



## Duncklee & Nott

Kenneth Nott, CFP®, AIF®, CFS  
19 Central Street  
Hallowell, ME 04347  
207-622-5222  
877-582-2835  
ken@dnretire.com  
www.dnretire.com

Hi friends and clients!

The final round of construction and renewal has started on our building! Hopefully it will be wrapped up before the end of November. Thanks in advance for your patience as we deal with some construction noise for the next few months!

It is back to school time and we hope everyone is ready and has made an easy transition back to school. Good luck to all the teachers, students, and athletes who are just starting their year.

Enjoy the articles this month!

*Jim, Ken, Megan, Sharon, & Susie*

### September 2014 Financial Fitness

Quiz: How Much Do You Know about Social Security?

10 Basic Tax To-Dos for the Rest of 2014

The Potential Pitfalls of DIY Estate Planning

Should I co-sign my daughter's private student loan?

*Duncklee & Nott*

INVESTMENT & RETIREMENT PLANNING

# Financial Fitness

## *Duncklee & Nott Monthly Newsletter*

### Quiz: How Much Do You Know about Social Security?



You're probably covered under Social Security--according to the Social Security Administration, an estimated 165 million workers are\*--but how much do you know about this program? Test your

knowledge by answering the following questions.

#### Questions

**1. If you decide to collect your retirement benefit starting at age 62, your benefit will be how much less than if you wait until your full retirement age?**

- a. 5% to 10% less
- b. 15% to 20% less
- c. 25% to 30% less
- d. 35% to 40% less

**2. Your spouse and children may be eligible for benefits if something happens to you.**

- a. True
- b. False

**3. The Social Security taxes that are collected from your paycheck are called:**

- a. FUTA taxes
- b. FETA taxes
- c. FICA taxes

**4. Once you reach full retirement age, you can work and earn as much as you want without reducing your Social Security benefit.**

- a. True
- b. False

**5. Once you begin receiving your retirement benefit, it will never increase.**

- a. True
- b. False

#### Answers

**1. c.** If you were born in 1943 or later, you'll see a 25% to 30% reduction in your retirement benefit if you claim Social Security benefits at age 62, rather than waiting until your full retirement age (which is 66 to 67, depending on your year of birth). This reduction is permanent.

**2. a.** Social Security isn't just for retirees. Your spouse and dependent children may be able to receive survivors or disability benefits based on your earnings record if certain eligibility requirements are met.

**3. c.** Social Security payroll taxes are called FICA taxes because they are collected under the authority of the Federal Insurance Contributions Act. FICA includes two separate taxes: Social Security and Medicare. The Social Security portion is withheld from your pay at a rate of 6.2% (matched by your employer), but only on earnings up to the maximum earnings limit for the year (\$117,000 in 2014).

**4. a.** Before you reach full retirement age, your benefit will be reduced if your earnings exceed certain limits, but these earnings limits no longer apply once you reach full retirement age.

**5. b.** There are several reasons why your benefit might increase after you begin receiving it. First, you'll generally receive annual cost-of-living adjustments (COLA). Second, the Social Security Administration recalculates your benefit every year to account for new earnings, so your benefit might increase as a result. Your benefit might also be adjusted if you qualify for a higher benefit based on your spouse's earnings once he or she files for Social Security.

For more information, visit the Social Security Administration's website, [www.ssa.gov](http://www.ssa.gov).

\*Social Security Basic Facts, 2014

## 10 Basic Tax To-Dos for the Rest of 2014

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

### 1. Make time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings when you can assess whether you'll be paying taxes at a lower rate in one year than in the other. So, carve out some time.

### 2. Defer income

Consider any opportunities you have to defer income to 2015, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

### 3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the 2014 tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2015, could make a difference on your 2014 return.

**Note:** *If you think you'll be paying taxes at a higher rate next year, consider the benefits of taking the opposite tack--looking for ways to accelerate income into 2014, and possibly postponing deductions.*

### 4. Know your limits

If your adjusted gross income (AGI) is more than \$254,200 (\$305,050 if married filing jointly, \$152,525 if married filing separately, \$279,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2014 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

### 5. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions, making it a significant consideration when it

comes to year-end tax planning. For example, if you're subject to the AMT in 2014, prepaying 2015 state and local taxes probably won't help your 2014 tax situation, but could hurt your 2015 bottom line. Taking the time to determine whether you may be subject to AMT before you make any year-end moves can save you from making a costly mistake.

