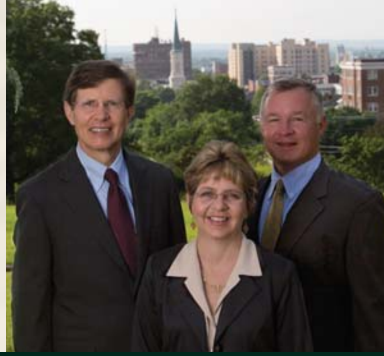
The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING



First Quarter 2014 NAPFA - Registered Financial Advisor (478) 474-7480

5 Withdrawal Strategies For Retirement Savings

For most people, it's not enough to scrimp and save for the golden years. Once you've entered retirement, you have to figure out how to crack open your savings nest egg. The manner and order in which you withdraw funds from various accounts can make a big difference in your retirement lifestyle.

Let's assume you've covered all the bases. During your work career, you participated in a 401(k) plan or another employer-based plan, enabling you to accumulate funds on a tax-deferred basis. In addition, you established one or more IRAs, and perhaps even a Roth IRA and annuities, to provide more retirement savings. And you've invested in stocks, mutual funds and bonds in brokerage and other taxable accounts. Having done all of that, you have several options for where to get the income you need in retirement.

The conventional wisdom is pretty simple. Start by withdrawing funds from your taxable accounts, and then later tap your tax-sheltered savings. The reason is that this will let you continue to benefit from tax deferral for a longer period and thereby preserve more of your nest egg.

But that oversimplified approach fails to take into account all of the relevant factors—including rates of return, projected inflation, your tax brackets both prior to retirement and when you're retired as well as your personal objectives. These five strategies could help you fine-tune your game plan:

1. Fill up the two lowest tax brackets. Under the current federal income tax rate structure, the two lowest brackets for ordinary income have tax rates of 10% and 15%, while the top rate is now 39.6%. A common goal is to generate income in retirement that will be taxed at the 10% or 15% rate, but no higher. (The next tax bracket is 25%.) Thus, you might figure on taking short-term gains on stocks or mutual funds in taxable accounts that would be taxed as ordinary income or generating other taxable income only up to the top threshold for the 15% rate. For 2014, the upper limit is $36,900 for single filers and $73,800 for joint filers.

2. Consider a Roth IRA conversion. When you make withdrawals from a traditional IRA in retirement, the distributions are taxed on a pro-rata basis. Only the portion representing deductible contributions and earnings is taxed at ordinary income rates. But for qualifying distributions from a Roth in existence at least five years and made after age 59½, the payouts are 100% tax-free.

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Additional Services Offered By Day & Ennis

At Day & Ennis, our core service is fee-only financial planning and investment management. Our comprehensive plans are designed to meet the individual goals of each client. They include strategies for cash flow, insurance and risk management, investments, income tax planning and estate planning. We help resolve your financial concerns, including those about planning a comfortable retirement.

In our ongoing efforts to improve client service, we have added the following:

We now offer directed trusts through a trust platform provided from Charles Schwab Bank. These allow you to maintain the relationships you value with your professional advisors – local attorney, CPA, and financial advisor. We work together to generate customized trust solutions that are integrated with your existing financial strategies.

We have added a new division to Day & Ennis. Through D&E Strategies, we offer financial assessment, model portfolios that are rebalanced twice a year and annual updates to your financial assessment.

At the request of our clients, we have added a bill-paying service. We have controls in place to insure accountability and protection of your assets.

If you are interested in or have questions about these services, please give us a call.

