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Happy New Year!
We hope you had a great Christmas and holiday season and a Happy New Year. With 2014 ahead of us, we have a brand new year filled with new joys and challenges.
We have finally moved into our new building and are excited to be here. We have received a lot of great feedback, but come see for yourself at our open house .
We are having a **client open house on Wednesday January 8th** from 4 pm to 6 pm. Stop in on your way home from work and see our new home! Jim and Kathy will also be opening up the second floor living space as well for tours which won't normally be available. Also, "Shredding on Site" will be here from 4 - 5 for a "shredding party" during the open house if you have anything that you want to bring and shred in their industrial shredder.
Enjoy this month's articles!
Jim, Ken, Megan, Sharon, & Susie

January 2014 Financial Fitness

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Financial Fitness

Duncklee & Nott Monthly Newsletter

It's December 31. Do You Know Where Your Money Is?

December and January are the perfect months to look back at what you earned, saved, and spent during the past year, as W-2s, account statements, and other year-end financial summaries roll in. So before Punxsutawney Phil comes out of his burrow to predict when spring is coming, take some time to get your financial house in order.

How much have you saved?

Whether you simply resolved last year to save more or you set a specific financial goal (for example, saving 15% of your income for retirement), it's time to find out how you did. Start by taking a look at your account balances. How much did you save for college or retirement? Were you able to increase your emergency fund? If you were saving for a large purchase, did you save as much as you expected? Challenge yourself in the new year to save a little bit more so that you can make steady financial progress.

How did your investments perform?

Review any investment statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relationship to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions?

Did you reduce debt?

Tracking your spending is just as important as tracking your savings, but it's hard to do when you're caught up in an endless cycle of paying down your debt and then borrowing more money, over and over again. Fortunately, end of year mortgage statements, credit card statements, and vehicle financing statements will all spell out the amount of debt you still owe and how much you've really been able to pay off. You may even find that you're making more progress than you think. Keep these statements so that you have an easy way to track your progress next year.

Where did your employment taxes go?

If you're covered by Social Security, the W-2 you receive from your employer by the end of January will show how much you paid into the Social Security system via payroll taxes collected. If you're self-employed, you report and pay these taxes (called self-employment taxes) yourself. These taxes help fund future Social Security benefits, but many people have no idea what they can expect to receive from Social Security in the future. This year, get in the habit of checking your Social Security statement annually to find out how much you've been contributing to the Social Security system and what future benefits you might expect, based on current law. To access your statement, sign up for a *my* SocialSecurity account at the Social Security Administration's website, www.socialsecurity.gov.

Has your financial outlook changed during the past year?

Once you've reviewed your account balances and financial statements, your next step is to look at your whole financial picture. Taking into account your income, your savings and investments, and your debt load, did your finances improve over the course of the year? If not, why not?

Then it's time to think about the changes you would like to make for next year. Start by considering the following questions:

- What are your greatest financial concerns?
- Do you need help or advice in certain areas?
- Are your financial goals the same as they were last year?
- Do you need to revise your budget now that you've reviewed what you've earned, saved, and spent?

Using what you've learned about your finances--good and bad--to set your course for next year can help you ensure that your financial position in the new year is stronger than ever.

Think Outside the Shoe Box When Organizing Financial Records

If you have questions about how long to keep copies of your federal tax returns and related records, see IRS Publication 17, Your Federal Income Tax. And because states may have different rules, check with your state's tax authority to find out how long to keep state tax returns and records.

If you've ever had trouble finding an important financial document, you know why it's necessary to keep your financial records organized. Less clutter means less stress, and though you'll need to commit a bit of time up front to organize your files, you can save time and money over the long term when you can find what you need when you need it.

What records do you need to keep?

If you keep paperwork because you "might need it someday," your files are likely overflowing with nonessential documents. One key to organizing your financial records is to ask yourself "Why do I need to keep this?" Documents that you should retain are likely to be those that are related to tax returns, legal contracts, insurance claims, and proof of identity. On the other hand, documents that you can easily duplicate elsewhere are good candidates for the shredder. For example, if you bank online and can view or print copies of your monthly statements and cleared checks, you may not need paper copies of the same information.

How long should you keep them?

A good rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. If a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely.

