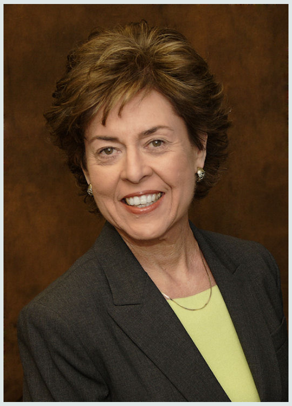
Financial Briefs

Guidance For Every Stage of Life



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Hi Everyone,

I hope the start of your New year has been positive and that continues throughout the months ahead.

This newsletter issue contains several timely articles -- thinking about future health care costs, the impact of interest rate changes on bonds, a refresher on important tax provisions that may impact you and tips for kepping your online experience safe.

Happy reading and best wishes for a prosperous 2014!

Warm regards,
Deidra

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February 2014

The Impact of Health-Care Costs on Social Security

Bonds vs. Bond Funds: Which Is Better When Interest Rates Rise?

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The Impact of Health-Care Costs on Social Security

For many retirees and their families, Social Security provides a dependable source of income. In fact, for the majority of retirees, Social Security accounts for at least half of their income (Source: Fast Facts & Figures About Social Security, 2013). However, more of that income is being spent on health-related costs each year, leaving less available for other retirement expenses.

The importance of Social Security

Social Security is important because it provides a retirement income you can't outlive. In addition, benefits are available for your spouse based on your benefit amount during your lifetime, and at your death in the form of survivor's benefits. And, these benefits typically are adjusted for inflation (but not always; there was no cost-of-living increase for the years 2010 and 2011). That's why for many people, Social Security is an especially important source of retirement income.

Rising health-care costs

You might assume that when you reach age 65, Medicare will cover most of your health-care costs. But in reality, Medicare pays for only a portion of the cost for most health-care services, leaving a potentially large amount of uninsured medical expenses.

How much you'll ultimately spend on health care generally depends on when you retire, how long you live, your health status, and the cost of medical care in your area. Nevertheless, insurance premiums for Medicare Part B (doctor's visits) and Part D (drug benefit), along with Medigap insurance, could cost hundreds of dollars each month for a married couple. In addition, there are co-pays and deductibles to consider (e.g., after paying the first $147 in Part B expenses per year, you pay 20% of the Medicare-approved amount for services thereafter). Your out-of-pocket yearly costs for medical care, medications, and insurance could easily exceed thousands of dollars.

Medicare's impact on Social Security

Most people age 65 and older receive Medicare. Part A is generally free, but Parts B and D have monthly premiums. The Part B premium generally is deducted from your Social Security check, while Part D has several payment alternatives. In 2013, the premium for Part B was $104.90 per month. The cost for Part D coverage varies, but usually averages between $30 and $60 per month (unless participants qualify for low-income assistance). Part B premiums have increased each year and are expected to continue to do so, while Part D premiums vary by plan, benefits provided, deductibles, and coinsurance amounts. And, if you enroll late for either Part B or D, your cost may be permanently increased.

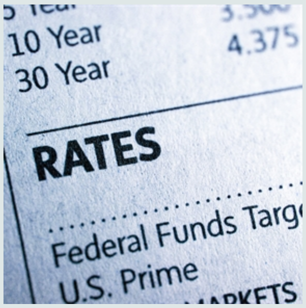
In addition, Medicare Parts B and D are means tested, meaning that if your income exceeds a predetermined income cap, a surcharge is added to the basic premium. For example, an individual with a modified adjusted gross income between $85,000 and $170,000 may pay an additional 40% for Part B and an additional $11.60 per month for Part D.

Note: *Part C, Medicare Advantage plans, are offered by private companies that contract with Medicare to provide you with all your Part A and Part B benefits, often including drug coverage. While the premiums for these plans are not subtracted from Social Security income, they are increasing annually as well.*

The bottom line

The combination of rising Medicare premiums and out-of-pocket health-care costs can use up more of your fixed income, such as Social Security. As a result, you may need to spend more of your retirement savings than you expected for health-related costs, leaving you unable to afford large, unanticipated expenses. Depending on your circumstances, spending more on health-care costs, including Medicare, may leave you with less available for other everyday expenditures and reduce your nest egg, which can impact the quality of your retirement.

Don't forget that some savings or investment vehicles, such as bank savings accounts, may benefit from rising interest rates.



Before investing in a mutual fund, carefully consider its investment objectives, risks, expenses, and fees, which can be found in the prospectus available from the fund. Read the prospectus carefully before investing.

Bonds vs. Bond Funds: Which Is Better When Interest Rates Rise?

The Federal Reserve has said it expects to begin raising its target rate sometime in 2014. Since bond prices fall when interest rates rise, it may be a good time to pay increased attention to any fixed-income investments you have. Here are some factors to consider when you review your portfolio.

Maturity dates and duration

One way to address the threat of rising rates is through maturity dates. Long-term bonds may pay a higher coupon rate than short-term bonds, but when rates rise, long-term bond values typically suffer more. That's because investors may be reluctant to tie up their money for long periods if they expect a bond's interest payments may suffer by comparison when newer bonds that pay higher rates are issued. The later a bond's maturity date, the greater the risk that its yield eventually will be surpassed by that of newer bonds.

