SAMALIN
INVESTMENT COUNSEL

Volume VI, Issue III

April, 2016

*Finance*FOCUS

Six Potential 401(k) Rollover Pitfalls

You're about to receive a distribution from your 401(k) plan, and you're considering a rollover to a traditional IRA. While these transactions are normally straightforward and trouble free, there are some pitfalls you'll want to avoid.

1. Consider the pros and cons of a rollover. The first mistake some people make is failing to consider the pros and cons of a rollover to an IRA in the first place. You can leave your money in the 401(k) plan if your balance is over $5,000. And if you're changing jobs, you may also be able to roll your distribution over to your new employer's 401(k) plan.

- Though IRAs typically offer significantly more investment opportunities and withdrawal flexibility, your 401(k) plan may offer investments that can't be replicated in an IRA (or can't be replicated at an equivalent cost).
- 401(k) plans offer virtually unlimited protection from your creditors under federal law (assuming the plan is covered by ERISA; solo 401(k)s are not), whereas federal law protects your IRAs from creditors only if you declare bankruptcy. Any IRA creditor protection outside of bankruptcy depends on your particular state's law.
- 401(k) plans may allow employee loans.
- And most 401(k) plans don't provide an annuity payout option, while some IRAs do.

2. Not every distribution can be rolled over to an IRA. For example, required minimum distributions can't be rolled over. Neither can hardship withdrawals or certain periodic payments. Do so and you may have an excess contribution to deal with.

3. Use direct rollovers and avoid 60-day rollovers. While it may be tempting to give yourself a free 60-day loan, it's generally a mistake to use 60-day rollovers rather than direct (trustee to trustee) rollovers. If the plan sends the money to you, it's required to withhold 20% of the taxable amount. If you later want to roll the entire amount of the original distribution over to an IRA, you'll need to use other sources to make up the 20% the plan withheld. In addition, there's no need to taunt the rollover gods by risking inadvertent violation of the 60-day limit.

4. Remember the 10% penalty tax. Taxable distributions you receive from a 401(k) plan before age 59½ are normally subject to a 10% early distribution penalty, but a special rule lets you avoid the tax if you receive your distribution as a result of leaving your job during or after the year you turn age 55 (age 50 for qualified public safety employees). But this special rule doesn't carry over to IRAs. If you roll your distribution over to an IRA, you'll need to wait until age 59½ before you can withdraw those dollars from the IRA without the 10% penalty (unless another exception applies). So if you think you may need to use the funds before age 59½, a rollover to an IRA could be a costly mistake.

(Continued on page 2)

*Finance*Focus is published quarterly by Samalin Investment Counsel

Westchester
297 King Street
Chappaqua, NY 10514
914.666.6600
FAX: 914.666.6602

New York City
One Grand Central Place
Suite 4600
New York, NY 10165
212.750.6200
FAX: 212.750.6208

Samalin Investment Counsel is a fee-only, nationallyrecognized SEC registered investment advisory firm. With offices in Chappaqua NY and NYC, we specialize in wealth management, pre and post divorce financial planning, retirement planning, and other related financial services.

(Continued from page 1)

Six Potential 401(k) Rollover Pitfalls

5. Learn about net unrealized appreciation (NUA). If your 401(k) plan distribution includes employer stock that's appreciated over the years, rolling that stock over into an IRA could be a serious mistake. Normally, distributions from 401(k) plans are subject to ordinary income taxes. But a special rule applies when you receive a distribution of employer stock from your plan: You pay ordinary income tax only on the cost of the stock at the time it was purchased for you by the plan. Any appreciation in the stock generally receives more favorable long-term capital gains treatment, regardless of how long you've owned the stock. (Any additional appreciation after the stock is distributed to you is either long-term or short-term capital gains, depending on your holding period.) These special NUA rules don't apply if you roll the stock over to an IRA.

