



## Callahan Financial

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Callahan Financial monthly information Newsletter.

Please enjoy and if it spurs questions, we would love to help answer them for you.

Share this with your friends, family and co-workers. Ultimately, we would love to work with them too:)

### March 2015

Points to Consider If Your Retirement Goal Seems Out of Reach

Estate Planning for a Second Marriage

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Should I be worried about a Federal Reserve interest rate hike?

# Callahan Financial Newsletter

## Keeping you current

### Points to Consider If Your Retirement Goal Seems Out of Reach



Each year in its annual Retirement Confidence Survey, the Employee Benefit Research Institute reiterates that goal setting is a key factor influencing overall retirement confidence. But for

many, a retirement savings goal that could reach \$1 million or more may seem like a daunting, even impossible mountain to climb. What if you're investing as much as you can, but still feel that you'll never reach the summit? As with many of life's toughest challenges, it may help to focus less on the big picture and more on the details.\* Start by reviewing the following points.

#### Retirement goals are based on assumptions

Whether you use a simple online calculator or run a detailed analysis, your retirement savings goal is based on certain assumptions that will, in all likelihood, change. Inflation, rates of return, life expectancies, salary adjustments, retirement expenses, Social Security benefits--all of these factors are estimates. That's why it's so important to review your retirement savings goal and its underlying assumptions regularly--at least once per year and when life events occur. This will help ensure that your goal continues to reflect your changing life circumstances as well as market and economic conditions.

#### Break it down

Instead of viewing your goal as ONE BIG NUMBER, try to break it down into an anticipated monthly income need. That way you can view this monthly need alongside your estimated monthly Social Security benefit, income from your retirement savings, and any pension or other income you expect. This can help the planning process seem less daunting, more realistic, and most important, more manageable. It can be far less overwhelming to brainstorm ways to close a gap of, say, a few

hundred dollars a month than a few hundred thousand dollars over the duration of your retirement.

#### Make your future self a priority, whenever possible

While every stage of life brings financial challenges, each stage also brings opportunities. Whenever possible--for example, when you pay off a credit card or school loan, receive a tax refund, get a raise or promotion, celebrate your child's college graduation (and the end of tuition payments), or receive an unexpected windfall--put some of that extra money toward retirement.

#### Retirement may be different than you imagine

When people dream about retirement, they often picture images like exotic travel, endless rounds of golf, and fancy restaurants. Yet a recent study found that the older people get, the more they derive happiness from ordinary, everyday experiences such as socializing with friends, reading a good book, taking a scenic drive, or playing board games with grandchildren. (Source: "Happiness from Ordinary and Extraordinary Experiences," *Journal of Consumer Research*, June 2014) While your dream may include days filled with extravagant leisure activities, your retirement reality may turn out much different--and that actually may be a matter of choice.

#### The bottom line

Setting a goal is a very important first step in putting together your retirement savings strategy, but don't let the number scare you. As long as you have an estimate in mind, break it down to a monthly need, review it regularly, and increase your investments whenever possible, you can take heart knowing that you're doing your best to prepare for whatever the future may bring.

*\*All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.*



## Estate Planning for a Second Marriage

### **Giving love another chance:**

- About 12% of men and women have married twice
- About 3% of each have married three or more times

Source: U.S. Census Bureau, 2011 (data from 2009, most current data available)



*You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing any of these strategies. There are costs and expenses associated with the creation of these legal instruments.*

They say that love is lovelier the second time around. But for many individuals, remarriage later in life can create some unique estate planning issues.

If you're anything like the typical person contemplating a second (or third) marriage, you are older, have children, have accumulated property, and have been enjoying a standard of living you would like to maintain. Entering into a new marriage can raise many, perhaps conflicting, concerns such as:

- How can you protect assets you already own?
- How can you provide for children from a previous marriage?
- How do you share assets acquired or inherited after the marriage equally or fairly?
- How do you ensure your prospective spouse's future financial security?
- How can you avoid family disharmony?

### **Put your financial cards on the table**

Money is a major cause of stress in any marriage, but it can be especially so in a second one. You and your future spouse should discuss and agree on all important financial issues and formulate plans that, hopefully, you both can live with. Full disclosure is important, especially if you are considering a prenuptial or postnuptial agreement.

### **Protect your assets with a prenuptial or postnuptial agreement**

You're probably well aware that life is not a stroll down the primrose path, so while the suggestion of a prenup or postnup may not fan the flames of romance, you should know that this contract is important if you're bringing assets into the marriage. Why? By law, a surviving spouse has the right to take an "elective share" of the deceased spouse's estate, regardless of what is in the will. An elective share is typically one-third or one-half of the elective estate. An elective estate can include almost all the decedent's property, even property with beneficiary designations and property held in trust. If your surviving spouse takes his or her elective share, this may result in the unintentional disinheritance of your children or other heirs.

The only way to supersede elective share laws is with a prenup or postnup, in which both parties can waive their rights to the elective share. This way, you can minimize the chance that state law will interfere with your intended estate plans.

### **Revise your will and other estate planning documents**

Remarriage does not revoke a will (although state law can trump a will, as we have just discussed). It is vital, therefore, that you draft a new will in light of your new circumstances. While you're at it, review and update other estate planning documents, such as your durable power of attorney, advance medical directives (for example, a living will or health-care proxy), trusts, and beneficiary designations (for life insurance and retirement plans, for example).

