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Hi friends and clients!
As the market continues to work itself out from the correction in August, we would like to note that we have had a good run since 2008 with fairly limited volatility. Historically, there has been a 10% market correction an average of about once per year. We hadn't had one since 2011. Additionally, on average, there is a 20% correction every three years; we haven't seen one since 2008. We feel the current correction is "normal" and to be expected. As usual, riding out (and ignoring) the market dip is the best prescription. Please feel free to call or e-mail if you do have any questions.
Enjoy this month's articles!

Jim, Ken, Megan, Sharon, & Susie

October 2015 Financial Fitness

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Financial Fitness

Duncklee & Nott Monthly Newsletter

Six Common 401(k) Plan Misconceptions

Do you really know as much as you think you do about your 401(k) plan? Let's find out.

1. If I leave my job, my entire 401(k) account is mine to keep.

This may or may not be true, depending on your plan's "vesting schedule." Your own contributions to the plan--that is, your pretax or Roth contributions--are always yours to keep. While some plans provide that employer contributions are also fully vested (i.e., owned by you) immediately, other plans may require that you have up to six years of service before you're entitled to all of your employer contributions (or you've reached your plan's normal retirement age). Your 401(k)'s summary plan description will have details about your plan's vesting schedule.

2. Borrowing from my 401(k) plan is a bad idea because I pay income tax twice on the amount I borrow.

The argument is that you repay a 401(k) plan loan with dollars that have already been taxed, and you pay taxes on those dollars again when you receive a distribution from the plan. Though you might be repaying the loan with after-tax dollars, this would be true with any type of loan.

And while it's also true that the amount you borrow will be taxed when distributed from the plan (special rules apply to loans from Roth accounts), those amounts would be taxed regardless of whether you borrowed money from the plan or not. So the bottom line is that, economically, you're no worse off borrowing from your plan than you are borrowing from another source (plus, the interest you pay on a plan loan generally goes back into your account). But keep in mind that borrowing from your plan reduces your account balance, which may slow the growth of your retirement nest egg.

3. Because I make only Roth contributions to my 401(k) plan, my employer's matching contributions are also Roth contributions.

Employer 401(k) matching contributions are always pretax--whether they match your pretax or Roth contributions. That is, those matching contributions, and any associated earnings, will always be subject to income tax when you receive them from the plan. You can, however, convert your employer's matching contributions to Roth contributions if your plan allows. If you do, they'll be subject to income tax in the year of the conversion, but future qualified distributions of those amounts (and any earnings) will be tax free.

4. I contribute to my 401(k) plan at work, so I can't contribute to an IRA.

Your contributions to a 401(k) plan have no effect on your ability to *contribute* to a traditional or Roth IRA. However, your (or your spouse's) participation in a 401(k) plan may adversely impact your ability to *deduct* contributions to a traditional IRA, depending on your joint income.

5. I have two jobs, both with 401(k)s. I can defer up to $18,000 to each plan.

Unfortunately, this is not the case. You can defer a maximum of $18,000 in 2015, plus catch-up contributions if you're eligible, to all your employer plans (this includes 401(k)s, 403(b)s, SARSEPs, and SIMPLE plans). If you contribute to more than one plan, you're generally responsible for making sure you don't exceed these limits. Note that 457(b) plans are not included in this list. If you're lucky enough to participate in a 401(k) plan and a 457(b) plan you may be able to defer up to $36,000 (a maximum of $18,000 to each plan) in 2015, plus catch-up contributions.

6. I'm moving to a state with no income tax. I've heard my former state can still tax my 401(k) benefits when I retire.

While this was true many years ago, it's no longer the case. States are now prohibited from taxing 401(k) (and most other) retirement benefits paid to nonresidents. As a result, only the state in which you reside (or are domiciled) can tax those benefits. In general, your residence is the place where you actually live. Your domicile is your permanent legal residence; even if you don't currently live there, you have an intent to return and remain there.

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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Same-Sex Couples: When You Marry, Who Should Be Notified?

If you change your name

The exact process and timeline for changing your name may vary by state or transaction type, but generally it's a good idea to complete your name change as soon as possible. To avoid delays, obtain official copies of your marriage certificate and a reissued copy of your Social Security card showing your new name. Here's a short list of who you may need to contact to update your name:

- *State department or registry of motor vehicles*
- *Utility and phone companies*
- *Post office*
- *Passport office*
- *Physician's office*
- *Local voter's registration office*
- *Social media companies*
- *Professional membership organizations and schools*

The day has come--you're finally getting married. Now that your life is changing, you'll need to let others know. Although this is not an exhaustive list, here are some of the people and institutions you may need to notify.

