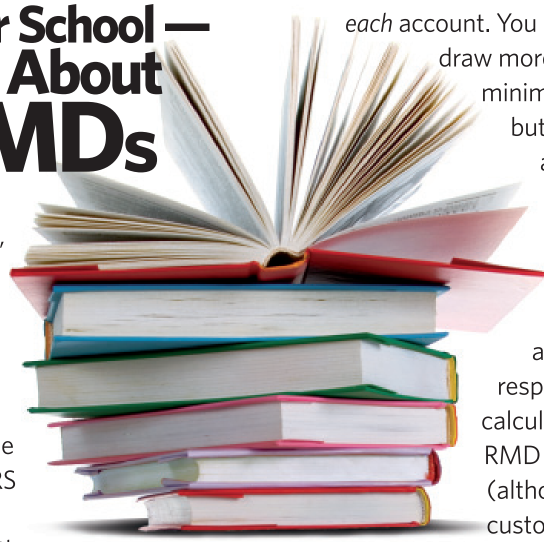
LET'S TALK MONEY®

July/August 2016

Summer School — Learn About RMDs

It's probably been a while since you were in school. However, if you're approaching retirement, it's a good time for a few lessons on taking required minimum distributions (RMDs) from individual retirement accounts (IRAs) and 401(k) plans.



The basics

Generally, the contributions you make to a traditional IRA or 401(k) plan, along with any investment earnings your accounts generate, are tax-deferred.* But you can't postpone paying tax on that money forever. When you take a distribution from your IRA or 401(k) plan, the previously tax-deferred amounts become taxable to you as ordinary income. The IRS generally requires that you start taking annual RMDs — and pay the associated taxes — when you reach age 70½.

Take by the deadline

Your first RMD generally will be due by April 1 of the year following the year in which you turn 70½. Another RMD will be due by December 31 of that same year and each subsequent year.

Calculate the amount

Generally, an RMD is calculated for each account by dividing the prior December 31 balance of that IRA or 401(k) account by a life expectancy factor from an IRS table. For multiple traditional IRAs, you must calculate the RMD separately for each IRA you own, but you can take the total RMD amount from one or more of them. (The RMD rules do not pertain to Roth IRAs while the owner is alive.) RMDs from 401(k) plans must be taken from *each* account. You can withdraw more than the minimum amount, but you cannot apply the excess to a future RMD.

Since you are ultimately responsible for calculating the RMD amount (although the IRA custodian or retirement plan administrator may do it), review your calculation with your financial professional to ensure you are withdrawing the correct amount.

Avoid the penalty

Failure to take an RMD can trigger an additional 50% tax on the amount you should have withdrawn but didn't. For example, if you missed taking a required distribution of $6,000, you could have to pay a $3,000 penalty.

* Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. However, qualified Roth distributions are not subject to federal income taxes when all tax law requirements are met. Unlike Roth IRAs, these designated Roth accounts are subject to the RMD rules.

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I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

Meaglia Financial Consulting is a full-service comprehensive financial consulting and investment advisory business. For over 35 years, Tom has been helping clients with financial coaching, investing for retirement, and estate planning.

Are you thinking about a home improvement project? Before you pick up a hammer or hire a contractor, do your homework. Here are a few tips to help you get started.

A Project That Pays Off

Build a budget

Figure out how much you can afford to spend on your home improvement project. While your project may increase the appeal and resale value of your home, you don't want to get in over your head. Sacrificing your retirement savings or other financial goals for a home improvement project isn't a good idea. If you have to finance the project, get a loan with the lowest interest rate available and have a strategy to pay it off as quickly as possible.

Consider contractors

If you're handy around the house, you may be thinking of doing the work yourself to save money. But fixing a leaky faucet isn't the same as installing a new shower. Major home remodels often require specific skills and tools. Plus, a botched do-it-yourself job could lead to more expensive repairs down the road. A licensed, reputable contractor may be well worth your money.

Ask for contractor referrals from friends and family, check references and see the work they've done. Then compare bids. Bids should specify labor costs and material prices.

