



## Duncklee & Nott

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Hi friends and clients!  
Summer vacation is right around the corner. Our longest running client event is coming up in July. The annual Duncklee Open golf tournament will be July 18th at Natanis this year, with a morning start as usual. Please give us a call if you want to sign up a team or as an individual.

Enjoy the articles this month, and have a great start to the summer!  
*Jim, Ken, Megan, Sharon, & Susie*

## June 2014 Financial Fitness

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INVESTMENT & RETIREMENT PLANNING

# Financial Fitness

## *Duncklee & Nott Monthly Newsletter*

### Top 10 Tax Breaks You'll Miss in 2014



You probably didn't notice, but when the clock struck midnight on December 31, 2013, a number of popular tax benefits, commonly included in the list of provisions referred to as "tax extenders" expired. While it's possible that Congress could retroactively extend some or all of these items, you'll have to evaluate your 2014 tax situation based on the fact that they're no longer available.

#### 1. Qualified charitable distributions

For the past few years, a qualified charitable distribution (QCD) of up to \$100,000 could be made from an IRA directly to a qualified charity if you were age 70½ or older. Such distributions were excluded from income *and* counted toward satisfying any required minimum distribution (RMD) that you would otherwise have had to take from your IRA for that tax year. QCDs aren't an option for 2014, however.

#### 2. Qualified small business stock exclusion

For qualified small business stock issued and acquired after September 27, 2010, 100% of the capital gain resulting from a sale or exchange could be excluded from income, provided certain requirements, including a five-year holding period, are met. For qualified small business stock issued and acquired after 2013, however, the amount that can be excluded from income drops to 50%.

#### 3. Deduction for higher education expenses

The above-the-line deduction for qualifying tuition and related expenses that you pay for yourself, your spouse, or a dependent is not available for 2014.

#### 4. Classroom educator expense deduction

The above-the-line deduction for up to \$250 of unreimbursed out-of-pocket classroom expenses paid by qualified education professionals also expired at the end of 2013.

#### 5. State and local sales tax deduction

If you itemize deductions for the 2014 tax year, you won't have the option of claiming a deduction for state and local sales tax in lieu of the deduction for state and local income tax.

#### 6. Depreciation and expense limits

The maximum amount that can be expensed under Internal Revenue Code Section 179 drops significantly from its 2013 level of \$500,000 to \$25,000 for 2014. The special 50% "bonus" first year additional depreciation deduction has also ended.

#### 7. Mortgage insurance premiums

Starting in 2014, individuals who itemize deductions will no longer have the ability to treat premiums paid for qualified mortgage insurance as deductible interest on IRS Form 1040, Schedule A.

#### 8. Employer-provided commuter expenses

For 2013, you could exclude from income up to \$245 per month in transit benefits (e.g., transit passes) and \$245 per month in parking benefits. For 2014, the monthly limit for qualified parking increases to \$250, but the monthly limit for transit benefits drops to \$130.

#### 9. Energy efficient home improvements and property

The nonbusiness energy property credit offset some of the costs associated with the installation of energy efficient qualified home improvements (e.g., insulation, windows) and qualified residential energy property (e.g., water heater, central air). Specific qualifications and limits applied, and an overall lifetime cap of \$500 was in effect for 2013. The credit is not available at all in 2014.

#### 10. Discharge of debt on principal residence

Since 2007, individuals have generally been allowed to exclude from income amounts resulting from the forgiveness of debt on their principal residence. This provision expired at the end of 2013.

# Personal Finance Tips for New Graduates



## Tips for paying off student loans:

- **To make your payment schedule easier, consider consolidating or refinancing your student loans**
- **To shorten the overall repayment term and save on interest charges, try to divert extra funds toward monthly principal prepayment**
- **If you are having trouble paying your federal student loans, look into the government's Income-Based Repayment (IBR) plan**

You've marched along to *Pomp and Circumstance* and collected your diploma--now you're ready to finally head out on your own. Maybe you have student loans that you need to start paying back. Perhaps you're looking forward to making your first car purchase or starting a new job. Whatever your situation, you'll definitely have new financial challenges you'll need to address and financial goals that you'll want to accomplish during this stage in your life. Fortunately, there are some relatively simple steps you can take to get started on the right track with your personal finances.

