



# The Coach's Corner

## From your Retirement Coach and Advisor

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Hello Again!

Welcome back to another issue of The Coach's Corner. We hope that you find our discussion topics to be helpful and enlightening. If you have a specific question that isn't addressed in these pages Erin and I are always here to help! We would be happy to answer any and all of your questions related to retirement and financial planning and come up with a game plan that is right for you.

Additionally, if you have concerns about Medicare or health insurance, Erin is on hand to help you navigate through those questions.

Please call us at 314-863-0008 to set up your free Coaching Session today. *This meeting is cost-free and obligation-free.*

As always, we hope you enjoy our newsletter!

Jeff and Erin Lapidus

### June 2015

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## Reviewing Your Finances Mid-Year



You made it through tax season and now you're looking forward to your summer vacation. But before you go, take some time to review your finances. Mid-year is an ideal time to do so, because the demands on

your time may be fewer, and the planning opportunities greater, than if you wait until the end of the year.

### Think about your priorities

What are your priorities? Here are some questions that may help you identify the financial issues you want to address within the next few months.

- Are any life-changing events coming up soon, such as marriage, the birth of a child, retirement, or a career change?
- Will your income or expenses substantially increase or decrease this year?
- Have you managed to save as much as you expected this year?
- Are you comfortable with the amount of debt that you have?
- Are you concerned about the performance of your investment portfolio?
- Do you have any other specific needs or concerns that you would like to address?

### Take another look at your taxes

Completing a mid-year estimate of your tax liability may reveal tax planning opportunities. You can use last year's tax return as a basis, then make any anticipated adjustments to your income and deductions for this year.

You'll want to check your withholding, especially if you owed taxes when you filed your most recent income tax return or you received a large refund. Doing that now, rather than waiting until the end of the year, may help you avoid a big tax bill or having too much of your money tied up with Uncle Sam. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.

To help avoid missed tax-saving opportunities for the year, one basic thing you can do right now is to set up a system for saving receipts and other tax-related documents. This can be as simple as dedicating a folder in your file cabinet to this year's tax return so that you can keep track of important paperwork.

### Reconsider your retirement plan

If you're working and you received a pay increase this year, don't overlook the opportunity to increase your retirement plan contributions by asking your employer to set aside a higher percentage of your salary. In 2015, you may be able to contribute up to \$18,000 to your workplace retirement plan (\$24,000 if you're age 50 or older).

If you're already retired, take another look at your retirement income needs and whether your current investments and distribution strategy will continue to provide enough income.

### Review your investments

Have you recently reviewed your portfolio to make sure that your asset allocation is still in line with your financial goals, time horizon, and tolerance for risk? Though it's common to rebalance a portfolio at the end of the year, you may need to rebalance more frequently if the market is volatile.

**Note:** *Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.*

### Identify your insurance needs

Do you know exactly how much life and disability insurance coverage you have? Are you familiar with the terms of your homeowners, renters, and auto insurance policies? If not, it's time to add your insurance policies to your summer reading list. Insurance needs frequently change, and it's possible that your coverage hasn't kept pace with your income or family circumstances.





**1 This hypothetical example is for illustrative purposes only. Investment returns will fluctuate and cannot be guaranteed.**

**2 All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. Investments offering a higher potential rate of return also involve a higher level of risk.**

**3 Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against a loss.**

**4 There is no assurance that working with a financial professional will improve your investment results.**

**5 Withdrawals from your retirement plan prior to age 59½ (age 55 in the event you separate from service) may be subject to regular income taxes as well as a 10% penalty tax.**

## Age-Based Tips for Making the Most of Your Retirement Savings Plan

No matter what your age, your work-based retirement savings plan can be a key component of your overall financial strategy. Following are some age-based points to consider when determining how to put your plan to work for you.

### Just starting out

Just starting your first job? Chances are you face a number of financial challenges. College loans, rent, and car payments all compete for your hard-earned paycheck. Can you even consider contributing to your retirement plan now? Before you answer, think about this: The time ahead of you could be your greatest advantage. Through the power of compounding--or the ability of investment returns to earn returns themselves--time can work for you.

