Callahan Newsletter

Keeping you current

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If you have questions, we have answers. Call us as your source for the best financial infomation regarding your future:)

December 2013

It's December 31. Do You Know Where Your Money Is?

December and January are the perfect months to look back at what you earned, saved, and spent during the past year, as W-2s, account statements, and other year-end financial summaries roll in. So before Punxsutawney Phil comes out of his burrow to predict when spring is coming, take some time to get your financial house in order.

How much have you saved?

Whether you simply resolved last year to save more or you set a specific financial goal (for example, saving 15% of your income for retirement), it's time to find out how you did. Start by taking a look at your account balances. How much did you save for college or retirement? Were you able to increase your emergency fund? If you were saving for a large purchase, did you save as much as you expected? Challenge yourself in the new year to save a little bit more so that you can make steady financial progress.

How did your investments perform?

Review any investment statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relationship to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions?

Did you reduce debt?

Tracking your spending is just as important as tracking your savings, but it's hard to do when you're caught up in an endless cycle of paying down your debt and then borrowing more money, over and over again. Fortunately, end of year mortgage statements, credit card statements, and vehicle financing statements will all spell out the amount of debt you still owe and how much you've really been able to pay off. You may even find that you're making more progress than you think. Keep these statements so that you have an easy way to track your progress next year.

Where did your employment taxes go?

If you're covered by Social Security, the W-2 you receive from your employer by the end of January will show how much you paid into the Social Security system via payroll taxes collected. If you're self-employed, you report and pay these taxes (called self-employment taxes) yourself. These taxes help fund future Social Security benefits, but many people have no idea what they can expect to receive from Social Security in the future. This year, get in the habit of checking your Social Security statement annually to find out how much you've been contributing to the Social Security system and what future benefits you might expect, based on current law. To access your statement, sign up for a *my* SocialSecurity account at the Social Security Administration's website, www.socialsecurity.gov.

Has your financial outlook changed during the past year?

Once you've reviewed your account balances and financial statements, your next step is to look at your whole financial picture. Taking into account your income, your savings and investments, and your debt load, did your finances improve over the course of the year? If not, why not?

Then it's time to think about the changes you would like to make for next year. Start by considering the following questions:

- What are your greatest financial concerns?
- Do you need help or advice in certain areas?
- Are your financial goals the same as they were last year?
- Do you need to revise your budget now that you've reviewed what you've earned, saved, and spent?

Using what you've learned about your finances--good and bad--to set your course for next year can help you ensure that your financial position in the new year is stronger than ever.

What's in Store for Health-Care Reform in 2014

Increase in small business tax credit

The maximum tax credit available to qualifying small employers (no more than 25 full-time equivalent employees) that offer health insurance to their employees increases to 50% of the qualifying employer's premium costs (35% for tax-exempt employers) on January 1, 2014. This is an increase from the maximum credit of 35% (25% for tax-exempt employers) that began in 2010.

While the Affordable Care Act (ACA) became law in 2010, several of the more substantive provisions of the law don't take effect until 2014. Here's a review of some of the key parts of the ACA that are scheduled to begin in 2014.

Individual mandate

The ACA imposes a shared responsibility mandate, which requires that most U.S. citizens and legal residents of all ages (including children and dependents) have minimum essential health coverage or pay a penalty tax, unless otherwise exempt. The monthly penalty is equal to the greater of a declared dollar amount ($95 in 2014) or a percentage of the individual's gross income.

Note: *The employer's mandate to provide coverage for employees was also scheduled to begin in 2014; however, the requirement will not be enforced until January 2015.*

State Exchanges

The ACA requires that each state establish state-based American Health Benefit Exchanges for individuals and Small Business Health Options Program (SHOP) Exchanges for small employers. The Department of Health and Human Services will establish Exchanges in states that do not create the Exchanges. The general purpose of these Exchanges is to provide a single resource in each state for consumers and small businesses to compare health plans, get answers to questions, and enroll in a health plan that is both cost effective and meets their health-care needs.