## Create a budget

An easy way to maintain control of your finances is to create a budget. Ideally, a budget will assist you in making sure that you are spending less than you earn.

In order to create a budget, you'll need to identify your current monthly income and expenses. Income includes your regular salary and wages, along with other types of income such as dividends and interest.

When it comes to identifying your expenses, it may be helpful to divide them into two categories: fixed and discretionary. Fixed expenses include things that are necessities, such as rent, transportation, and student loan payments. Discretionary expenses include things like entertainment, vacations, and hobbies. You'll want to include out-of-pattern expenses (e.g., holiday gifts, auto repair bills) in your budget as well.

The most important part of budgeting is sticking to it. To help you stay on track:

- Try to make budgeting a part of your daily routine
- Build the occasional reward into your budget (e.g., splurge on a latte at the local coffee shop or have dinner at a restaurant instead of cooking at home)
- Be sure to evaluate and monitor your budget regularly and adjust/make changes as needed

## Make saving a priority

Whether it's setting enough aside on a regular basis to accumulate an emergency cash reserve or putting money into an employer-sponsored retirement plan, if your budget allows, you should make saving a priority. And being a young investor means that you have one powerful advantage over older generations--time. By making saving a priority early in your life, your money can have more time to potentially grow and take advantage of the value of compound interest. To make it

even easier to save, you can arrange to have a portion of your paycheck/earnings directly deposited into a savings or investment account.

## Get a handle on your debt situation

Whether it's debt from student loans or credit cards, it's important to avoid the financial pitfalls that sometimes go hand-in-hand with borrowing. In order to manage your debt situation properly:

- Keep track of loan balances and interest rates
- Develop a plan to manage your payments and avoid late fees
- Pay off high interest debt first or take advantage of debt consolidation/refinancing

## Understand the importance of having good credit

Credit reports affect so many different aspects of one's financial situation--from being able to obtain a car loan to being a prerequisite for employment. Having a good credit report will allow you to obtain credit when you need it, and often at a lower interest rate. As a result, it's important to establish and maintain a good credit history by avoiding late payments on existing loans and eliminating unpaid debts. Finally, it's important to monitor your credit report on a regular basis for possible errors.

## Evaluate your insurance needs

As a younger individual, insurance is probably not the first thing that comes to mind when you think about your finances. However, having the right amount of insurance to protect yourself against possible losses is an important part of any financial plan. Your insurance needs will depend on your individual circumstances. For example, if you rent an apartment, you'll need to obtain renters insurance to protect against loss or damage to your personal property. If you own a car, you'll need to have appropriate coverage for that as well. You'll also want to evaluate your needs for other types of insurance (e.g., disability and life).

Finally, under the Affordable Care Act, everyone, regardless of age, must have qualifying health insurance or risk paying a possible penalty. If you don't have access to health insurance through your parent's health plan or an employer- or government-sponsored health plan, you may purchase an individual health plan through either the federal or a state-based health insurance Exchange Marketplace. You can visit [www.healthcare.gov](http://www.healthcare.gov) for more information.

## Financial Choices: College, Retirement, or Both?



### A juggling act

*It's the paramount financial conflict many families face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.*

### Note

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

Life is full of choices. Should you watch *Breaking Bad* or *Modern Family*? Eat leftovers for dinner or order out? Exercise before work or after? Some choices, though, are much more significant. Here is one such financial dilemma for parents.

### Should you save for retirement or college?

It's the paramount financial conflict many parents face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.

Over the past 20 years, college costs have grown roughly 4% to 6% each year--generally double the rate of inflation and typical salary increases--with the price for four years at an average private college now hitting \$192,876, and a whopping \$262,917 at the most expensive private colleges. Even public colleges, whose costs a generation ago could be covered mostly by student summer jobs and some parental scrimping, now total about \$100,000 for four years (Source: College Board's Trends in College Pricing 2013 and assumed 5% annual college inflation). Many parents have more than one child, adding to the strain. Yet without a college degree, many jobs and career paths are off limits.

On the other side, the pressure to save for retirement is intense. Longer life expectancies, disappearing pensions, and the uncertainty of Social Security's long-term fiscal health make it critical to build the biggest nest egg you can during your working years. In order to maintain your current standard of living in retirement, a general guideline is to accumulate enough savings to replace 60% to 90% of your current income in retirement--a sum that could equal hundreds of thousands of dollars or more. And with retirements that can last 20 to 30 years or longer, it's essential to factor in inflation, which can take a big bite out of your purchasing power and has averaged 2.5% per year over the past 20 years (Source: Consumer Price Index data published by the U.S. Department of Labor, 2013).

