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December 2017

It's Time for Baby Boomer RMDs!

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Cartoon: 21st Century Shopping Strategy

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Questions to Ask Before Buying That Thing You've Always Wanted

Even if you're generally comfortable with your finances, you may occasionally worry about how much you're spending, especially if you consistently have trouble saving for short- or long-term goals. Here are a few questions to ask that might help you decide whether a purchase is really worth it.

Why do I want it?

Maybe you've worked hard and think you deserve to buy something you've always wanted. That may be true, but are you certain you're not being unduly influenced by other factors such as stress or boredom?

Take a moment to think about what's important to you. Comfort? Security? Safety? Status? Quality? Thriftiness? Does your purchase align with your values, or are you unconsciously allowing other people (advertisers, friends, family, neighbors, for example) to influence your spending?

How will buying this now affect me later?

When you're deciding whether to buy something, you usually focus on the features and benefits of what you're getting, but what are you potentially forgoing? When you factor this into your decision, what you're weighing is known as the opportunity cost. For example, let's say you're trying to decide whether to buy a new car. If you buy the car, will you have to give up this year's family vacation to Disney World? Considering the opportunity cost may help you evaluate both the direct and indirect costs of a purchase. Ask yourself how you will feel about your purchase later. Tomorrow? Next month? Next year?

Will this purchase affect your family?

Couples often fight about money because they have conflicting money values. Will your spouse or partner object to your purchasing decision? And what about your children? Children learn from what they observe. Are you comfortable with the example you might be setting?

Do I really need it today?

Buying something can be instantly and tangibly gratifying. After all, which sounds more exciting: spending $1,500 on the ultra-light laptop you've had your eye on or putting that money into a retirement account? Consistently prioritizing an immediate reward over a longer-term goal is one of the biggest obstacles to saving and investing for the future. The smaller purchases you make today could be getting in the way of accumulating what you'll need 10, 20, or 30 years down the road.

Be especially wary if you're buying something now because "it's such a good deal." Take time to find out whether that's really true. Shop around to see that you're getting the best price, and weigh alternatives. You may discover a lower-cost product that will meet your needs just as well. If you think before you spend money, you may be less likely to make impulse purchases and more certain that you're making appropriate financial choices.

Can I really afford it?

Whether you can afford something depends on both your income and your expenses. You should know how these two things measure up before making a purchase. Are you consistently charging purchases to your credit card and carrying that debt from month to month? If so, this may be a warning sign that you're overspending. Reexamining your budget and financial priorities may help you get your spending back on track.

It's Time for Baby Boomer RMDs!

In 2016, the first wave of baby boomers turned 70½, and many more reach that milestone in 2017 and 2018. What's so special about 70½? That's the age when you must begin taking required minimum distributions (RMDs) from tax-deferred retirement accounts, including traditional IRAs, SIMPLE IRAs, SEP IRAs, SARSEPs, and 401(k), 403(b), and 457(b) plans.

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If you're still employed (and not a 5% owner), you may be able to delay minimum distributions from your current employer's plan until after you retire, but you still must take RMDs from other tax-deferred accounts (except Roth IRAs). The RMD is the smallest amount you must withdraw each year, but you can always take more than the minimum amount.

Failure to take the appropriate RMD can trigger a 50% penalty on the amount that should have been withdrawn — one of the most severe penalties in the U.S. tax code.

Distribution deadlines

Even though you must take an RMD for the tax year in which you turn 70½, you have a one-time opportunity to wait until April 1 (not April 15) of the following year to take your first distribution. For example:

- If your 70th birthday was in May 2017, you turned 70½ in November and must take an RMD for 2017 no later than April 1, 2018.
- You must take your 2018 distribution by December 31, 2018, your 2019 distribution by December 31, 2019, and so on.

IRS tables

Annual RMDs are based on the account balances of all your traditional IRAs and employer plans as of December 31 of the previous year, your current age, and your life expectancy as defined in IRS tables.

Most people use the Uniform Lifetime Table (Table III). If your spouse is more than 10 years younger than you and the sole beneficiary of your IRA, you must use the Joint Life and Last Survivor Expectancy Table (Table II). Table I is for account beneficiaries, who have different RMD requirements than original account owners. To calculate your RMD, divide the value of each retirement account balance as of December 31 of the previous year by the distribution period in the IRS table.

Aggregating accounts

If you own multiple IRAs (traditional, SEP, or SIMPLE), you must calculate your RMD separately for each IRA, but you can actually withdraw the required amount from any of your accounts. For example, if you own two traditional IRAs and the RMDs are $5,000 and $10,000, respectively, you can withdraw that $15,000 from either (or both) of your accounts.

Similar rules apply if you participate in multiple 403(b) plans. You must calculate your RMD separately for each 403(b) account, but you can take the resulting amount (in whole or in part) from any of your 403(b) accounts. But RMDs from 401(k) and 457(b) accounts cannot be aggregated. They must be calculated for each individual plan and taken only from that plan.

Also keep in mind that RMDs for one type of account can never be taken from a different type of account. So, for example, a 401(k) required distribution cannot be taken from an IRA. In addition, RMDs from different account owners may never be aggregated, so one spouse's RMD cannot be taken from the other spouse's account, even if they file a joint tax return. Similarly, RMDs from an inherited retirement account may never be taken from accounts you personally own.

Birthday Guide: This chart provides sample RMD deadlines for older baby boomers.

