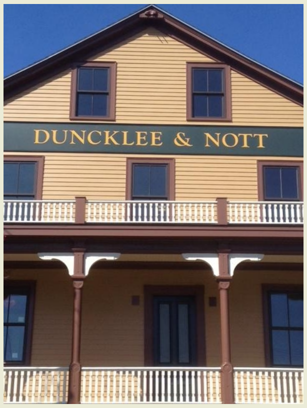

Duncklee & Nott
Kenneth Nott, CFP®, AIF®, CFS
19 Central Street
Hallowell, ME 04347
207-622-5222
877-582-2835
ken@dnretire.com
www.dnretire.com

Hi friends and clients!
August has certainly been an interesting month and we're glad to see it end (from a market standpoint). Hopefully we'll see things turn around soon. Remember, with any investing, there is potential for volatility, and it is important to keep your eye on the goal rather than the day-to-day movements.
It is back to school time and we want to wish good luck to all the teachers, students, college students, and the parents who helped get them there. We hope the 2015/2016 school year is a great one.
Enjoy this month's articles!

Jim, Ken, Megan, Sharon, & Susie

September 2015 Financial Fitness

Three Smart Moves for Young Adults
Taxes, Retirement, and Timing Social Security
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Financial Fitness

Duncklee & Nott Monthly Newsletter

Three Smart Moves for Young Adults

Your 20s is a time for exploration and new experiences, but also a time of emerging personal financial responsibility. And though times are certainly different now for young adults compared to 10 or 20 years ago (for example, more college students graduate with significant student loans and many return home to live with their parents), some advice never goes out of style.

1. Live within your means

It may sound boring when the world is finally at your fingertips, but living within your means, even *below* your means, is one of the best things you can do to create a solid financial foundation. Your "means" is the income you have coming in. Living within your means involves not spending more than you have. This can be difficult for young adults when temptation often lurks around every corner--technology gadgets, gym memberships, free shipping and instant streaming services, daily coffee and smoothie runs, new clothes, outings with friends, traveling...you get the idea.

The key is to distinguish between your needs and wants. You *need* food, but you *want* to try that new restaurant downtown, and the other one across town, and the one that just opened right near your apartment. If your wants are leaving you broke, you need to curtail them.

Everyone's income and expenses are different. At one end of the spectrum is someone living on her own paying 100% of rent and utilities, while at the other end is someone living at home with his parents and not paying any of those expenses. Analyze what you have coming in (income) each month and what you have going out (expenses), and keep track of where your money goes.

2. Save, save, save

Living within your means doesn't entail breaking even each month. It means making room for savings, too. If you have a job, sign up for direct deposit so your paycheck will be automatically funneled into your checking account. Then re-route some of that money on payday to a linked savings account. You'll start to build a savings fund, but you'll still have access to the money if you need it. Any savings method you can put on autopilot is ideal because it's one less thing you'll need to remember to do and one less dollar you'll miss or otherwise be tempted to spend.

Once you make it a habit to save regularly, you'll want to think ahead. Sure, retirement is a long way off. But when you start saving at a young age, you can benefit tremendously from compounding, which is when your dollars earn returns that are then reinvested back into your account, potentially earning returns themselves. Over time, the process can snowball.

For example, a 22-year-old who saves $200 per month and earns a 4% annual return will have $274,115 at age 65. By comparison, a 32-year-old who saves and earns the same amount will have $164,113 at age 65, and a 42-year-old will have $90,327. (Note that this is a hypothetical example of mathematical compounding and does not represent the performance of any specific investment; all investing involves risk, including the possibility of loss.)

3. Borrow wisely

Looking to buy a car or a condo, or attend graduate school? These things typically involve debt, and debt is not your friend. Before you sign on the dotted line for a major purchase, ask yourself whether you're overextending yourself, whether you're getting the best possible deal, and whether borrowing is the only way to achieve your goals.

If you have student loans, make sure you've explored all your repayment options. Federal (but not private) student loans are eligible for the government's Income-Based Repayment (IBR) plan, in which monthly payments are capped at 10% of your discretionary income (15% for loans made prior to July 1, 2014). If you don't qualify for IBR, you might benefit from another income-sensitive repayment option or loan consolidation.

Taxes, Retirement, and Timing Social Security

The advantages of tax deferral are often emphasized when it comes to saving for retirement. So it might seem like a good idea to hold off on taking taxable distributions from retirement plans for as long as possible. (Note: Required minimum distributions from non-Roth IRAs and qualified retirement plans must generally start at age 70½.) But sometimes it may make more sense to take taxable distributions from retirement plans in the early years of retirement while deferring the start of Social Security retirement benefits.

Some basics

Up to 50% of your Social Security benefits are taxable if your modified adjusted gross income (MAGI) plus one-half of your Social Security benefits falls within the following ranges: $32,000 to $44,000 for married filing jointly; and $25,000 to $34,000 for single, head of household, or married filing separately (if you've lived apart all year). Up to 85% of your Social Security benefits are taxable if your MAGI plus one-half of your Social Security benefits exceeds those ranges or if you are married filing separately and lived with your spouse at any time during the year. For this purpose, MAGI means adjusted gross income increased by certain items, such as tax-exempt interest, that are otherwise excluded or deducted from your income for regular income tax purposes.

Social Security retirement benefits are reduced if started prior to your full retirement age (FRA) and increased if started after your FRA (up to age 70). FRA ranges from 66 to 67, depending on your year of birth.

Distributions from non-Roth IRAs and qualified retirement plans are generally fully taxable unless nondeductible contributions have been made.