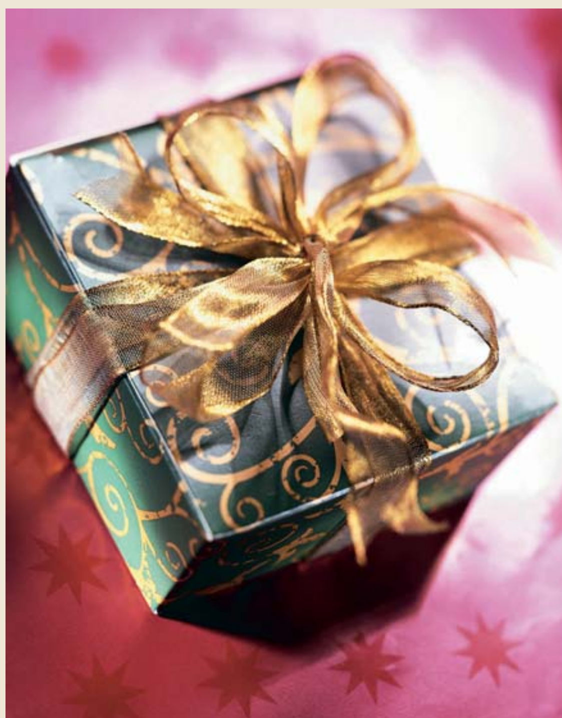
Sincerely,
Day & Ennis, LLC

Crummey Gifts: Spring Into Action

Traditionally, the end of the year is the time when wealthy individuals give gifts to other family members, especially to children who are likely to be in lower tax brackets. Not only does such gift-giving coincide with the holiday season, it also lets you beat the deadline for using the annual federal gift tax exclusion. You now can give as many recipients as you like gifts of cash and property totaling up to $14,000 each without paying federal gift tax. If you give as a couple with your spouse, that amount is doubled to $28,000 per recipient.

And if you exceed the maximum annual gift tax exclusion? You're still likely not to owe any tax on the gift, thanks to a lifetime exclusion that is $5.34 million in 2014. Tapping the lifetime gift tax exemption reduces the amount available to offset possible future federal estate taxes, but the total amount is large enough to leave most people plenty of room to maneuver.

Yet there's no reason to wait until the end of the year to give away assets. Indeed, earlier gifts are usually better. The sooner assets find their way to the accounts of lower-taxed family members, the less tax erosion will undercut potential investment growth of those assets. If, instead, you postpone gifts until December, more of the income will be taxed to you in your higher bracket. An early gift also might help you avoid or minimize the impact of the 3.8% Medicare surtax on net investment income as well as reducing income tax liability on future sales of the property.



Gift-giving can take many forms, but one approach to consider is using a "Crummey trust" (named for the first person to use this technique in a court-approved case). With a Crummey trust, you transfer assets to a trust and name the lower-taxed family member as beneficiary. Typically, the trust provides a small "window" of, say, 30 days, during which the beneficiary has the right to withdraw the funds. If the window isn't opened, the assets become subject to the terms of the trust.

Usually, understanding your intention, the beneficiary won't attempt to use the funds during the 30-day period. But creating this withdrawal power lets the transfer qualify for the annual gift tax exclusion.

In most cases, a Crummey trust will be able to preserve funds for young family members until they reach the age of majority. Or you could set up the trust to last even longer and provide payments to beneficiaries at predetermined intervals. That could help alleviate concerns about spendthrift children and remove the assets from the clutches of creditors.●

Don't Chase After The Market News

Did you read the newspaper today or check the news online? Invariably, the stock market will be heading up or down, with the movement triggered by anything from company earnings announcements to a change in economic indicators or even a political event such as the recent U.S. government shutdown. And, more often than not, financial pundits may respond by urging investors to buy or sell something.

But you can drive yourself crazy, if you haven't already, by making stock market decisions based on what just has occurred or what you think will happen next. In fact, chasing after the news is a common investment mistake. There are at least four good reasons to avoid this temptation like the plague:

1. The stock market usually moves ahead of the news.

There was no "all clear" signal that the severe stock market downturn of 2008-2009 had abated. But the market hit bottom on March 9, 2009, and embarked on a long, profitable climb even as other financial news remained dire. Typically, stocks move about six months ahead of economic developments, reflecting the collective knowledge, trends, and inclinations of investors. If you try to beat the market by reacting to the latest news, you'll probably be much too late to benefit.

2. You don't have all the necessary information.

Markets tend to move based on the decisions of mutual fund managers or professional analysts who monitor and interpret financial data for a living. They have a lot more information than you do, and they get it much sooner than you—and millions of others like you—who will hear it on television or find it on the Internet. That puts you at a decided disadvantage.

