ASPECT FINANCIAL

Investing without financial goals is like planning a trip without a destination. Until you know why you are investing and when you need to see results, your plans lack meaning and focus. Please consider the topics explored in this issue of The Financial Standard and call so we can talk about how they may affect your future planning efforts.

Aspect Financial
Smithfield 919-300-1241
Greenville 252-565-8911
New Bern 252-649-1811
Oxford 919-603-6117
Holly Springs 919-448-4322
Home Office
312 South Third St
Smithfield, NC 27577-4544
www.aspectfinancialllc.com

THE Financial Standard

Summer 2016

Could These Pitfalls Derail Your Retirement Plans?

Lingering debt. Caring for elderly parents. A medical crisis. These are just a few of the financial challenges that could upset the best-laid retirement plans—and threaten the lifestyle that you have hoped to achieve.

Here are some common scenarios along with some constructive suggestions for managing these potential problems.

Debt: An Obstacle to Saving

The number of Americans in or nearing retirement who are still holding significant mortgage, auto or even student loan debt has been rising in recent years. According to recent data released by the Federal Reserve Bank of New York, the average 65-year-old borrower has 47% more mortgage debt and 29% more auto debt than 65-year-olds had in 2003, after adjusting for inflation.[1]

Lingering debt can be an obstacle to reaching your retirement savings goals. For instance, citing reasons why they are not saving (or not saving more) for retirement, workers point to their current level of debt as a key hindrance.

According to Employee Benefit Research Institute data, in 2016, just 9% of workers who believe their debt is a major problem say they are "very confident" about having enough money to live comfortably throughout retirement, compared with 32% of workers who indicate that debt is not a problem.[2]

If you are concerned about the impact your current debt load may have on your ability to save for retirement or on the quality of your lifestyle once you retire, speak with a financial advisor now. Together you can craft a plan to lower and/or eliminate your unwanted debt.

Elder Care: The Financial Fallout

It is a story that doesn't grab many headlines, but its quiet impact is growing at an alarming rate. Current data from the AARP reveals that about 34 million Americans provided unpaid care to an adult aged 50 or older in the past year.[3] Voluntary caregiving is an activity that impacts both men and women—and it is estimated that 60% of adult women and 40% of adult men provide such care, typically for a parent.

Family caregiving can interfere with individuals' careers and put them at financial risk. According to earlier AARP research, family caregivers who are at least 50 years old and leave the workforce to care for a

(Continued on back)

Debt by the Numbers

Type of Debt	Workers	Retirees
Home mortgage	46%	23%
Car loan	38%	17%
Credit card	37%	27%
Student loan	23%	3%
Health/medical	21%	14%
Home equity line of credit	15%	17%
Loan from workplace retirement plan	5%	1%
Home improvement loan	4%	4%
Other	17%	9%

Source: Employee Benefit Research Institute and Greenwald & Associates.

It's Official:

New Rules Make Popular Tax Breaks Permanent

Late last year President Obama signed into law the Protecting Americans from Tax Hikes Act of 2015 (PATH) Act, which made permanent many tax provisions used by individuals and families.

Here is the rundown on a few of the more popular tax breaks that have made the transition from so-called "extenders"—provisions that left taxpayers hanging until the last minute to learn if Congress would renew them for another year—to permanent status.

The IRA charitable rollover. Also known as a qualified charitable distribution (QCD), this provision allows you to donate up to $100,000 per year to qualified charities. You cannot claim an income tax deduction for a QCD, but unlike a regular IRA distribution, a QCD would not increase your taxable income. Further, a QCD can help minimize your taxable estate and fulfill your philanthropic desires—all while satisfying your annual required minimum distribution. So if you are age 70½ or older and charity-minded to boot, consider making a QCD an annual ritual.