### 6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2014 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars, so there's no immediate tax savings. But qualified distributions are completely free from federal income tax, making Roth retirement savings vehicles appealing for many.

### 7. Take required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

### 8. Know what's changed

A host of popular tax provisions, commonly referred to as "tax extenders," expired at the end of 2013. Among the provisions that are no longer available: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

### 9. Stay up-to-date

It's always possible that legislation late in the year could retroactively extend some of the provisions above, or add new wrinkles--so stay informed.

### 10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation, keep you apprised of legislative changes, and help you determine if any year-end moves make sense for you.



#### AMT "triggers"

*You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.*

#### IRA and retirement plan contributions

*For 2014, you can contribute up to \$17,500 to a 401(k) plan (\$23,000 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2014 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2014 IRA contributions.*



*The one-size-fits-all, fill-in-the-blank forms that do-it-yourself estate planning sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk of doing things incorrectly?*

## The Potential Pitfalls of DIY Estate Planning

Americans, by and large, are do-it-yourselfers. Books, websites, software programs, and even giant box stores exist solely to help ambitious Americans tackle all kinds of everyday challenges, from fixing leaky faucets to building backyard sheds. The same holds true for estate planning--there's certainly no dearth of information for those wanting to prepare their own wills and other important documents. However, do-it-yourselfers may want to exercise a bit of caution here.

Although do-it-yourself (DIY) estate planning can cost a fraction of what attorneys charge, depending on your personal situation, this may be a case of being penny-wise and pound-foolish.

### Cheap, easy, and better than nothing

Proponents of DIY estate planning typically have two arguments:

1. **It's cheap and easy:** Creating a will and other estate planning documents on your own can cost far less than doing so with an attorney's assistance. You can find resources online and in the library that could help.
2. **It's better than nothing:** What happens if you die or become very ill without important estate planning documents? In that case, the state will make important decisions for you, such as how your property will be distributed, who will care for your minor children, and what medical care you'll receive if you are unable to make your wishes known.

These points are valid: For those who cannot afford to pay an attorney, DIY may be an economical alternative. For others, a poorly drafted will may be better than no will at all, especially when naming a guardian for minor children is involved. But there are several risks to DIY estate planning, including the risk that your wishes will not be carried out exactly as you intend.

### Basic is not always ideal

Although DIY sources can typically handle the needs of simple estates, they generally are not appropriate for even the most common complexities such as children from a prior marriage, children with special needs, property that has appreciated in value resulting in capital gains, and estates that are large enough to be subject to estate taxes (typically those worth more than \$5,340,000 in 2014). Also, DIY sources generally fail to take advantage of sophisticated estate planning strategies because they usually can't account for an individual's unique circumstances.

Further, you may make an error by failing to understand the instructions or by following the instructions incorrectly.

The result is that the documents you create could be invalid, ineffective, or contain legal language having consequences you never intended. You might not know if that is the case during your lifetime, but at your death your loved ones will find out and may suffer the lasting consequences of your mistakes.

### You may benefit from legal advice

DIY sources provide forms but not legal advice. In fact, these sources clearly state that they are not a substitute for an attorney, and that they are prohibited from providing any kind of legal advice.

Estate planning involves a lot more than producing documents. It's impossible to know, without a legal education and years of experience, what the appropriate legal solution is to your particular situation and what planning opportunities are available. The actual documents produced are simply tools to put into effect a plan that is specifically tailored to your circumstances and goals.

### Estate planning laws change

Laws are not static. They constantly change because of new case law and legislation, especially when it comes to estate taxes. Attorneys keep up with these changes. DIY websites, makers of software, and other sources may not do as good a job at keeping current and up-to-date.