6. And if you're rolling over Roth 401(k) dollars to a Roth IRA...
If your Roth 401(k) distribution isn't qualified (tax-free) because you haven't yet satisfied the five-year holding period, be aware that when you roll those dollars into your Roth IRA, they'll now be subject to the Roth IRA's five-year holding period, no matter how long those dollars were in the 401(k) plan. So, for example, if you establish your first Roth IRA to accept your rollover, you'll have to wait five more years until your distribution from the Roth IRA will be qualified and tax-free.

A list of federally declared disaster areas can be found at the Federal Emergency Management Agency (FEMA) website at ***feme.gov/disasters****. Major disaster and emergency declarations in 2015 included areas in 50 states.*

WHEN DISASTER STRIKES: DEDUCTING CASUALTY LOSSES

Wildfires, tornadoes, storms, landslides, and flooding.... It's almost as if you can't turn on the news without seeing images of a disaster striking somewhere. If you've suffered property loss as the result of these events or other circumstances, you may be able to claim a casualty loss deduction on your federal income tax return.

WHAT'S A CASUALTY LOSS?

A casualty is the destruction, damage, or loss of property caused by an unusual, sudden, or unexpected event. You can experience a casualty loss as the result of something as sweeping as a natural disaster, or as limited in scope as an act of vandalism. You probably don't have a deductible casualty loss, however, if your property is damaged as the result of gradual deterioration (e.g., a long-term termite infestation).

CALCULATING YOUR LOSS

The rules for calculating loss can be different for business property, or property that's used to produce income (think rental property). To calculate a casualty loss on personal-use property, like your home, that's been damaged or destroyed, you first need two important pieces of data:

- The decrease in the fair market value (FMV) of the property; that's the difference between the FMV of the property immediately before and after the casualty
- Your adjusted basis in the property before the casualty; your adjusted basis is usually your cost if you bought the property (different rules apply if you inherited the property or received it as a gift), increased for things like permanent improvements and decreased for items such as depreciation

Starting with the lower of the two amounts above, subtract any insurance or other reimbursement that you have received or that you expect to receive. The result is generally the amount of your loss. If you receive insurance payments or other reimbursement that is more than your adjusted basis in the destroyed or damaged property, you may actually have a gain. There are special rules for reporting such gain, postponing the gain, excluding gain on a main home, and purchasing replacement property.

THE $100 AND 10% RULES

After you determine your casualty loss on personal-use property, you have to reduce the loss by $100. The $100 reduction applies per casualty, not per individual item of property. Two or more events that are closely related may be considered a single casualty. For example, wind and flood damage from the same storm would typically be considered a single casualty event, subject to only one $100 reduction. If both your home and automobile were damaged by the storm, the damage is also considered part of a single casualty event--you do not have to subtract $100 for each piece of property.

You must also reduce the total of all your casualty and theft losses on personal property by 10% of your adjusted gross income (AGI) after each loss is reduced by the $100 rule, above.

If you are married and file a joint return, you are treated as one individual in applying both the $100 rule and the 10% rule. It does not matter whether you own the property jointly or separately. If you file separately, you are each subject to both rules. If only one spouse owns the property, usually only that spouse can claim the associated loss on a separate return.

REPORTING A CASUALTY LOSS

Generally, you report and deduct the loss in the year in which the casualty occurred. Special rules, however, apply for casualty losses resulting from an event that's declared a federal disaster area by the president.

If you have a casualty loss from a federally declared disaster area, you can choose to report and deduct the loss in the tax year in which the loss occurred, or in the tax year immediately preceding the tax year in which the disaster happened. If you elect to report in the preceding year, the loss is treated as if it occurred in the preceding tax year. Reporting the loss in the preceding year may reduce the tax for that year, producing a refund. You generally have to make a decision to report the loss in the preceding year by the federal income tax return due date (without any extension) for the year in which the disaster actually occurred.

Casualty losses are reported on IRS Form 4684, Casualties and Thefts. Any losses relating to personal-use property are carried over to Form 1040, Schedule A, Itemized Deductions.