Exchanges may only offer qualified health plans that cover essential benefits, limit out-of-pocket costs, and provide coverage based on four levels of cost sharing--bronze, silver, gold, and platinum. Also, tax credits and cost-sharing subsidies will be available to U.S. citizens and legal immigrants who buy health insurance through the health Exchanges.

Insurers must provide guaranteed issue and renewability of coverage

All individual and group plans must issue insurance to all applicants regardless of health status, medical condition, or prior medical expenses. Insurers must renew coverage for applicants even if their health status has changed. Grandfathered individual plans are exempt from these requirements. Grandfathered plans are those that were in existence prior to the enactment of the ACA (March 2010) and have not been significantly altered in subsequent years.

In the past, insurers used pre-existing medical condition provisions to deny coverage for care related to the condition (pre-existing condition policy exclusion), increased the premium to cover the condition, or denied coverage altogether. Beginning January 1, 2014, the ACA prohibits insurers in group markets and individual markets (with the exception of grandfathered individual plans) from imposing pre-existing condition exclusions.

In keeping with the guaranteed availability of coverage, insurers may not charge individuals and small employers higher premiums based on health status or gender. Premiums may vary only based on family size, geography, age, and tobacco use.

Essential health benefits

All nongrandfathered small group and individual health plans must offer a package of essential health benefits from 10 benefit categories. The categories include ambulatory patient services, emergency services, hospitalization, laboratory services, maternity and newborn care, mental health and substance abuse treatment, prescription drugs, rehabilitative services and devices, preventive and wellness services, and pediatric services, including dental and vision.

Other policy provisions

The ACA also imposes several requirements and eliminates other provisions commonly found in insurance policies:

- Group and individual policies (including grandfathered plans) may not impose waiting periods longer than 90 days before coverage becomes effective.
- Annual deductible for small group (fewer than 50 full-time equivalent employees) health plans (excluding grandfathered plans) must not exceed $2,000 per insured and $4,000 per family. These amounts are indexed to increase in subsequent years.
- The most you'll pay annually for out-of-pocket expenses (deductibles, coinsurance, and co-pays) for all individual and group health plans (excluding grandfathered plans) cannot exceed the maximum out-of-pocket limits for health savings accounts ($6,350 for individual/$12,700 for family in 2014).
- All group health plans and nongrandfathered individual health plans can no longer impose annual or lifetime dollar limits on essential health benefits.

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Divorce and Retirement Benefits

**Source: The National Center for Health Statistics, "Births, Marriages, Divorces, and Deaths: Provisional Data for 2009, Table A"*

While we all hope our marriages will last forever, statistics tell us that about 50% of marriages in the United States will end in divorce.* And since retirement plan benefits are frequently among the most valuable marital assets, it's important to understand how those benefits may be impacted by a divorce.

Identify all retirement assets

Like houses, cars, and bank accounts, retirement assets can be divided at the time of a divorce. The laws of your particular state will define just which retirement benefits are marital assets (or community property in community property states) that are subject to division.

"Retirement assets" is a broad term that covers several different account and plan types. You and your spouse may have one or more IRAs, and they may be held by various financial institutions. One or both of you may also be entitled to retirement benefits from past and current employers.

Employer retirement plans come in various forms. Most are "qualified plans," which are entitled to special tax benefits under federal tax laws. These can be "defined contribution" plans like 401(k), 403(b), and 457(b) plans--you own an individual account that contains a specific dollar amount of benefits. Or they can be "defined benefit" plans, which pay a monthly pension benefit (currently or sometime in the future) based on your salary and number of years of service at retirement, and other factors.

