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"Investing done right" and "watching grass grow" is ***boring*** . That is the theme of Carl Richards' 10/3/2016 InvestmentNews column. This is not consistent with the media coverage.

He compares the process to planting a tree. It will not flourish if it is is frequently dig up and replanted. It takes years before a seed develops roots and grows as a tree.

Compounding is another example. Excitement builds each time the investment doubles.

The discussion and planning should be about where you are in regards to your goals. This will allow for adjustments to what you are doing if you are not where you want to be. Otherwise you continue what you have been doing. That is, allowing the tree to grow.

It also allows for changes if your plans or circumstances change.

I look forward to continuing our relationship and greatly appreciate your referrals.

Joe

October 2016

Current Financial Topics

Food for Thought

Saving or Investing: Is There a Difference?

Financially speaking, the terms "saving" and "investing" are often used interchangeably. But the concepts behind these terms actually have some important differences. Understanding these differences and taking advantage of them may help you in working toward financial goals for you and your family.

Saving

You may want to set aside money for a specific, identifiable expense. You park this money someplace relatively safe and liquid so you can get the amount you want when you need it. According to the Securities and Exchange Commission brochure *Saving and Investing,* "savings are usually put into the safest places, or products, that allow you access to your money at any time. Savings products include savings accounts, checking accounts, and certificates of deposit." Some deposits may be insured (up to $250,000 per depositor, per insured institution) by the Federal Deposit Insurance Corporation or the National Credit Union Administration. Savings instruments generally earn interest. However, the likely tradeoff for liquidity and security is typically lower returns.

Investing

While a return *of* your money may be an important objective, your goal might be to realize a return *on* your money. Using your money to buy assets with the hope of receiving a profit or gain is generally referred to as investing. Think of investing as putting your money to work for you--in return for a potentially higher return, you accept a greater degree of risk. With investing, you don't know whether or when you'll realize a gain. The money you invest usually is not federally insured. You could lose the amount you've invested (e.g., your principal), but you also have the opportunity to earn more money, especially compared to typical savings vehicles. The investment is often held for a longer period of time to allow for growth. It is important to note, though, that all investing involves risk, including the loss of principal, and there is no assurance that any investing strategy will be successful.

What's the difference?

Whether you prefer to use the word "saving" or "investing" isn't as important as understanding how the underlying concepts fit into your financial strategy. When it comes to targeting short-term financial goals (e.g., making a major purchase in the next three years), you may opt to save. For example, you might set money aside (i.e., save) to create and maintain an emergency fund to pay regular monthly expenses in the event that you lose your job or become disabled, or for short-term objectives like buying a car or paying for a family vacation. You might consider putting this money in a vehicle that's stable and liquid. Think of what would happen if you were to rely on investments that suddenly lost value shortly before you needed the funds for your purchase or expense.

Saving generally may not be the answer for longer-term goals. One of the primary reasons is inflation--while your principal may be stable, it might be losing purchasing power. Instead, you may opt to purchase investments to try to accumulate enough to pay for large future expenses such as your child's college or your retirement. Generally, saving and investing work hand in hand. For instance, you may *save* for retirement by *investing* within an employer retirement account.

Why is it important?

Both saving and investing have a role in your overall financial strategy. The key is to balance your saving and investing with your short- and long-term goals and objectives. Overemphasize saving and you might not achieve the return you need to pursue your long-term goals. Ignore saving and you increase the risk of not being able to meet your short-term objectives and expenses. Get it right and you increase your chances of staying on plan.

Are You Ending 2016 Healthy, Wealthy, and Wise?

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Although the year is drawing to a close, you still have time to review your finances. Pausing to reflect on the financial progress you made in 2016 and identifying adjustments for 2017 can help you start the new year stronger than ever.

How healthy are your finances?

Think of a year-end review as an annual physical for your money. Here are some questions to ask that will help assess your financial fitness.

- Do you know how you spent your money in 2016? Did you make any progress toward your financial goals? Look for spending habits (such as eating out too much) that need tweaking, and make necessary adjustments to your budget.
- Are you comfortable with the amount of debt that you have? Any end-of-year mortgage, credit card, and loan statements will spell out the amount of debt you still owe and how much you've been able to pay off this year.
- How is your credit? Having a positive credit history may help you get better interest rates when you apply for credit, potentially saving you money over the long term. Check your credit report at least once a year by requesting your free annual copy through the federally authorized website annualcreditreport.com.
- Do you have an emergency savings account? Generally, you should aim to set aside at least three to six months' worth of living expenses. Having this money can help you avoid piling up more credit-card debt or shortchanging your retirement or college savings because of an unexpected event such as job loss or illness.
- Do you have an adequate amount of insurance? Your insurance needs may change over time, so it's a good idea to review your coverage at least once a year to make sure it still meets your needs.