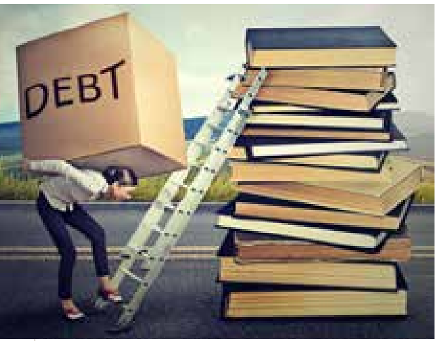
GETTING HELP

The rules relating to casualty losses can be complicated. Additional information can be found in the instructions to Form 4684 and in IRS Publication 547, Casualties, Disasters, and Thefts. If you have suffered a casualty loss, though, you should consider discussing your individual circumstances with a tax professional.

What's New in the World of Higher Education?

If you're a parent or grandparent of a college student or soon-to-be college student, you might be interested to learn what's new in the world of higher education.

School Year	Tax Return Required	FAFSA Earliest Submission
2016/2017	2015	January 1, 2016
2017/2018	2015	October 1, 2016
2018/2019	2016	October 1, 2017



Higher college costs

Total average costs for the 2015/2016 school year increased about 3% from the previous year: $24,061 for public colleges (in-state), $38,855 for public colleges (out-of-state), and $47,831 for private colleges.[1] Total average costs include direct billed costs for tuition, fees, room, and board; and indirect costs for books, transportation, and personal expenses. Together, these items are officially referred to as the "total cost of attendance." Note that the cost figure for private colleges cited by the College Board is an average; many private colleges cost substantially more–over $60,000 per year.

Higher student debt

Seven in 10 college seniors who graduated in 2014 (the most recent year for which figures are available) had student loan debt, and the average amount was $28,950 per borrower.[2] It's likely this amount will be higher for the classes of 2015 and 2016.

Student loan debt is the only type of consumer debt that has grown since the peak of consumer debt in 2008; balances have eclipsed both auto loans and credit cards, making student loan debt the largest category of consumer debt after mortgages. As of September 2015, total outstanding student loan debt was over $1.2 trillion.[3]

Reduced asset protection allowance

Behind the scenes, a stealth change in the federal government's formula for determining financial aid eligibility has been quietly (and negatively) impacting families everywhere. You may not have heard of the asset protection allowance before. But this figure, which allows parents to shield a certain amount of their non-retirement assets from the federal aid formula, has been steadily declining for years, resulting in higher expected family contributions for families. For the 2012/2013 year, the asset protection allowance for a 47-year-old married parent was $43,400. Today, for the 2016/2017 year, that same asset protection allowance is $18,300–a drop of $25,100. The result is a $1,415 decrease in a student's aid eligibility ($25,100 x 5.64%, the federal contribution percentage required from parent assets).

New FAFSA timeline

Beginning with the 2017/2018 school year, families will be able to file the government's financial aid application, the FAFSA, as early as October 1, 2016, rather than having to wait until after January 1, 2017. The intent behind the change is to better align the financial aid and college admission timelines and to provide families with information about aid eligibility earlier in the process.

One result of the earlier timeline is that your 2015 federal income tax return will do double duty as a reference point for your child's federal aid eligibility–it will be the basis for the FAFSA for both the 2016/2017 and 2017/2018 years.

American Opportunity Tax Credit now permanent

The American Opportunity Tax Credit was made permanent by the Protecting Americans from Tax Hikes Act of 2015. It is a partially refundable tax credit (meaning you may be able to get some of the credit even if you don't owe any tax) worth up to $2,500 per year for qualified tuition and related expenses paid during your child's first four years of college. To qualify for the full credit, single filers must have a modified adjusted gross income (MAGI) of $80,000 or less, and joint filers must have a MAGI of $160,000 or less. A partial credit is available for single filers with a MAGI over $80,000 but less than $90,000, and for joint filers with a MAGI over $160,000 but less than $180,000.