A bond fund doesn't have a maturity date, and your shares may be worth more or less than you paid for them when you sell. However, there is another way to gauge the sensitivity of either a bond or a bond fund to interest rates: its duration, which takes into account not only maturity but also the value of future interest payments. The longer the duration, the more sensitive a security is to interest rate changes.

To estimate the impact of a rate change, simply multiply a security's duration by the percentage change in interest rates. For example, if interest rates rise by 1%, a bond or bond fund with a duration of 3 years could be expected to lose roughly 3% in value, while one with a 7-year duration might fall by 7%. (Though interest rates currently have little room to fall, the same principle would apply; a 1% decline in rates should result in a 3% gain for a bond fund with a 3-year duration.) Though this hypothetical example doesn't represent the return of any specific investment, you can apply the general principle to your own holdings.

Diversification

Since rising rates affect most bonds, diversification provides only limited protection against rate increases. To balance yields with the threat of rising rates, you can diversify across various segments of the bond market (for example, investment-grade corporate, high-yield, Treasuries, foreign, short/intermediate/long-term, and municipal debt). Bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types can mean that some categories are under- or over-valued compared to others. Funds may offer greater diversification within each segment at a lower cost than individual bonds, providing greater protection against the impact of a potential default by a single issuer. However, diversification alone doesn't ensure a profit or prevent the possibility of loss, including loss of principal.

Flexibility

Holding individual bonds allows you to sell a specific bond on your own timetable or hold it until it matures. That flexibility has two advantages. First, if you hold to maturity, unless a bond's issuer defaults, you know how much you'll receive when the principal is repaid. Rising interest rates may cause a bond's market value to fluctuate in the meantime, but if you hold it to maturity, that fluctuation may not be an issue for you, especially if predictable income is your highest priority.

Second, it can help you manage your tax liability; if a specific bond has lost value, you can sell it and declare the loss on your federal income tax return. You may be able to instruct your broker to sell specific shares of a bond fund to harvest losses for tax purposes, but in general it's more challenging to manage tax liability as precisely with bond funds. For example, capital gains or losses generated by a fund manager's trading are passed through to individual shareholders each year, which can affect your tax liability. Also, a bond fund's value can be affected by your fellow investors. Since an open-end fund must redeem investors' shares daily, strong selling can force a fund to sell holdings to meet redemption demands, which can have implications for other shareholders.

Laddering individual bonds also can help provide flexibility to adjust to rising rates. Laddering involves buying a portfolio of bonds with varying maturities; for example, a five-bond portfolio might be structured so that one of the five matures each year for the next five years. As interest rates rise, each bond that matures can be reinvested in a newer instrument that offers a higher yield.

Liquidity

A mutual fund will redeem your shares at the end of every business day. An individual bond traded on the open market may not have the same liquidity, and you could have difficulty finding a buyer who's willing to pay the asking price. However, individual bonds are priced and traded throughout the day; only closed-end funds and exchange-traded funds have that flexibility, not open-end mutual funds.

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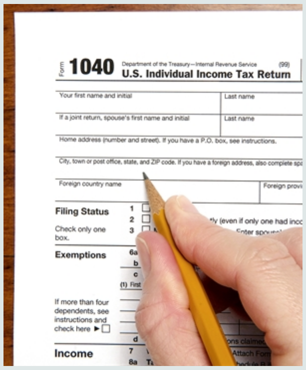
Filing Your 2013 Federal Income Tax Return



2013 is the last year to take advantage of:

- *Increased Internal Revenue Code (IRC) Section 179 expense limits ($500,000 maximum amount decreases to $25,000 in 2014) and "bonus" depreciation provisions*
- *The $250 above-the-line tax deduction for educator classroom expenses*
- *The ability to deduct mortgage insurance premiums as qualified residence interest*
- *The ability to deduct state and local sales tax in lieu of the itemized deduction for state and local income tax*
- *The deduction for qualified higher education expenses*
- *Qualified charitable distributions (QCDs), allowing individuals age 70½ or older to make distributions of up to $100,000 from an IRA directly to a qualified charity (distributions are excluded from income and count toward satisfying any required minimum distributions (RMDs) for the year)*

For most people, the due date for filing a 2013 federal income tax return is April 15, 2014. Here are a few things to keep in mind this filing season.

Lots of changes to consider

While most individuals will pay taxes based on the same federal income tax rate brackets that applied for 2012, a new 39.6% federal income tax rate applies for 2013 if your taxable income exceeds $400,000 ($450,000 if you're married filing jointly, $225,000 if married filing separately). If your income crosses that threshold, you'll also find that a new 20% maximum tax rate on long-term capital gain and qualifying dividends now generally applies (in prior years, the maximum rate was generally 15%).