How wealthy are you really?

It's easy to put your retirement savings on autopilot, especially if you're making automatic contributions to a retirement account. But market swings this year may have affected your retirement account balances, so review any statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relation to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions*?

Finally, look for ways to save more. For example, if you receive a pay increase this year, don't overlook the opportunity to increase your employer-sponsored retirement plan contributions. Ask your employer to set aside a higher percentage of your salary.

How wise are you about financial matters?

What you don't know can hurt you, so it's time to honestly assess your financial picture. Taking into account your income, savings and investments, and debt load, did your finances improve this year? If not, what can you do differently in 2017?

What are your greatest financial concerns? Do you have certain life events coming up that you need to prepare for, such as marriage, buying a home, or sending your child off to college? You can't know everything, so don't put off asking for assistance. It's a wise move that can help you prepare for next year's financial challenges.

Year-End Financial Checklist
✓ Review your benefits during your employer's open enrollment season, and make any necessary changes before your employer's deadline.
✓ Use up any contributions to your flexible spending account (FSA) before the use-it-or-lose-it deadline (this may be the end of the year–check with your employer).
✓ Update estate planning documents such as wills, trusts, and health-care directives to account for life changes.
✓ Review and update beneficiaries for your financial accounts and insurance policies.
✓ Make year-end donations to charity. If you itemize, these may help reduce your taxable income for 2016.*
✓ Consider gifts to family members. For 2016, you may give up to $14,000 to each individual without owing gift taxes.*
✓ Begin organizing your financial records for tax time.
✓ Check your Social Security Statement at ssa.gov to find out about future benefits.
*Talk to a tax professional for help with your individual situation.

Pretax, Roth, or After-Tax Contributions: Which Should You Choose?

When choosing between pretax and Roth contributions, the general rule is to consider whether you think you will benefit more from the tax break today than you would from a tax break in retirement. Specifically, if you think you'll be in a higher tax bracket in retirement, Roth contributions may be more beneficial in the long run.

Generally, non-Roth after-tax contributions should be considered after reaching the maximum contribution amount for pretax and Roth options.

Keep in mind that distributions of earnings on non-Roth after-tax contributions will be subject to regular income taxes and possibly penalty taxes if not rolled over to a traditional IRA. IRS Notice 2014-54 clarifies the rules regarding rollovers of non-Roth after-tax plan contributions to a Roth IRA.

For more information specific to your situation, consult a qualified tax professional. (Working with a tax or financial professional cannot guarantee financial success.)

If your employer-sponsored retirement savings plan allows pretax, after-tax, and/or Roth contributions, which should you choose?

Pretax: Tax benefits now

With pretax contributions, the money is deducted from your paycheck before taxes, which helps reduce your taxable income and the amount of taxes you pay now. Consider the following example, which is hypothetical and has been simplified for illustrative purposes.

Example(s): *Mark earns $2,000 every two weeks before taxes. If he contributes nothing to his retirement plan on a pretax basis, the amount of his pay that will be subject to income taxes would be the full $2,000. If he was in the 25% federal tax bracket, he would pay $500 in federal income taxes, reducing his take-home pay to $1,500. On the other hand, if he contributes 10% of his income to the plan on a pretax basis--or $200--he would reduce the amount of his taxable pay to $1,800. That would reduce the amount of taxes due to $450. After accounting for both federal taxes and his plan contribution, Mark's take-home pay would be $1,350. The bottom line? Mark would be able to invest $200 toward his future but reduce his take-home pay by just $150. That's the benefit of pretax contributions.*

In addition, any earnings made on pretax contributions grow on a tax-deferred basis. That means you don't have to pay taxes on any gains each year, as you would in a taxable investment account. However, those tax benefits won't go on forever. Any money withdrawn from a tax-deferred account is subject to ordinary income taxes, and if the withdrawal takes place prior to age 59½ (or in some cases, 55 or 50, depending on your plan's rules), you may be subject to an additional 10% penalty on the total amount of the distribution.

Roth: Tax benefits down the road

On the other hand, contributing to an employer-sponsored Roth account offers different benefits. Roth contributions are considered "after-tax," so you won't reduce the amount of current income subject to taxes. But qualified distributions down the road will be tax-*free.*

A qualified Roth distribution is one that occurs:

- After a five-year holding period and
- Upon death, disability, or reaching age 59½

Nonqualified distributions are subject to regular income taxes and a possible 10% penalty tax. However, because Roth contributions are made with after-tax dollars, a distinction is made between the portion of the distribution that represents contributions versus earnings on those contributions. If at some point you need to take a nonqualified withdrawal from a Roth 401(k)--due to an unexpected emergency, for example--only the proportion of the total amount representing earnings will be taxable.