The American Opportunity Tax Credit (AOTC). Formerly known as the Hope Scholarship Credit, this provision covers up to $2,500 of qualified education-related expenses per year, per eligible child during all four years of postsecondary education. There are income restrictions as well as specific eligibility requirements associated with the AOTC. Visit the Internal Revenue Service website—www.irs.gov—for a complete list of rules and conditions.

529 plan benefits enhanced. The definition of "qualified expenses" that may be paid with tax-free distributions from 529 plan accounts has been expanded permanently to include computers, Internet access and software applications. Another provision made permanent is the ability of a student to avoid paying taxes and penalties on certain tuition refunds if the money is redeposited into the 529 account within 60 days.

The ABLE Act. State-sponsored ABLE plans allow individuals with special needs to save and invest for future disability-related expenses without having to sacrifice any government assistance they might receive. The new provision—made permanent by the PATH Act—eliminates residency requirements, allowing individuals to use any state's ABLE plan—thereby providing access to individuals who live in states that have not established such a plan and expanding the range of investment options available to them.

Option to deduct state and local sales taxes. Taxpayers who itemize deductions now have the permanent option of choosing between deducting state and local income taxes or state and local sales taxes on their tax return each year. The sales tax deduction is an obvious plus for taxpayers who live in states that do not impose income tax. Now individuals can "run the numbers" and choose the most advantageous deduction—regardless of where they live.

Also written into the law were provisions to make permanent tax breaks for small businesses, lower-income working families, workers who pay commuting costs, teachers and a host of other contingencies.

Your tax and/or financial professional can walk you through the details of the PATH Act to help determine which of its provisions may be most useful to you.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

Resources:
Congressional Research Service, "The American Opportunity Tax Credit: Overview, Analysis and Policy Options," January 19, 2016.
CBIZ.com, "Congress Permanently Extends Several Tax Provisions," December 18, 2015.
Savingforcollege.com, "New tax bill brings improvements to education benefits," December 21, 2015.

A Winning Equation:

Good Health = Lower Insurance Premiums

A healthy diet, regular exercise and smart lifestyle choices are good for your physical and mental well-being. But did you know they can also be good for you financially? People who are healthy and physically fit are typically more insurable and qualify for lower life insurance premiums than people who are overweight and idle.

There is no time like the present to begin taking steps toward a healthier lifestyle. Since insurance providers generally consider health and lifestyle factors when determining premiums, making the positive changes below may save you money.

Hop on the scale

Are you happy with the number you see? Overweight individuals may be putting themselves at risk for developing diabetes, heart disease and other potentially life-shortening conditions. Losing weight—and keeping it off—can potentially lower your health risks and your life insurance premiums. Keep in mind that you might have to maintain your lower weight over a period of time before you see a decrease in your insurance rates.

Get moving

Walk. Swim. Lift weights. Do yoga. Even moderate exercise can help you shed pounds and lower your risk for conditions, such as heart disease, that may be aggravated by a lack of physical activity. Improving your health through exercise may also increase your insurability by making you a lower risk to insure. The added incentive of paying less for life insurance should motivate you to get started on an exercise routine. But before you begin, check with your health care provider.

Ditch your bad habits

You know smoking and drinking excessively can compromise your health. By eliminating these habits, you may be able to substantially reduce the cost of life insurance over time. Plus, think of the money you'll save by not regularly buying tobacco and alcohol products.

Exercise Your Health "Bonus"

Generally, life insurance is more affordable when you're healthy. So, if you're currently in good health, consider buying more now before you possibly develop health issues that could increase your costs.

Assessing Your Needs

Life insurance is often used to provide a surviving spouse, children or other named beneficiaries with the replacement income necessary to maintain a standard of living, repay debt and fund education costs. So it stands to reason that the amount you need depends on your unique circumstances.

