CedarPoint Investment Advisors, Inc.

CedarPoint Investment Advisors, Inc.
Dan Wilson,CFP® & Bob Dignan, CFP®, AIF®
524 Milwaukee Street
Suite 300
Delafield, WI 53018
Phone 262.303.4503
Fax 262.303.4325
dan@cedarpointinvestments.com
www.cedarpointinvestments.com

Our office hours are from 8:00am-4:30pm Monday through Friday.
We will be closed on Monday, September 5 in observance of Labor Day.

Please note that if you choose to utilize the ShareFile service to communicate with us via encrypted e-mail, only use the direct link to ShareFile' s platform contained in our e-mail signature. Our agreement with ShareFile allows our clients to utilize this service at no charge.

For your security, distribution requests can only be received by verbal authorization.

July 2016

Projecting a Happy Retirement

A 2015 study found that 41% of households headed by someone aged 55 to 64 had no retirement savings, and only about a third of them had a traditional pension. Among households in this age group with savings, the median amount was just $104,000.[1]

Your own savings may be more substantial, but in general Americans struggle to meet their savings goals. Even a healthy savings account may not provide as much income as you would like over a long retirement.

Despite the challenges, about 56% of current retirees say they are very satisfied with retirement, and 34% say they are moderately satisfied. Only 9% are dissatisfied.[2]

Develop a realistic picture

How can you transition into a happy retirement even if your savings fall short of your goals? The answer may lie in developing a realistic picture of what your retirement will look like, based on your expected resources and expenses. As a starting point, create a simple retirement planning worksheet. You might add details once you get the basics down on paper.

Estimate income and expenses

You can estimate your monthly Social Security benefit at ssa.gov. The longer you wait to claim your benefits, from age 62 up to age 70, the higher your monthly benefit will be. If you expect a pension, estimate that monthly amount as well. Add other sources of income, such as a part-time job, if that is in your plans. Be realistic. Part-time work often pays low wages.

It's more difficult to estimate the amount of income you can expect from your savings; this may depend on unpredictable market returns and the length of time you need your savings to last. One simple rule of thumb is to withdraw 4% of your savings each year. At that rate, the $104,000 median savings described earlier would generate $4,160 per year or $347 per month (assuming no market gains or losses). Keep in mind that some experts believe a 4% withdrawal rate may be too high to maintain funds over a long retirement. You might use 3% or 3.5% in your calculations.

Now estimate your monthly expenses. If you've paid off your mortgage and other debt, you may be in a stronger position. Don't forget to factor in a reserve for medical expenses. One study suggests that a 65-year-old couple who retired in 2015 would need $259,000 over their lifetimes to cover Medicare premiums and out-of-pocket health-care expenses, assuming they had only median drug expenses.[3]

Take strategic steps

Your projected income and expenses should provide a rough picture of your financial situation in retirement. If retirement is approaching soon, try living for six months or more on your anticipated income to determine whether it is realistic. If it's not, or your anticipated expenses exceed your income even without a trial run, you may have to reduce expenses or work longer, or both.

Even if the numbers look good, it would be wise to keep building your savings. You might take advantage of catch-up contributions to IRAs and 401(k) plans, which are available to those who reach age 50 or older by the end of the calendar year. In 2016, the IRA catch-up amount is $1,000, for a total contribution limit of $6,500. The 401(k) catch-up amount is $6,000, for a total employee contribution limit of $24,000.

Preparing for retirement is not easy, but if you enter your new life phase with eyes wide open, you're more likely to enjoy a long and happy retirement.

1 U.S. Government Accountability Office, "Retirement Security," May 2015

2 *The Wall Street Journal,* "Why Retirees Are Happier Than You May Think," December 1, 2015

3 Employee Benefit Research Institute, Notes, October 2015

Should You Buy or Lease Your Next Vehicle?

After declining dramatically a few years ago, auto sales are up, leasing offers are back, and incentives and deals abound. So if you're in the market for a new vehicle, should you buy it or lease it? To decide, you'll need to consider how each option fits into your lifestyle and your budget. This chart shows some points to compare.

