



BILL OAKES EA, CFP®

BILL OAKES, EA, CFP®

175 Bernal Road #20

San Jose, CA 95119

408-703-5777

bill@oakesfp.com

http://www.oakesfp.com

Hello!

The first two weeks of June are heavily scheduled with business travel, as I present financial planning seminars around the country. Please be aware that voice mail and email responses may be delayed, thank you for your patience.

When June finishes, and that will come quick, it is a perfect time of year to do a mid-year review of your 2015 tax outlook and to re-balance your portfolio. Please call or email if you would like a mid-year review.

The economy continues to move forward at a slow pace, federal reserve action on interest rates is coming. The stock and bond markets will jump around on us. I encourage everyone to take the long term view on your investments. The day to day changes in the marketplaces seem significant with the daily changes, but in the long look backward, twenty years from now, the magnitude of these day to day bumps will be reduced. Think long term, follow your plan.

Have a great June and thanks to everyone for their continued business.

June 2015

Reviewing Your Finances Mid-Year

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Reviewing Your Finances Mid-Year



You made it through tax season and now you're looking forward to your summer vacation. But before you go, take some time to review your finances. Mid-year is an ideal time to do so, because the demands on

your time may be fewer, and the planning opportunities greater, than if you wait until the end of the year.

Think about your priorities

What are your priorities? Here are some questions that may help you identify the financial issues you want to address within the next few months.

- Are any life-changing events coming up soon, such as marriage, the birth of a child, retirement, or a career change?
- Will your income or expenses substantially increase or decrease this year?
- Have you managed to save as much as you expected this year?
- Are you comfortable with the amount of debt that you have?
- Are you concerned about the performance of your investment portfolio?
- Do you have any other specific needs or concerns that you would like to address?

Take another look at your taxes

Completing a mid-year estimate of your tax liability may reveal tax planning opportunities. You can use last year's tax return as a basis, then make any anticipated adjustments to your income and deductions for this year.

You'll want to check your withholding, especially if you owed taxes when you filed your most recent income tax return or you received a large refund. Doing that now, rather than waiting until the end of the year, may help you avoid a big tax bill or having too much of your money tied up with Uncle Sam. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.

To help avoid missed tax-saving opportunities for the year, one basic thing you can do right now is to set up a system for saving receipts and other tax-related documents. This can be as simple as dedicating a folder in your file cabinet to this year's tax return so that you can keep track of important paperwork.

Reconsider your retirement plan

If you're working and you received a pay increase this year, don't overlook the opportunity to increase your retirement plan contributions by asking your employer to set aside a higher percentage of your salary. In 2015, you may be able to contribute up to \$18,000 to your workplace retirement plan (\$24,000 if you're age 50 or older).

If you're already retired, take another look at your retirement income needs and whether your current investments and distribution strategy will continue to provide enough income.

Review your investments

Have you recently reviewed your portfolio to make sure that your asset allocation is still in line with your financial goals, time horizon, and tolerance for risk? Though it's common to rebalance a portfolio at the end of the year, you may need to rebalance more frequently if the market is volatile.

Note: Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Identify your insurance needs

Do you know exactly how much life and disability insurance coverage you have? Are you familiar with the terms of your homeowners, renters, and auto insurance policies? If not, it's time to add your insurance policies to your summer reading list. Insurance needs frequently change, and it's possible that your coverage hasn't kept pace with your income or family circumstances.



Three College Savings Strategies with Tax Advantages



529 plan fast facts

Total assets in 529 plans reached a record \$247.9 billion at the end of 2014 (up from \$227.1 billion in 2013). The total number of accounts was 12.1 million (up from 11.6 million in 2013), and the average account balance was \$20,474 (up from \$19,584 in 2013). Source: College Savings Plans Network, 529 Report: An Exclusive Year-End Review of 529 Plan Activity, March 2015

To limit borrowing at college time, it's smart to start saving as soon as possible. But where should you put your money? In the college savings game, you should generally opt for tax-advantaged strategies whenever possible because any money you save on taxes is more money available for your savings fund.

529 plans

A 529 plan is a savings vehicle designed specifically for college that offers federal and state tax benefits if certain conditions are met. Anyone can contribute to a 529 plan, and lifetime contribution limits, which vary by state, are high--typically \$300,000 and up.

Contributions to a 529 plan accumulate tax deferred at the federal level, and earnings are tax free if they're used to pay the beneficiary's qualified education expenses. (In his State of the Union speech in January, President Obama proposed eliminating this tax-free benefit but subsequently dropped the proposal after a public backlash.) Many states also offer their own 529 plan tax benefits, such as an income tax deduction for contributions and tax-free earnings. However, if a withdrawal is used for a non-educational expense, the earnings portion is subject to federal income tax and a 10% federal penalty (and possibly state tax).

