



Heling Associates Inc.
 Bruce R. Heling, CFP(R) CPA
 PO Box 1385
 Brookfield, WI 53008-1385
 262-821-1008
 bheling@helingassociates.com
<http://HelingAssociates.com>

The election is over, we've all recovered from our T-Day drowsies, and even the folks in Washington have finally seemed to come to grips that governance requires actual communication, negotiation, and (we'll see) compromise. All this, of course, is to avoid the perceived economic calamity that would result from reaching January 1st without an agreement and promises to make December a very interesting month as the news media follows every twist and turn of the negotiations. So, enjoy. No, *really*. It's Christmastime. Let our elected representatives straighten out the mess they alone have created through their intransigence. We should get on with the important business of enjoying our families and friends. Have a wonderful holiday!

Bruce Heling, CFP CPA

December 2012

The Economics of Borrowing from Your 401(k)

Healthy Personal Finance Resolutions for the New Year

How to Give Wisely and Well

What health-care provisions are effective in 2013?

 **HELING ASSOCIATES**
 Bringing the Personal to Financial Planning

THE PERSONAL PLANNER

Personal Financial Planning Tips for Today and the Rest of Your Life

The Economics of Borrowing from Your 401(k)

When times are tough, that pool of dollars sitting in your 401(k) plan account may start to look attractive. But before you decide to take a plan loan, be sure you understand the financial impact. It's not as simple as you think.

The basics of borrowing



A 401(k) plan will usually let you borrow as much as 50% of your vested account balance, up to \$50,000. (Plans aren't required to let you borrow, and may impose various restrictions, so check with your plan administrator.) You pay the loan back, with interest, from

your paycheck. Most plan loans carry a favorable interest rate, usually prime plus one or two percentage points. Generally, you have up to five years to repay your loan, longer if you use the loan to purchase your principal residence. Many plans let you apply for a loan online, making the process quick and easy.

You pay the interest to yourself, but...

When you make payments of principal and interest on the loan, the plan generally deposits those payments back into your individual plan account (in accordance with your latest investment direction). This means that you're not only receiving back your loan principal, but you're also paying the loan interest to yourself instead of to a financial institution. However, the benefits of paying interest to yourself are somewhat illusory. Here's why.

To pay interest on a plan loan, you first need to earn money and pay income tax on those earnings. With what's left over after taxes, you pay the interest on your loan. That interest is treated as taxable earnings in your 401(k) plan account. When you later withdraw those dollars from the plan (at retirement, for example), they're taxed again because plan distributions are treated as taxable income. In effect, you're paying income tax twice on the funds you use to pay interest on the loan. (If you're borrowing from a Roth 401(k) account, the interest won't be taxed when paid out if your distribution is "qualified"--i.e., it's been at least 5 years since you made your first Roth contribution to the plan, and you're 59½ or disabled.)

...consider the opportunity cost

When you take a loan from your 401(k) plan, the funds you borrow are removed from your plan account until you repay the loan. While removed from your account, the funds aren't continuing to grow tax deferred within the plan. So the economics of a plan loan depend in part on how much those borrowed funds would have earned if they were still inside the plan, compared to the amount of interest you're paying yourself. This is known as the opportunity cost of a plan loan, because by borrowing you may miss out on the opportunity for additional tax-deferred investment earnings.

Other factors

There are other factors to think about before borrowing from your 401(k) plan. If you take a loan, will you be able to afford to pay it back and continue to contribute to the plan at the same time? If not, borrowing may be a very bad idea in the long run, especially if you'll wind up losing your employer's matching contribution.

Also, if you leave your job, most plans provide that your loan becomes immediately payable. If you don't have the funds to pay it off, the outstanding balance will be taxed as if you received a distribution from the plan, and if you're not yet 55 years old, a 10% early payment penalty may also apply to the taxable portion of that "deemed distribution."

Still, plan loans may make sense in certain cases (for example, to pay off high-interest credit card debt or to purchase a home). But make sure you compare the cost of borrowing from your plan with other financing options, including loans from banks, credit unions, friends, and family. To do an adequate comparison, you should consider:

- Interest rates applicable to each alternative
- Whether the interest will be tax deductible (for example, interest paid on home equity loans is usually deductible, but interest on plan loans usually isn't)
- The amount of investment earnings you may miss out on by removing funds from your 401(k) plan

Healthy Personal Finance Resolutions for the New Year

The new year is the time when many individuals start making resolutions to live a healthier lifestyle. And while resolving to eat better and exercise more is a good thing, you should be sure to make resolutions that pertain to the overall health of your personal finances as well.

Develop a budget and stick with it

A good way to start the year on the right track financially is to make sure that you have a budgeting system in place. Start by identifying your income and expenses. Next, add them up and compare the two totals to make sure you are spending less than you earn. If you find that your expenses outweigh your income, you'll need to make some adjustments to your budget plan (e.g., reduce discretionary spending).

