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Hello!

We want to remind everyone that Tom's 17th Annual Sports Memorabilia Auction is quickly approaching. As many of you know, the auction benefits local families battling cancer. We hope you will join us April 8th at Hebron Catering and Events for a great evening with great food for a great cause!

Just a reminder that there is still time to make 2016 contributions to your IRA's . Call us if you would like more information!

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GERHART FINANCIAL SERVICES, INC.

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VISION.LEADERSHIP.VALUES

401(k) Withdrawals: Beware the Penalty Tax

You've probably heard that if you withdraw taxable amounts from your 401(k) or 403(b) plan before age 59½, you may be socked with a 10% early distribution penalty tax on top of the federal income taxes you'll be required to pay. But did you know that the Internal Revenue Code contains quite a few exceptions that allow you to take penalty-free withdrawals before age 59½?

Sometimes age 59½ is really age 55...or age 50

If you've reached age 55, you can take penalty-free withdrawals from your 401(k) plan after leaving your job if your employment ends during or after the year you reach age 55. This is one of the most important exceptions to the penalty tax.

And if you're a qualified public safety employee, this exception applies after you've reached age 50. You're a qualified public safety employee if you provided police protection, firefighting services, or emergency medical services for a state or municipality, and you separated from service in or after the year you attained age 50.

Be careful though. This exception applies only after you leave employment with the employer that sponsored the plan making the distribution. For example, if you worked for Employer A and quit at age 45, then took a job with Employer B and quit at age 55, only distributions from Employer B's plan would be eligible for this exception. You'll have to wait until age 59½ to take penalty-free withdrawals from Employer A's plan, unless another exception applies.

Think periodic, not lump sums

Another important exception to the penalty tax applies to "substantially equal periodic payments," or SEPPs. This exception also applies only after you've stopped working for the employer that sponsored the plan. To take advantage of this exception, you must withdraw funds from your plan at least annually based on one of three rather complicated IRS-approved distribution methods.

Regardless of which method you choose, you generally can't change or alter the payments for five years or until you reach age 59½, whichever occurs later. If you do modify the payments (for example, by taking amounts smaller or larger than required distributions or none at all), you'll again wind up having to pay the 10% penalty tax on the taxable portion of all your pre-age 59½ SEPP distributions (unless another exception applies).

And more exceptions...

Distributions described below generally won't be subject to the penalty tax even if you're under age 59½ at the time of the payment.

- Distributions from your plan up to the amount of your unreimbursed medical expenses for the year that exceed 10% of your adjusted gross income for that year (You don't have to itemize deductions to use this exception, and the distributions don't have to actually be used to pay those medical expenses.)
- Distributions made as a result of your qualifying disability (This means you must be unable to engage in any "substantial gainful activity" by reason of a "medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration.")
- Certain distributions to qualified military reservists called to active duty
- Distributions made pursuant to a qualified domestic relations order (QDRO)
- Distributions made to your beneficiary after your death, regardless of your beneficiary's age

Keep in mind that the penalty tax applies only to taxable distributions, so tax-free rollovers of retirement assets are not subject to the penalty. Also note that the exceptions applicable to IRAs are similar to, but not identical to, the rules that apply to employer plans.

Why Diversification Matters

Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

When investing, particularly for long-term goals, there is one concept you will likely hear about over and over again — diversification. Why is diversification so important? The simple reason is that it helps ensure that your risk of loss is spread among a number of different investments. The theory is that if some of the investments in your portfolio decline in value, others may rise or hold steady, helping to offset the losses.

Diversifying within asset classes

For example, say you wanted to invest in stocks. Rather than investing in just domestic stocks, you could diversify your portfolio by investing in foreign stocks as well. Or you could choose to include the stocks of different size companies (small-cap, mid-cap, and/or large-cap stocks).

If your primary objective is to invest in bonds for income, you could choose both government and corporate bonds to potentially take advantage of their different risk/return profiles. You might also choose bonds of different maturities, because long-term bonds tend to react more dramatically to changes in interest rates than short-term bonds. As interest rates rise, bond prices typically fall.