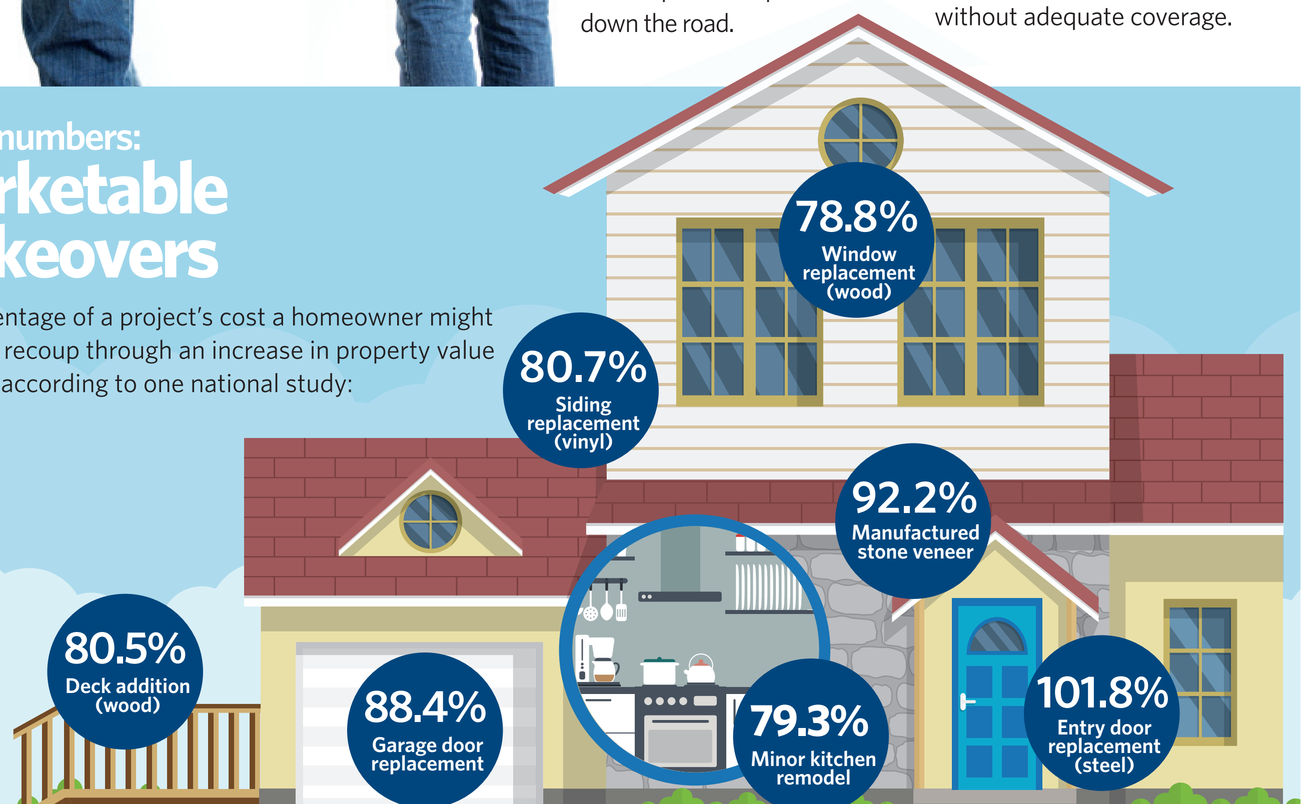
Once you have made your choice, ensure your contractor is licensed and/or bonded and has the proper insurance coverage. Your contractor should provide you with a written contract that includes estimated start and completion dates, a payment schedule, information about warranties, a detailed list of materials and the contractor's obligation to obtain all necessary permits. Don't make your final payment until the work is finished and you are completely satisfied.

Check your policy

Don't wait until your remodeling project is done to review your homeowners insurance policy. A new addition could increase the value of your house and leave you without adequate coverage.

By the numbers: Marketable Makeovers

The percentage of a project's cost a homeowner might expect to recoup through an increase in property value at resale, according to one national study:



Source: 2015 Cost vs. Value Report, *Remodeling Magazine*, January 12, 2015

Saving Money This Summer

Amusement parks. Zoos. Fairs. All are fun places to visit in the summer. But they can also be quite expensive, especially after you pay for parking, admission, food and souvenirs. Here are a few ways you and your family can have fun *and* save money this summer.

Fun for free

Explore your surroundings. You'll probably uncover many enjoyable activities that don't cost a thing. You can go for a hike or picnic in a nearby park, take a bike ride or camp out in your backyard. You also may be able to swim for free at a state park beach or community pool. Check your library, newspaper or community website for free events and activities in your area.

Deals for the dog days

Look for lower cost activities you and your family can enjoy together. Bowling, miniature golf and drive-in movies are fun activities that typically won't break the bank. If you do go to amusement parks and museums, look for discounts. You may be able to save by buying tickets online. Or scout out websites that offer coupons and discounted tickets. If you do your research before heading to the park, you may be able to have fun for less.