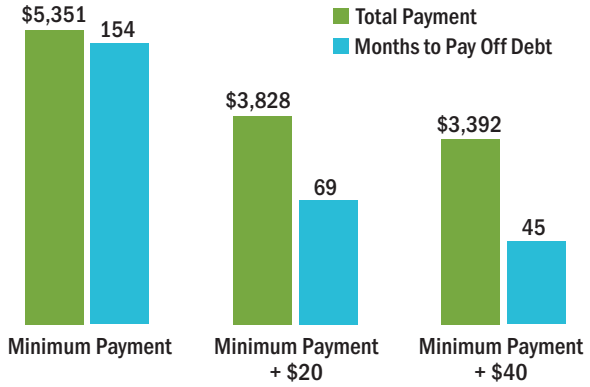
Credit Card Debt—Tip #1:

Pay More Than the Minimum

If you are contributing to America's $952 billion credit card debt, you need to start digging your way out—the sooner the better.[1] Debt can stand between you and your financial goals, like sending your kids to college and retiring in comfort.

The following chart illustrates how paying off just a little more per month can make a big difference. In this example, paying $40 more than the minimum monthly payment on an initial balance of $2,500 could lower total payments by $1,959 and reduce payoff time by over 9 years!

What a Difference $40 Can Make



Source: DST Systems, Inc. Example assumes 18% APR, monthly compounding and minimum payments equal to 2.5% of the outstanding balance or $25, whichever is greater. Example is hypothetical and for illustrative purposes only. Your own results will vary.

Here are a few additional tips to help you manage your way out of credit card debt:

- **Be systematic—and aggressive.** Start with the card with the highest interest rate, and double or triple your monthly payments until you zero-out your balance. Then do the same with the next highest interest rate card, and so forth.
- **Ask for a lower rate.** You may be able to speed up the pay-down process by asking your card issuer for a reduced interest rate.
- **Pay debt first, invest later.** Paying off credit cards before investing often is the wiser choice. Even if the market performs within a historically average range, with gains of 8% to 9% annually, paying off debt is still your better bet.

[1]Federal Reserve's G.19 report on consumer credit, based on preliminary data. Release date: May 6, 2016.

Could These Pitfalls Derail Your Retirement Plans? (Continued from page 1)

parent forgo, on average, $304,000 in lost salary and benefits over their lifetime. These estimates range from $283,716 for men to $324,044 for women.[4] Evidence suggests, however, that due to the higher amount of lost income and their tendency to assume the role of caregiver in midlife, women caregivers face a substantially higher risk of living in poverty in their elder years than do men.

If you are currently a caregiver or expect to be one in the not-too-distant future and would like to learn more, the following resources offer good starting points:

- The Family Caregiver Alliance, National Center on Caregiving
- National Alliance for Caregiving
- Caregiver Action Network

A Medical Crisis: The Last Financial Straw

Research shows that medical bills are the number one cause of personal bankruptcy in America.[5] Further, health problems or disability was cited by retirees as the most common cause of leaving the workforce earlier than originally expected—and losing out on critical income in the final years before retirement.

If you are concerned that a known—or sudden—medical condition could cause you financial hardship, be prepared with disability insurance, which will preserve a portion of your income if you can't work for a period of time. Also consider the merits of long-term care insurance, which can help to protect your retirement income and other assets if you or a spouse requires expensive long-term care services.

[1]*The Wall Street Journal*, "People Over 50 Carrying More Debt Than in the Past," February 12, 2016.
[2]Employee Benefit Research Institute and Greenwald & Associates, *2016 Retirement Confidence Survey*.
[3]AARP Public Policy Institute and National Alliance for Caregiving, "2015 Report: Caregiving in the U.S.," June 2015.
[4]AARP: Understanding the Impact of Family Caregiving on Work, Fact Sheet 271, October, 2012 and MetLife Mature Market Institute, "The MetLife Study of Caregiving: Costs to Working Caregivers: Double Jeopardy for Baby Boomers Caring For Their Parents," 2011.
[5]*The Atlantic*, "Why Americans Are Drowning in Medical Debt," October 8, 2014.

(1-501170) 06/2016