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Tune in Saturdays from 3:00 – 5:00 pm on WXTK 95.1 FM (or live streaming on 95WXTK.com) to Cape Cod's Financial Radio Talk show hosted by Chris Boyd, CFP® for entertaining discussions on all things financial. For an entertaining and informative discussion of investing & financial planning topics, as well as Something More! Chris talks about not only those important dollar and cents issues, but also those quality of life issues that make the money matters matter. With a local flavor and a national perspective, on the show, Chris interviews local business success stories, political office holders and candidates, charities, and community organizations, as well as talking with nationally known leaders in the fields of investments, economics, and more. If you miss the show on Saturday, listen to the recorded version posted to our website, amrfinancial.com, each Monday.

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eResources Review

Asset Management Resources' E-mail Newsletter

Three Smart Moves for Young Adults

Your 20s is a time for exploration and new experiences, but also a time of emerging personal financial responsibility. And though times are certainly different now for young adults compared to 10 or 20 years ago (for example, more college students graduate with significant student loans and many return home to live with their parents), some advice never goes out of style.

1. Live within your means

It may sound boring when the world is finally at your fingertips, but living within your means, even *below* your means, is one of the best things you can do to create a solid financial foundation. Your "means" is the income you have coming in. Living within your means involves not spending more than you have. This can be difficult for young adults when temptation often lurks around every corner--technology gadgets, gym memberships, free shipping and instant streaming services, daily coffee and smoothie runs, new clothes, outings with friends, traveling...you get the idea.

The key is to distinguish between your needs and wants. You *need* food, but you *want* to try that new restaurant downtown, and the other one across town, and the one that just opened right near your apartment. If your wants are leaving you broke, you need to curtail them.

Everyone's income and expenses are different. At one end of the spectrum is someone living on her own paying 100% of rent and utilities, while at the other end is someone living at home with his parents and not paying any of those expenses. Analyze what you have coming in (income) each month and what you have going out (expenses), and keep track of where your money goes.

2. Save, save, save

Living within your means doesn't entail breaking even each month. It means making room for savings, too. If you have a job, sign up for direct deposit so your paycheck will be automatically funneled into your checking account. Then re-route some of that money on payday to a linked savings account. You'll start to build a savings fund, but you'll still have access to the money if you need it. Any savings method you can put on autopilot is ideal because it's one less thing you'll need to remember to do and one less dollar you'll miss or otherwise be tempted to spend.

Once you make it a habit to save regularly, you'll want to think ahead. Sure, retirement is a long way off. But when you start saving at a young age, you can benefit tremendously from compounding, which is when your dollars earn returns that are then reinvested back into your account, potentially earning returns themselves. Over time, the process can snowball.

For example, a 22-year-old who saves $200 per month and earns a 4% annual return will have $274,115 at age 65. By comparison, a 32-year-old who saves and earns the same amount will have $164,113 at age 65, and a 42-year-old will have $90,327. (Note that this is a hypothetical example of mathematical compounding and does not represent the performance of any specific investment; all investing involves risk, including the possibility of loss.)

3. Borrow wisely

Looking to buy a car or a condo, or attend graduate school? These things typically involve debt, and debt is not your friend. Before you sign on the dotted line for a major purchase, ask yourself whether you're overextending yourself, whether you're getting the best possible deal, and whether borrowing is the only way to achieve your goals.

If you have student loans, make sure you've explored all your repayment options. Federal (but not private) student loans are eligible for the government's Income-Based Repayment (IBR) plan, in which monthly payments are capped at 10% of your discretionary income (15% for loans made prior to July 1, 2014). If you don't qualify for IBR, you might benefit from another income-sensitive repayment option or loan consolidation.