**Example:** Say at age 20, you begin investing \$3,000 each year for retirement. At age 65, you would have invested \$135,000. If you assume a 6% average annual rate of return, you would have accumulated \$638,231 by that age. However, if you wait until age 45 to invest that \$3,000 each year, and earn the same 6% annual average, by age 65 you would have invested \$60,000 and accumulated \$110,357. By starting earlier, you would have invested \$75,000 more but would have accumulated more than half a million dollars more. That's compounding at work. Even if you can't afford \$3,000 a year right now, remember that even smaller amounts add up through compounding.<sup>1</sup>

Finally, time offers an additional benefit to young adults: the ability to potentially withstand greater short-term losses in pursuit of long-term gains. You may be able to invest more aggressively than your older colleagues, placing a larger portion of your retirement portfolio in stocks to strive for higher long-term returns.<sup>2</sup>

### Getting married and starting a family

At this life stage, even more obligations compete for your money--mortgages, college savings, higher grocery bills, home repairs, and child care, to name a few. Although it can be tempting to cut your retirement plan contributions to help make ends meet, try to avoid the temptation. Retirement needs to be a high priority throughout your life.

If you plan to take time out of the workforce to raise children, consider temporarily increasing your plan contributions before leaving and after you return to help make up for the lost time and savings.

Also, while you're still decades away from retirement, you may have time to ride out market swings, so you may still be able to invest relatively aggressively in your plan. Be sure to fully reassess your risk tolerance before making any decisions.<sup>2</sup>

### Reaching your peak earning years

This stage of your career brings both challenges and opportunities. College bills may be invading your mailbox. You may have to take time off unexpectedly to care for yourself or a family member. And those pesky home repairs never seem to go away.

On the other hand, with 20+ years of experience behind you, you could be earning the highest salary of your career. Now may be an ideal time to step up your retirement savings. If you're age 50 or older, you can contribute up to \$24,000 to your plan in 2015, versus a maximum of \$18,000 if you're under age 50. (Some plans impose lower limits.)

### Preparing to retire

It's time to begin thinking about when and how to tap your plan assets. You might also want to adjust your allocation, striving to protect more of what you've accumulated while still aiming for a bit of growth.<sup>3</sup>

A financial professional can become a very important ally at this life stage. Your discussions may address health care and insurance, taxes, living expenses, income-producing investment vehicles, other sources of income, and estate planning.<sup>4</sup>

You'll also want to familiarize yourself with required minimum distributions (RMDs). The IRS requires you to begin taking RMDs from your plan by April 1 of the year following the year you reach age 70½, unless you continue working for your employer.<sup>5</sup>

### Other considerations

Throughout your career, you may face other decisions involving your plan. Would Roth or traditional pretax contributions be better for you? Should you consider a loan or hardship withdrawal from your plan, if permitted, in an emergency? When should you alter your asset allocation? Along the way, a financial professional can provide an important third-party view, helping to temper the emotions that may cloud your decisions.

## Planned Charitable Giving



*Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts.*

*There may be costs and expenses associated with trusts, private foundations, and donor-advised funds. Income from charitable trusts and charitable gift annuities is not guaranteed.*

Today more than ever, charitable institutions stand to benefit as the first wave of baby boomers reach the stage where they're able to make significant charitable gifts. If you're like many Americans, you too may have considered donating to charity. And though writing a check at year-end is one of the most common ways to give to charity, planned giving may be even more effective.

### What is planned giving?

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts. For example, you may need to receive income in exchange for the assets you donate, or you may want to be involved in deciding how your gift is spent--things that typically can't be done with standard checkbook giving.

### Questions to consider

To help you start thinking about your charitable plan, consider these questions:

- Which charities do you want to benefit?
- What kind of property do you want to donate (e.g., cash, stocks, real estate, life insurance)?
- Do you want the gift to take effect during your life or at your death?
- Do you want to retain an interest in the property you donate?
- Do you want to be involved in deciding how your gift is spent?

### Gifting strategies

There are many ways to donate to charity, from a simple outright cash gift to a complex trust arrangement. Each option has strengths and tradeoffs, so it's a good idea to consider which strategy is best for you. Here are some common options:

**Outright gift.** An outright gift is an immediate gift for the charity's benefit only. It can be made during your life or at your death via your will or other estate planning document. Examples of property you can gift are cash, securities, real estate, life insurance proceeds, art, collectibles, or other property.

**Charitable trust.** A charitable trust lets you split a gift between a charitable and a noncharitable beneficiary, allowing you to integrate financial needs with philanthropic desires. The two main types are a charitable remainder trust and a charitable lead trust. A typical charitable remainder trust provides an annuity or unitrust interest for one or two persons for life. An annuity interest provides fixed payments, while a unitrust interest

provides for payments of a fixed percentage of trust assets (valued annually). At the end of the trust term, assets remaining in the trust pass to the charity. This can be an attractive strategy for older individuals who seek income. There are a few other variations of the charitable remainder trust, depending on how the income stream is calculated. With a charitable lead trust, the order is reversed; the charity gets the first, or lead unitrust or annuity interest, and the noncharitable beneficiary receives the remainder interest at the end of the trust term.

