. It remains to be seen how rate increases will play out for the remainder of 2016. In the meantime, try taking this short quiz to test your interest rate knowledge.

Quiz

1. Bond prices tend to rise when interest rates rise.

a. True

b. False

2. Which of the following interest rates is directly controlled by the Federal Reserve Open Market Committee?

a. Prime rate

b. Mortgage rates

c. Federal funds rate

d. All of the above

e. None of the above

3. The Federal Reserve typically raises interest rates to control inflation and lowers rates to help accelerate economic growth.

a. True

b. False

4. Rising interest rates could result in lower yields for investors who have money in cash alternatives.

a. True

b. False

5. Stock market investors tend to look unfavorably on increases in interest rates.

a. True

b. False

Answers

1. b. False. Bond prices tend to *fall* when interest rates rise. However, longer-term bonds may feel a greater impact than those with shorter maturities. That's because when interest rates are rising, bond investors may be reluctant to tie up their money for longer periods if they anticipate higher yields in the future; and the longer a bond's term, the greater the risk that its yield may eventually be superceded by that of newer bonds. (The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost.)

2. c. Federal funds rate. This is the interest rate at which banks lend funds to each other (typically overnight) within the Federal Reserve System. Though the federal funds rate affects other interest rates, the Fed does not have direct control of consumer interest rates such as mortgage rates.

3. a. True. Raising rates theoretically slows economic activity. As a result, the Federal Reserve has historically raised interest rates to help dampen inflation. Conversely, the Federal Reserve has lowered interest rates to help stimulate a sluggish economy.

4. b. False. Rising interest rates could actually benefit investors who have money in cash alternatives. Savings accounts, CDs, and money market vehicles are all likely to provide somewhat higher income when interest rates increase. The downside, though, is that if higher interest rates are accompanied by inflation, cash alternatives may not be able to keep pace with rising prices.

5. a. True. Higher borrowing costs can reduce corporate profits and reduce the amount of income that consumers have available for spending. However, even with higher rates, an improving economy can be good for investors over the long term.

You are generally not the "owner" of an inherited IRA. The practical result of this fact is that you can't mix inherited IRA funds with your own IRA funds, and you can't make 60-day rollovers to and from the inherited IRA. Spousal beneficiaries, however, may be able to assume actual ownership of an inherited IRA.

**If the traditional IRA owner died after age 70-1/2 and did not take an RMD for the year of his or her death, you must also withdraw any remaining RMD amount for that year.*

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Five Things to Know About Inherited IRAs

When an IRA owner dies, the IRA proceeds are payable to the named beneficiary--or to the owner's estate if no beneficiary is named. If you've been designated as the beneficiary of a traditional or Roth IRA, it's important that you understand the special rules that apply to "inherited IRAs."

It's not really "your" IRA

As an initial matter, while you do have certain rights, you are generally not the "owner" of an inherited IRA. The practical result of this fact is that you can't mix inherited IRA funds with your own IRA funds, and you can't make 60-day rollovers to and from the inherited IRA. You also need to calculate the taxable portion of any payment from the inherited IRA separately from your own IRAs, and you need to determine the amount of any required minimum distributions (RMDs) from the inherited IRA separately from your own IRAs.

But if you inherited the IRA from your spouse, you have special options. You can take ownership of the IRA funds by rolling them into your own IRA or into an eligible retirement plan account. If you're the sole beneficiary, you can also leave the funds in the inherited IRA and treat it as your own IRA. In either case, the IRA will be yours and no longer treated as an inherited IRA. As the new IRA *owner* (as opposed to *beneficiary*), you won't need to begin taking RMDs from a traditional IRA until you reach age 70½, and you won't need to take RMDs from a Roth IRA during your lifetime at all. And as IRA owner, you can also name new beneficiaries of your choice.