3. You can't believe all the hype.

In this electronic age, media reports are often prone to hyperbole, as

4 Tips For Assembling A College Savings Plan

Sooner or later, most parents hoping to send their children to college must face a harsh reality: It's going to take a boatload of money to pay for four years or more at a top-flight college or university.

According to the latest figures released by the College Board, the ever-rising cost of higher education continues to outpace inflation. The average cost of tuition and fees at a private college for the 2013-14 academic year is $30,094. An out-of-state student at a public college or university will pay $22,203 on average.

If you hope to save some, or all, of that hefty sum, you'll need to start early. Even then, you'll have several options in terms of how to proceed. One of the foremost authorities on college savings plans is the Financial Industry Regulatory Agency (FINRA), the largest independent regulatory agency in the country. Here's a summary of four tips from FINRA:

1. Understand the tax benefits. You may be eligible for tax breaks, on both the federal and state levels, that can help defray the cost of saving for college. For instance, FINRA points out that contributions made to a 529 college savings plan can grow tax-deferred while withdrawals are tax-free if they are used for qualified education expenses. Similar advantages are available for a Coverdell Education Savings Account (CESA), but contribution limits are much lower than for a 529 plan. Also, all 529 plans allow you to maximize the usual gift-tax exclusion ($14,000 for 2013) by making five years' worth of contributions in one year.

In addition, many states allow you to deduct part or all of your contributions to a 529 plan if you're a resident of the state sponsoring the plan—a good reason to check out your own state's plans before sorting through those of other states. Finally, note that parents may be eligible for a federal tax credit or tuition deduction in years they pay higher education expenses, although these tax benefits are phased out for upper-income taxpayers.

2. Examine fees and expenses. Most of the time, you get what you pay for, but you should ensure that any college saving option with high costs would outperform the lower-cost options. FINRA emphasizes that even small differences in fees and expenses can translate into a big difference over time. This applies to various expenses relating to many 529 plans as well as mutual funds or stocks purchased through a CESA. For mutual funds, check the fee table in the prospectus to see how the costs can add up. If you invest in stock, understand the method used to determine commissions and factor them into any gains you may realize.

3. Know the risks and the rewards. Compared to saving for retirement, your college-saving timeline is relatively short. Therefore, the ability to recover from a sudden market decline is reduced. Spread savings over many types of investments so that your entire college fund won't get wiped out if one sector or asset class—such as stocks or bonds—falls.

4. Carefully evaluate any college saving vehicle, and its investment options, before you invest. Some options with higher rates of return may include risks that are beyond your comfort level and don't match up to your goals. As usual, diversification is recommended.To learn more about the investment strategies and risks of the options you are considering, read all of the relevant materials. For instance:

- 529 plans. Read the offering circular or prospectus. It usually contains the investment strategy and risks of the plan in addition to its portfolios. Most 529 plans provide this document on their websites.
- Mutual funds. Read the prospectus and shareholder reports. These are generally available from the mutual fund company or your financial professional.
- Stocks and other securities. Read the company's registration statement or annual (Form 10-K) and quarterly (Form 10-Q) reports. These are typically available in the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) database. For companies that haven't filed in EDGAR, contact the SEC Office of Investor Education and Advocacy to see if the company has filed any documents with the SEC.

Beyond all of these tips, be sure to look at possible limitations or restrictions that could affect your savings. What happens to your college savings plan if your child decides not to attend college, you have another child, or you lose your job? These events could have a significant impact on your education savings strategy. We can help you review the college saving options you're considering to ensure they offer the flexibility and control you need. ●

Source: http://www.finra.org/Investors/SmartInvesting/SmartSavingforCollege/P123936

the pressure to generate interest from a fickle public continues to increase. That could lead producers to overreact to news tidbits or sensationalize minor events. One small incident usually doesn't portend a complete economic collapse, so take reports of impending doom with a grain of salt. It isn't likely that the sky is falling!

4. Market timing is difficult, if not impossible.

To be successful at market timing, you have to be extremely skilled or lucky, or both. Over the long term, buying or selling based on what you hear or read almost never beats a consistent, methodical long-term approach. It's better to make investment decisions based on financial particulars rather than on instincts and hunches.

