



# ON TARGET

## 2017 Summer Newsletter

### Working in Retirement: What You Need to Know



Planning on working during retirement? If so, you're not alone. Recent studies have consistently shown that a majority of retirees plan to work at least some period of time during their retirement years. Here are some points to consider.

#### Why work during retirement?

Obviously, if you work during retirement, you'll be earning money and relying less on your retirement savings, leaving more to grow for the future. You may also have access to affordable health care, as more and more employers offer this important benefit to part-time employees. But there are also non-economic reasons for working during retirement. Many retirees work for personal fulfillment, to stay mentally and physically active, to enjoy the social benefits of working, and to try their hand at something new.

#### What about my Social Security benefit?

Working may enable you to postpone claiming Social Security until a later date. In general, the later you begin receiving benefit payments, the greater your benefit will be. Whether delaying the start of Social Security benefits is the right decision for you depends on your personal circumstances.

One factor to consider is whether you want to continue working after you start receiving Social Security retirement benefits, because your earnings may affect the amount of your benefit payment.

If you've reached full retirement age (66 to 67, depending on when you were born), you don't need to worry about this — you can earn as much as you want without affecting your Social Security benefit. But if you haven't yet reached full retirement age, \$1 in benefits will be withheld for every \$2 you earn over the annual earnings limit (\$16,920 in 2017). A higher earnings limit applies in the year you reach full retirement age. If you earn more than this higher limit (\$44,880 in 2017), \$1 in benefits will be withheld for every \$3 you earn over that amount, until the month you reach full retirement age — then you'll get your full benefit

no matter how much you earn. Yet another special rule applies in your first year of Social Security retirement — you'll get your full benefit for any month you earn less than one-twelfth of the annual earnings limit (\$1,410 in 2017) and you don't perform substantial services in self-employment.

Not all income reduces your Social Security benefit. In general, Social Security only takes into account wages you've earned as an employee, net earnings from self-employment, and other types of work-related income such as bonuses, commissions, and fees. Pensions, annuities, IRA payments, and investment income won't reduce your benefit.

Even if some of your benefits are withheld prior to your full retirement age, you'll generally receive a higher monthly benefit starting at your full retirement age, because the Social Security Administration (SSA) will recalculate your benefit and give you credit for amounts that were withheld. If you continue to work, any new earnings may also increase your monthly benefit. The SSA reviews your earnings record every year to see if you had additional earnings that would increase your benefit.

One last important point to consider. In general, your Social Security benefit won't be subject to federal income tax if that's the only income you receive during the year. But if you work during retirement (or you receive any other taxable income or tax-exempt interest), a portion of your benefit may become taxable. IRS Publication 915 has a worksheet that can help you determine whether any part of your Social Security benefit is subject to income tax.

#### How will working affect my pension?

Some employers have adopted "phased retirement" programs that allow you to ease into retirement by working fewer hours, while also allowing you to receive all or part of your pension benefit. However, other employers require that you fully retire before you can receive your pension. And some plans even require that your pension benefit be suspended if you retire and then return to work for the same employer, even part-time. Check with your plan administrator.

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Greetings,

We hope you are surviving the heat and enjoying a beautiful summer!

As for Bowman Financial Group, we have had a very exciting summer beginning with the wedding of Mike and Kristine's youngest child, Michael Jr. This was followed by a wonderful Client Appreciation Event a few weeks ago where we rolled out "Flat Mike"!

We hope many of you will have fun participating in this new Bowman Financial tradition with us! Please see the insert for more information.

As always, it is our honor and pleasure to serve you. Please call us with questions or to set an appointment to discuss your financial or retirement needs.

### August 2017

Test Your Investing IQ

The Health-Wealth Connection

What is a rollover IRA, and do I need one?

Can I roll my traditional 401(k) account balance over to a Roth IRA?





## Test Your Investing IQ

How much do you know about market basics? Put your investing IQ to the test with this quiz on stocks, bonds, and mutual funds.

### Questions

#### 1. What does it mean to buy stock in a company?

- a. The investor loans money to the company
- b. The investor becomes a part owner of the company
- c. The investor is liable for the company's debts

#### 2. Which of the following statements about stock indexes is correct?

- a. A stock index is an indicator of stock price movements
- b. There are many different types of stock indexes
- c. They can be used as benchmarks to compare the performance of an individual investment to a group of its peers
- d. All of the above

#### 3. What is a bond?

- a. An equity security
- b. A nonnegotiable note
- c. A debt investment in which an investor loans money to an entity

#### 4. What kind of bond pays no periodic interest?

- a. Zero-coupon
- b. Floating-rate
- c. Tax-exempt

#### 5. What is a mutual fund?

- a. A portfolio of securities assembled by an investment company
- b. An investment technique of buying a fixed dollar amount of a particular investment regularly
- c. A legal document that provides details about an investment

#### 6. What is the difference between mutual fund share classes?

- a. The investment advisers responsible for managing each class
- b. The investments each class makes
- c. The fees and expenses charged by each fund class

### Answers

**1. b. The investor becomes a part owner of the company.** Stocks are often referred to as equities because they represent an ownership position. As part owners, shareholders assume both the potential financial risks and benefits of this position, but without the responsibility of running the company.