Once you have a budget, it's important to stick with it. And while straying from your budget from time to time is to be expected, there are some ways to help make working within your budget a bit easier:

- Make budgeting a part of your daily routine
- Be sure to build occasional rewards into your budget
- Evaluate your budget regularly and make changes if necessary
- Use budgeting software/smart phone applications

Set financial goals or reprioritize current ones

The new year is also a good time to set new financial goals and reprioritize your current ones. Take a look back at the financial goals you set for yourself last year--both short- and long-term. Perhaps you wanted to increase your cash reserve or save money for a down payment on a home. Maybe you wanted to invest more money towards your retirement. Did you accomplish any of your goals? If so, do you have any new goals that you would now like to achieve?

Finally, have your personal or financial circumstances changed during the past year (e.g., marriage, a child, job promotion)? If so, would any of these changes warrant a reprioritization of some of your goals?

Make sure your investment portfolio is still on target

You'll also want to be sure to review your investment portfolio to ensure that it is still on target to help you achieve your financial goals for the upcoming year. To determine whether your investments are suitable for reaching your financial goals, you'll want to ask yourself the

following questions:

- Do I still have the same time horizon for investing as I did last year?
- Has my tolerance for risk changed?
- Do I have an increased need for liquidity?
- Does any investment now represent too large (or too small) a part of my portfolio?

Make it a priority to reduce debt

Any healthy financial plan is one that makes reducing debt a priority. Whether it is debt from student loans, a mortgage, or credit cards, it is important to have a plan in place to pay down your debt load as quickly as possible. The following are some tips to help you manage your debt:

- Keep track of all of your credit card balances and be aware of interest rates and hidden fees
- Develop a plan to manage your payments so that you avoid late fees
- Optimize your repayments by paying off high-interest debt first or consider taking advantage of debt consolidation/refinancing programs
- Avoid charging more than you can pay off at the end of each billing cycle

Review/take steps to improve your credit history

Having good credit is an important part of any sound financial plan, and the new year is as good a time as any to check on your credit history. Your credit report contains information about your past and present credit transactions and is used by potential lenders to evaluate your creditworthiness. A positive credit history is important since it allows you to obtain credit when you need it and at a lower interest rate. Good credit is even sometimes viewed by employers as a prerequisite for employment.

Review your credit report and check it for any inaccuracies. You'll also want to find out whether or not you need to take steps to improve your credit history. To establish a good track record with creditors, make sure that you always make your monthly bill payments on time. In addition, you should try to avoid having too many credit inquiries on your report (these are made every time you apply for a new credit card). You're entitled to a free copy of your credit report once a year from each of the three major credit reporting agencies. You can go to www.annualcreditreport.com for more information.



The start of a new year may also be a good time to meet with a financial professional. A financial professional can help you:

- *Determine your income, assets, and liabilities*
- *Identify financial goals*
- *Understand specific products/services*
- *Monitor your overall financial plan*
- *Adjust your plan if needed*



How to Give Wisely and Well



These are a few of the organizations and agencies that publish reports and charity ratings, and/or give useful tips and information to consumers on choosing a charity and giving wisely:

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

Giving to charity has never been easier. You can donate the old-fashioned way--by mail--but you can also donate online, by text, or through social networking sites. According to the National Center for Charitable Statistics, over 1.4 million nonprofit organizations are registered with the IRS. With so many charities to choose from, it's more important than ever to ensure that your donation is well spent. Here are some tips that can help you become both a generous and wise donor.

Choose your charities

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, and provide useful tips and information that can help you make wise choices when giving to charity (see sidebar). To get you started, here are some questions to ask:

- *How will your gift be used?* It should be easy to get information about the charity's mission, accomplishments, financial status, and future growth by contacting the charity by phone or viewing online information.
- *How much does the charity spend on administrative costs?* Charities with higher-than-average administrative costs may be spending less on programs and services than they should, or may even be in serious financial trouble. Some charities who use for-profit telemarketers get very little of the money they raise, so ask how much of your donation the charity will receive.
- *Is the charity legitimate?* 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 e-mail you didn't initiate. There's no rush--take time to check out the charity before you donate.
- *How much can you afford to give?* Stick to your giving goals, and learn to say no. Legitimate fundraisers will not try to make you feel guilty, and will be happy to send you information that can help you make an informed decision rather than pressure you to give now.

Harness the power of matching gifts

Many employers offer matching gift programs that will match charitable gifts made by their employees. You'll need to meet certain guidelines--for example, your employer may only match your gift up to a certain dollar limit--and the charity may need to provide

information. Check with your employer's human resources department or the charity to find out how you can maximize your donations through a matching gift program.

Put your gifts on autopilot

If you're looking for an easy way to donate regularly to a favorite charity, look into setting up automatic donations from a financial account. When donors contribute automatically, the charity benefits by potentially lowering fundraising costs and by establishing a foundation of regular donors. And you'll benefit too, because spreading out your donations throughout the year may enable you to give more, and will simplify your record keeping.