**Charitable gift annuity.** A charitable gift annuity provides a fixed annuity for one or two persons for life. It's easier to establish than a charitable remainder trust because it doesn't require a formal trust document.

**Private foundation.** A private foundation is a separate legal entity you create that makes grants to public charities. You and your family members, with the help of professional advisors, run the foundation--you determine how assets are invested and how grants are made. But in doing so, you're obliged to follow the many rules and regulations governing private foundations.

**Donor-advised fund.** Similar to but less burdensome than a private foundation, a donor-advised fund is an account held by a charity to which you can transfer assets. You can then advise, but not direct, how your assets will be invested and how grants will be made.

### Tax benefits

Charitable giving can provide you with great personal satisfaction. But let's face it, the tax benefits are valuable, too. Your gift can result in a substantial income tax deduction in the year you make the donation, and it may also reduce capital gains and estate taxes. With a charitable remainder trust, you generally receive an up-front income tax deduction equal to the estimated present value of the interest that will eventually go to charity.

Charitable contribution deductions are generally limited to 50% of your adjusted gross income (AGI), or 30% or 20% of AGI depending on the type of charity and the property donated. Disallowed amounts can generally be carried over and deducted in the following five years, subject to the percentage limits in those years. Your overall itemized deductions may also be limited based on the amount of your AGI.

The charity must be a qualified public charity in order for you to enjoy these tax benefits. Not all tax-exempt charities are qualified charities for tax purposes. To verify a charity's status, check IRS Publication 78, or visit [www.irs.gov](http://www.irs.gov).

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## How important are dividends in the S&P 500's total returns?

In a word, very. Dividend income has represented roughly one-third of the total return on the Standard & Poor's 500 index since 1926.\*

According to S&P, the portion of total return attributable to dividends has ranged from a high of 53% during the 1940s--in other words, more than half that decade's return resulted from dividends--to a low of 14% during the 1990s, when the development and rapid expansion of the Internet meant that investors tended to focus on growth.\*

And in individual years, the contribution of dividends can be even more dramatic. In 2011, the index's 2.11% average dividend component represented 100% of its total return, since the index's value actually fell by three-hundredths of a point.\*\* And according to S&P, the dividend component of the total return on the S&P 500 has been far more stable than price changes, which can be affected by speculation and fickle market sentiment.

Dividends also represent a growing percentage of Americans' personal incomes. That's been especially true in recent years as low interest

rates have made fixed-income investments less useful as a way to help pay the bills. In 2012, dividends represented 5.64% of per capita personal income; 20 years earlier, that figure was only 3.51%.\*

**Note:** All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. Investing in dividends is a long-term commitment. Investors should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. A company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

\*Source: "Dividend Investing and a Look Inside the S&P Dow Jones Dividend Indices," Standard & Poor's, September 2013

\*\*Source: www.spindices.com, "S&P 500 Annual Returns" as of 3/13/2015



## Are stock dividends reliable as a source of income?

Dividends can be an important source of income. However, there are several factors you should take into consideration if you'll be relying on them to help pay the bills.

An increasing dividend is generally regarded as a sign of a company's health and stability, and most corporate boards are reluctant to cut them. However, dividends on common stock are by no means guaranteed; the board can decide to reduce or eliminate dividend payments. Investing in dividend-paying stocks isn't as simple as just picking the highest yield; consider whether the company's cash flow can sustain its dividend, and whether a high yield is simply a function of a drop in a stock's share price. (Because a stock's dividend yield is calculated by dividing the annual dividend by the current market price per share, a lower share value typically means a higher yield, assuming the dividend itself remains the same.)

Also, dividends aren't all alike. Dividends on preferred stock typically offer a fixed rate of return, and holders of preferred stock must be paid their promised dividend before holders of common stock are entitled to receive theirs.

However, because their dividends are predetermined, preferred stocks typically behave somewhat like fixed-income investments. For example, their market value is more likely to be affected by changing interest rates, and most preferred stocks have a provision allowing the company to call in its preferred shares at a set time or at a specified future date. If you have to surrender your preferred stock, you might have difficulty finding an equivalent income stream.

Finally, dividends from certain types of investments aren't eligible for the special tax treatment generally available for qualified dividends, and a portion may be taxed as ordinary income.

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