Required minimum distributions

As beneficiary of an inherited IRA--traditional or Roth--you must begin taking RMDs after the owner's death.* In general, you must take payments from the IRA annually, over your life expectancy, starting no later than December 31 of the year following the year the IRA owner died. But if you're a spousal beneficiary, you may be able to delay payments until the year the IRA owner would have reached age 70½.

In some cases you may be able to satisfy the RMD rules by withdrawing the entire balance of the inherited IRA (in one or more payments) by the fifth anniversary of the owner's death. In almost every situation, though, it makes sense to use the life expectancy method instead--to stretch payments out as long as possible and take maximum advantage of the IRA's tax-deferral benefit.

You can always elect to receive more than the required amount in any given year, but if you receive less than the required amount you'll be subject to a federal penalty tax equal to 50% of the difference between the required distribution and the amount actually distributed.

More stretching...

What happens if you elect to take distributions over your life expectancy but you die with funds still in the inherited IRA? This is where your IRA custodial/trustee agreement becomes crucial. If, as is sometimes the case, your IRA language doesn't address what happens when you die, then the IRA balance is typically paid to your estate--ending the IRA tax deferral.

Many IRA providers, though, allow you to name a successor beneficiary. In this case, when you die, your successor beneficiary "steps into your shoes" and can continue to take RMDs over your remaining distribution schedule.

Federal income taxes

Distributions from inherited IRAs are subject to federal income taxes, except for any Roth or nondeductible contributions the owner made. But distributions are never subject to the 10% early distribution penalty, even if you haven't yet reached age 59½. (This is one reason why a surviving spouse may decide to remain as beneficiary rather than taking ownership of an inherited IRA.)

When you take a distribution from an inherited Roth IRA, the owner's nontaxable Roth contributions are deemed to come out first, followed by any earnings. Earnings are also tax-free if made after a five-calendar-year holding period, starting with the year the IRA owner first contributed to any Roth IRA. For example, if the IRA owner first contributed to a Roth IRA in 2014 and died in 2016, any earnings distributed from the IRA after 2018 will be tax-free.

Creditor protection

Traditional and Roth IRAs are protected under federal law if you declare bankruptcy. The IRA bankruptcy exemption was originally an inflation-adjusted $1 million, which has since grown to $1,283,025. Unfortunately, the U.S. Supreme Court has ruled that inherited IRAs are not covered by this exemption. (If you inherit an IRA from your spouse and treat that IRA as your own, it's possible that the IRA won't be considered an inherited IRA for bankruptcy purposes, but this was not specifically addressed by the Court.) This means that your inherited IRA won't receive any protection under federal law if you declare bankruptcy. However, the laws of your particular state may still protect those assets, in full or in part, and may provide protection from creditors outside of bankruptcy as well.

The Importance of Saving for Retirement at a Young Age

Millennials and Retirement Planning

A September 2015 study found that 60% of millennials think planning for retirement is harder than sticking with a diet and exercise plan. By contrast, 61% of baby boomers think dieting/exercising is harder, and 51% of Gen Xers think retirement planning is harder.

Source: "Will Millennials Ever Be Able to Retire?" Insured Retirement Institute and The Center for Generational Kinetics, September 2015

If you're an adult in your 20s, you are entering an exciting stage of life. Whether you've just graduated from college or are starting a new career, you will encounter many opportunities and challenges as you create a life of your own.

As busy as you are, it's no surprise that retirement may seem a long way off, especially if you're just entering the workforce. What you may not realize, however, is that there are four very important advantages to begin planning and saving for retirement now.

1. Money management skills

Now that you're out on your own, it's important to start taking responsibility for your finances little by little. Part of developing financial responsibility is learning to balance future monetary needs with present expenses. Sometimes that means saving for a short-term goal (for example, buying a new car) and a long-term goal (for example, retirement) at the same time.

Once you become used to balancing your priorities, it becomes easier to build a budget that takes into account both fixed and discretionary expenses. A budget can help you pursue your financial goals and develop strong money management skills. If you establish healthy money habits in your 20s and stick with these practices as you grow older, you'll have a major advantage as you edge closer to retirement.