Sell your stuff

Have a garage or yard sale to help subsidize your summer fun. You can get rid of items you no longer need or use *and* make some money. If your kids are old enough, get them involved. Or have them set up a lemonade stand during the yard sale. Whatever money you make that day can be used another day for a fun outing.

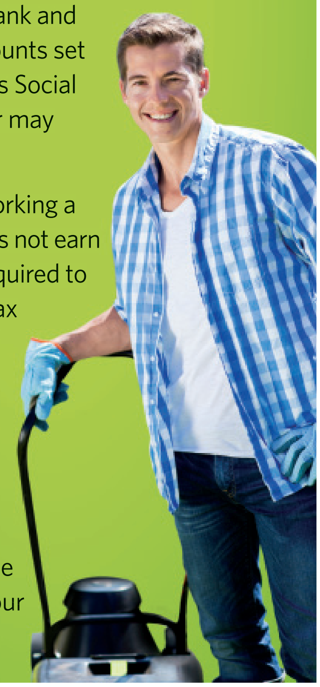
Go green

Using less water and energy will save you money. Only water the lawn early in the morning or late in the evening to cut down on your water bills. And turn off the air conditioner during the day when you're not at home. Lowering the shades when it's sunny out will help to keep your home cool without using any energy.

Taxing Teens

Do you have a teen with a summer job? Here are a few federal tax rules you and your child need to know.

- Tips are considered taxable income.
- Net earnings of $400 or more from self-employment (such as babysitting or lawn mowing) are subject to self-employment tax in addition to income tax.
- Special rules apply to newspaper carriers. Teens who don't meet certain conditions to be considered self-employed and are under age 18 may be exempt from Social Security and Medicare taxes.
- Unearned income (such as dividends and interest) from bank and investment accounts set up under a teen's Social Security number may be taxable.
- Even if a teen working a summer job does not earn enough to be required to file an income-tax return, he or she may still want to file to get income taxes refunded.



The rules are complicated, so be sure to consult your tax professional.

Part-time Passion or a Career?

Interested in pursuing your favorite hobby as a business? You should know that if the IRS views your activity as a hobby rather than as a business, your tax deductions for business-type expenses are subject to certain limitations.

Business vs. hobby

To qualify as a business, an activity must be conducted for the primary purpose of making a profit. Factors considered by the IRS include:

- Your experience
- The time and effort put into the activity
- Your history of income/loss with respect to the activity
- The presence of personal pleasure or recreation

Generally, the IRS presumes that an activity qualifies as a business if it shows a profit for three out of the last five years.

What's deductible?

If your activity is considered a hobby, your deduction for hobby expenses cannot exceed the activity's gross income, and hobby expenses are deductible only to the extent they (when combined with your other miscellaneous expenses) exceed 2% of your adjustable gross income.

Contact your tax professional for more information.

LET'S TALK RETIREMENT

Q. I'm worried that my adult children aren't saving enough for the future. I'd like to help them out, but I am reluctant to give them money now in case I end up needing the money for my own retirement expenses. Is there another way I can help?

A. You have good reason to be worried. The National Retirement Risk Index indicates that almost 52% of working-age households are at risk of having insufficient income to maintain their preretirement standard of living after they stop working.* One way you can help your children make up for a shortfall in their retirement and other savings is by providing them with an inheritance using life insurance.

You may have thought there wasn't a need for life insurance after your kids left the nest. But many adults are struggling to meet the competing demands of saving for both their own retirement and their children's college expenses. By naming your adult children as beneficiaries of a life insurance policy, you can provide them with much-needed financial assistance down the road.

With life insurance, you generally know how much money will go to your beneficiaries when you die. Life insurance proceeds are typically paid directly to the designated beneficiary, which means the proceeds avoid probate and can be used by your beneficiary sooner. And death benefits are generally free of federal income taxes.

Like many people, you may be concerned about depleting your financial resources too quickly in retirement. Figuring out how much you can afford to spend can be a challenge. By using life insurance to essentially create an inheritance for your children, you may feel more comfortable about spending money on yourself during your own retirement.

Your financial professional can answer any questions you may have and help you determine the amount of life insurance that is appropriate for your situation.

* *How Do Inheritances Affect the National Retirement Risk Index?,* Center for Retirement Research at Boston College, September 2015, Number 15-15

We Value Your Input...

Your feedback is very important to us.
If you have any questions about any of the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

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