Records that you may want to keep for a year or less include:

- Bank or credit union statements
- Credit card statements
- Utility bills
- Annual insurance policies

Records that you may want to keep for more than a year include:

- Tax returns and supporting documentation
- Mortgage contracts and supporting documents
- Receipts for home improvements
- Property appraisals
- Annual retirement and investment statements
- Receipts for major purchases

Records that you may want to keep indefinitely include:

- Birth, death, and marriage certificates
- Adoption papers
- Citizenship papers
- Military discharge papers
- Social Security card

Of course, this list is not all-inclusive and these are just broad guidelines; you may have a good reason for keeping some records for a shorter or longer period of time.

Where should you keep them?

Where you should keep your records and documents depends on how easily you want to be able to access them, how long you plan to keep them, and how many records you have. A simple set of labeled folders in a file cabinet works fine for many people, but electronic storage is another option if space is tight.

For example, one easy way to cut down on clutter and still keep everything you need is to store some of your files on your computer. You can save copies of online documents or purchase a scanner that you can use to convert your documents to electronic form. But make sure you keep backup copies on a portable storage drive or hard drive, and make sure that your files are secure.

Another option to consider is cloud storage. Despite its lofty name, cloud storage is simply an online backup service that allows you to upload and store your files over the Internet, giving you easy access to information without the clutter. Information you upload is encrypted for security. If you're interested, look for a company with a reliable reputation that offers automatic backup and good technical support, at a reasonable subscription cost.

Staying organized

Keeping your financial records in order can be even more challenging than organizing them in the first place. One easy way to prevent paperwork from piling up is to remember the phrase "out with the old, in with the new." For example, when you get this year's auto policy, discard last year's. When you get an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful).

But don't just throw your financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder that will destroy any document that contains account numbers, Social Security numbers, or other personal information.

Whatever system you choose, keep it simple. You'll be much more likely to keep your records organized if your system is easy to follow.

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What's in Store for Health-Care Reform in 2014

Increase in small business tax credit

The maximum tax credit available to qualifying small employers (no more than 25 full-time equivalent employees) that offer health insurance to their employees increases to 50% of the qualifying employer's premium costs (35% for tax-exempt employers) on January 1, 2014. This is an increase from the maximum credit of 35% (25% for tax-exempt employers) that began in 2010.

While the Affordable Care Act (ACA) became law in 2010, several of the more substantive provisions of the law don't take effect until 2014. Here's a review of some of the key parts of the ACA that are scheduled to begin in 2014.

Individual mandate

The ACA imposes a shared responsibility mandate, which requires that most U.S. citizens and legal residents of all ages (including children and dependents) have minimum essential health coverage or pay a penalty tax, unless otherwise exempt. The monthly penalty is equal to the greater of a declared dollar amount ($95 in 2014) or a percentage of the individual's gross income.

Note: *The employer's mandate to provide coverage for employees was also scheduled to begin in 2014; however, the requirement will not be enforced until January 2015.*

State Exchanges

The ACA requires that each state establish state-based American Health Benefit Exchanges for individuals and Small Business Health Options Program (SHOP) Exchanges for small employers. The Department of Health and Human Services will establish Exchanges in states that do not create the Exchanges. The general purpose of these Exchanges is to provide a single resource in each state for consumers and small businesses to compare health plans, get answers to questions, and enroll in a health plan that is both cost effective and meets their health-care needs.

Exchanges may only offer qualified health plans that cover essential benefits, limit out-of-pocket costs, and provide coverage based on four levels of cost sharing--bronze, silver, gold, and platinum. Also, tax credits and cost-sharing subsidies will be available to U.S. citizens and legal immigrants who buy health insurance through the health Exchanges.

Insurers must provide guaranteed issue and renewability of coverage

All individual and group plans must issue insurance to all applicants regardless of health status, medical condition, or prior medical expenses. Insurers must renew coverage for applicants even if their health status has changed. Grandfathered individual plans are exempt from these requirements. Grandfathered plans are those that were in existence prior to the enactment of the ACA (March 2010) and have not been significantly altered in subsequent years.

In the past, insurers used pre-existing medical condition provisions to deny coverage for care related to the condition (pre-existing condition policy exclusion), increased the premium to cover the condition, or denied coverage altogether. Beginning January 1, 2014, the ACA prohibits insurers in group markets and individual markets (with the exception of grandfathered individual plans) from imposing pre-existing condition exclusions.

In keeping with the guaranteed availability of coverage, insurers may not charge individuals and small employers higher premiums based on health status or gender. Premiums may vary only based on family size, geography, age, and tobacco use.

Essential health benefits

All nongrandfathered small group and individual health plans must offer a package of essential health benefits from 10 benefit categories. The categories include ambulatory patient services, emergency services, hospitalization, laboratory services, maternity and newborn care, mental health and substance abuse treatment, prescription drugs, rehabilitative services and devices, preventive and wellness services, and pediatric services, including dental and vision.