**2. d. All of the above.** A stock index measures and reports value changes in representative stock groupings. A broad-based stock index represents a diverse cross-section of stocks and reflects movements in the market as a whole. The Dow Jones Industrial Average, NASDAQ Composite Index, and S&P 500 are three of the most widely used U.S. stock indexes. There are also more narrowly focused indexes that track stocks in a particular industry or market segment.

**3. c. A debt investment in which an investor loans money to an entity.** Unlike shareholders, bondholders do not have ownership rights in a company. Instead, investors who buy bonds are lending their money to the issuer (such as a municipality or a corporation) and thus become the issuer's creditors.

**4. a. Zero-coupon.** Unlike many types of bonds, zero-coupon bonds pay no periodic interest. They are purchased at a discount, meaning the purchase price is lower than the face value. When the bond matures, the difference between the purchase price and that face value is the investment's return.

**5. a. A portfolio of securities assembled by an investment company.** A mutual fund is a pooled investment that may combine dozens to hundreds of stocks, bonds, and other securities into one portfolio shared by many investors.

**6. c. The fees and expenses charged by each fund class.** A mutual fund may offer various share classes to investors, most commonly A, B, and C. This gives an investor the opportunity to select a share class best suited to his or her investment goals.

*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.*



*All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. Generally, the more potential for growth offered by an investment, the more risk it carries.*

*The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in such an index.*

*Because zero-coupon bonds do not pay interest until maturity, their prices tend to be more volatile than bonds that pay interest regularly. Interest income is subject to ordinary income tax each year, even though the investor does not receive any income payments.*

*The return and principal value of stocks, bonds, and mutual funds may fluctuate with market conditions. Shares, when sold, and bonds redeemed prior to maturity may be worth more or less than their original cost.*



## The Health-Wealth Connection



*"Always keep two things in stock: crunchy vegetables and an emergency savings account."*

*Michael F. Roizen, MD, and Jean Chatzky, personal finance commentator*

*Authors of Ageproof: Living Longer Without Running Out of Money or Breaking a Hip*

<sup>1</sup> *American Psychological Association, February 4, 2015; The Telomere Effect: A Revolutionary Approach to Living Younger, Healthier, Longer, by Blackburn and Epel; and Ageproof: Living Longer Without Running Out of Money or Breaking a Hip, by Chatzky and Roizen*

<sup>2</sup> *The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that long-term care carriers have the discretion to raise their rates and remove their products from the marketplace.*

It's a vicious cycle: Money is one of the greatest causes of stress, prolonged stress can lead to serious health issues, and health issues often result in yet more financial struggles.<sup>1</sup> The clear connection between health and wealth is why it's so important to develop and maintain lifelong plans to manage both.

### The big picture

Consider the following statistics:

1. More than 20% of Americans say they have either considered skipping or skipped going to the doctor due to financial worries. (American Psychological Association, 2015)
2. More than half of retirees who retired earlier than planned did so because of their own health issues or to care for a family member. (Employee Benefit Research Institute, 2017)
3. Chronic diseases such as heart disease, type 2 diabetes, obesity, and arthritis are among the most common, costly, and preventable of all health problems. (Centers for Disease Control and Prevention, 2017)
4. Chronic conditions make you more likely to need long-term care, which can cost anywhere from \$21 per hour for a home health aide to more than \$6,000 a month for a nursing home. (Department of Health and Human Services, 2017)
5. A 65-year-old married couple on Medicare with median prescription drug costs would need about \$265,000 to have a 90% chance of covering their medical expenses in retirement. (Employee Benefit Research Institute, 2017)

### Develop a plan for long-term health ...

The recommendations for living a healthy lifestyle are fairly straightforward: eat right, exercise regularly, don't smoke or engage in other risky behaviors, limit soda and alcohol consumption, get enough sleep (at least seven hours for most adults), and manage stress. And before embarking on any new health-related endeavor, talk to your doctor, especially if you haven't received a physical exam within the past year. Your doctor will benchmark important information such as your current weight and risk factors for developing chronic disease. Come to the appointment prepared to share your family's medical history, be honest about your daily habits, and set goals with your doctor.

Other specific tips from the Department of Health and Human Services include:

**Nutrition:** Current nutritional guidelines call for eating a variety of vegetables and whole fruits; whole grains; low-fat dairy; a wide variety of protein sources including lean meats, fish, eggs, legumes, and nuts; and healthy oils. Some medical professionals are hailing the long-term benefits of the so-called "Mediterranean diet." Details for a basic healthy diet and the Mediterranean diet can be found at [health.gov/dietaryguidelines](http://health.gov/dietaryguidelines).

**Exercise:** Any physical activity is better than none. Inactive adults can achieve some health benefits from as little as 60 minutes of moderate-intensity aerobic activity per week. However, the ideal target is at least 150 minutes of moderate-intensity or 75 minutes of high-intensity workouts per week. For more information, visit [health.gov/paguidelines](http://health.gov/paguidelines).