2. Time on your side

When you're young, you have the benefit of time on your side when saving for long-term goals (like retirement). You likely have 40-plus years ahead of you in the workforce. With that much time, why not put your money to work using the power of compounding?

Here's a hypothetical example of how compounding works. Let's say that at age 25, you start putting $300 each month into your employer's retirement savings plan, and your account earns an average of 8% annually. If you continued this practice for the next 40 years, you would have contributed $144,000 to your account, accumulating just over $1 million by the time you reached age 65. But if you waited 10 years until age 35 to start making contributions to your plan, you would have accumulated only $440,000 by age 65.

Note: This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent any specific investment. Taxes and investment fees are not considered. Rates of return will vary over time, especially for long-term investments. Investments offering the potential for higher rates of return also involve a higher degree of risk. Actual results will vary.

3. Workplace retirement benefits

If your employer offers a workplace retirement plan such as a 401(k) or 403(b), you may find that contributing a percentage of your salary (up to annual contribution limits) will make saving for retirement easier on your budget. Contributions are typically made on a pre-tax basis, which means you can lower your taxable income while building retirement funds for the future. You aren't required to pay any taxes on the growth of your funds until you take withdrawals. Keep in mind that distributions from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn before age 59½.

Depending on the type of plan, your employer may offer to match a percentage of your retirement plan contributions, up to specific limits, which can potentially result in greater compounded growth and a larger sum available to you in retirement.

If you don't have access to a workplace retirement savings plan, consider opening an IRA and contribute as much as allowable each year. An IRA may offer more investment options and certain tax advantages to you.

If you have both a workplace plan and an IRA, one strategy is to contribute sufficient funds to your workplace plan to take advantage of the full company match, and then invest additional funds in an IRA (up to annual contribution limits). Explore the options available to find out what works best for your financial situation.

4. Flexibility of youth

Although there's a good chance you have student loans, you probably have fewer financial responsibilities than someone who is older and/or married with children. This means you may have an easier time freeing up extra dollars to dedicate toward retirement. Get into the retirement saving habit now, so that when future financial obligations arise, you won't have to fit in saving for retirement too--you'll already be doing it.

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I have matured U.S. savings bonds. Are they still earning interest and, if not, can I roll them over to another savings bond?

Once U.S savings bonds have reached maturity, they stop earning interest. Prior to 2004, you could convert your Series E or EE savings bonds for Series HH bonds. This would have allowed you to continue earning tax-deferred interest. However, after August 31, 2004, the government discontinued the exchange of any form of savings bonds for HH bonds, so that option is no longer available.

Since matured savings bonds no longer earn interest, there is no financial benefit to holding on to them. If you have paper bonds, you can cash them in at most financial institutions, such as banks or credit unions. However, it's a good idea to call a specific institution before going there to be sure it will redeem your bonds. As an alternative, you can mail them to the Treasury Retail Securities Site, PO Box 214, Minneapolis, MN 55480, where they will be redeemed. If you have electronic bonds, log on to treasurydirect.gov and follow the directions there. The proceeds from your redeemed bonds can be deposited directly into your checking or savings account for a relatively quick turnover.

Another important reason to redeem your matured savings bonds may be because savings bond interest earnings, which can be deferred, are subject to federal income tax when the bond matures or is otherwise redeemed, whichever occurs first. So if you haven't previously reported savings bond interest earnings, you must do so when the bond matures, even if you don't redeem the bonds.

Using the money for higher education may keep you from paying federal income tax on your savings bond interest. The savings bond education tax exclusion permits qualified taxpayers to exclude from their gross income all or part of the interest paid upon the redemption of eligible Series EE and I bonds issued after 1989 when the bond owner pays qualified higher-education expenses at an eligible institution. However, there are very specific requirements that must be met in order to qualify, so consult with your tax professional.