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Callahan Financial Newsletter

Keeping you current

Playing Catch-Up with Your 401(k) or IRA

A recent survey of baby boomers (ages 53 to 69) found that just 24% were confident they would have enough money to last throughout retirement. Forty-five percent had no retirement savings at all, and of those who did have savings, 42% had saved less than $100,000.[1]

Your own savings may be on more solid ground, but regardless of your current balance, it's smart to keep it growing. If you're 50 or older, you could benefit by making catch-up contributions to tax-advantaged retirement accounts. You might be surprised by how much your nest egg could grow late in your working career.

Contribution limits

The federal contribution limit in 2016 and 2017 for all IRAs combined is $5,500, plus a $1,000 catch-up contribution for those 50 and older, for a total of $6,500. An extra $1,000 might not seem like much, but it could make a big difference by the time you're ready to retire (see table). You have until the April 18, 2017, tax filing deadline to make IRA contributions for 2016. The sooner you contribute, the more time the funds will have to pursue potential growth.

The deferral limit in 2016 and 2017 for employer-sponsored retirement plans such as 401(k), 403(b), and most 457(b) plans is $18,000, plus a $6,000 catch-up contribution for workers 50 and older, for a total of $24,000. However, some employer-sponsored plans may have maximums that are lower than the federal contribution limit. Unlike the case with IRAs, contributions to employer-sponsored plans must be made by the end of the calendar year, so be sure to adjust your contributions early enough in the year to take full advantage of the catch-up opportunity.

The following table shows the amount that a 50-year-old might accrue by age 65 or 70, based on making maximum annual contributions (at current rates) to an IRA or a 401(k) plan:

Potential Savings a 50-Year-Old Could Accumulate		Without Catch-Up	With Catch-Up
IRA	By Age 65	$128,018	$151,294
	By Age 70	$202,321	$239,106
401(k)	By Age 65	$418,697	$558,623
	By Age 70	$662,141	$882,854

Example assumes a 6% average annual return. This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent any specific investment. It assumes contributions are made at end of the calendar year. Rates of return vary over time, particularly for long-term investments. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary.

Special 403(b) and 457(b) plan rules

403(b) and 457(b) plans can (but aren't required to) provide their own special catch-up opportunities. The 403(b) special rule, available to participants with at least 15 years of service, may permit an additional $3,000 annual deferral for up to five years (certain additional limits apply). A participant can use this special rule and the age 50 catch-up rule in the same year. Therefore, a participant eligible for both could contribute up to $27,000 to his or her 403(b) plan account (the $18,000 regular deferral limit, plus the $3,000 special catch-up, plus the $6,000 age 50 catch-up).

The 457(b) plan special rule allows participants who have not deferred the maximum amount in prior years to contribute up to twice the normal deferral limit (that is, up to $36,000 in 2016 and 2017) in the three years prior to reaching the plan's normal retirement age. (However, these additional catch-up contributions can't exceed the total of the prior years' unused deferrals.) 457(b) participants who elect to use this special catch-up rule cannot also use the age 50 catch-up rule in the same year.

[1] "Boomer Expectations for Retirement 2016," Insured Retirement Institute.

The Giving Season: Six Tips for Making Smart and Effective Charitable Donations This Holiday Season

Many charitable organizations allow you to donate online, by text, or through social networking sites.

The following organizations and agencies publish reports and charity ratings, and/or give useful tips and information to consumers on how to donate and choose a charity:

- *Better Business Bureau's BBB Wise Giving Alliance, bbb.org*
- *Charity Navigator, charitynavigator.org*
- *CharityWatch, charitywatch.org*
- *Federal Trade Commission, ftc.gov*

The holidays are a popular time for charitable donations. With so many charities to choose from, it's more important than ever to ensure that your donation is well spent. Here are six tips that can help you make smart and effective charitable donations.

1. Choose your charities wisely

Choosing worthy organizations that support the causes you care about can be tricky, but it doesn't have to be time-consuming. There are several well-known organizations that rate and review charities, as well as provide useful tips and information on how to donate and choose a charity (see sidebar). To get started, here are some things to consider:

- *How the charity plans to use your gift.* Contact the charity by phone or go online to find information about the charity's mission, accomplishments, financial status, and future growth.
- *How much the charity spends on administrative costs.* If a charity has higher-than-average administrative costs, it may be spending less on programs and services than it should. This could also be a sign that the charity is in serious financial trouble. In addition, if a charity uses for-profit telemarketers, then it may get very little of the money it raises, so ask how much of your donation the charity will actually receive.
- *The legitimacy of the charity.* Take the time to check out the charity before you donate. Ask for identification when approached by a solicitor, and never give out your Social Security number, credit-card number, bank account number, account password, or personal information over the phone or in response to an email you didn't initiate.
- *How much you can afford to give to the charity.* Stick to your giving goals and only give what you can afford. Legitimate fundraisers will not try to pressure you and will be happy to send information that can help you make an informed decision regarding your donation.