### ... and long-term wealth

The recommendations for living a financially healthy life aren't quite as straightforward because they depend so much on your individual circumstances. But there are a few basic principles to ponder:

**Emergency savings:** The amount you need can vary depending on whether you're single or married, self-employed or work for an organization (and if that organization is a risky startup or an established entity). Typical recommendations range from three months' to a year's worth of expenses.

**Retirement savings:** Personal finance commentator Jean Chatzky advocates striving to save 15% of your income toward retirement, including any employer contributions. If this seems like a lofty goal, bear in mind that as with exercise, any activity is better than none — setting aside even a few dollars per pay period can lead to good financial habits. Consider starting small and then increasing your contributions as your financial circumstances improve.

**Insurance:** Make sure you have adequate amounts of health and disability income insurance, and life insurance if others depend on your income. You might also consider long-term care coverage.<sup>2</sup>

**Health savings accounts:** These tax-advantaged accounts are designed to help those with high-deductible health plans set aside money specifically for medical expenses. If you have access to an HSA at work, consider the potential benefits of using it to help save for health expenses.

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## What is a rollover IRA, and do I need one?

Generally, the term "rollover IRA" refers to an IRA that you establish to receive funds from an employer retirement plan like a 401(k). A rollover IRA is also sometimes referred to as a "conduit IRA."

When you roll funds over from an employer plan to an IRA, your financial institution may suggest that you use a rollover IRA to receive the funds. Of course, you can transfer those dollars to any other IRA you own at some future date, because there's no legal requirement that you keep your plan distribution in a separate IRA. But even though separate IRAs are not legally required, there are at least two reasons to consider keeping your employer plan rollover separate from your contributory IRAs.

The first reason to maintain a separate rollover IRA deals with federal bankruptcy law. Your IRAs are protected from your creditors under federal law if you declare bankruptcy, but this protection is currently limited to \$1.28 million for all your IRAs.<sup>1</sup> The \$1.28 million limit doesn't apply, though, to amounts you roll over to an IRA from an employer plan, or any earnings on that rollover. These dollars are protected in full if you declare bankruptcy, just as they would

have been in your employer's plan. Obviously, it's easier to track the amount rolled over, and any future earnings, if you keep those dollars separate from your contributory IRAs. So a rollover IRA may make sense if creditor protection is important to you.

The second reason to maintain a rollover IRA is that you might decide in the future that you want to roll your distribution back into a new employer's plan. In the distant past, employer plans could accept rollovers only from rollover (conduit) IRAs — rollovers from contributory IRAs weren't permitted. Now, however, employer plans can accept rollovers from both contributory IRAs and rollover IRAs.<sup>2</sup> Despite this, employer plans aren't *required* to accept rollovers, and they can limit the types of contributions they'll accept. And while it's becoming less common, some still accept rollovers only from rollover IRAs. So keep this in mind if you are contemplating a rollover back to an employer plan in the future.

<sup>1</sup> SEP and SIMPLE IRAs have unlimited protection under federal bankruptcy law.

<sup>2</sup> Nontaxable traditional IRA dollars can't be rolled back into an employer plan.



## Can I roll my traditional 401(k) account balance over to a Roth IRA?

Yes, you can make a direct or 60-day rollover from a 401(k) plan [or other qualified plan, 403(b) plan, or governmental 457(b) plan] to a Roth IRA, as long as you meet certain requirements.\*

First, you must be entitled to a distribution from your plan. While you can always access your account when you terminate employment, in some cases you may be able to withdraw your own or your employer's contributions while you're still working (for example, at age 59½).

[Note: Your plan may also permit the "in plan" conversion of all or part of your account balance to a Roth account, regardless of whether you're eligible for a distribution from the plan. Check with your plan administrator.]

Second, your distribution must be an "eligible rollover distribution." Distributions that cannot be rolled over include hardship withdrawals, certain periodic payments, and required minimum distributions (RMDs).

Third, you must include the taxable portion of the distribution in your gross income in the year you make the rollover ("conversion"). But that's

the price you have to pay to potentially receive tax-free qualified distributions from your Roth IRA in the future.

Fourth, if your distribution includes both after-tax and pre-tax dollars, you can generally direct that only the after-tax dollars be rolled over to the Roth IRA (resulting in a tax-free conversion), while making a tax-deferred rollover of the pre-tax dollars to a traditional IRA.

When evaluating whether to initiate a rollover from an employer plan to an IRA, be sure to: (1) ask about possible surrender charges that your employer plan or IRA may impose, (2) compare investment fees and expenses charged by your IRA with those charged by your employer plan (if any), and (3) understand any accumulated rights or guarantees that you may be giving up by transferring funds out of your employer plan. Also consider all of your distribution options, including leaving the money in your employer's plan, transferring the funds to a new employer's plan, or taking a cash withdrawal.

\* If you make a 60-day rollover, your plan will withhold 20% of the taxable portion of your distribution for federal income tax purposes.