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Hello Everyone,

I hope you had a great summer and perhaps were able to spend time somewhere cool. Fall is my favorite time of year: cool temperatures, Thanksgiving, and Aggie football.

A special thanks to all of you who have referred potential new clients to JBF. You're doing so says a lot about your faith in me.

As always, please let us know if you have anything you want to discuss or if anything has changed that you feel might affect your current financial plan.

Thank you for your friendship, trust, and business.

God Bless,
John

Fall 2016

Investors Are Human, Too

Ten Year-End Tax Tips for 2016

Top Financial Concerns of Baby Boomers, Generation Xers, and Millennials

What are my health-care options if I retire early?

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The retirement you want with the confidence you need...



Investors Are Human, Too



would generally mirror the growth in earnings and dividends. Shiller's research showed that stock prices fluctuate more often than changes in companies' intrinsic valuations (such as dividend yield) would suggest.¹

Shiller concluded that asset prices sometimes move erratically in the short term simply because investor behavior can be influenced by emotions such as greed and fear. Many investors would agree that it's sometimes difficult to stay calm and act rationally, especially when unexpected events upset the financial markets.

Researchers in the field of behavioral finance have studied how cognitive biases in human thinking can affect investor behavior. Understanding the influence of human nature might help you overcome these common psychological traps.

Herd mentality

Individuals may be convinced by their peers to follow trends, even if it's not in their own best interests. Shiller proposed that human psychology is the reason that "bubbles" form in asset markets. Investor enthusiasm ("irrational exuberance") and a herd mentality can create excessive demand for "hot" investments. Investors often chase returns and drive up prices until they become very expensive relative to long-term values.

Past performance, however, does not guarantee future results, and bubbles eventually burst. Investors who follow the crowd can harm long-term portfolio returns by fleeing the stock market after it falls and/or waiting too long (until prices have already risen) to reinvest.

Availability bias

This mental shortcut leads people to base judgments on examples that immediately come to mind, rather than examining alternatives. It may cause you to misperceive the likelihood or frequency of events, in the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean.

Confirmation bias

People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be likely to ignore critical facts and focus on data that supports your opinion.

Overconfidence

Individuals often overestimate their skills, knowledge, and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

Loss aversion

Research shows that investors tend to dislike losses much more than they enjoy gains, so it can actually be painful to deal with financial losses.² Consequently, you might avoid selling an investment that would realize a loss even though the sale may be an appropriate course of action. The intense fear of losing money may even be paralyzing.

It's important to slow down the process and try to consider all relevant factors and possible outcomes when making financial decisions. Having a long-term perspective and sticking with a thoughtfully crafted investing strategy may also help you avoid expensive, emotion-driven mistakes.

Note: All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

¹ *The Economist*, "What's Wrong with Finance?" May 1, 2015

² *The Wall Street Journal*, "Why an Economist Plays Powerball," January 12, 2016

Ten Year-End Tax Tips for 2016



Deductions may be limited for those with high incomes

If your adjusted gross income (AGI) is more than \$259,400 (\$311,300 if married filing jointly, \$155,650 if married filing separately, \$285,350 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2016 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

IRA and retirement plan contributions

For 2016, you can contribute up to \$18,000 to a 401(k) plan (\$24,000 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 2016 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 2016 IRA contributions.

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

1. Set aside 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 if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2017, 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 current 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 2017, could make a difference on your 2016 return.

4. 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. For example, if you're subject to the AMT in 2016, prepaying 2017 state and local taxes probably won't help your 2016 tax situation, but could hurt your 2017 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2016 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any 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 any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

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 and help you determine if any year-end moves make sense for you.

Top Financial Concerns of Baby Boomers, Generation Xers, and Millennials



In its survey, PricewaterhouseCoopers defined the generations as having these birth years: baby boomers: 1943-1960; Generation X: 1961-1981; millennials: 1982-1997. The U.S. Census Bureau and other groups often define these generational ranges differently.

Source:

"Employee Financial Wellness Survey," PricewaterhouseCoopers LLP, April 2016

Many differences exist among baby boomers, Generation Xers, and millennials. But one thing that brings all three generations together is a concern about their financial situations.

According to an April 2016 employee financial wellness survey, 38% of boomers, 46% of Gen Xers, and 51% of millennials said that financial matters are the top cause of stress in their lives. In fact, baby boomers (50%), Gen Xers (56%), and millennials (60%) share the same top financial concern about not having enough emergency savings for unexpected expenses. Following are additional financial concerns for each group and some tips on how to address them.

Baby boomers

Baby boomers cite retirement as a top concern, with 45% of the group saying they worry about not being able to retire when they want to. Although 79% of the baby boomers said they are currently saving for retirement, 52% of the same group believe they will have to delay retirement. Health issues (30%) and health-care costs (38%) are some of the biggest retirement concerns cited by baby boomers. As a result, many baby boomers (23%) are delaying retirement in order to retain their current health-care benefits.

Other reasons reported by baby boomers for delaying retirement include not having enough money saved to retire (48%), not wanting to retire (27%), and having too much debt (23%).

Generation X

While baby boomers are concerned about retiring when they want to, Gen Xers are more specifically worried about running out of money in retirement, with 50% of the surveyed group citing this as a top concern. More Gen Xers (26%) than baby boomers (25%) or millennials (21%) have already withdrawn money held in their retirement plans to pay for expenses other than retirement.

