The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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Figuring Out How Much You Need In Retirement

At some point, almost everyone asks this question: How much do I have to save for retirement? Of course, there's no easy answer, but what may be even more disconcerting is the possibility that this may be the wrong question. It might be more beneficial to figure out how much income you will need annually in retirement than it is to pinpoint the amount you should try to set aside.

Start by Changing Your Mindset

You are who you are and that isn't likely to shift 180 degrees in retirement. Sure, you'll have more time to travel or pursue other activities, but you'll still be the same person with the same basic values, interests, and inclinations. Armed with this knowledge, you may want to shift from the notion of accumulating a specific amount for your retirement to figuring out what your expenses will be on a year-to-year basis.

Once you understand your financial liabilities, you'll be better prepared to devise a retirement saving strategy and at the same time eliminate fears that your money won't last long enough. Targeting a "magic number" for the future can be stressful. According to a recent survey, 82% of the respondents who have dependents and are age 44 through 49 were more worried about outliving their money than they were about death. Concentrating more on your personal needs can help alleviate concerns.

Begin this process by calculating your true retirement liability. Rather than asking "How much money do I need to retire?" try to determine "How much money in future dollars will I need each year during retirement?"

Calculate Your Expected Expenses

Where and how will you spend most of your money during retirement? Everyone's situation is different, but recent statistics from the Bureau of Labor Statistics indicate the typical results, some of which you may find surprising. Here are a few findings to ponder about retirees age 65 and over:

- They spend 34.2% of their money on housing. If you're already an empty nester, or expect to be one in the near future, you might look to downsize soon to take advantage of the equity built up in your home. In any event, consider working out a plan that lets you live more economically than you could when you were in the middle of a career and raising kids.
- They spend 16% of their money on transportation. And it's not paying for gasoline that hurts the wallet most; the bulk of these expenditures come from buying new cars. Instead of succumbing to the temptation to rush out and get a new vehicle every three years, consider keeping your existing car or buying a pre-owned model.
- They spend only 0.5% of their money on education. Just because

(Continued on page 4)

Should You Worry About A Market Correction?

As Peter Lynch, the renowned investor for Fidelity Investment's Magellan Fund, said, "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

According to a study by Investment Strategy Group, there is a 57% probability of a 10% pull-back in the S&P 500 Index in any given year. Here's what happens when investors react to an anticipated pull-back: 56% of the time they will either not be invested at all (because the market does not experience a 10% pull-back) or they will be invested at a higher price than would have been the case prior to their reaction.

We believe clients should consider splitting their investments into two "buckets". One bucket is invested conservatively and provides a source of funds for withdrawals over the next 4 to 5 years. Another bucket is for longer term concerns and is invested more aggressively. This strategy can give you peace of mind, mitigating worries about market corrections.

We are here to help clients plan for the future, and would be happy to evaluate your investment strategy.

Sincerely,
Day & Ennis, LLC

When It Pays To ID Security Sales

Suppose 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 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. ●

Sound Advice On Donor-Advised Funds

Charitable giving in the United States has rebounded. In 2013, such donations were up 4.9% from a year earlier. According to the "Charitable Giving Report" for 2014, large nonprofit organizations grew by 5.7%, medium-sized organizations by 3.8%, and small nonprofits by 3.6%. And 2013 marked the biggest year-over-year increase in charitable giving since the recession of 2008-09.

But some people these days want to do more than simply write checks to their favorite causes. One way to become more involved in the process is to set up a donor-advised fund.

These funds work pretty much as the name implies, giving donors more control than normal over contributions. Typically, you give money to a fund managed by a financial institution. A minimum gift of $5,000 or more may be required. Also, the fund may charge fees, based on a percentage of your assets in the fund (often charging from 0.5 to 1%), to cover administrative costs.

Then donors choose one or more charitable organizations to be potential recipients of their gifts. The fund reviews those selections to verify that the charity is eligible to receive tax-deductible contributions. Once the grant is approved by the fund, the money is sent to the appropriate charity, indicating that the contribution was made upon the donor-advised fund's recommendation. Gifts also may be made anonymously.

What are the tax benefits? The basic rules for charitable donations still apply. You generally can deduct monetary contributions in full, although the amount is limited to 50% of your adjusted gross income (AGI). Any excess may be carried over for up to five years. You also can claim a deduction for the fair market value of donated property you've held for longer than one year, but deductions for those gifts are limited to 30% of

Should You Borrow Against Life Insurance?

William Shakespeare famously wrote in "Hamlet," one of his classic tragedies, "Neither a borrower nor a lender be." But sometimes borrowing can't be helped. You may need cash in a hurry and have few other affordable options. In that case, you might consider borrowing funds from a somewhat unusual source: your life insurance policy.

Compared with taking a traditional bank loan, borrowing against a life insurance policy may offer several potential advantages. But this approach, as Shakespeare probably would have cautioned, is not without its perils.