New REPAYE plan for federal loans

The pool of borrowers eligible for the government's Pay As You Earn (PAYE) plan for student loans has been expanded as of December 2015. The new plan, called REPAYE (Revised Pay As You Earn), is available to all borrowers with federal Direct Loans, regardless of when the loans were obtained (the original PAYE plan is available only to borrowers who took out loans after 2007).

Under REPAYE, monthly student lo an payments are capped at 10% of a borrower's discretionary income, with any remaining debt forgiven after 20 years of on-time payments for undergraduate loans and 25 years of on-time payments for graduate loans. To learn more about REPAYE or income-driven repayment options in general, visit the federal student aid website at **studentaid.gov**.

Tools for students

The Department of Education and the Consumer Financial Protection Bureau have launched the "Know Before You Owe" campaign, which includes a standard financial aid award letter for colleges to use so that students can better understand the type and amount of aid they qualify for and more easily compare aid packages from different colleges. In addition, to help students search for and select suitable colleges, the Department has launched its College Scorecard online

Sources

1 College Board, Trends in College Pricing 2015

2 The Institute for College Access and Success, Student Debt and the Class of 2014, October 2015

3 Federal Reserve Bank of New York, Quarterly Report on Houshold Debt and Credit, November 2015

Can you separate college financial aid myths from facts?

How knowledgeable are you about college financial aid? See if you know whether these financial aid statements are myth or fact.

1. Family income is the main factor that determines eligibility for aid. **Answer: Fact.** While it's true that family income is the main factor that determines how much financial aid your child might receive, it's not the only factor. Number of children you'll have in college at the same time is also a factor. Other factors include your family size, assets, and age of the older parent.

2. If my child gets accepted at a more expensive college, we'll get more aid. **Answer: Myth.** The government calculates your expected family contribution (EFC) based on the income and asset information you provide in its aid application (FAFSA.)Your EFC stays the same, no matter what college your child is accepted to. The cost of a particular college minus your EFC equals your child's financial need, which varies by college. A greater financial need doesn't automatically translate into more financial aid, though the more competitive colleges will try to meet all or most of it.

3. I plan to stop contributing to my 401(k) plan while my child is in college because colleges will expect me to borrow from it. **Answer: Myth.** The government and colleges do not count the value of retirement accounts when determining how much aid your child might be eligible for, and they don't factor in any borrowing against these accounts.

4. I wish I could estimate the financial aid my child might receive at a particular college ahead of time, but I'll have to wait until she applies. **Answer: Myth.** Every college has a college-specific net price calculator on its website that you can use to enter your family's financial information before your child applies. It will provide an estimate of how much aid your child is likely to receive at that college.

***5. Ivy League schools don't offer merit scholarships*. Answer: Fact.** But don't limit your search to just these schools. Many schools offer merit scholarships and can provide your child with an excellent education.

What is the federal funds rate?

In December 2015, the Federal Open Market Committee (FOMC) raised the federal funds target rate to a range of 0.25% to 0.50%, thefirst shift from the rock-bottom 0% to 0.25% level where it had remained since December 2008.

The federal funds rate is the interest rate at which banks lend funds to each other from their deposits at the Federal Reserve, usually overnight, in order to meet reserve requirements. The Fed also raised a number of other rates related to funds moving between Federal Reserve banks and other banks. The Fed does not directly control consumer savings or credit rates, but the federal funds rate serves as a benchmark for many short-term rates, such as savings accounts, money market accounts, and short-term bonds.

