

FINANCIAL SECURITY
PLANNING SERVICES, INC.SM



Market Thoughts & Year-End Planning

December 2014

Holiday Greetings



**May the wonders of the season be with you
through the holidays and the coming year.
Warmest wishes to you and your loved ones.**

Just in time for the holidays, here is a short video from Brad McMillan, Commonwealth Financial Network's chief investment officer, which provides an update on U.S. economic growth and explains how a sluggish Japan and Europe factor into the recovery. Brad also discusses holiday consumer spending.



Market Thoughts for December 2014

With the end of 2014 quickly approaching, it is a wonderful time to begin organizing your finances for the New Year. We've put together a list of important financial planning topics that warrant consideration.

Flexible spending accounts

Money that you've put away in your flexible spending accounts (FSAs) generally must be used by year-end or it will be forfeited. Recently, however, the IRS modified this rule to allow participants to carry over up to \$500 of unused funds into the next year. Your employer plan must elect to participate in this option, so be sure to check your plan terms to see if you can take advantage of this new rule.

If your employer has not elected this carry-over option, now is the time to schedule those doctor's appointments you've been meaning to attend to or to stock up on items that are eligible for flexible spending. Doing this as soon as possible may help relieve some last-minute headaches and ensure that you don't lose your hard-earned dollars.

Additionally, open enrollment begins around this time of year for certain employee benefit plans. So if you're not using an FSA, take stock of your average expenses that would qualify. This can help you determine whether setting up an FSA for 2015 makes sense for you. If you already use an FSA, assess how much extra you have left in the account or how much of a deficit you ran and use it to calculate your allotment for the New Year.

Medicare enrollment

Open enrollment for Medicare started in October and ends December 7, 2014. For many, this is the only chance to change health and prescription drug coverage for 2015. If you want to make any changes, act now.

Recharacterization of Roth IRA rollovers or conversions

If you converted a traditional IRA to a Roth IRA during 2014 and paid tax on the conversion, mark your calendar now to allow plenty of time to meet the October 15, 2015, deadline for recharacterizing (i.e., undoing) the conversion.

Reporting losses on stock sales

Be aware of important deadlines regarding trading date closings. A trade to sell a long position must be executed by the close of the last trading date of the

current year. Similarly, a trade to sell a short position must be executed so that it settles by the last trading date of the current year.

Retirement planning

Review your retirement plan allocation and contribution elections. If you're not taking full advantage of any matching features or potential tax benefits for maximizing your contributions, now is the time to evaluate your ability to do that. Also, when it comes to qualified savings, assessing your allocation to ensure that it's still in balance and pursuing your objectives will help you start the New Year off on the right foot.

Taking stock of savings

Did you set savings goals for the current year? Make a realistic assessment of how well you've met those goals and think about your goals for the upcoming year. There's no reason why you can't make some financial resolutions along with your other New Year's vows. If you determine that you are off track, let us help you develop and monitor a financial plan.

Taxes, taxes, taxes

RMDs and estimated taxes. If you're turning 70½, you must devise the best strategy for taking required minimum distributions from your traditional IRA and 401(k) plans.

Be sure to take potentially large bonuses and a prosperous business year into account when considering your taxes for 2014. You may have to file estimated taxes or increase the upcoming January payment.

Managing marginal tax brackets. In 2013, the IRS added a 39.6-percent tax bracket, a 20-percent capital gain tax rate, and a 3.8-percent Medicare tax on net investment income. Moreover, those in higher marginal tax brackets may be subject to an additional 0.90-percent withholding tax, as well as limits on and phase-outs of itemized deductions and personal exemptions.

If you are on the edge of the new tax thresholds, you may be able to defer or accelerate income or deductions to help minimize taxes.

- **The 39.6-percent marginal tax bracket** affects taxpayers with taxable incomes in excess of \$406,750 (individual), \$457,600 (married filing jointly), \$432,200 (head of household), and \$228,800 (married filing separately).
- **The 20-percent capital gain tax rate** applies to those in the 39.6-percent marginal tax bracket.
- **Itemized deductions and personal exemption phase-outs** affect those with adjusted gross incomes above \$254,200 (individual) and \$305,050 (married filing jointly).
- **The 3.8-percent surtax** is applied to the lesser of net investment income or the excess of modified adjusted gross income over \$200,000 (individual) and \$250,000 (married filing jointly).

Too little or too much withholding. Workers with gross earned income of more than \$200,000 may have had too little or too much tax withholding in 2014. Employers may have withheld an additional 0.90-percent tax on incomes over \$200,000 without regard to the taxpayer's withholding status, which would put these taxpayers at a higher threshold. Other taxpayers may have had too little

withholding because of other income unknown to the employer due to second jobs. Employees should plan to take a credit on their returns or pay additional taxes.

Estate planning

To help ensure that your estate plan stays in tune with your goals and needs, you should be reviewing and updating it on an ongoing basis. If you haven't done so during 2014, take time before the end of the year to:

- Check trust funding
- Account for any life changes
- Update beneficiary designations
- Review trustee and agent appointments
- Review provisions of powers of attorney and health care directives
- Prepare for the distribution of personal effects
- Get a firm understanding of all of your documents

How can we help?

This list of key financial planning topics is not exhaustive. We are happy to go over deadlines that are most relevant to your personal situation, so you can better prepare for the coming year.

Whatever your planning may entail, we wish you a happy, healthy, and prosperous 2015! My staff and I deeply appreciate the continuing opportunity to work with you. Please let me know if you have any questions or requests. Thank you.

Sincerely,

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