Your employer

When you marry, you'll want to contact your employer's human resource department in order to re-evaluate the benefits that are available to you. For example, you may want to enroll your spouse in your health and dental plans, or cancel your own coverage if you opt for coverage under your spouse's plan.

Normally you can make benefit changes only during your employer's annual open enrollment period, but under IRS guidelines there's an exception for certain qualifying events, including marriage. However, you have a limited window (30 days) to make eligible changes. If you don't make these changes within this period, you'll need to wait until the next open enrollment season.

Your company's human resource representative can give you information about other information you'll need to update. For example, you may need to update contact information and beneficiary designations for your life insurance, accident insurance, retirement plan, and other benefits. You may also need to report any name and address changes.

You might also take a second look at your federal and state income tax withholding. If you and your spouse both work, you may end up in a higher tax bracket based on your combined income. Make any necessary adjustments by completing updated tax forms, such as a new Form W-4. For more information about withholding and other tax issues, visit www.irs.gov. You may want to talk to a tax professional for help with your particular situation.

Finally, review retirement plan contributions. If both you and your spouse are contributing to retirement plans, you may want to plan jointly, even though you're contributing separately. For example, you might adjust your contribution rate or change your investment mix.

The Social Security Administration

If you decide to legally change your name, you'll need to contact the Social Security Administration (SSA) so you can get a corrected Social Security card. Your Social Security number will remain the same; only your name will change. You'll need to provide recent documentation, such as a copy of your marriage certificate. Notifying the SSA as soon as possible is important to help prevent problems later on. For example, if you file a joint tax return, the IRS will have trouble processing your return if the name shown on your tax return doesn't match your SSA records, and this could delay an expected refund.

The SSA can answer any questions you have about current or future benefits you may be entitled to as a married individual. For more information, visit www.ssa.gov.

Your insurance company

If you have disability or life insurance policies, you'll want to determine whether your existing coverage is adequate. While life insurance helps ensure that your family is financially provided for at your death, disability insurance provides your family with income if you're unable to work as a result of a serious illness or injury. Contact your insurance professional to discuss how marriage affects your insurance needs. You should also review your auto and homeowners coverage. For example, you may want to combine your individual policies with one company or change your coverage limits.

Your attorney

Your attorney can help you update your estate planning documents such as a will, trusts, powers of attorney, and living wills. If you have children, you may need to discuss other issues, such as guardianship and adoption.

Financial institutions

You and your spouse will have to decide whether to combine your bank and credit union accounts or keep them separate. Maintaining a joint account does have advantages, such as easier record keeping and potentially lower overall maintenance fees. However, it's sometimes more difficult to keep track of how much money is in a joint account when two individuals have access to it, and your spending styles may be different. If you decide to open a joint account or want to add your spouse to an existing account, contact an account representative who can tell you what paperwork you'll need to fill out and what documentation is required.

If you're legally changing your name, don't forget to ask about the process for updating your account information. For example, you may need to bring in a new photo ID, along with a copy of your marriage certificate, and fill out a new signature card. You may also need to obtain a new debit card and credit card.

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My employer now offers wellness benefits as part of its employee benefits package. But what are they?

It's no surprise that your company has started offering wellness benefits, since many employers are already offering these types of programs as part of an overall employee benefits package. According to the Society for Human Resource Management (SHRM), in 2015, 80% of organizations provided wellness resources and information, and 70% of organizations offered some type of wellness program to their employees. (Source: 2015 Employee Benefits, Society for Human Resource Management, 2015)

When it comes to running a business, wellness benefits are definitely a win-win for most employers. Not only do they potentially reduce health-care costs by promoting healthier living, but they may also boost employee productivity and morale. The types of wellness programs vary among employers, but they typically cover a variety of healthy living issues, such as:

- Smoking cessation
- Exercise/physical fitness
- Weight loss
- Nutritional education
- Health screenings

More recent additions to the wellness benefits arena include fitness/activity tracking, credit for registering and participating in marathons/races, and company-sponsored seasonal weight-loss challenges.

For employees, wellness benefits not only can help them adopt and live a healthier lifestyle, but can also provide them with financial benefits. Currently, employers that offer wellness programs are allowed to offer incentives to employees of up to 30% of the cost of their health-care premium (up to 50% for smoking cessation). These incentives are usually in the form of premium discounts and/or cash rewards.

It's important to note that with certain types of wellness incentives, such as cash bonuses or gift certificates, the value of the reward may be treated as taxable wages. As a result, it may be subject to payroll taxes.