The prime rate, which commercial banks charge their best customers, is typically about 3% above the federal funds rate. Other forms of business and consumer credit–such assmall-business loans, adjustable-rate mortgages, auto loans, and credit cards–are often directly linked to the prime rate. Actual rates can vary widely. Fixed-rate home mortgages and other long-term loans are generally not linked directly to the prime rate, but may be indirectly affected by it

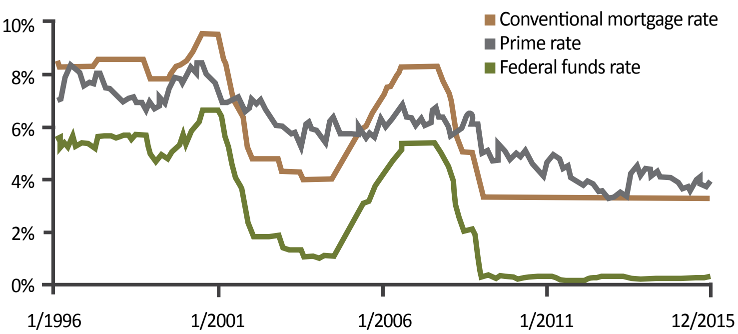
The FOMC expects economic conditions to "warrant only gradual increases" in the federal funds rate. Most Committee members projected a target range between 0.75% and 1.75% by the end of 2016, so you can probably expect a series of small increases this year. Although rising interest rates make it more expensive for consumers to borrow, higher rates could be good for retirees and savers who seek current income from bank accounts, CDs, bonds, and other fixed-interest investments.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Source: Federal Reserve, 2015

Tracking the Fed

Although the prime rate has been closely aligned to the federal funds rate over the past 20 years, rates on conventional 30-year fixed mortgages have followed a more independent trajectory, generally trending downward over the period.



Source: Federal Reserve, 2016

SHOULD I LOAN MY CHILD MONEY FOR A DOWN PAYMENT ON A HOUSE?

For a lot of young people today, it's difficult to purchase a home without at least some financial assistance. As a result, many young adults turn to their parents or other family members for help with a down payment.

If you plan on lending your child money for a down payment on a house, you should try to assume the role of a commercial lender. Setting the terms of the loan in writing will demonstrate to your child that you take both your responsibility as lender and your child's responsibility as borrower seriously.

While having an actual loan contract may seem too businesslike to some parents, doing so can help set expectations between you and your child. The loan contract should spell out the exact loan amount, the interest rate and a repayment schedule. To avoid the uncomfortable situation of having to remind your child that a payment is due, consider asking him or her to set up automatic monthly transfers from his or her bank account to yours.

This type of loan documentation is also important for IRS purposes because there may be potential income and gift tax issues with these types of loans. For example, interest paid by your child will be considered taxable income, and if adequate interest is not charged for the loan, special imputed interest rules may apply.

If you don't feel comfortable lending your child money, you may want to consider making a smaller, no-strings-attached gift that doesn't have to be repaid. Currently, you can gift up to $14,000 annually per person under the gift tax exclusion. However, if you do gift money for a down payment, your child's lender may still require him or her to put up some of his or her own money, depending on the type of mortgage chosen.

Keep in mind that lending money to family members can be a tricky proposition. Before entering into this type of financial arrangement, you should take the time to carefully weigh both the financial and emotional costs.

Cost of Living: Where You Live Can Affect How Rich You Feel

Do you find yourself treading water financially even with a relatively healthy household income?

Even with your new higher-paying job and your spouse's promotion, do you still find it difficult to get ahead, despite carefully counting your pennies? Does your friend or relative halfway across the country have a better quality of life on less income? If so, the cost of living might be to blame. The cost of living refers to the cost of various items necessary in everyday life. It includes things like housing, transportation, food, utilities, health care, and taxes.

Single or family of six?

Singles, couples, and families typically have many of the same expenses–for example, everyone needs shelter, food, and clothing–but families with children typically pay more in each category and have the added expenses of child care and college. The Economic Policy Institute (epi.org) has a family budget calculator that lets you enter your household size (up to two adults and four children) along with your zip code to see how much you would need to earn to have an "adequate but modest" standard of living in that geographic area.