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Taxes, Retirement, and Timing Social Security

This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual rates of return and results will vary. The example assumes that earnings are taxed as ordinary income and does not reflect possible lower maximum tax rates on capital gains and dividends, as well as the tax treatment of investment losses, which would make the return more favorable. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison. Investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

The advantages of tax deferral are often emphasized when it comes to saving for retirement. So it might seem like a good idea to hold off on taking taxable distributions from retirement plans for as long as possible. (Note: Required minimum distributions from non-Roth IRAs and qualified retirement plans must generally start at age 70½.) But sometimes it may make more sense to take taxable distributions from retirement plans in the early years of retirement while deferring the start of Social Security retirement benefits.

Some basics

Up to 50% of your Social Security benefits are taxable if your modified adjusted gross income (MAGI) plus one-half of your Social Security benefits falls within the following ranges: $32,000 to $44,000 for married filing jointly; and $25,000 to $34,000 for single, head of household, or married filing separately (if you've lived apart all year). Up to 85% of your Social Security benefits are taxable if your MAGI plus one-half of your Social Security benefits exceeds those ranges or if you are married filing separately and lived with your spouse at any time during the year. For this purpose, MAGI means adjusted gross income increased by certain items, such as tax-exempt interest, that are otherwise excluded or deducted from your income for regular income tax purposes.

Social Security retirement benefits are reduced if started prior to your full retirement age (FRA) and increased if started after your FRA (up to age 70). FRA ranges from 66 to 67, depending on your year of birth.

Distributions from non-Roth IRAs and qualified retirement plans are generally fully taxable unless nondeductible contributions have been made.

Accelerate income, defer Social Security

It can sometimes make sense to delay the start of Social Security benefits to a later age (up to age 70) and take taxable withdrawals from retirement accounts in the early years of retirement to make up for the delayed Social Security benefits.

If you delay the start of Social Security benefits, your monthly benefits will be higher. And because you've taken taxable distributions from your retirement plans in the early years of retirement, it's possible that your required minimum distributions will be smaller in the later years of retirement when you're also receiving more income from Social Security. And smaller taxable withdrawals will result in a lower MAGI, which could mean the amount of Social Security benefits subject to federal income tax is reduced.

Whether this strategy works to your advantage depends on a number of factors, including your income level, the size of the taxable withdrawals from your retirement savings plans, and how many years you ultimately receive Social Security retirement benefits.

Example

Mary, a single individual, wants to retire at age 62. She can receive Social Security retirement benefits of $18,000 per year starting at age 62 or $31,680 per year starting at age 70 (before cost-of-living adjustments). She has traditional IRA assets of $300,000 that will be fully taxable when distributed. She has other income that is taxable (disregarding Social Security benefits and the IRA) of $27,000 per year. Assume she can earn a 6% annual rate of return on her investments (compounded monthly) and that Social Security benefits receive annual 2.4% cost-of-living increases. Assume tax is calculated using the 2015 tax rates and brackets, personal exemption, and standard deduction.

Option 1. One option is for Mary to start taking Social Security benefits of $18,000 per year at age 62 and take monthly distributions from the IRA that total about $21,852 annually.

Option 2. Alternatively, Mary could delay Social Security benefits to age 70, when her benefits would start at $38,299 per year after cost-of-living increases. To make up for the Social Security benefits she's not receiving from ages 62 to 69, during each of those years she withdraws about $40,769 to $44,094 from the traditional IRA--an amount approximately equal to the lost Social Security benefits plus the amount that would have been withdrawn from the traditional IRA under the age 62 scenario (plus a little extra to make the after-tax incomes under the two scenarios closer for those years). When Social Security retirement benefits start at age 70, she reduces monthly distributions from the IRA to about $4,348 annually.

Mary's after-tax income in each scenario is approximately the same during the first 8 years. Starting at age 70, however, Mary's after-tax income is higher in the second scenario, and the total cumulative benefit increases significantly with the total number of years Social Security benefits are received.*

Six Life Insurance Beneficiary Mistakes to Avoid

Note: *As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.*

Note: *While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.*

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. Naming your policy's beneficiaries should be a relatively simple task. However, there are a number of situations that can easily lead to unintended and adverse consequences. Here are six life insurance beneficiary traps you may want to avoid.