Example(s): *In order to meet an unexpected financial need of $8,000, Tina decides to take a nonqualified hardship distribution from her Roth 401(k) account. Of the $20,000 total value of the account, $18,400 represents after-tax Roth contributions and $1,600 is attributed to investment earnings. Because earnings represent 8% of the total account value ($1,600 ÷ $20,000 = 0.08), this same proportion of Tina's $8,000 distribution--or $640 ($8,000 x .08)--will be considered earnings subject to both income taxes and a 10% penalty tax.*

However, keep in mind that tapping your account before retirement defeats its purpose. If you need money in a pinch, try to exhaust all other possibilities before taking a distribution. Always bear in mind that the most important benefit of a Roth account is the opportunity to build a nest egg of tax-free income for retirement.

After-tax: For those who are able to exceed the limits

Some plans allow participants to make additional after-tax contributions. This plan feature helps those who want to make contributions exceeding the annual total limit on pretax and Roth accounts (in 2016, the limit is $18,000; $24,000 for those age 50 or older). As with a traditional pretax account, earnings on after-tax contributions grow on a tax-deferred basis.

If this option is offered (check your plan documents), keep in mind that total employee and employer contributions cannot exceed $53,000, or $59,000 for those 50 and older (2016 limits).

Another benefit of making after-tax contributions is that when you leave your job or retire, they can be rolled over tax-free to a Roth IRA, which also allows for potential tax-free growth from that point forward. Some higher-income individuals may welcome this potential benefit if their income affects their ability to directly fund a Roth IRA.[1]

[1] In addition to rolling the proceeds to a Roth IRA, participants may also (1) leave the assets in the original plan, (2) transfer assets to a new employer's plan, or (3) withdraw the funds (which in some cases could trigger a taxable event).

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Do I need to make any changes to my Medicare coverage for next year?

During the Medicare Open Enrollment Period that runs from October 15 through December 7, you can make changes to your Medicare coverage that will be effective on January 1, 2017. If you're satisfied with your current coverage, you don't need to make changes, but you should review your options before you decide to stay with your current plan.

Your Medicare plan sends two important documents every year that you should review. The first, called the Evidence of Coverage, provides information about what your plan covers and its cost. The second, called the Annual Notice of Change, lists changes to your plan for the upcoming year that will take effect in January. You can use these documents to evaluate your current plan and decide whether you need different coverage. You should also review the official government handbook, *Medicare & You 2017,* which is available electronically or through the mail. It contains detailed information about Medicare that should help you determine whether your current plan is right for you.

As you review your coverage, here are a few points to consider:

- What were your health costs during the past year, and what did you spend the most on?
- Will your current plan cover all the services you need and the health-care providers you need to see next year?
- Does your current plan cost more or less than other options? Consider premiums, deductibles, and other out-of-pocket costs such as copayments or coinsurance costs; are any of these costs changing?
- Do you need to join a Medicare prescription drug plan? When comparing plans, consider the cost of drugs under each plan, and make sure the drugs you take will still be covered next year.

If you have questions about Medicare, you can call 1-800-MEDICARE or visit the Medicare website at medicare.gov. You can use the site's Medicare Plan Finder to see what plans are available in your area and check each plan's overall quality rating.

What changes can I make during this year's Medicare Open Enrollment Period?

Each year, current Medicare beneficiaries can make changes to their Medicare coverage for the following year during the Medicare Open Enrollment Period that starts on October 15 and runs through December 7. Because this period is the only time during the year that *all* people with Medicare can make changes to their health and prescription drug plans for the following year, you should carefully consider your options. During this annual enrollment period, you can:

- Change from Original Medicare to a Medicare Advantage Plan
- Change from a Medicare Advantage Plan back to Original Medicare
- Switch from one Medicare Advantage Plan to another Medicare Advantage Plan
- Switch from a Medicare Advantage Plan that doesn't offer prescription drug coverage to a Medicare Advantage Plan that does offer it
- Switch from a Medicare Advantage Plan that offers prescription drug coverage to a Medicare Advantage Plan that doesn't
- Enroll in a Medicare Part D prescription drug plan if you didn't enroll when you were first eligible (a late enrollment penalty may apply)
- Switch from one Medicare Part D prescription drug plan to another
- Drop Medicare prescription drug coverage

Your new coverage, or changes to your existing coverage for the new year, will take effect on January 1.

If you're currently in (or join) a Medicare Advantage Plan, you have another opportunity to leave your plan and switch to Original Medicare (with or without a Part D prescription drug plan) during the Medicare Advantage Disenrollment Period that occurs every year from January 1 to February 14. However, if you have Original Medicare you cannot make any changes during this period. In certain circumstances, if you're enrolled in a Medicare Advantage Plan or Part D prescription drug plan, you may also qualify to make changes during Special Enrollment Periods. Visit medicare.gov for more information.