What areas have the highest cost of living? It's no secret that the East and West Coasts have some of the highest costs. According to the Council for Community and Economic Research, the 10 most expensive U.S. urban areas to live in Q3 2015 were:

RANK	LOCATION
1	New York, New York
2	Honolulu, Hawaii
3	San Francisco, California
4	Brooklyn, New York
5	Orange County, California
6	Oakland, California
7	Metro Washington D.C./Virginia
8	San Diego, California
9	Hilo, Hawaii
10	Stamford, Connecticut

Americans on the Move

Americans are picking up and moving again as the recession fades, personal finances improve, and housing markets recover. Counties in Florida, Nevada, and Arizona had larger influxes of peopple, while some counties in Illinois, Virginia, New York, and California saw more people moving out. (Source: The Pew Charitable Trusts, Americans Are on the Move – Again, June 25, 2015, www.pewtrusts.org)

Factors that influence the cost of living

Let's look in more detail at some of the common factors that make up the cost of living.

Housing. When an area is described as having "a high cost of living," it usually means housing costs. Looking to relocate to Silicon Valley from the Midwest? You better hope for a big raise; the mortgage you're paying now on yourmodest three-bedroom home might get you a walk-in closet in this technology hub, where prices last spring climbed to a record-high$905,000 in Santa Clara County, $1,194,500 in San Mateo County, and $690,000 in Alameda County. (Source: San Jose Mercury News, Silicon Valley Home Prices Hit Record Highs, Again, May 21, 2015)

Related to housing affordability is student loan debt. Student debt–both for young adults and those in their 30s, 40s, and 50s who either took out their own loans, or co-signed or borrowed on behalf of their children–is increasingly affecting housing choices and living situations. For some borrowers, monthly student loan payments can approximate a second mortgage.

Transportation. Do you have access to reliable public transportation or do you need a car? Younger adults often favor public transportation and supplement with ride-sharing services like Uber, Lyft, and Zipcar. But for others, a car (or two or three), along with the cost of gas and maintenance, is a necessity. How far is your work commute? Do you drive 100 miles round trip each day or do you telecommute? Having to buy a new (or used) car every few years can significantly impact your bottom line.

Utilities. The cost of utilities can vary by location, weather, usage, and infrastructure. For example, residents of colder climates might find it more expensive to heat their homes in the winter than residents of warmer climates do cooling their homes in the summer.

Taxes. Your tax bite will vary–by state. Seven states have no income tax–Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, property taxes and sales taxes can vary significantly by state and even by county, and states have different rules for taxing Social Security and pension income.

Miscellaneous. If you have children, other things that can affect your bottom line are the costs of child care, extracurricular activities, and tuition at your flagship state university.

To move or not to move

Remember The Clash song "Should I Stay or Should I Go?" Well, there's no question your money will go further in some places than in others. If you're thinking of moving to a new location, cost-of-living information can make your decision more grounded in financial reality.

There are several online cost-of-living calculators that let you compare your current location to a new location. The U.S. State Department has compiled a list of resources on its website at state.gov.

SAMALIN

INVESTMENT COUNSEL

Westchester
297 King Street
Chappaqua, NY 10514

New York City
One Grand Central Place
Suite 4600
New York, NY 10165

6th Annual Crown House Memorial Day Celebration

On May 30th, The Crown House (SICounsel's main location at 297 King Street, in Chappaqua, NY) will host its 6th Annual Memorial Day Celebration. In honor of our fallen American heroes, the Chappaqua Memorial Day Parade marches down King Street, and includes veterans, revolutionary war re-enactors, local and national politicians, area fire and rescue organizations, and local high school bands. As word has spread, attendance has grown steadily with friends and families enjoying live music, patriotic face painting, Maurice's Magic Show, food, refreshments, and prime seating along the parade route. So mark your calendars and bring the family. Food and entertainment start at 9:00am and the parade comes through around 10:00 am. ***See you there!***