IN THIS ISSUE

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Money at work

When does retirement planning end?

Once you finally reach retirement, you may take a deep sigh of relief. However, because the average person retiring at age 65 can expect to live about an additional 20 years—or even longer—retirement planning cannot end when you are no longer working. This becomes even more critical if you decide to opt for an early retirement.

To help provide some financial security during your retirement years, review the main aspects of the following three key areas:

1. Investments: Naturally, retirees tend to invest rather conservatively. Of course, some degree of caution is advisable for your retirement years. But an overreliance on fixed income investments may backfire due to continued inflation and a longer life span. As a result, the nest egg you have built up might not be enough to sustain your chosen lifestyle.

Caveat: Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. Consider all the relevant factors and seek professional assistance.

2. Insurance policies: During retirement, be sure to review your insurance policies to determine what type of coverage (if any) you require and the amount. For instance, your health care insurance needs may change as you get older, especially when you consider the rising cost of health care. If you are receiving some form of health care insurance coverage from a former employer, make sure you (and your spouse, if you are married) have adequate coverage.

Although you may be entitled to Medicare coverage in retirement, the benefits under this government program may not be sufficient. And, of course, the laws in this area might change in the future.

Similarly, you may want to review your life insurance and disability income insurance policies after you have retired. Coordinate these issues with other parts of your estate plan.

3. Wills and trusts: The will you made out years ago may no longer meet the needs of your family. Throughout your retirement, take the time to review your will. The same principle holds true for any trust arrangements you may have established. For example, your will may need to be revised in light of changes in the estate-tax laws. In addition, you should consider whether you want to make lifetime gifts to reduce the size of your taxable estate. Finally, you may want to review the beneficiaries named in your will, especially if your personal circumstances have changed.

Although retirement is meant to be relaxing, you must keep a close watch on these three key areas. In other words, the answer to the question of when retirement planning finally ends is "practically never." ❖

Is your estate-plan letter perfect?

A will is an essential part of a comprehensive plan. But a will won't do much good if it cannot be found or if the terms are confusing. To avoid potential family squabbles, you may want to draft a "letter of instructions" to accompany the will.

This is an informal letter giving your heirs information concerning estate matters. It does not carry the same legal weight as a will, it is important nonetheless. For instance, the letter may specify requests that should be carried out upon death. Copies of the letter should be attached to the original will. In addition, keep another copy in an accessible location known to family members, so it will be easy to find I times of emotional distress.

What should be included? A letter of instructions may cover a variety of issues, but here are four key areas to focus on:

1. Explanation of assets: The letter may provide a detailed inventory of assets, especially those likely to be overlooked when the estate is settled. This can include checking and savings accounts (with records of passbooks and their locations); safe-deposit boxes and their contents; business insurance and accident insurance; retirement plans; Social Security and VA benefits; stocks, bonds and other investments (including the names of brokers and account numbers); information on real estate holdings; and mortgages and mortgage insurance as well as life insurance policies. Include the insurance company's name, your policy number, the name of the agent handling the policy and any relevant papers.

2. Location of documents: Besides those assets already accounted for, you should also list all your important personal and financial papers. This may prove helpful in settling your affairs. For example, you should disclose the whereabouts of your past federal and state tax returns and the records required for this year's returns. Don't forget to list all debts, credit cards and other accounts that may need to be paid off, canceled or transferred to your spouse's name.

3. Miscellaneous instructions: Other items of a personal nature may be included in a letter of instructions. These items may include funeral, burial or cremation arrangements; fees that have been paid and cemetery plots selected; names, addresses and telephone numbers of people and organizations to be notified upon death; and other specific instructions for handling personal affairs.

4. Other personal information: You may want to state personal preferences and desires in the letter (e.g., your wishes concerning the education of your children). Finally, you may explain the amounts that the heirs can expect to receive as inheritances and the reasons for the distributions.

Remember that a letter of instructions is not a legally binding document. As a result, it should not be viewed as a replacement for a will, but it can still provide valuable guidance to the family. ❖

Five year-end moves for securities investors

AS WE HEAD INTO THE HOME STRETCH OF ANOTHER YEAR, CONSIDER THE TAX RAMIFICATIONS OF SECURITIES TRANSACTIONS. NOTABLY, THE MOVES YOU MAKE AT THE END OF THE YEAR—OR FAIL TO MAKE—COULD BE WORTH THOUSANDS OF TAX DOLLARS. HERE ARE FIVE POPULAR STRATEGIES.