Buying or leasing tips

- *Shop wisely. Advertised deals may be too good to be true once you read the fine print. To qualify for the deal, you may need to meet certain requirements, or pay more money up front.*
- *To get the best deal, be prepared to negotiate the price of the vehicle and the terms of any loan or lease offer.*
- *Read any contract you're asked to sign, and make sure you understand any terms or conditions.*
- *Calculate both the short-term and long-term costs associated with each option.*

	Buying considerations	**Leasing considerations**
Ownership	When the vehicle is paid for, it's yours. You can keep it as long as you want, and any retained value (equity) is yours to keep.	You don't own the car--the leasing company does. You must return the vehicle at the end of the lease or choose to buy it at a predetermined residual value; you have no equity.
Monthly payments	You will have a monthly payment if you finance it; the payment will vary based on the amount financed, the interest rate, and the loan term.	When comparing similar vehicles with equal costs, the monthly payment for a lease is typically significantly lower than a loan payment. This may enable you to drive a more expensive vehicle.
Mileage	Drive as many miles as you want; a vehicle with higher mileage, though, may be worth less when you trade in or sell your vehicle.	Your lease will spell out how many miles you can drive before excess mileage charges apply (typical mileage limits range from 12,000 to 15,000).
Maintenance	When you sell your vehicle, condition matters, so you may receive less if it hasn't been well maintained. As your vehicle ages, repair bills may be greater, something you generally won't encounter if you lease.	You generally have to service the vehicle according to the manufacturer's recommendations. You'll also need to return your vehicle with normal wear and tear (according to the leasing company's definition), so you may be charged for dents and scratches that seem insignificant.
Up-front costs	These may include the total negotiated cost of the vehicle (or a down payment on that cost), taxes, title, and insurance.	Inception fees may include an acquisition fee, a capitalized cost reduction amount (down payment), security deposit, first month's payment, taxes, and title fees.
Value	You'll need to consider resale value. All vehicles depreciate, but some depreciate faster than others. If you decide to trade in or sell the vehicle, any value left will be money in your pocket, so it may pay off to choose a vehicle that holds its value.	A vehicle that holds its value is generally less expensive to lease because your payment is based on the predicted depreciation. And because you're returning it at the end of the lease, you don't need to worry about owning a depreciating asset.
Insurance	If your vehicle is financed, the lien holder may require you to carry a certain amount of insurance; otherwise, the amount of insurance you'll need will depend on personal factors and state insurance requirements.	You'll be required to carry a certain amount of insurance, sometimes more than if you bought the vehicle. Many leases require GAP insurance that covers the difference between an insurance payout and the vehicle's value if your vehicle is stolen or totaled. GAP insurance may be included in the lease.
The end of the road	You may want to sell or trade in the vehicle, but the timing is up to you. If you want, you can keep the vehicle for many years, or sell it whenever you need the cash.	At the end of the lease, you must return the vehicle or opt to buy it according to the lease terms. Returning the vehicle early may be an option, but it's likely you'll pay a hefty fee to do so. If you still need a vehicle, you'll need to start the leasing (or buying) process all over.

Q&As on Roth 401(k)s

Which is the better option, pretax or Roth contributions?

The answer depends upon your personal situation. If you think you'll be in a similar or higher tax bracket when you retire, Roth 401(k) contributions may be more appealing, since you'll effectively lock in today's lower tax rates. However, if you think you'll be in a lower tax bracket when you retire, pretax 401(k) contributions may be more appropriate. Your investment horizon and projected investment results are also important factors.

The Roth 401(k) is 10 years old! With 62% of employers now offering this option, it's more likely than not that you can make Roth contributions to your 401(k) plan.[1] Are you taking advantage of this opportunity?

What is a Roth 401(k) plan?

A Roth 401(k) plan is simply a traditional 401(k) plan that permits contributions to a designated Roth account within the plan. Roth 401(k) contributions are made on an after-tax basis, just like Roth IRA contributions. This means there's no up-front tax benefit, but if certain conditions are met both your contributions and any accumulated investment earnings on those contributions are free of federal income tax when distributed from the plan.

Who can contribute?

Anyone! If you're eligible to participate in a 401(k) plan with a Roth option, you can make Roth 401(k) contributions. Although you cannot contribute to a Roth IRA if you earn more than a specific dollar amount, there are no such income limits for a Roth 401(k).

Are distributions really tax free?

Because your contributions are made on an after-tax basis, they're always free of federal income tax when distributed from the plan. But any investment earnings on your Roth contributions are tax free only if you meet the requirements for a "qualified distribution."

In general, a distribution is qualified if:

- It's made after the end of a five-year holding period, *and*
- The payment is made after you turn 59½, become disabled, or die

The five-year holding period starts with the year you make your first Roth contribution to your employer's 401(k) plan. For example, if you make your first Roth contribution to the plan in December 2016, then the first year of your five-year holding period is 2016, and your waiting period ends on December 31, 2020. Special rules apply if you transfer your Roth dollars over to a new employer's 401(k) plan.

If your distribution isn't qualified (for example, you make a hardship withdrawal from your Roth account before age 59½), the portion of your distribution that represents investment earnings will be taxable and subject to a 10% early distribution penalty, unless an exception applies. (State tax rules may be different.)

How much can I contribute?