529 plans offer a unique savings feature: accelerated gifting. Specifically, a lump-sum gift of up to five times the annual gift tax exclusion (\$14,000 in 2015) is allowed in a single year per beneficiary, which means that individuals can make a lump-sum gift of up to \$70,000 and married couples can gift up to \$140,000. No gift tax will be owed if the gift is treated as having been made in equal installments over a five-year period and no other gifts are made to that beneficiary during the five years. This can be a favorable way for grandparents to contribute to their grandchildren's education.

Also, starting in 2015, account owners can change the investment option on their existing 529 account funds twice per year (prior to 2015, the rule was once per year).

Note: Investors should consider the investment objectives, risks, fees, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. Finally, there is the risk that investments may lose money or not perform well enough to cover college costs as anticipated.

Coverdell education savings accounts

A Coverdell education savings account (ESA) lets you contribute up to \$2,000 per year for a child's college expenses if the child (beneficiary) is under age 18 and your modified adjusted gross income in 2015 is less than \$220,000 if married filing jointly and less than \$110,000 if a single filer.

The federal tax treatment of a Coverdell account is exactly the same as a 529 plan; contributions accumulate tax deferred and earnings are tax free when used to pay the beneficiary's qualified education expenses. And if a withdrawal is used for a non-educational expense, the earnings portion of the withdrawal is subject to income tax and a 10% penalty.

The \$2,000 annual limit makes Coverdell ESAs less suitable as a way to accumulate significant sums for college, though a Coverdell account might be useful as a supplement to another college savings strategy.

Roth IRAs

Though traditionally used for retirement savings, Roth IRAs are an increasingly favored way for parents to save for college. Contributions can be withdrawn at any time and are always tax free (because contributions to a Roth IRA are made with after-tax dollars). For parents age 59½ and older, a withdrawal of earnings is also tax free if the account has been open for at least five years. For parents younger than 59½, a withdrawal of earnings--typically subject to income tax and a 10% premature distribution penalty tax--is spared the 10% penalty if the withdrawal is used to pay a child's college expenses.

Roth IRAs offer some flexibility over 529 plans and Coverdell ESAs. First, Roth savers won't be penalized for using the money for something other than college. Second, federal and college financial aid formulas do not consider the value of Roth IRAs, or any retirement accounts, when determining financial need. On the flip side, using Roth funds for college means you'll have less available for retirement. To be eligible to contribute up to the annual limit to a Roth IRA, your modified adjusted gross income in 2015 must be less than \$183,000 if married filing jointly and less than \$116,000 if a single filer (a reduced contribution amount is allowed at incomes slightly above these levels).

And here's another way to use a Roth IRA: If a student is working and has earned income, he or she can open a Roth IRA. Contributions will be available for college costs if needed, yet the funds won't be counted against the student for financial aid purposes.



Millennials vs. Boomers: How Wide Is the Gap?



Can you tell the difference between the attitudes of baby boomers and millennials when it comes to finances? Take this quiz and see.

Texting versus email (or even snail mail). Angry Birds versus Monopoly. "The Theory of Everything" versus "The Sound of Music." "Dancing with the Stars" versus "American Bandstand."

It's no secret that there are a lot of differences between baby boomers, born between 1946-1964, and millennials, who were generally born after 1980 (though there is disagreement over the precise time frame for millennials). But when it comes to finances, there may not be as much difference in some areas as you might expect. See if you can guess which generation is more likely to have made the following statements.

Boomer or millennial?

- 1) I have enough money to lead the life I want, or believe I will in the future.
- 2) My high school degree has increased my potential earning power.
- 3) I rely on my checking account to pay for my day-to-day purchases.
- 4) I consider myself a conservative investor.
- 5) Generally speaking, most people can be trusted.
- 6) I'm worried that I won't be able to pay off the debts that I owe.

The answers

1) Millennials. According to a 2014 survey by the Pew Research Center, millennials were more optimistic about their finances than any other generational cohort, including baby boomers. Roughly 85% of millennials said they either currently had enough to meet their financial needs or expected to be able to live the lives they want in the future; that's substantially higher than the 60% of boomers who said the same thing. Although a higher percentage of boomers--45%--said they currently have enough to meet their needs, only 32% of millennials felt they had enough money right now, though another 53% were hopeful about their financial futures. Source: "Millennials in Adulthood," Pew Research Center, 2014

2) Boomers. The ability of a high school education to provide an income has dropped since the boomers' last senior prom, while a college education has never been more valuable. In 1979, the typical high school graduate's earnings were 77% of a college graduate's; in 2013, millennials with a high school diploma earned only 62% of what a college graduate did. And 22% of millennials with only a high school degree were living in

poverty in 2013; back in 1979, the figure for boomers at that age was 7%. Source: "The Rising Cost of Not Going to College," Pew Research Center, 2014