Investing in mutual funds

Because mutual funds invest in a mix of securities chosen by a fund manager to pursue the fund's stated objective, they can offer a certain level of "built-in" diversification. For this reason, mutual funds may be an appropriate choice for novice investors or those wishing to take more of a hands-off approach to their portfolios. Including a variety of mutual funds with different objectives and securities in your portfolio will help diversify your holdings that much more.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Diversifying among asset classes

You might also consider including a mix of different types of asset classes — stocks, bonds, and cash — in your portfolio. Asset allocation is a strategic approach to diversifying your portfolio. After carefully considering your investment goals, time horizon, and risk tolerance, you would then invest different percentages of your portfolio in targeted asset classes to pursue your goal.

Winning asset classes over time

The following table, which shows how many times during the past 30 years each asset class has come out on top in terms of performance, helps illustrate why diversifying among asset classes can be important.

	Number of winning years, 1987-2016
Cash	3
Bonds	5
Stocks	10
Foreign stocks	12

Performance is from December 31, 1986, to December 31, 2016. Cash is represented by Citigroup 3-month Treasury Bill Index. Bonds are represented by the Citigroup Corporate Bond Index, an unmanaged index. Stocks are represented by the S&P 500 Composite Price Index, an unmanaged index. Foreign stocks are represented by the MSCI EAFE Price Index, an unmanaged index. Investors cannot invest directly in any index. However, these indexes are accurate reflections of the performance of the individual asset classes shown. Returns reflect past performance and should not be considered indicative of future results. The returns do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing.

The principal value of cash alternatives may fluctuate with market conditions. Cash alternatives are subject to liquidity and credit risks. It is possible to lose money with this type of investment.

The return and principal value of stocks may fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, whereas corporate bonds are not. The principal value of bonds may fluctuate with market conditions. Bonds are subject to inflation, interest rate, and credit risks. Bonds redeemed prior to maturity may be worth more or less than their original cost.

The risks associated with investing on a worldwide basis include differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country.

Investments offering the potential for higher rates of return also involve higher risk.

Why a Life Insurance Claim May Be Denied

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Any guarantees associated with payment of death benefits are based on the claims-paying ability and financial strength of the insurer.

Life insurance can be an important financial tool for you and your family. For example, life insurance can help replace earnings that would cease upon your death. It can provide a legacy for your children or grandchildren, and can even be used to make a charitable gift after your death.

However, the fact that you've purchased life insurance doesn't guarantee that the death benefit will be paid when it's needed most — after you've died. There are several reasons insurance companies may attempt to deny, or at least delay, paying a claim for the death benefit. Here are some possible circumstances when a death-benefit claim may be contested by the insurer.

Misstatements on the application

A clause that's commonly found in life insurance contracts is the incontestability clause. A life insurance claim may be denied if the insurer finds that the applicant made misstatements on the policy application and death occurs within two years of the policy's start date. If the applicant makes statements intended to defraud the insurer, there is essentially no time limit, and the claim can be denied no matter how long the policy has been in force. That's why it is very important to provide accurate information on the policy application and not withhold information or facts that are requested by the insurer.

A good example of a policy being contested involved actor Heath Ledger, who died within seven months of purchasing a $10 million life insurance policy for the benefit of his daughter. The medical examiner ruled that the cause of death was due to an accidental drug overdose. Subsequently, the insurer denied the claim on two grounds: The death was the result of an intentional drug overdose and amounted to suicide, and the insured did not disclose on the insurance application (as requested) that he was a user of illegal drugs, which is a material misrepresentation. The policy beneficiary sued the insurer, and the case was eventually settled for an undisclosed amount believed to be much less than the policy death benefit.

Suicide clause

Most life insurance policies contain a suicide clause, which generally states that no death benefit will be paid if the insured's death results from suicide within two years from the inception of the policy. Often, policy owners inadvertently restart the two-year suicide clause when they replace existing life insurance with a new policy.

Even in the unfortunate circumstance that death by suicide occurs within two years from the policy's inception, the beneficiaries may still be able to receive at least a portion of the death benefit, depending on the circumstances. For example, whether death is intentional (suicide) or by accident is not always easily determined.

Policy lapse

A life insurance policy may not be in force because the coverage has lapsed. Policies may lapse for several reasons, including nonpayment of the premium and expiration of a stated term. Insurers generally send written notifications when a premium payment is past due, when the policy is about to lapse, and when a policy has actually expired. Sometimes the policy owner may inadvertently or intentionally neglect to make premium payments. In any case, the insurance beneficiary may not realize that the policy has lapsed until after the death of the insured.