Month & year of birth	Year you turn 70½	First RMD due	Second RMD due
Jan. 1946 to June 1946	2016	April 1, 2017	Dec. 31, 2017
July 1946 to June 1947	2017	April 1, 2018	Dec. 31, 2018
July 1947 to June 1948	2018	April 1, 2019	Dec. 31, 2019
July 1948 to June 1949	2019	April 1, 2020	Dec. 31, 2020
July 1949 to June 1950	2020	April 1, 2021	Dec. 31, 2021

What Is Cyber Insurance and Should Your Business Have It?

Forty-eight states and the District of Columbia have laws requiring private or governmental entities to notify individuals of security breaches of personally identifiable information. In addition, the Health Insurance Portability and Accountability Act (HIPPA) requires HIPAA-covered entities and their business associates to provide notification following a breach of unsecured protected health information.

Does your company use electronic data? Does it store or communicate potentially sensitive information about customers, employees, or competitors? If so, then a breach of that data could cost your company plenty. Some well-known organizations have experienced data breaches, including WalMart, JP Morgan Chase, Yahoo, eBay, Target, the IRS, and, more recently, Equifax. Unfortunately, just about any size company or organization that retains personal information can be hit with a cyber attack. One way to transfer some of the risk and costs associated with a data breach or network security failure is through cyber insurance.

What is cyber insurance?

Cyber insurance provides protection against potential costs and financial losses resulting from data breaches caused by cyber attacks, viruses, and other threats. It also helps cover third-party lawsuits filed against your company resulting from data breaches or your failure to adequately protect sensitive or confidential information.

What does cyber insurance cover?

While individual policies may differ, cyber insurance can help cover:

- Loss of data: Cyber insurance may help cover the cost of restoring or reconstructing data that was lost, stolen, or damaged.
- Losses from data breach or security failure: Cyber insurance assists in covering some of the costs of investigating how and where the breach occurred; expenses associated with regulatory fines; legal costs of defending against lawsuits and settlement of claims brought by victims whose information was inappropriately accessed, shared, or lost; expenses related to notifying victims of the data breach, such as customers and employees.
- Costs associated with extortion or ransom demands: That's right, often a cyber criminal will demand a ransom or try to extort money from your company in exchange for your data. Cyber insurance covers some of the costs of paying the ransom for the data or for the restitution to victims whose information was captured.
- Losses from business interruption: If your company must close while the data breach is investigated and resolved, cyber insurance can help offset the ordinary costs and expenses of your business during its down time.

Who needs cyber insurance?

Your company or organization may be a candidate for cyber insurance if it does any of the following:

- Sends or receives documents electronically
- Communicates with customers or third parties via email, text messages, or social media
- Stores third-party information on a computer network that may be considered sensitive or private, such as an individual's identity, tax information, income, address, Social Security and/or credit card numbers
- Stores confidential company information or data (e.g., tax documents, sales or marketing figures or projections, trade secrets) on a computer network
- Advertises company services or products via a website or social media

Aren't these risks covered by business insurance?

Unfortunately, most of the risks and losses resulting from data breaches or losses are not covered by standard commercial general liability insurance. In fact, many policies contain a specific electronic data exclusion. In addition, loss or damage to electronic data isn't considered property damage under a business policy, so coverage wouldn't apply.

Questions to think about

Cyber insurance has policy exclusions, terms, and conditions. When thinking about the purchase of cyber insurance, here are some questions to consider:

- What specific risks are covered, and what risks are not covered?
- What deductibles or coverage limits apply?
- Will the insurer require your company to undergo a security risk review?
- Are there security controls your company can adopt that will decrease the premium?
- Will the insurer identify security risks and offer alternatives to minimize or eliminate those risks?

Plan ahead

Cyber attacks and loss of data can be devastating to a business. Plan ahead before a cyber attack occurs. Evaluate your business and determine areas of particular vulnerability. Then create cybersecurity policies and procedures for company employees to follow. Finally, consider the purchase of cyber insurance to help cover at least some of the risks associated with a cyber attack.

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I still have money left in my FSA that I have to use by December 31st. How should I spend it?

Health flexible spending accounts (FSAs) are a great way for individuals to pay qualified medical and dental expenses using pre-tax dollars. While IRS rules do allow employers to offer either a carryover or grace period option for money left over in flexible spending accounts, many employer FSA plans still have provisions that don't allow for funds contributed to an FSA to carry over from one plan year to the next. In other words, if you don't use it, you lose it. If you find that you still have money left over in your FSA as the end of the year approaches, there are a number of ways to spend down your account balance.

FSA funds can be used to pay for a variety of out-of-pocket health-care expenses, such as deductibles and copayments. You can also use your FSA funds to pay for uncovered dental and vision care expenses. So now might be a good time to schedule any medical and dental appointments that you may have been putting off, stock up on contact lenses, or even replace an old pair of eyeglasses.

FSA funds can also be used to pay for both prescription drugs and many over-the-counter products, including:

- Athletic braces and supports
- Bandages
- First-aid kits
- Blood-pressure monitors
- Shoe insoles and inserts

Keep in mind that certain over-the-counter medicines (e.g., pain relievers and allergy medication) require a doctor's prescription in order for you to obtain reimbursement from your FSA.

If you continue to participate in your employer's FSA, remember to choose your contribution amount carefully so that you don't risk losing any contributions going forward. Many FSA plan administrators offer user-friendly websites that allow you to inquire about eligible expenses and keep track of your FSA purchases and account balances throughout the plan year.

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