3) Boomers. Not surprisingly, millennials are far more likely than boomers to use alternative payment methods for day-to-day expenses. A study by the FINRA Investor Education Foundation found that millennials are almost twice as likely as boomers to use prepaid debit cards (31% compared to 16% of boomers). They're also more than six times as likely to use mobile payment methods such as Apple Pay or Google Wallet; 13% of millennials reported using mobile methods, while only 2% of boomers had done so. Source: "The Financial Capability of Young Adults--A Generational View," *FINRA Foundation Financial Capability Insights*, FINRA Investor Education Foundation, 2014

4) Millennials. You might think that with thousands of baby boomers retiring every day, the boomers might be the cautious ones. But in one survey of U.S. investors, only 31% of boomers identified themselves as conservative investors. By contrast, 43% of millennials described themselves as conservative when it came to investing. The survey also found that millennials outscored boomers on whether they wanted to leave money to their children (40% vs. 25%) and in wanting to improve their understanding of investing (44% vs. 38%). Source: Accenture, "Generation D: An Emerging and Important Investor Segment," 2013

5) Boomers. Millennials may have been around the track fewer times than boomers have, but their experiences seem to have given them a more jaundiced view of human nature. In the Pew Research "Millennials in Adulthood" survey, only 19% of millennials said most people can be trusted; with boomers, that percentage was 31%. However, millennials were slightly more upbeat about the future of the country; 49% of millennials said the country's best years lie ahead, while only 44% of boomers agreed.

6) Millennials. However, the difference between the generations might not be as significant as you might think. In the FINRA Foundation financial capability study, 55% of millennials with student loans said they were concerned about being able to pay off their debt. That's not much higher than the 50% of boomers who were worried about debt repayment.

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175 Bernal Road #20

San Jose, CA 95119

408-703-5777

bill@oakesfp.com

http://www.oakesfp.com

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How important are dividends in the S&P 500's total returns?

In a word, very. Dividend income has represented roughly one-third of the total return on the Standard & Poor's 500 index since 1926.*

According to S&P, the portion of total return attributable to dividends has ranged from a high of 53% during the 1940s--in other words, more than half that decade's return resulted from dividends--to a low of 14% during the 1990s, when the development and rapid expansion of the Internet meant that investors tended to focus on growth.*

And in individual years, the contribution of dividends can be even more dramatic. In 2011, the index's 2.11% average dividend component represented 100% of its total return, since the index's value actually fell by three-hundredths of a point.** And according to S&P, the dividend component of the total return on the S&P 500 has been far more stable than price changes, which can be affected by speculation and fickle market sentiment.

Dividends also represent a growing percentage of Americans' personal incomes. That's been especially true in recent years as low interest

rates have made fixed-income investments less useful as a way to help pay the bills. In 2012, dividends represented 5.64% of per capita personal income; 20 years earlier, that figure was only 3.51%.*

Note: All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. Investing in dividends is a long-term commitment. Investors should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. A company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

*Source: "Dividend Investing and a Look Inside the S&P Dow Jones Dividend Indices," Standard & Poor's, September 2013

**Source: www.spindices.com, "S&P 500 Annual Returns" as of 3/13/2015



Are stock dividends reliable as a source of income?

Dividends can be an important source of income. However, there are several factors you should take into consideration if you'll be relying on them to help pay the bills.

An increasing dividend is generally regarded as a sign of a company's health and stability, and most corporate boards are reluctant to cut them. However, dividends on common stock are by no means guaranteed; the board can decide to reduce or eliminate dividend payments. Investing in dividend-paying stocks isn't as simple as just picking the highest yield; consider whether the company's cash flow can sustain its dividend, and whether a high yield is simply a function of a drop in a stock's share price. (Because a stock's dividend yield is calculated by dividing the annual dividend by the current market price per share, a lower share value typically means a higher yield, assuming the dividend itself remains the same.)

Also, dividends aren't all alike. Dividends on preferred stock typically offer a fixed rate of return, and holders of preferred stock must be paid their promised dividend before holders of common stock are entitled to receive theirs.

However, because their dividends are predetermined, preferred stocks typically behave somewhat like fixed-income investments. For example, their market value is more likely to be affected by changing interest rates, and most preferred stocks have a provision allowing the company to call in its preferred shares at a set time or at a specified future date. If you have to surrender your preferred stock, you might have difficulty finding an equivalent income stream.

Finally, dividends from certain types of investments aren't eligible for the special tax treatment generally available for qualified dividends, and a portion may be taxed as ordinary income.

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