There's an overall cap on your combined pretax and Roth 401(k) contributions. In 2016, you can contribute up to $18,000 ($24,000 if you are age 50 or older) to a 401(k) plan. You can split your contribution between Roth and pretax contributions any way you wish. For example, you can make $10,000 of Roth contributions and $8,000 of pretax contributions. It's totally up to you.

Can I still contribute to a Roth IRA?

Yes. Your participation in a Roth 401(k) plan has no impact on your ability to contribute to a Roth IRA. You can contribute to both if you wish (assuming you meet the Roth IRA income limits).

What about employer contributions?

While employers don't have to contribute to 401(k) plans, many will match all or part of your contributions. Your employer can match your Roth contributions, your pretax contributions, or both. But your employer's contributions are always made on a pretax basis, even if they match your Roth contributions. In other words, your employer's contributions, and any investment earnings on those contributions, will be taxed when you receive a distribution of those dollars from the plan.

Can I convert my existing traditional 401(k) balance to my Roth account?

Yes! If your plan permits, you can convert any portion of your 401(k) plan account (your pretax contributions, vested employer contributions, and investment earnings) to your Roth account. The amount you convert is subject to federal income tax in the year of the conversion (except for any after-tax contributions you've made), but qualified distributions from your Roth account will be entirely income tax free. The 10% early-distribution penalty generally doesn't apply to amounts you convert.[2]

What else do I need to know?

Like pretax 401(k) contributions, your Roth contributions can be distributed only after you terminate employment, reach age 59½, incur a hardship, become disabled, or die. Also, unlike Roth IRAs, you must generally begin taking distributions from a Roth 401(k) plan after you reach age 70½ (or, in some cases, after you retire). But this isn't as significant as it might seem, because you can generally roll over your Roth 401(k) money to a Roth IRA if you don't need or want the lifetime distributions.

[1] Plan Sponsor Council of America, *58th Annual Survey of Profit Sharing and 401(k) Plans* (2015) (Reflecting 2014 Plan Experience)

[2] The 10% penalty tax may be reclaimed by the IRS if you take a nonqualified distribution from your Roth account within five years of the conversion.

CedarPoint Investment Advisors, Inc.
Dan Wilson,CFP® & Bob Dignan, CFP®, AIF®
524 Milwaukee Street
Suite 300
Delafield, WI 53018
Phone 262.303.4503
Fax 262.303.4325
dan@cedarpointinvestments.com
www.cedarpointinvestments.com

Can I make charitable contributions from my IRA in 2016?

Yes, if you qualify. The law authorizing qualified charitable distributions, or QCDs, has recently been made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015.

You simply instruct your IRA trustee to make a distribution directly from your IRA (other than a SEP or SIMPLE) to a qualified charity. You must be 70½ or older, and the distribution must be one that would otherwise be taxable to you. You can exclude up to $100,000 of QCDs from your gross income in 2016. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional $100,000 of QCDs. But you can't also deduct these QCDs as a charitable contribution on your federal income tax return--that would be double dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to take from your IRA in 2016, just as if you had received an actual distribution from the plan. However, distributions (including RMDs) that you actually receive from your IRA and subsequently transfer to a charity cannot qualify as QCDs.

For example, assume that your RMD for 2016 is $25,000. In June 2016, you make a $15,000 QCD to Qualified Charity A. You exclude the $15,000 QCD from your 2016 gross income. Your $15,000 QCD satisfies $15,000 of your $25,000 RMD. You'll need to withdraw another $10,000 (or make an additional QCD) by December 31, 2016, to avoid a penalty.

You could instead take a distribution from your IRA and then donate the proceeds to a charity yourself, but this would be a bit more cumbersome and possibly more expensive. You'd include the distribution in gross income and then take a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction due to IRS limits. QCDs avoid all this by providing an exclusion from income for the amount paid directly from your IRA to the charity--you don't report the IRA distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

How long should I keep financial records?

There's a fine line between keeping financial records for a reasonable period of time and becoming a pack rat. A general rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. But if a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely. It's ultimately up to you to determine which records you should keep on hand and for how long, but here's a suggested timetable for some common documents.

One year or less	More than one year	Indefinitely
Bank or credit union statements	Tax returns and documentation*	Birth, death, and marriage certificates
Credit card statements	Mortgage contracts and documentation	Adoption papers
Utility bills	Property appraisals	Citizenship papers
Annual insurance policies	Annual retirement and investment statements	Military discharge papers
Paycheck stubs	Receipts for major purchases and home improvements	Social Security card

*The IRS requires taxpayers to keep records that support income, deductions, and credits shown on their income tax returns until the period of limitations for that return runs out--generally three to seven years, depending on the circumstances. Visit irs.gov or consult your tax professional for information related to your specific situation.