Building a diversified portfolio combining stocks, bonds, and other investments can help you progress toward your financial goals—and it can help you stop worrying about what you hear on the news. ●

What To Do When You're Suddenly Widowed

If your spouse should suddenly pass away, you could find yourself overwhelmed—not just emotionally, but also by a host of financial decisions. Your financial situation is probably about the last thing you'd want to be thinking about, and many things could wait, at least for a little while. Indeed, after such a dramatic event in life, it's probably best not to rush into anything. However, time isn't always on your side, and some decisions may be required immediately—especially if you have not planned properly. And sooner or later, you'll need to address certain financial issues. Here are some practical suggestions that may be helpful:

Deadlines. After losing a loved one, it can be easy to neglect deadlines. You'll generally need to file an estate tax return for your spouse within nine months of death, for example, and you still must file a federal income tax return for the year of death by April 15. Don't let letters from places like the IRS and financial institutions fall to the bottom of a pile. Missing deadlines can cost you dearly.

Retirement Accounts. Review benefit options for 401(k)s, pensions, and other retirement accounts. You'll likely need to decide between taking a lump sum or periodic distributions, rolling the funds into an IRA, or leaving the plan assets where they are. Each option has pros and cons.

Cash-Flow. Estimate your expenses for the next five to 10 years. Will you be paying for one or more children to attend college? When do you expect to retire, and what sort of lifestyle do you envision? This requires a thorough analysis of your finances and also might entail adjusting your investment strategy.

Insurance. Don't ignore insurance concerns. Typically, a surviving spouse inherits most, if not all, of the other spouse's assets and will be the primary or sole beneficiary of life insurance death benefits. This is a time to consider what you can do to protect your children's future. Meanwhile, in light of your changed situation, review all of your insurance policies. Be sure your health, disability, long-term care, umbrella and other polices still meet your needs.

Retirement. After losing a spouse, your retirement goals may change. You may want to consider retiring earlier or later. How much in Social Security benefits will you receive based on earnings history? Social Security is complicated, and you'll need to gather all of the facts to make good decisions.

Investments. Pull together all of the relevant records for your spouse's investments and any assets you held jointly. Once you know where you stand, be sure you understand all of the investments you own and are comfortable with the risk they entail. Set a long-term course for the future, but realize that adjustments may be needed now.

We're available to provide any assistance you need. ●

Strategies For Retirement

(Continued from page 1)

Accordingly, you might convert traditional IRA funds to a Roth, keeping in mind that the amounts you convert will be treated as taxable distributions. Building on the prior strategy, stagger conversions over a few years to maximize your use of the two lowest tax brackets.

3. Spend from taxable accounts first. Suppose you've taken all of the income you can that's taxed at 10% or 15% but you still need more funds. What's next? All things being equal, taking money from your taxable brokerage accounts may be preferable to raiding a 401(k) plan or IRA. You may generate mostly long-term capital gains, and they're taxed at lower rates than ordinary income.

4. Keep your bond holdings in IRAs. Although income from bonds is taxed at ordinary income rates, stock sales may qualify for preferential capital gain treatment. Currently, the maximum tax rate on gains from stock owned more than one year is 15%, and 20% for investors in the top 39.6% tax bracket. But you lose the benefit of these favorable tax rates for stocks held inside an IRA, because when you withdraw from an IRA much of the distribution may be taxed as ordinary income. As a result, it's generally better to keep bonds inside an IRA, to defer taxes on interest payments, and stocks on the outside.

5. Don't forget about life insurance. So far, at least, Congress hasn't reduced the tax benefits of life insurance. The death proceeds are free of federal income tax and you can easily arrange to avoid dire estate tax consequences. Thus, you can consider life insurance to be a supplement to 401(k) and IRA funds on the "back end" of retirement, particularly as a source of income for a surviving spouse.

Note that other factors may come into play that could affect how, when, and where you go for retirement income. For instance, upper-income individuals also may have to account for a 3.8% Medicare surtax on"net investment income" received during retirement. The best idea is to develop a comprehensive plan for building your retirement paycheck that considers the potential tax consequences of various approaches. ●

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