Besides worrying about retirement, 25% of Gen Xers are concerned about meeting monthly expenses. Forty-four percent find it difficult to meet household expenses on time each month, and 53% consistently carry balances on their credit cards.

Being laid off from work is another financial worry among Gen Xers, cited by 22% of those surveyed--more than cited by baby boomers or millennials.

Gen Xers (26%) report that better job security would help them achieve future financial goals, which may help explain their worry about both future (retirement) and current (living) expenses.

Millennials

Unlike baby boomers and Gen Xers who worry about future financial needs, millennials seem to be more concerned about meeting current expenses. This concern has grown substantially for millennials, from 23% in the same survey conducted in 2015 to 35% in 2016. Millennials are also finding it increasingly difficult to pay their household expenses on time each month, with the number jumping from 35% in 2015 to 46% in 2016.

Considering the amount of debt that millennials owe, it's probably not surprising that they worry about making ends meet. Specifically, 42% of the millennials surveyed have a student loan(s), with 79% saying their student loans have a moderate or significant impact on their ability to meet other financial goals.

In an attempt to make ends meet, 30% of millennials say they use credit cards to pay for monthly necessities because they can't afford them otherwise. But 40% of those who consistently carry balances find it difficult to make their minimum credit-card payments on time each month.

How each generation can address their concerns

Focusing on some basics may help baby boomers, Gen Xers, and millennials address their financial concerns. Creating and sticking to a budget can make it easier to understand exactly how much money is needed for fixed/discretionary expenses as well as help keep track of debt. A budget may also be a useful tool for learning how to prioritize and save for financial goals, including adding to an emergency savings account and retirement.

At any age, trying to meet the competing demands of both short- and long-term financial goals can be frustrating. Fortunately, there is still time for all three generations to develop healthy money management habits and improve their finances.

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What are my health-care options if I retire early?

If you're eligible for an early-retirement package from your employer, determine whether post-retirement medical coverage is included.

These packages sometimes provide medical coverage until you reach age 65 and become eligible for Medicare. Given the high cost of medical care, you might find it hard to turn down an early-retirement package that includes such coverage.

If your package doesn't include post-retirement medical coverage, or you're not eligible for an early-retirement package at all, you'll need to look into alternative sources of health insurance, such as COBRA continuation coverage or an individual health insurance policy, to carry you through to Medicare eligibility.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), most employer-provided health plans (typically employers with 20 or more employees) must offer temporary continuation coverage for employees (and their dependents) upon termination of employment. Coverage can last for up to 18 months, or 36 months in some

cases. You'll generally have to pay the full cost of coverage--employers aren't required to continue their contribution toward coverage, and most do not. Employers can also charge an additional 2% administrative fee.

Individual health insurance is available directly from various insurance carriers or, as a result of the Affordable Care Act, through state-based or federal health insurance marketplaces. One advantage of purchasing coverage through a marketplace plan is that you may be entitled to a premium tax credit if your post-retirement income falls between 100% and 400% of the federal poverty level (additional income-based subsidies may also be available).

Some factors to consider when comparing various health options are (1) the total cost of coverage, taking into account premiums, deductibles, copayments, out-of-pocket maximums, and (for marketplace plans) tax credits and subsidies; (2) the ability to continue using your existing health-care providers (and whether those providers will be in-network or out-of-network); and (3) the benefits provided under each option and whether you're likely to need and use those benefits.



What is an ABLE account?

ABLE (Achieving a Better Life Experience) accounts are tax-advantaged savings accounts for individuals with disabilities that are generally used to cover qualified disability expenses.

States can create qualified ABLE programs for persons who become disabled prior to age 26. A disabled person (or the disabled individual's parent or guardian, or an agent with a power of attorney) can create an ABLE account under any state's ABLE program. Generally, only one ABLE account is permitted per disabled person at a time. ABLE accounts are relatively new, so you will need to check which states currently have ABLE programs.

Contributions to the ABLE account are subject to an annual and a cumulative limit. The annual limit for total contributions by all contributors combined is equal to the federal annual gift tax exclusion amount (\$14,000 in 2016). The cumulative limit applies to the extent that a contribution would cause the account balance to exceed the state's maximum aggregate limit for all Section 529 qualified tuition program accounts for the beneficiary. (Fees and expenses may be associated with investment

options offered. All investing involves risk, including the possible loss of principal, and results are not guaranteed.)

Distributions from an ABLE account can be made only to the designated beneficiary. The ABLE account and distributions for qualified disability expenses of the designated beneficiary are generally not subject to federal income tax.

Generally, the ABLE account is disregarded for purposes of determining eligibility for, and the amount of, any assistance or benefit provided under certain means-tested federal programs. However, for purposes of the Supplemental Security Income program, any distributions from the ABLE account for certain housing expenses are not disregarded, and the account balance is considered a resource of the designated beneficiary to the extent the balance exceeds \$100,000.

Upon the death of the beneficiary, any state can file a claim for the total medical assistance paid for the beneficiary under that state's Medicaid plan (as reduced by any premiums paid under a Medicaid buy-in program) after the establishment of the ABLE account.