Dividing marital assets

Once the retirement assets, along with all other marital assets, have been identified, you and your spouse can begin negotiating a property settlement agreement (or seek the assistance of the courts). In some cases, one spouse may agree to waive any rights to all or some of the other spouse's retirement benefits in exchange for other marital assets (for example, the home). This strategy may be appropriate where the retirement assets consist solely of a 401(k)-like plan, where the value of the benefit is clear--generally the account balance--so trading for other marital assets is fairly straightforward.

On the other hand, trading defined benefit pension benefits for other marital assets should be done only if you're certain you know the full value of those benefits. This may require the assistance of an actuary, who can determine the present value of your spouse's future benefits. And remember that you may be giving up valuable retirement benefits payable for your lifetime, so before you give these up, make sure you'll have other adequate resources available to you at retirement.

Qualified plans--QDROs

If qualified retirement benefits (e.g., a 401(k)) must be divided, the procedure is to submit a qualified domestic relations order, or QDRO, to the retirement plan administrator. A QDRO is a court judgment, decree, or order establishing the marital property rights of a spouse, former spouse, child, or dependent of a participant in a qualified retirement plan.

There are a number of ways that plan benefits can be divided pursuant to a QDRO. For example, you could be awarded all or part of your spouse's 401(k) plan benefit as of a certain date, or all or part of your spouse's pension plan benefit. It's very important to hire an attorney who has experience negotiating and drafting QDROs--especially for defined benefit plans where the QDRO may need to address such items as survivor benefits, benefits earned after the divorce, plan subsidies, COLAs, and other complex issues. (For example, a QDRO may provide that you'll be treated as the surviving spouse for survivor annuity purposes, even if your spouse subsequently remarries.)

You're responsible for any taxes on benefits awarded to you pursuant to a QDRO (although the 10% early distribution penalty tax will not apply). You may be able to roll certain distributions into your IRA to defer taxes.

IRAs

The QDRO rules don't apply to IRAs or nonqualified plans. The extent to which IRAs are marital property, subject to division, is a matter of state law. However, federal law does contain rules that govern the taxation of IRA benefits distributed pursuant to a divorce. The general rule is that the IRA owner-spouse must pay tax on any IRA distributions. However, if the IRA benefits are paid to a spouse or former spouse's IRA pursuant to a divorce decree, then the IRA owner spouse will not be responsible for any taxes on the amount distributed. Instead, the recipient spouse must pay any taxes due when payments are received from the IRA.

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What will happen to my digital assets if I die or become incapacitated?

In today's digital age, many individuals live at least a part of their life online. Whether you share your life with others through e-mail, Facebook posts, and tweets, or simply have a number of online, password protected accounts, you'll want to make plans for the disposition of all of your digital assets in the event of your death or incapacity.

Unfortunately, the laws governing digital assets are not well settled. Only a small number of states have estate laws that specifically cover digital assets, and those laws are relatively new and untested. As a result, you should consult an estate planning attorney for information on how digital assets are handled in your particular state.

For the most part, websites, blogs, and registered domain names are transferable under standard property and copyright laws. However, certain online accounts (e.g., e-mail, social media accounts) may not be transferrable, depending on the site's terms of service. Terms of service vary widely from site to site. Some sites will allow a person with the appropriate legal authority to access your accounts upon your death. Others will put your accounts in a "memorial state" or permanently delete your account upon proper notification of your death.

The most important step you can take to protect your digital assets is to include them in your estate plan, just as you would your physical assets. Your first step should be to identify and inventory all of your digital assets. Make a list of where your assets are located and how they are accessed (e.g., username and password). Next, indicate what you wish to happen to your digital assets (e.g., transfer to an heir or terminate) and who will be responsible for carrying out those wishes (e.g., an executor). Be sure to refer to this inventory in your will (but keep it separate since your will eventually becomes public information).

If privacy issues surrounding your digital assets are a real concern, a number of online websites securely store all of your digital asset information and allow you to leave legacy instructions for a designated beneficiary or executor. The costs of these types of services vary, depending upon the services offered.

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.