Look for new ways to give

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 or other retirement account, real estate, or personal property (but check with your financial professional to assess potential income and estate tax consequences based on your individual circumstances). You can also volunteer your time, using your talents to improve the lives of others in your community. And taking a "volunteer vacation" can be a fun way to involve your family and meet other people across the country or world who share your enthusiasm for a particular cause.

Use planned giving to leave a legacy

You can leave an enduring gift through your estate. For example, you might leave a will bequest, 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.

Keep good records

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

Heling Associates Inc.

Bruce R. Heling, CFP(R) CPA
PO Box 1385
Brookfield, WI 53008-1385
262-821-1008
bheling@helingassociates.com
http://HelingAssociates.com

Heling Associates, Inc. is a fee-only financial and investment advisory firm that has been providing financial planning, financial counseling, and portfolio management services since 1991. The firm is registered as an investment advisor with the Department of Financial Institutions of the State of Wisconsin. If you've been thinking about seeking help from an objective and professional financial advisor, we welcome your inquiry.

While every effort has been made to ensure that information and data presented in this publication is accurate, we cannot, in fact, assure such accuracy is achieved. While publications may, on occasion, mention specific securities and investment vehicles, readers are advised that such mention does not constitute an investment recommendation. You should only invest after consulting us or another professional financial advisor who can assist you in determining your goals, risk capacity, and risk tolerance.



What health-care provisions are effective in 2013?

With the Supreme Court's favorable ruling on the constitutionality of the Patient Protection and Affordable Care Act (ACA), more of the law's provisions will become effective in 2013. Here are some of the new features that may be important to you.

Medicare Part D participants who reach a gap in their drug coverage (the "donut hole") are required to pay the entire cost of prescription drugs out-of-pocket. In 2013, the ACA will continue to close this gap by increasing subsidies to reduce the cost of brand-name and generic drugs to participants who reach the donut hole. These subsidies will continue until 2020, when the participant's maximum contribution toward the cost of prescriptions will be reduced to 25%.

The threshold for the itemized deduction for medical expenses increases from 7.5% to 10% of adjusted gross income, beginning in 2013. However, this increase is waived for taxpayers age 65 and older through 2016.

In 2013, the annual pretax employee contribution to a Section 125 cafeteria plan flexible spending account (FSA) is reduced to

\$2,500, subject to annual increases for cost-of-living adjustments. The reduction does not apply to certain employer nonelective contributions (e.g., flex credits).

Beginning in 2013, the hospital insurance (HI) portion of the payroll tax, commonly referred to as the Medicare portion, increases by 0.9% for individuals with wages exceeding \$200,000 (\$250,000 for married couples filing a joint federal income tax return, and \$125,000 for married individuals filing separately).

In addition, 2013 marks the imposition of a new 3.8% Medicare contribution tax on the unearned income of high-income individuals. This 3.8% contribution tax generally applies to the net investment income of individuals with modified adjusted gross income that exceeds \$200,000 (\$250,000 for married couples filing a joint federal income tax return, and \$125,000 for married individuals filing separately).

Looking ahead, 2014 brings the implementation of the health insurance exchanges, premium and cost-sharing subsidies, and the requirement that most individuals have health insurance.



How does health-care reform affect women?

The Patient Protection and Affordable Care Act (ACA) expands women's access to health insurance and adds several reforms to the existing health-care system that are specifically beneficial to women.

Access to care and affordability are important issues for women. According to the U.S. Department of Health and Human Services, because almost twice as many women than men who receive employer-provided health insurance are covered as dependents, they are susceptible to losing that coverage should they become widowed, divorced, or if their husbands lose their jobs.

In addition, the cost of coverage may significantly impact women. Women earn less than men, on average, and are more likely to be out of the workforce to care for children, parents, or other dependents. Because of this trend, out-of-pocket costs such as co-pays, deductibles, and premiums can pose a particular threat to women's access to affordable care.

The ACA provides for the creation of state-level health insurance exchanges, available to small

businesses and uninsured individuals, that will serve as a marketplace of private and public health plans. Individuals and families purchasing insurance through insurance exchanges may be eligible for subsidies or tax credits (based on income) that can be applied towards the cost of insurance. According to the U.S. Census Bureau, 20% of women between the ages of 18 and 64, or about 19 million women, are uninsured. Of those, it is estimated that 36% will be eligible for tax credits and subsidies.

ACA specifies essential health benefits for women that must be offered by nongrandfathered plans. These benefits include maternity and newborn care, including prenatal visits and pediatric services. Several preventive services must be offered without co-payments or deductibles, including mammography exams; Pap tests; colonoscopies; type 2 diabetes screening; obesity screening; several immunizations including hepatitis, influenza, and HPV; and alcohol and tobacco counseling. Specific coverage benefits will continue to be shaped by U.S. Health and Human Services regulations.