Other policy provisions

The ACA also imposes several requirements and eliminates other provisions commonly found in insurance policies:

- Group and individual policies (including grandfathered plans) may not impose waiting periods longer than 90 days before coverage becomes effective.
- Annual deductible for small group (fewer than 50 full-time equivalent employees) health plans (excluding grandfathered plans) must not exceed $2,000 per insured and $4,000 per family. These amounts are indexed to increase in subsequent years.
- The most you'll pay annually for out-of-pocket expenses (deductibles, coinsurance, and co-pays) for all individual and group health plans (excluding grandfathered plans) cannot exceed the maximum out-of-pocket limits for health savings accounts ($6,350 for individual/$12,700 for family in 2014).
- All group health plans and nongrandfathered individual health plans can no longer impose annual or lifetime dollar limits on essential health benefits.

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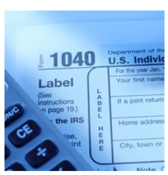
Is there anything I can do to lower my auto insurance bill?

Yes. Insurance companies base auto insurance rates on a variety of criteria, such as your age, driving record, residence, and even the type of car that you drive (though factors vary from state to state). If you find that you're paying more than you think you should for auto insurance, there are ways you can lower your premiums.

- **Shop around:** Auto insurance rates vary from company to company, sometimes significantly. As a result, a good way to save money is to look into whether another insurer offers the same coverage at a lower rate.
- **Consider raising your deductible:** For the most part, the higher your deductible, the lower your premiums. Before you raise your deductible, though, you'll want to be sure you can cover the out-of-pocket expense should an accident occur.
- **Eliminate unnecessary coverages:** For example, if you have an older car, it may make sense to drop your collision and comprehensive coverage since a claim paid by your insurance company may be minimal and might not exceed what you'd pay in premiums and deductibles. Or, maybe you are paying your insurer for roadside assistance coverage that you already have through a separate road and travel club membership.
- **Consider changing the type of car you drive:** The type of car that you drive directly impacts what you pay for insurance. Typically, newer, higher-priced cars and sport/high-performance vehicles cost more to insure than used/lower-end models.
- **Check for discounts with your insurer:** Depending on your circumstances, you may be eligible for one or more auto insurance discounts. For example, your insurer might provide discounts to those with a safe driving record or to those who insure more than one car with them.

One final note: don't be tempted to save money on your auto insurance by lowering your liability coverage limits (although state minimums do apply). Having less than adequate amounts of liability coverage can expose you personally to claims for other people's losses--which in the case of a serious accident, can be significant.



Is my child's college scholarship taxable?

It depends. If a scholarship is used to pay for tuition, fees, books, supplies, or equipment required for admission, then it's not taxable. But if it's used to cover incidental expenses like room and board, travel, or optional equipment, or if it's awarded as payment for teaching or research, then it's taxable. Generally, if a scholarship is taxable and needs to be reported on your tax return, you will include the amount on the same line as "Wages, salaries, tips, etc."

Fortunately, most scholarships let the recipient decide how to apply the money. However, there's one thing to consider here: if you use a scholarship to cover tuition, fees, books, or required equipment--making the scholarship tax free--you can't use those same expenses to qualify for the American Opportunity tax credit. That's because the credit applies only to tuition and fees paid with after-tax funds--tuition and fees paid with tax-free funds like scholarships or 529 plan funds won't count.

The American Opportunity tax credit--available for each of the first four years of a student's college education--is worth up to $2,500 per year and is calculated as 100% of the first $2,000 in tuition and fees plus 25% of the next $2,000 in tuition and fees. Your modified adjusted gross income must be below a certain level to get the full credit: $160,000 for married couples filing jointly and $80,000 for single filers.

If your child gets a scholarship and you qualify for the credit, you'll want to run some numbers to decide whether it's best to:

- Apply the scholarship to tuition and fees, making it tax free, but also disqualifying those same tuition and fees from counting toward the credit, or
- Apply the scholarship to incidental college expenses like room and board, making it taxable, but allowing the full amount of tuition and fees to count toward the credit.

In making this determination, keep in mind that a tax credit is generally more valuable than a tax deduction because a tax credit reduces any taxes owed dollar for dollar.

For more information on the tax treatment of scholarships and the American Opportunity tax credit, refer to IRS Publication 970, Tax Benefits for Education.

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