Life insurance has an obvious primary purpose. But if you opt for whole life insurance, variable life insurance, or universal life insurance—varieties of what often is known as permanent life insurance—as opposed to choosing a term policy, part of your premium payments will build cash value in the policy, and you can borrow against that value. You might need money to help pay an emergency medical expense, buy a home, or even send a child to college. Once your financial situation improves, you can pay back the loan.

There tend to be few restrictions on life policy loans. Although you're not permitted to borrow more than the cash balance of the insurance, you're free to use the funds any way you wish, no questions asked. But there is one significant drawback: When you borrow against your life insurance, you're reducing the benefit that would be paid to your beneficiaries if you die before the loan is paid off.

Compared with other loan sources, your life insurance may offer several advantages:

• You have quick access to the cash. You really are borrowing your own money, so there will be no credit checks or other red tape to delay things. Usually, the money will be in your hands within weeks, or even days.

• There are no closing costs or application fees, and interest rates are generally reasonable.

• You won't have to pay back the loan on a regular schedule or even repay it at all if you don't mind the reduced death benefit.

• You may be able to borrow up to 95% of your policy's cash balance.

Because the money you get is a loan, it's not considered income for tax purposes, and if you invest the cash, you may be able to deduct your interest expenses to offset investment income. However, the interest you pay on money you use for personal expenses—for example, to buy a car you don't use for business travel—is not deductible.

There could be additional tax complications if you borrow from a policy that is characterized as a modified endowment contract (MEC), a kind of insurance that may be used to build cash value very quickly. If you take a policy loan from an MEC, the proceeds will be subject to income tax and possible penalties.

A "seven-pay test" determines whether a policy will be treated as an MEC under the tax laws. That test, which limits the total amount you're allowed to pay into your policy during its first seven years, is designed to discourage premium schedules that would result in a paid-up policy before the end of a seven-year period.

Even if a policy isn't classified as an MEC, there may be several potential disadvantages to borrowing against its value. Those could include:

Reduced dividends. By borrowing from the cash value, you limit the amount of dividends that your insurance company may pay to its policyholders.

Increased costs. In some cases, a decrease in cash accumulation in a policy could lead to higher costs for you. That may be especially likely if you borrow against a universal life insurance policy.

Smaller death benefit. Anything you still owe to the policy when you die will be deducted from the amount that is paid to your beneÂ¬ficiaries.

Because it's relatively easy to borrow against life insurance, you may be tempted to take a loan under circumstances that don't really warrant it. Considering all of the potential complications, taking money from your policy could be something to avoid if you can. If you take a policy loan to finance an exotic vacation trip or to buy a luxury car, for example, you could end up shortchanging your family unnecessarily. Before you borrow, get expert advice about how such a loan may affect your taxes, premiums, policy coverage, and dividends. And don't ignore the ultimate impact on your life insurance's original goal of helping your beneficiaries. ●

AGI. In either case, though, you get the deduction in the year you make the contribution, even if the money doesn't go from the donor-advised fund to the charity until a future tax year.

Keep in mind, however, that charitable deductions are among the itemized deductions that now may be reduced under the "Pease rule." The reduction is equal to 3% of the excess AGI over $250,000 for single filers and $300,000 for joint filers (but not more than 80% overall). You may want to calculate how these reductions would affect the tax-saving benefits of your generosity.

Finally, it's important to remember you can't benefit personally from your donations to a donor-advised fund. For instance, you can't authorize the fund to pay for tickets to a fundraiser that you attend or use the assets to support a political candidate.

There are literally hundreds of sponsors of donor-advised funds. Before you commit to one, do your homework on the fund's background, policies and fees. ●

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. ●

How Much For Retirement?

(Continued from page 1)

you're retired doesn't mean you should stop learning. Going back to school on a part-time basis—even if you do it online—could improve your lifestyle and open up new opportunities.

This is just the tip of the iceberg. Also consider health care—often a big expense—food, entertainment, and retirement travel. No one knows better than you do where your money will go.

4 Steps to Prepare

It can be challenging to change the way you think about retirement planning, but here are four steps that may help:

1. Make retirement planning a top priority. It's been said that any plan is better than no plan at all. You're one step ahead of the game if you've already started to focus on the challenges ahead. Ignoring it could be the worst option.

2. Seek the counsel of others. We would be glad to provide whatever assistance you need in meeting your goals. It is often helpful if an impartial voice can provide guidance on emotional topics such as selling the family home or bypassing luxuries.

3. Create a range of estimates for what you will spend. Even if you knew with certainty how long you would live and how much you would spend, it still would be extremely difficult, if not impossible, to estimate your retirement liability exactly. Make reasonable estimates within a range and review the analysis annually.

4. Start sooner rather than later. Regardless of your age, it's not too early to begin planning. Your circumstances could change, so you'll need to build some flexibility into the plan. That's far easier at an early age than it is when retirement is knocking on the door. ●

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