2. Maximize your donation through a matching gift

If your employer offers a program that matches charitable gifts made by employees, you can maximize your charitable donations. Some matching gift programs may have specific guidelines — for example, they may only match a gift up to a certain dollar limit, and the charity may need to provide additional information.

3. Make automatic donations

If you're looking for an easy way to donate regularly to a favorite charity, consider making automatic donations from a financial account. Automatic donations can benefit charities by potentially lowering fundraising costs and by establishing a foundation of regular donors. You'll also benefit, since spreading your donations throughout the year may enable you to give more and simplify your record keeping.

4. Look for alternatives to cash donations

Although cash donations are always welcome, charities also encourage other types of gifts. For example, if you meet certain requirements, you may be able to give stock, direct gifts from your IRA, real estate, or personal property. Keep in mind that you'll want to check with your financial professional to assess potential income and estate tax consequences based on your individual circumstances. Other alternatives to cash donations include volunteering your time and using your talents to improve the lives of others in your community.

5. Consider estate planning strategies when gifting

Another option is to utilize estate planning to make a charitable gift. For example, you might leave a bequest in your will; give life insurance; or use a charitable gift annuity, charitable remainder annuity trust, or charitable unitrust that may help you give away the asset now, while retaining a lifetime interest. Check with your financial or tax professional regarding any potential estate or tax benefits or consequences before making this type of gift.

6. Remember the importance of record keeping

If you itemize when you file your taxes, you can deduct donations you've made to a tax-qualified charity — however, you must provide proper documentation of your donation to the IRS. Keep copies of cancelled checks, bank statements, credit-card statements, or receipts showing the charity's name, date of your donation, and contribution amount. For donations or contributions of $250 or more, you'll need a detailed written acknowledgment from the charity. For more information and a list of specific record-keeping requirements, see IRS Publication 526, Charitable Contributions.

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A large majority of caregivers provide care for a relative (85%), with 49% caring for a parent or parent-in-law.

Source: Caregiving in the U.S. 2015, National Alliance for Caregiving

What It Means to Be a Financial Caregiver for Your Parents

If you are the adult child of aging parents, you may find yourself in the position of someday having to assist them with handling their finances. Whether that time is in the near future or sometime further down the road, there are some steps you can take now to make the process a bit easier.

Mom and Dad, can we talk?

Your first step should be to get a handle on your parents' finances so you fully understand their current financial situation. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis.

You can start by asking them some basic questions:

- What financial institutions hold their assets (e.g., bank, brokerage, and retirement accounts)?
- Do they work with any financial, legal, or tax advisors? If so, how often do they meet with them?
- Do they need help paying monthly bills or assistance reviewing items like credit-card statements, medical receipts, or property tax bills?

Make sure your parents have the necessary legal documents

In order to help your parents manage their finances in the future, you'll need the legal authority to do so. This requires a durable power of attorney, which is a legal document that allows a named individual (such as an adult child) to manage all aspects of a person's financial life if he or she becomes disabled or incompetent. A durable power of attorney will allow you to handle day-to-day finances for your parents, such as signing checks, paying bills, and making financial decisions for them.

In addition to a durable power of attorney, you'll want to make sure that your parents have an advance health-care directive, also known as a health-care power of attorney or health-care proxy. An advance health-care directive will allow you to make medical decisions according to their wishes (e.g., life-support measures and who will communicate with health-care professionals on their behalf).

You'll also want to find out if your parents have a will. If so, find out where it's located and who is named as personal representative or executor. If the will was drafted a long time ago, your parents may want to review it to make sure their current wishes are represented. You should also ask if they made any dispositions or gifts of specific personal property (e.g., a family heirloom to be given to a specific individual).