Not naming a beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together, or that your named beneficiary may die before you. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

Death benefit paid to your estate

If your life insurance is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payment to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming primary, secondary, and final beneficiaries may avoid having the proceeds ultimately paid to your estate. If the primary beneficiary dies before you do, then the secondary or alternate beneficiaries receive the proceeds. And if the secondary beneficiaries are unavailable to receive the death benefit, you can name a final beneficiary, such as a charity, to receive the insurance proceeds.

Naming a minor child as beneficiary

Unintended consequences may arise if your named beneficiary is a minor. Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian--a potentially costly and time-consuming process--to handle the proceeds until the minor beneficiary reaches the age of majority according to state law.

If you want the life insurance proceeds to be paid for the benefit of a minor, you may consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

Per stirpes or per capita

It's not uncommon to name multiple beneficiaries to share in the life insurance proceeds. But what happens if one of the beneficiaries dies before you do? Do you want the share of the deceased beneficiary to be added to the shares of the surviving beneficiaries, or do you want the share to pass to the deceased beneficiary's children? That's the difference between per stirpes and per capita.

You don't have to use the legal terms in directing what is to happen if a beneficiary dies before you do, but it's important to indicate on the insurance beneficiary designation form how you want the share to pass if a beneficiary predeceases you. Per stirpes *(by branch)* means the share of a deceased beneficiary passes to the next generation in line. Per capita *(by head)* provides that the share of the deceased beneficiary is added to the shares of the surviving beneficiaries so that each receives an equal share.

Disqualifying the beneficiary from government assistance

A beneficiary you name to receive your life insurance may be receiving or is eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to the government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

Taxes

Generally, life insurance death proceeds are not taxed when they're paid. However, there are exceptions to this rule, and the most common situation involves having three different people as policy owner, insured, and beneficiary. Typically, the policy owner and the insured are one in the same person. But sometimes the owner is not the insured or the beneficiary. For example, mom may be the policy owner on the life of dad for the benefit of their children. In this situation, mom is effectively creating a gift of the insurance proceeds to her children/beneficiaries. As the donor, mom may be subject to gift tax. Consult a financial or tax professional to figure out the best way to structure the policy.

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What is a balloon loan?

A balloon loan is essentially any loan with a large principal payment due at the end of the loan's term. A good way to illustrate how these loans work is to look at one of the more common forms of balloon loans, the balloon mortgage.

With this type of mortgage, you make fixed monthly payments for a certain period of time (3, 5, 7, or 10 years, with 5- and 7-year terms being the most prevalent). However, your monthly payments are based on the same repayment schedule (called an amortization schedule) as those for a 30-year fixed mortgage. For this reason, your fixed payments during the repayment period are relatively low. At the end of this period, the loan matures and the remaining principal balance is due as one large final payment, called the balloon payment.

For example, let's say you have a $150,000 balloon mortgage with a 4% interest rate for 5 years, after which time the remaining principal comes due. Based on a 30-year amortization schedule, your monthly mortgage payment will be $716. At the end of the 5-year term, you'll owe a remaining principal balance of $135,671. This is your balloon payment.

If you want the option of converting the balloon payment to a different type of mortgage (in case you decide to stay in the house), look for a balloon mortgage with a reset feature. The reset feature allows you to convert the balloon payment to, for example, a fixed rate mortgage at the currently prevailing rate for the remainder of the original amortization schedule.

For example, assume your balloon mortgage described earlier has a reset feature that allows you to convert the remaining principal balance to a fixed rate mortgage with a 25-year term (the remaining term of the original amortization schedule). When the balloon payment of $135,671 comes due, the prevailing rate is 6%. Exercising the reset option, your new fixed payment becomes $874 per month.

Low monthly payments may make balloon loans attractive to some borrowers, especially those with cash-flow problems that are expected to improve over time. However, borrowers who anticipate that they might refinance the balloon loan at the end of its term must be willing to accept the risk that interest rates may have gone up by that time.