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Our office will be closed on Monday, May 25 in observance of Memorial Day and Friday, July 3 in observance of Independence Day.

Our summer hours begin Friday, May 22, and we will close the office at 4pm on each Friday until Labor Day.

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Retirement Withdrawal Rates

During your working years, you've probably set aside funds in retirement accounts such as IRAs, 401(k)s, and other workplace savings plans, as well as in taxable accounts. Your challenge during retirement is to convert those savings into an ongoing income stream that will provide adequate income throughout your retirement years.

Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio. The annual percentage that you take out of your portfolio, whether from returns or the principal itself, is known as your withdrawal rate. Figuring out an appropriate initial withdrawal rate is a key issue in retirement planning and presents many challenges.

Why is your withdrawal rate important?

Take out too much too soon, and you might run out of money in your later years. Take out too little, and you might not enjoy your retirement years as much as you could. Your withdrawal rate is especially important in the early years of your retirement, as it will have a lasting impact on how long your savings will last.

Conventional wisdom

So, what withdrawal rate should you expect from your retirement savings? One widely used rule of thumb states that your portfolio should last for your lifetime if you initially withdraw 4% of your balance (based on an asset mix of 50% stocks and 50% intermediate-term Treasury notes), and then continue drawing the same dollar amount each year, adjusted for inflation. However, this rule of thumb has been under increasing scrutiny.

Some experts contend that a higher withdrawal rate (closer to 5%) may be possible in the early, active retirement years if later withdrawals grow more slowly than inflation. Others contend that portfolios can last longer by adding asset classes and freezing the withdrawal amount during years of poor performance. By doing so, they argue, "safe" initial withdrawal rates above 5% might be possible. (Sources: William P. Bengen, "Determining Withdrawal Rates Using Historical Data," *Journal of Financial Planning,* October 1994; Jonathan Guyton, "Decision Rules and Portfolio Management for Retirees: Is the 'Safe' Initial Withdrawal Rate Too Safe?" *Journal of Financial Planning,* October 2004)

Still other experts suggest that our current environment of lower government bond yields may warrant a lower withdrawal rate, around 3%. (Source: Blanchett, Finke, and Pfau, "Low Bond Yields and Safe Portfolio Withdrawal Rates," *Journal of Wealth Management,* Fall 2013)

Don't forget that these hypotheses were based on historical data about various types of investments, and past results don't guarantee future performance.

Inflation is a major consideration

An initial withdrawal rate of, say, 4% may seem relatively low, particularly if you have a large portfolio. However, if your initial withdrawal rate is too high, it can increase the chance that your portfolio will be exhausted too quickly, because you'll need to withdraw a greater amount of money each year from your portfolio just to keep up with inflation and preserve the same purchasing power over time.

In addition, inflation may have a greater impact on retirees. That's because costs for some services, such as health care and food, have risen more dramatically than the Consumer Price Index (the basic inflation measure) for several years. As these costs may represent a disproportionate share of their budgets, retirees may experience higher inflation costs than younger people, and therefore might need to keep initial withdrawal rates relatively modest.

Your withdrawal rate

There is no standard rule of thumb. Every individual has unique retirement goals and means, and your withdrawal rate needs to be tailored to your particular circumstances. The higher your withdrawal rate, the more you'll have to consider whether it is sustainable over the long term.

All investing involves risk, including the possible loss of principal; there can be no assurance that any investment strategy will be successful.

How Does Your 529 Plan Stack Up Against the Competition?

Mediocre investment returns, higher-than-average fees, limited investment options and flexibility--these factors might lead you to conclude that you could do better with another 529 plan or a different college savings option altogether.

If you're one of the millions of parents or grandparents who've invested money in a 529 plan, now may be a good time to see how your plan stacks up against the competition. Mediocre investment returns, higher-than-average fees, limited investment options and flexibility--these factors might lead you to conclude that you could do better with another 529 plan or a different college savings option altogether. You can research 529 plans at the College Savings Plans Network website at [collegesavings.org.](collegesavings.org) If you discover that your 529 plan's performance has been sub-par, what options do you have?

Roll over funds to a new 529 plan

One option is to do a "same beneficiary rollover" to a different 529 plan. Under federal law, you can roll over the funds in your existing 529 plan to a different 529 plan (college savings plan or prepaid tuition plan) once every 12 months without having to change the beneficiary and without triggering a federal penalty.