### **Providing for your children from a previous marriage**

A big concern in many second marriages is providing for the new spouse without disenfranchising children from a prior marriage. Having your assets pass into a qualified terminable interest property (QTIP) trust can be part of the solution. With a QTIP trust, all trust income is used to support the surviving spouse while the principal is preserved for the children. And there's a bonus: Assets passing to a valid QTIP trust qualify for the marital deduction, helping to minimize potential estate taxes at your death.

### **Dealing with wealth disparity**

In second marriages, it's not uncommon for one spouse to be wealthier than the other. If federal estate taxes are a concern, equalizing your estates so that you and your spouse can take advantage of both of your basic exclusion amounts (\$5,430,000 in 2015) may be in order. Without equalization, you may lose valuable tax savings if the less wealthy spouse dies first. This may be less of a concern now that the applicable exclusion amount is portable. Portability allows a surviving spouse to use the unused applicable exclusion amount of a predeceased spouse. You might also consider state death taxes.

### **Apportioning estate taxes**

If you and your spouse have children from a previous marriage, you may want to plan for the payment of estate taxes in such a way that each child will bear the burden equally.

### **Conclusion**

Each couple entering into a second marriage has unique concerns and goals. It's important to deal with your issues squarely, and create a plan that will optimize dispositions, help minimize taxes, and avoid unintended results, family disharmony, or even litigation.

## Last-Minute Tax Tips



It's that time of year again--tax filing season. And while many taxpayers like to get a head start on filing their returns, there are those of us who always find ourselves scrambling at the last minute to get our tax returns filed on time. Fortunately, even for us procrastinators, there is still time to take advantage of some last-minute tax tips.

### If you need more time, get an extension

Failing to file your federal tax return on time could result in a failure-to-file penalty. If you don't think you'll be able to file your tax return on time, you can file for and obtain an automatic six-month extension by using IRS Form 4868. You must file for an extension by the original due date for your return. Individuals whose due date is April 15 would then have until October 15 to file their returns.

In most cases, this six-month extension is an extension to file your tax return and not an extension to pay any federal income tax that is due. You should estimate and pay any federal income tax that is due by the original due date of the return without regard to the extension, since any taxes that are not paid by the regular due date will be subject to interest and possibly penalties.

### Try to lower your tax bill

While most tax-saving strategies require action prior to the end of the tax year, it's still not too late to try to lower your tax bill by making deductible contributions to a traditional IRA and/or pre-tax contributions to an existing qualified Health Savings Account (HSA). If you're eligible, you can make contributions to these tax-saving vehicles at any time before your tax return becomes due, not including extensions (for most individuals, by April 15 of the year following the year for which contributions are being made).

For tax year 2014, you may be eligible to contribute up to \$5,500 to a traditional IRA as long as you're under age 70½ and have earned income. In addition, if you're age 50 or older, you may be able to make an extra "catch-up" contribution of \$1,000. You can make deductible contributions to a traditional IRA if neither you nor your spouse is covered by an employer retirement plan; however, if one of you is covered by an employer plan, eligibility to deduct contributions phases out at higher modified adjusted gross income limits. For existing qualified HSAs, you can contribute up to \$3,300 for individual coverage or \$6,550 for family coverage.

### Use your tax refund wisely

It's easy to get excited at tax time when you find

out you'll be getting a refund from the IRS--especially if it's a large sum of money. But instead of purchasing that 60-inch LCD television you've had your eye on, you may want to use your tax refund in a more practical way. Consider the following options:

- Deposit your refund into a tax-savings vehicle (if you're eligible), such as a retirement or education savings plan--the IRS even allows direct deposit of refunds into certain types of accounts, such as IRAs and Coverdell education savings accounts.
- Use your refund to pay down any existing debt you may have, especially if it is in the form of credit-card balances that carry high interest rates.
- Put your refund toward increasing your cash reserve--it's a good idea to always have at least three to six months worth of living expenses available in case of an emergency.

Finally, a tax refund is essentially an interest-free loan from you to the IRS. If you find that you always end up receiving a large income tax refund, it may be time to adjust your withholding.

### Beware of possible tax scams

Though tax scams can occur throughout the year, they are especially prevalent during tax season. Some of the more common scams include:

- Identity thieves who use your identity to fraudulently file a tax return and claim a refund.
- Callers who claim they're from the IRS insisting that you owe money to the IRS or that you're entitled to a large refund.
- Unsolicited e-mails or fake websites, often referred to as "phishing," that pose as legitimate IRS sites to convince you to disclose personal or financial information.
- Scam artists who pose as tax preparers and promise unreasonably large or inflated refunds in order to commit refund fraud or identity theft.

The IRS will never call you about taxes owed without sending you a bill in the mail. If you think you may owe taxes, contact the IRS directly at [www.irs.gov](http://www.irs.gov). In addition, the IRS will never initiate contact with you by e-mail to request personal or financial information. If you believe that you've been the victim of a tax scam, or would like to report a tax scammer, contact the Treasury Inspector General for Tax Administration at [www.treasury.gov/tigta](http://www.treasury.gov/tigta).

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Securities and advisory services  
offered through LPL Financial  
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## Should I be worried about a Federal Reserve interest rate hike?

After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they've deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren't all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolios in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CDs are likely to do better at providing income than they have in recent years.

Also, bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under- or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust a bond portfolio to help cope with rising interest rates. However, don't

forget that a bond's total return is a combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though past performance is no guarantee of future results, that's what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars.

Remember that bonds are subject not only to interest rate risk but also to inflation risk, market risk, and credit risk; a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