Prepare a personal data record

Once you've opened the lines of communication, your next step is to prepare a personal data record that lists information you might need in the event that your parents become incapacitated or die. Here's some information that should be included:

- *Financial information:* Bank, brokerage, and retirement accounts (including account numbers and online user names and passwords, if applicable); real estate holdings
- *Legal information:* Wills, durable powers of attorney, advance health-care directives
- *Medical information:* Health-care providers, medication, medical history
- *Insurance information:* Policy numbers, company names
- *Advisor information:* Names and phone numbers of any professional service providers
- *Location of other important records:* Social Security cards, home and vehicle records, outstanding loan documents, past tax returns
- *Funeral and burial plans:* Prepayment information, final wishes

If your parents keep some or all of these items in a safe-deposit box or home safe, make sure you can gain access. It's also a good idea to make copies of all the documents you've gathered and keep them in a safe place. This is especially important if you live far away, because you'll want the information readily available in the event of an emergency.

Don't be afraid to get support and ask for advice

If you're feeling overwhelmed with the task of handling your parents' finances, don't be afraid to seek out support and advice. A variety of local and national organizations are designed to assist caregivers. If your parents' needs are significant enough, you may want to consider hiring a geriatric care manager who can help you oversee your parents' care and direct you to the right community resources. Finally, consider discussing the specifics of your situation with a professional, such as an estate planning attorney, accountant, and/or financial advisor.

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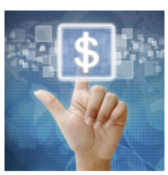
What should I evaluate when considering a new job offer?

Today, few people stay with one employer until retirement. Instead, it's likely that at some point during your career, you'll be searching for a new job. You may be looking for more money, greater career opportunities, or more flexibility. Or you may be forced to look for new employment if your company restructures. Whatever the reason, at some point in your working life you might be faced with a new job offer. Should you take it? Here are some things to evaluate.

Salary: How does the salary offer stack up against your previous job? If the offer is less than you expected, find out when you can expect performance reviews and/or pay increases (a typical company will review your salary at least annually). You can compare your salary offer to the salary range for others working in the same industry by looking at salary-related websites. In addition, consider the availability of bonuses, commissions, and/or profit-sharing plans that can increase your total income, and find out whether they're dependent on your own job performance, the company's performance, or a combination of both.

Employee benefits: What benefits does the company offer, and how much of the cost will you bear as an employee? A good employee benefits package can add the equivalent of thousands of dollars to your base pay. Benefits may include a retirement plan (hopefully with employer matching contributions); health, dental, and vision insurance; disability, life, and long-term care insurance; vacation time and sick leave; flexible spending accounts for health and dependent care expenses; tuition reimbursement; student loan assistance; child-care programs; transit programs; counseling services; pet insurance; and other miscellaneous benefits.

Personal and professional consequences: Will you be better off financially if you take the job? Is there schedule flexibility? Will you need to work a lot of overtime? Travel extensively? Consider any related costs of taking the job, such as transportation and day care. Also take a close look at the company's work environment and culture. You may be getting a good salary and great benefits, but if the work environment doesn't suit you, you may want to think twice.



I received a new job offer but the salary is low. Should I make a counteroffer?

Probably. Getting paid less than you should when starting a new job can affect not only your current paycheck but also your long-term asset accumulation. For example, the less money you earn, the less you have available to contribute to your retirement plan, and potentially the lower the amount of matching employer contributions you'll receive if they are offered.

In addition, because your current salary is typically the benchmark for future pay increases and bonuses (which are often expressed as a percentage of your salary), the effect of a pay gap is cumulative. Unless corrected, pay disparities may widen over the course of your career. For example, a low starting salary at job #1 could serve as a benchmark for your salary at job #2, which could serve as a benchmark for your salary at job #3, and so on.

To determine whether the salary offer is competitive, research and compare salaries based on industry or company standards. You can look at salary-related websites to get an idea of a typical salary range for someone in the same occupation, in your geographical location, with your education, experience, and skills.

If the salary offer is low, go back to the company and articulate your strengths. What skills and qualities will you bring to the table? State the amount of money you want. Make it clear that if the company accepts your terms, you are willing and able to accept its offer immediately.

What happens next? There are three possible scenarios. First, the company might accept your counteroffer. Second, it may reject your counteroffer, either because company policy does not allow negotiation or the company is unwilling to move from its original offer. If so, you'll have to decide whether to accept the original offer. Third, the company may make you a second offer, typically a compromise between its first offer and your counteroffer. Again, the ball is back in your court. If you need time to evaluate the latest offer, ask for a day or two to think about it. If the company isn't able or willing to give you more money, it might be able to offer you job flexibility, such as telecommuting or flex scheduling, that might make up for the lack of a salary increase.