Once you decide on a new 529 plan, the rollover process is fairly straightforward. Call your existing 529 plan to see what steps are required; some plans may impose a fee for a rollover, so make sure to ask. Then call your new 529 plan and establish an account; your new plan should have a process in place to accept rollover funds. You must complete the rollover to the new 529 plan within 60 days of receiving a distribution from your former 529 plan to avoid paying a penalty.

If you want to roll over the funds in your existing 529 plan to a new 529 plan more than once in a 12-month period, you'll need to change the designated beneficiary to another qualifying family member to avoid paying a federal penalty. As a workaround, you can change the new beneficiary back to the original beneficiary later.

Change your investment strategy in your current 529 plan

Just because you can switch to a new 529 plan doesn't necessarily mean you should. If the new 529 plan you're considering has roughly the same mix of investment choices and similar fees as your current plan, you might ask yourself whether you'd be better off staying put and simply changing your current investment allocations. This is especially true if you have invested in your own state's 529 plan and the availability of related state tax benefits is contingent on you remaining in your state's plan.

When changing your investment options, it's important to distinguish between your existing contributions and your future contributions. Most 529 college savings plans let you change the investment options for your future contributions at any time. So, for example, if you originally picked a more aggressive investment option, you can choose a different one (or more than one) for your future contributions.

The rules are stricter when it comes to your existing contributions. If you're unhappy with the investment performance of your current investment choices but don't want to switch plans completely (using the rollover option described earlier), 529 college savings plans are federally authorized (but not required) to let you change the investment options for your existing contributions twice per calendar year (prior to 2015, the rule was only once per year). Check to see whether your 529 plan offers this flexibility.

Choose other savings options that give you more investment control

If your 529 plan investment returns have been lackluster, you might wonder whether you should continue putting money into your account. Although many 529 plans offer a range of investment options that you can pick from, you might decide that you'd like more control over your college investments. In that case, you might consider using an entirely different sayings option, such as a Coverdell education savings account, a custodial account, or an IRA, all of which let you choose your underlying investments.

As you evaluate your options, keep in mind that any college investment strategy should be reexamined periodically in light of new laws and changes in your individual circumstances.

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

When Your Child Asks for a Loan, Should You Say Yes?

Perhaps you have plenty of money to lend, and you're not earning much on it right now, so when your child asks for a loan, you think, "Why not?" But even if it seems to be the right thing to do, look closely at potential consequences before saying yes.

You raised them, helped get them through school, and now your children are on their own. Or are they? Even adult children sometimes need financial help. But if your child asks you for a loan, don't pull out your checkbook until you've examined the financial and emotional costs. Start the process by considering a few key questions.

Why does your child need the money?

Lenders ask applicants to clearly state the purpose for the loan, and you should, too. Like any lender, you need to decide whether the loan purpose is reasonable. If your child is a chronic borrower, frequently overspends, or wants to use the money you're lending to pay past-due bills, watch out. You might be enabling poor financial decision making. On the other hand, if your child is usually responsible and needs the money for a purpose you support, you may feel better about agreeing to the loan.

Will your financial assistance help your child in the long run?

It's natural to want to help your child, but you also want to avoid jeopardizing your child's independence. If you step in to help, will your child lean on you the next time, too? And no matter how well-intentioned you are, the flip side of protecting your child from financial struggles is that your child may never get to experience the satisfaction that comes with successfully navigating financial challenges.

Can you really afford it?

Perhaps you can afford to lend money right now, but look ahead a bit. What will happen if you find yourself in unexpected financial circumstances before the loan is repaid? If you're loaning a significant sum and you're close to retirement, will you have the opportunity to make up the amount? If you decide to loan your child money, be sure it's an amount that you could afford to lose, and don't take money from your retirement account.

What if something goes wrong?

One potential downside to loaning your child money is the family tension it may cause. When a financial institution loans money to someone, it's all business, and the repayment terms are clear-cut. When you loan money to a relative, it's personal, and if expectations aren't met, both your finances and your relationship with your child may be at risk.

For example, how will you feel if your child treats the debt casually? Even the most responsible child may occasionally forget to make a payment. Will you scrutinize your child's financial decisions and feel obligated to give advice? Will you be okay with forgiving the loan if your child is unable to pay it back? And how will other family members react? For example, what if your spouse disagrees with your decision? Will other children feel as though you're playing favorites?

If you decide to say yes

Think like a lender

Take your responsibility, and the borrower's, seriously. Putting loan terms in writing sounds too businesslike to some parents, but doing so can help set expectations. You can draft a loan contract that spells out the loan amount, the interest rate, and a repayment schedule. To avoid playing the role of parent-turned-debt collector, consider asking your child to set up automatic monthly transfers from his or her financial account to yours.