### Fixing mistakes can be costly and time-consuming

As previously stated, working with an attorney to create your estate planning documents can be very expensive, costing anywhere from several hundred to several thousands of dollars, depending on the complexity of your estate. But these costs are minor compared to the costs and frustrations that your loved ones may experience if there are serious errors in your DIY estate plan. Many more thousands of dollars and many hours with attorneys may have to be spent to undo what was done wrong. Before embarking on a DIY estate plan, consider these risks very carefully.

## Duncklee & Nott

Kenneth Nott, CFP®, AIF®, CFS

19 Central Street  
Hallowell, ME 04347  
207-622-5222  
877-582-2835  
ken@dnretire.com  
www.dnretire.com

Securities and Advisory services offered through Commonwealth Financial Network, Member FINRA, SIPC, a Registered Investment Adviser.

Fixed insurance products and services offered by Duncklee & Nott are separate and unrelated to Commonwealth.

Duncklee & Nott does not provide legal or tax advice. Please consult a legal or tax professional regarding your individual situation. This informational e-mail is an advertisement. To opt out of receiving future messages, follow the Unsubscribe instructions below.



## Should I co-sign my daughter's private student loan?

Today, many students turn to private lenders to help cover the cost of college.

Unfortunately, private student loans don't carry many of the same protections as federal student loans. As a result, you should be aware of the risks associated with acting as a co-signer for these types of loans.

According to the Consumer Financial Protection Bureau, approximately 90% of all private student loans were co-signed in 2011 (Source: Consumer Financial Protection Bureau, Mid Year Update on Student Loan Complaints, April 2014). Private lenders often require a co-signer if a borrower has little or no credit history. In addition, having a co-signer often allows a borrower to obtain a lower interest rate for a loan.

When co-signing any loan, you need to be aware that as co-signer, you are being asked to guarantee the loan. In other words, if your daughter doesn't make her loan payments, the lender can go after you for payment of the loan. Depending on the loan terms, a lender can even demand full payment of a loan from a co-signer if the borrower misses just one

payment. In addition, a lender can attempt to collect a loan that is due by using traditional debt collection methods, including wage garnishment.

Before you co-sign your daughter's loan, you'll want to consider whether you will be able to afford to pay her loan if she is unable to make her loan payments. In addition, you should find out how co-signing the loan will impact your current creditworthiness.

Finally, if you do end up co-signing your daughter's loan, you should also find out whether the loan document contains a provision regarding automatic defaults or "auto defaults." An "auto default" situation arises when the co-signer for a loan dies or declares bankruptcy and the lender demands the full amount of the loan to be paid back immediately by the borrower. If the loan does have an "auto default" clause, your daughter should be fully aware of the possible consequences and take steps once she has graduated and is in repayment to pursue a co-signer release for the loan.



## I'm purchasing a new laptop. Should I also purchase an extended warranty to go along with it?

If you've ever purchased an electronic device or major appliance, chances are you've been asked if you also wanted

to purchase an extended warranty or service contract. Extended warranties are offered by retailers for an additional cost to customers and provide repair or product maintenance for a specific period of time.

For many retailers, selling extended warranties makes up a large part of their business. It's an easy way for them to make money because they get to keep a percentage of what they charge for the service contracts.

Before you purchase an extended warranty for your laptop, consider the following questions.

- Does your laptop come with a manufacturer's warranty? Most technology products already come with a warranty from the manufacturer that covers replacement or repairs within a certain time period, typically one year.

- Will the manufacturer's warranty overlap with the extended warranty? You may want to forgo purchasing an extended warranty if it will result in duplicate coverage for your laptop.
- Do you plan on purchasing your laptop from a well-known manufacturer? Research online product reviews regarding your laptop's reliability. If you purchase a reliable product, most problems you'll encounter will typically occur outside of any extended warranty period.
- If your laptop does need repairs, will they be costly? You should weigh the cost of the extended warranty against what it will cost to pay for the repairs out-of-pocket.

Finally, if you do end up purchasing an extended warranty, read the terms carefully. Many extended warranties contain exceptions and limitations regarding what is and isn't covered. In addition, some extended warranties may also add on additional charges to have a covered product serviced (e.g., deductibles, fees, and shipping costs).

Duncklee & Nott

INVESTMENT & RETIREMENT PLANNING