An insurer may deny payment of the death benefit when death occurs outside the policy coverage term. Term life insurance provides death benefit coverage for a stated number of years, usually from one to 25 years, depending on the policy purchased. This type of insurance is also common through employer-provided plans. In any case, if the insured's death occurs after the policy term has expired, the claim for insurance proceeds will be denied.

What can you do?

Nothing can be more emotionally trying than having a life insurance claim denied while dealing with the loss of a loved one. Here are some tips that may help get the death benefit paid.

Whether you fill out the life insurance application or it is completed by a life insurance agent, be sure you review each section of the application and answer each question honestly. Do not withhold or falsify information.

Pay the premiums on time. Indicate an alternative address for mailing the premium notices and also name another individual to receive notices of premium lapses. If you move or change financial institutions and don't notify the insurer, you may forget about the premium payments and the policy could lapse without your knowledge.

If you have group life insurance, verify that it is still in force at least once each year. Also, review your policy with an insurance professional. You may not realize that your life insurance will end on a certain date.

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How can I prepare financially for stormy weather?

Floods, tornadoes, torrential rain, lightning, and hail are common events in many parts of the country during the spring and may result in widespread damage. Severe weather often strikes with little warning, so take measures now to protect yourself and your property.

Review your insurance coverage. Make sure your homeowners and auto insurance coverage is sufficient. While standard homeowners insurance covers losses from fire, lightning, and hail, you may need to buy separate coverage for hurricanes, floods, earthquakes, and other disasters. Consult your insurer or insurance professional, who can help determine whether you have adequate coverage for the risks you face.

Create a financial emergency kit. Collect financial records and documents that may help you recover more quickly after a disaster. This kit might contain a list of key contacts and copies of important documents, including identification cards, birth and marriage certificates, insurance policies, home inventories, wills, trusts, and deeds. Make sure your kit is stored in a secure fireproof and waterproof container that is accessible and easy to carry. The Emergency Financial First Aid Kit, available online at ready.gov, offers a number of checklists and forms that may help you prepare your own kit, as well as tips to guide you through the process.

Protect your assets. Take some commonsense precautions to safeguard your home, vehicles, and other possessions against damage. For example, to prepare for a possible power outage, you might want to install an emergency generator and a sump pump with a battery backup if you have a basement or garage that is prone to flooding. Inspect your yard and make sure you have somewhere to store loose objects (e.g., grills and patio furniture) in a hurry, cut down overhanging tree limbs, and clean your gutters and down spouts. Check your home's exterior, too, to make sure that your roof and siding are in good condition, and invest in storm windows, doors, and shutters. In addition, make sure you know how to turn off your gas, electricity, and water should an emergency arise. And if you have a garage, make sure your vehicles are parked inside when a storm is imminent.

What are some tips for creating a home inventory?

Imagine having to remember and describe every item in your home, especially after you've been the victim of a fire, theft, or natural disaster. Rather than relying on your memory, you may want to prepare a home inventory — a detailed record of all your personal property. This record can help substantiate an insurance claim, support a police report when items are stolen, or prove a loss to the IRS. Here are some tips to get started.

Tour your property. A simple way to complete your inventory is to make a visual record of your belongings. Take a video of the contents of each room in your home and spaces where you have items stored, such as a basement, cellar, garage, or shed. Be sure to open cabinets, closets, and drawers, and pay special attention to valuable and hard-to-replace items. You can also use the tried-and-true low-tech method of writing everything down in a notebook, or use a combination approach. Mobile inventory apps and software programs are available to guide you through the process.

Be thorough. Your home inventory should provide as many details as possible. For example, include purchase dates, estimated values, and serial and model numbers. If possible, locate receipts to support the cost of big-ticket items and attach copies of appraisals for valuables such as antiques, collectibles, and jewelry.

Keep it safe. In addition to keeping a copy of your inventory in your home where you can easily access it, store a copy elsewhere to protect it in the event that your home is damaged by a flood, fire, or other disaster. This might mean putting it in a safe deposit box, giving it to a trusted friend or family member for safekeeping, or storing it on an external storage device that you can take with you or on a cloud-based service that provides easy and secure access.

Update it periodically. When you obtain a valuable or important item, add it to your inventory as soon as possible. Review your home inventory at least once a year for accuracy. You can also share it annually with your insurance agent or representative to help determine whether your policy coverages and limits are still adequate.

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