So with these two competing financial needs and often limited funds, what's a parent to do?

### The prevailing wisdom

Answer: retirement should win out. Saving for retirement should be something you do no matter what. It's an investment in your future security when you'll no longer be bringing home a paycheck, and it generally should take precedence over saving for your child's college education.

It's akin to putting on your own oxygen mask first, and then securing your child's. Unless your retirement plan is to have your children be on the hook for taking care of you financially later in life, retirement funding should come first.

### And yet ...

It's unrealistic to expect parents to ignore college funding altogether, and that approach really isn't smart anyway because regular contributions--even small ones--can add up over time. One possible solution is to figure out what you can afford to save each month and then split your savings, with a focus on retirement. So, for example, you might decide to allocate 85% of your savings to retirement and 15% to college, or 80/20 or 75/25, or whatever ratio works for you.

Although saving for retirement should take priority, setting aside even a small amount for college can help. For example, parents of a preschooler who save \$100 per month for 15 years would have \$24,609, assuming an average 4% return. Saving \$200 per month in the same scenario would net \$49,218.\* These aren't staggering numbers, but you might be able to add to your savings over the years, and if nothing else, think of this sum as a down payment--many parents don't save the full amount before college. Rather, they try to save as much as they can, then look for other ways to help pay the bills at college time. Like what?

Loans, for one. Borrowing excessively isn't prudent, but the federal government allows undergraduate students to borrow up to \$27,000 in Stafford Loans over four years--a relatively reasonable amount--and these loans come with an income-based repayment option down the road. In addition, your child can apply for merit scholarships at the colleges he or she is applying to, and may be eligible for need-based college grants. And there are other ways to lower costs--like attending State U over Private U, living at home, graduating in three years instead of four, earning credits through MOOCs (massive open online courses), working during college, or maybe not attending college right away or even at all.

In fact, last summer, a senior vice president at Google responsible for hiring practices at the company noted that 14% of some teams included people who never went to college, but who nevertheless possessed the problem solving, leadership, intellectual humility, and creative skills Google is looking for ("In Head-Hunting, Big Data May Not Be Such a Big Deal," *New York Times*, June 19, 2013). One more reason to put a check in the retirement column.

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## Are con artists adopting trendy twists on old scams?

In a word, yes. You may be great at deleting e-mails from Nigerian princes to avoid online phishing, but fraudsters keep coming up with new schemes for prying information or money from potential victims. And while scams sometimes involve hot topics that are getting a lot of attention in the news, which may make them seem legitimate, they still may be based on old-school techniques such as phone calls.

If a broker contacts you about investing in high-yielding certificates of deposit, don't provide any information or send money right away. Why? Because of reports that scammers have been posing as brokers to pitch CDs, claiming to represent a legitimate firm--perhaps even one that you already do business with. They may give you a number to call or offer to have their supervisor send you forms to help you transfer funds in an attempt to acquire data that can be used to steal either your money or identity. Even caller ID can be rigged to fake a firm's number; check the number independently with the firm's website or your own records and call directly to verify the caller's identity.

Another area ripe for fraud is linked to the

recent legalization of medical or recreational marijuana in some states. As with any enterprise making headlines, so-called "pump-and-dump" artists have begun touting small, thinly traded companies linked to that industry. In many cases, they hope to inflate demand and drive up the stock price quickly--the "pump"--and then dump their vastly inflated shares at a profit, leaving their victims holding the bag(gie). Any unproven company in a relatively new industry deserves extra scrutiny of its financials, management, business plan, and other information. Don't be rushed into a decision just because a stranger tells you the window of opportunity is closing or promises fast profits.

Finally, if you receive a phone call threatening you with jail time or the loss of your driver's license unless you pay what you owe the IRS, don't panic, even if they cite part of your Social Security number or you also get a call from your local police department or motor vehicles department that seems to "verify" the claim. Again, your first step should be to contact the IRS, police, or motor vehicles department on your own, using a phone number you obtained yourself rather than one provided by a caller.



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