1. Harvest capital losses.

The losses you realize from securities sales at the end of the year can offset capital gains from earlier in the year plus up to $3,000 of highly taxed ordinary income. Any excess is carried over to next year. This traditional strategy is especially beneficial if the losses are used to offset short-term capital gains that would otherwise be taxed at ordinary income rates.

2. Maximize capital gain benefits.

Conversely, if you are showing capital losses from earlier in the year, capital gains realized at year-end are effectively tax-free up to the amount of the losses. Any excess gains are taxed at favorable capital gains rates. For long-term capital gains on securities held longer than a year, the rate is 15%, or 20% for someone in the top ordinary income tax bracket (0% for those in the two lowest brackets.)

3. Realize tax breaks for dividends.

As with long-term capital gains, dividends are generally taxed at favorable tax rates. For instance, the tax rate for qualified dividends from U.S. companies is 15%, or 20% for someone in the top ordinary income tax bracket (0% for those in the two lowest brackets), similar to long-term capital gains. To qualify for the tax breaks, you must hold the securities for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date (i.e., the date dividends are declared.)

4. Minimize the NII tax.

Under a special tax law provision, a 3.8% tax applies to the lesser of net investment income (NII) or the amount that your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII includes most income items such as interest and dividends, capital gains, and gains from investments in passive activities. It does not include distributions from qualified plans and IRAs, but those increase MAGI. Plan your securities transactions accordingly to reduce or eliminate the NII tax.

5. Avoid the wash sale rule.

The wash sale rule prevents you from claiming a current loss on a securities sale if you acquire substantially identical securities within 30 days of the sale. Instead, the amount of the disallowed loss is added to your basis in the new securities. One popular year-end strategy is to wait at least 31 days before you buy back the same or similar securities you want to include in your portfolio. Alternatively, you might buy the securities you want and then wait at least 31 days to sell the original shares at a loss. ❖

Filling out the FAFSA: not child's play

To cope with the ever-escalating cost of sending children to college, you may apply for need-based aid from the federal government. However, to see if you qualify, you must have your child file the FAFSA, or Free Application for Federal Student Aid.

Despite the grim prognosis for many families, especially those where the parents have high incomes or other significant revenue streams, you may be pleasantly surprised by the results. But don't delay. Under a recent change, the FAFSA may be filed as soon as October 1, 2016, for the 2017—2018 year. (Previously, it was there months later, on January 1.) And, because awards are often made on a first-come, first-served basis, the sooner the form is filled out and filed, the better.

Rest assured, the FAFSA is not a cakewalk. The form includes 10 pages, with more than 100 questions. (It will not raise any issues relating to religion, race, ethnicity, sexual orientation or disability.) Make sure you collect all the pertinent financial information—such as income and assets owned by the student and parents—before embarking on this endeavor.

What sort of income and assets are counted? Among other items, the FAFSA asks about the following:

- Wages, self-employment income, commissions and tips
- Rental income
- Capital gains and dividends
- Qualified plan and IRA distributions
- Alimony payments
- Interest and annuity income

On the other hand, the FAFSA reflects above-the-line deductions claimed on your tax return, but not itemized deductions. Therefore, residents of states with high income taxes do not receive any benefit from their state income taxes.
The answers provided on the FAFSA are used to compute the expected family contribution (EFC). As the name implies, this is the amount that the government figures the family can be expected to contribute to the student's college education. If your EFC is relatively low, your student stands a better chance of receiving financial aid.

Bear in mind that it is the prior year that counts as the "base year" for this purpose (e.g., the 2015 tax year for the 2017-2018 school year). If possible, try to keep income lower for this base year calculation. The government will give greater weight to the parents' income than it does to the child.

The FAFSA is sent to all the schools where your child applies for admission. Note that these schools may provide their own aid. In subsequent years, all your child has to do is complete and file an abbreviated FAFSA renewal form. A form typically does not have to be filed in the year your child graduates.

The FAFSA is available at www.fsa.ed.gov. This Web site provides some valuable guidance. If you need further assistance, don't hesitate to reach out to your professional advisors. ❖

New Fiduciary Rule to Debut

After years of debate, the Department of Labor has approved a controversial fiduciary rule for advisors to participants in retirement plans and IRAs. Under the final rule, firms providing investment advice must meet certain fiduciary standards, based primarily on acting in the best interests of clients. Essentially, the rule establishes a contractual duty between investors and advisors.

The final fiduciary rule does not take effect until April 10, 2107 (with certain transitional relief to January 1, 2018). Do not hesitate to ask questions about the changes. ❖

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ANY QUESTIONS?
PLEASE CONTACT US.
WE ARE GLAD TO SERVE YOU IN ANY WAY THAT WE CAN.