Pay attention to some rules

Having loan documentation may also be necessary to meet IRS requirements. If you're lending your child a significant amount, prepare a promissory note that details the loan amount, repayment schedule, collateral, and loan terms, and includes an interest rate that is at least equal to the applicable federal rate set by the IRS. Doing so may help ensure that the IRS doesn't deem the loan a gift and potentially subject you to gift and estate tax consequences. You or your child may need to meet certain requirements, too, if the loan proceeds will be used for a home down payment or a mortgage. The rules and consequences can be complex, so ask a legal or tax professional for information on your individual circumstances.

If you decide to say no

Consider offering other types of help

Your support matters to your child, even if it doesn't come in the form of a loan. For example, you might consider making a smaller, no-strings-attached gift to your child that doesn't have to be repaid, or offer to pay a bill or two for a short period of time.

Don't feel guilty

If you have serious reservations about making the loan, don't. Remember, your financial stability is just as important as your child's, and a healthy relationship is something that money can't buy.

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Will I have to pay a penalty tax if I don't have qualifying health insurance?

It depends. One of the main objectives of the health-care reform law, the Patient Protection and Affordable Care Act (ACA), is to encourage uninsured individuals to obtain health-care coverage. As a result of the ACA, everyone must have qualifying health insurance coverage, qualify for an exemption, or pay a penalty tax. This requirement is generally referred to as the individual insurance or individual shared responsibility mandate.

Health insurance plans that meet the requirements of the ACA generally include employer-sponsored health plans, government health plans, and health insurance purchased through state-based or federal health insurance exchange marketplaces.

Individuals who are exempt from the individual insurance mandate include:

- Those who qualify for religious exemptions
- Certain noncitizens
- Incarcerated individuals
- Members of federally recognized American Indian tribes
- Those who qualify for a hardship exemption

Individuals may also qualify for an exemption if:

- They are uninsured for less than three months
- The lowest-priced insurance coverage available to them would cost more than 8% of their income
- They are not required to file an income tax return because their income is below a specified threshold

For tax year 2014, the penalty tax equals the greater of 1% of the amount of your household income that exceeds a specific amount (generally, the standard deduction plus personal exemption amounts you're entitled to for the year) or $95 per uninsured adult (half that for uninsured family members under age 18), with a maximum household penalty of $285. In 2015, the percentage rate increases to 2%, the dollar amount per uninsured adult increases to $325, and the maximum household penalty increases to $975.

Is there a new one-rollover-per-year rule for 2015?

Yes. The Internal Revenue Code says that if you receive a distribution from an IRA, you can't make a tax-free (60-day) rollover into another IRA if you've already completed a tax-free rollover within the previous one-year (12-month) period. The long-standing position of the IRS was that this rule applied separately to each IRA someone owns. In 2014, however, the Tax Court held that regardless of how many IRAs he or she owns, a taxpayer may make only one nontaxable 60-day rollover within each 12-month period.

The IRS announced that it would follow the Tax Court's decision, but that the revised rule would not apply to any rollover involving an IRA distribution that occurred before January 1, 2015. The IRS recently issued further guidance on how the revised one-rollover-per-year limit is to be applied. Most importantly, the IRS has clarified that:

- All IRAs, including traditional, Roth, SEP, and SIMPLE IRAs, are aggregated and treated as one IRA when applying the new rule. For example, if you make a 60-day rollover from a Roth IRA to the same or another Roth IRA, you will be precluded from making a 60-day rollover from any other IRA--including traditional IRAs--within 12 months. The converse is also true--a 60-day rollover from a traditional IRA to the same or another traditional IRA will preclude you from making a 60-day rollover from one Roth IRA to another Roth IRA.
- The exclusion for 2014 distributions is not absolute. While you can generally ignore rollovers of 2014 distributions when determining whether a 2015 rollover violates the new one-rollover-per-year limit, this special transition rule will NOT apply if the 2015 rollover is from the same IRA that either made, or received, the 2014 rollover.

In general, it's best to avoid 60-day rollovers if possible. Use direct (trustee-to-trustee) transfers--as opposed to 60-day rollovers--between IRAs, as direct transfers aren't subject to the one-rollover-per-year limit. The tax consequences of making a mistake can be significant--a failed rollover will be treated as a taxable distribution (with potential early-distribution penalties if you're not yet 59½) and a potential excess contribution to the receiving IRA.