You may also need to account for new taxes that took effect in 2013. If your wages exceeded $200,000 in 2013, you were subject to an additional 0.9% Medicare payroll tax--if the tax applied, you probably noticed the additional tax withheld from your paycheck. If you're married and file a joint tax return, the additional tax kicks in once the combined wages of you and your spouse exceed $250,000 (if you're married and file separate returns, the tax kicks in once your wages exceed $125,000). One thing to note is that the amount withheld may not accurately reflect the tax owed. That's because your employer calculates the withholding without regard to your filing status, or any other wages or self-employment income you may have received during the year. As a result, you may end up being entitled to a credit, or owing additional tax, when you do the calculations on your return.

And, if your adjusted gross income (AGI) exceeds $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately), some or all of your net investment income may be subject to a 3.8% additional Medicare contribution tax on unearned income. Additionally, high-income taxpayers (e.g., individuals with AGIs greater than $250,000, married couples filing jointly with AGIs exceeding $300,000) may be surprised to see new limitations on itemized deductions, and a possible phaseout of personal and dependency exemptions.

New home office deduction rules

If you qualify to claim a home office deduction, starting with the 2013 tax year you can elect to use a new simplified calculation method. Under this optional method, instead of determining and allocating actual expenses, you simply multiply the square footage of your home office by $5. There's a cap of 300 square feet, so the maximum deduction you can claim under this method is $1,500. Not everyone can use the optional method, and there are some potential disadvantages, but for many the new simplified calculation method will be a welcome alternative.

Same-sex married couples

Same-sex couples legally married in jurisdictions that recognize same-sex marriage will be treated as married for all federal income tax purposes, even if the couple lives in a state that does not recognize same-sex marriage. If this applies to you, and you were legally married on December 31, 2013, you'll generally have to file your 2013 federal income tax return as a married couple--either married filing jointly, or married filing separately. This affects only your federal income tax return, however--make sure you understand your state's income tax filing requirements.

2013 IRA contributions--still time

You generally have until April 15 to contribute up to $5,500 ($6,500 if you're age 50 or older) to a traditional or Roth IRA for 2013. With a traditional IRA, you may be able to deduct your contribution (if you or your spouse are covered by an employer plan, your ability to deduct some or all of your contribution depends on your filing status and income). If you make contributions to a Roth IRA (your ability to contribute depends on your filing status and income) there's no immediate tax benefit, but qualified distributions you take in the future are completely free from federal income tax.

Filing for an extension

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.* Filing this extension gives you an additional six months (to October 15, 2014) to file your return. Don't make the mistake, though, of assuming that the extension gives you additional time to pay any taxes due. If you don't pay any taxes owed by April 15, 2014, you'll owe interest on the tax due, and you may owe penalties as well. Note that special rules apply if you're living outside the country or serving in the military outside the country on April 15, 2014.

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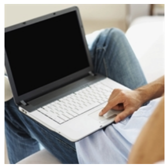


What can I do to protect my username and password information from computer hackers?

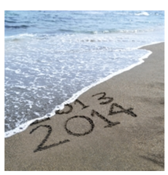
At one time, computer hackers were viewed as a few rogue individuals who mainly worked alone. Today, many hackers are part of highly sophisticated networks that carry out well-organized cyber attacks. Unfortunately, these online security breaches can result in your username and password information being compromised.

Whenever you enter your personal information online, you'll want to make sure that you create a strong password to protect that information. Some tips for creating a strong password include:

- Avoid creating simple passwords that have a connection to your personal identity (e.g., date of birth, address) or that can be found in the dictionary
- Create a password that uses a nonsense word/random alphanumeric combination or an arbitrary, easy to remember phrase with mixed-up character types (e.g., upper/lower case, punctuation)
- Don't use the same password for multiple websites
- Use an online tool that allows you to test the strength of a password

If you have trouble keeping track of all of your password information or if you want an extra level of password protection, you may want to use some type of password management software. There are a variety of password managers on the market. Password managers typically work by using high-level encryption methods to store all of your online usernames and passwords on one secure server, using a single master password.

There are a few things you should consider when choosing a password manager. First, if you plan on needing your password information for use on various devices (e.g., tablet, smartphone), you will want to choose a password manager that has mobility features. In addition, some password managers offer added benefits such as web form fillers, which can come in handy if you do a lot of online shopping. Other features to look for include automatic log in and password generator capability.



How much can I contribute to my IRA in 2014?

The amount you can contribute to your traditional or Roth IRA remains $5,500 for 2014, $6,500 if you're 50 or older. You can contribute to an IRA in addition to an employer-sponsored retirement plan like a 401(k). But if you (or your spouse) participate in an employer-sponsored plan, the amount of traditional IRA contributions you can deduct may be reduced or eliminated (phased out), depending on your modified adjusted gross income (MAGI). Your ability to make annual Roth contributions may also be phased out, depending on your MAGI. These income limits (phaseout ranges) have increased for 2014:

Income phaseout range for deductibility of traditional IRA contributions in 2014	
1. Covered by an employer-sponsored plan and filing as:	
Single/Head of household	$60,000 - $70,000
Married filing jointly	$96,000 - $116,000
Married filing separately	$0 - $10,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	$181,000 - $191,000

Income phaseout range for ability to fund a Roth IRA in 2014	
Single/Head of household	$114,000 - $129,000
Married filing jointly	$181,000 - $191,000
Married filing separately	$0 - $10,000