Accelerate income, defer Social Security

It can sometimes make sense to delay the start of Social Security benefits to a later age (up to age 70) and take taxable withdrawals from retirement accounts in the early years of retirement to make up for the delayed Social Security benefits.

If you delay the start of Social Security benefits, your monthly benefits will be higher. And because you've taken taxable distributions from your retirement plans in the early years of retirement, it's possible that your required minimum distributions will be smaller in the later years of retirement when you're also receiving more income from Social Security. And smaller taxable withdrawals will result in a lower MAGI, which could mean the amount of Social Security benefits subject to federal income tax is reduced.

Whether this strategy works to your advantage depends on a number of factors, including your income level, the size of the taxable withdrawals from your retirement savings plans, and how many years you ultimately receive Social Security retirement benefits.

Example

Mary, a single individual, wants to retire at age 62. She can receive Social Security retirement benefits of $18,000 per year starting at age 62 or $31,680 per year starting at age 70 (before cost-of-living adjustments). She has traditional IRA assets of $300,000 that will be fully taxable when distributed. She has other income that is taxable (disregarding Social Security benefits and the IRA) of $27,000 per year. Assume she can earn a 6% annual rate of return on her investments (compounded monthly) and that Social Security benefits receive annual 2.4% cost-of-living increases. Assume tax is calculated using the 2015 tax rates and brackets, personal exemption, and standard deduction.

Option 1. One option is for Mary to start taking Social Security benefits of $18,000 per year at age 62 and take monthly distributions from the IRA that total about $21,852 annually.

Option 2. Alternatively, Mary could delay Social Security benefits to age 70, when her benefits would start at $38,299 per year after cost-of-living increases. To make up for the Social Security benefits she's not receiving from ages 62 to 69, during each of those years she withdraws about $40,769 to $44,094 from the traditional IRA--an amount approximately equal to the lost Social Security benefits plus the amount that would have been withdrawn from the traditional IRA under the age 62 scenario (plus a little extra to make the after-tax incomes under the two scenarios closer for those years). When Social Security retirement benefits start at age 70, she reduces monthly distributions from the IRA to about $4,348 annually.

Mary's after-tax income in each scenario is approximately the same during the first 8 years. Starting at age 70, however, Mary's after-tax income is higher in the second scenario, and the total cumulative benefit increases significantly with the total number of years Social Security benefits are received.*

This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual rates of return and results will vary. The example assumes that earnings are taxed as ordinary income and does not reflect possible lower maximum tax rates on capital gains and dividends, as well as the tax treatment of investment losses, which would make the return more favorable. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison. Investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

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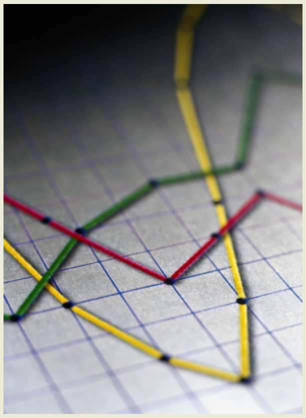
Three Tax Planning Concepts



An additional 3.8% net investment income tax may apply to some or all of your net investment income if your modified adjusted gross income exceeds certain thresholds. This tax does not apply to qualified plans and IRAs or to tax-free income.

Distributions from qualified plans and IRAs prior to age 59½ may be subject to a 10% penalty tax unless an exception applies. Nonqualified distributions from HSAs, ESAs, and 529 plans may also be subject to a penalty tax.

You might also consider the effect of state income tax.

There are many ways to potentially reduce your tax burden. Here are three tax planning concepts that you should be familiar with.

Tax deferral

When you defer taxes to later years, any earnings compound without being reduced by income taxes. As a result, your investment may grow at a faster rate than if earnings were subject to income tax each year. In some cases, such as with a qualified plan or a traditional IRA, tax deferral may be combined with an initial tax deduction or exclusion from income for contributions.

Tax deferral can be provided by tax-advantaged accounts that generally defer any taxation until distributions are made. Examples include qualified plans and IRAs, annuities, health savings accounts (HSAs), Coverdell education savings accounts (ESAs), and 529 plans. Taxation of capital gains is generally deferred until property is sold. Tax deferral may also be available through the use of strategies such as installment sales and like-kind exchanges.

Tax deferral can be the most beneficial when you defer tax until a time when your tax rate will be lower, or at least when it will be no higher. If your tax rate will be higher later, there may still be an advantage to tax deferral, but you'll need to run the numbers to determine whether the benefits of tax deferral might overcome the higher tax rate.

Example: *You make a nondeductible contribution of $5,000 to a traditional IRA. Assume you will be subject to a 28% income tax rate, both now and in the future. If you earn a 5% annual rate of return for 20 years, the $5,000 will grow to $13,266, with an after-tax value of $10,952. (If you made a deductible contribution of $5,000 to a traditional IRA and placed any tax savings from the deduction in a side fund, the after-tax value of the IRA plus the side fund after 20 years would generally be even greater.) If instead you simply saved $5,000 in an account that is taxable each year, the $5,000 would grow at a 3.6% after-tax rate to $10,095 in 20 years. This is $857 less than with the tax-deferral advantage of making a nondeductible contribution to a traditional IRA.**

Tax-free income

Interest income from municipal bonds can generally be received free of federal income tax. Qualified distributions from Roth IRAs, Roth 401(k)s, HSAs, ESAs, and 529 plans can also be received free of federal income tax. In some cases, such as with a Roth IRA, tax deferral may be combined with tax-free income.

Example: *You make a nondeductible contribution of $5,000 to a Roth IRA. If you earn a 5% annual rate of return for 20 years, the $5,000 will grow to $13,266, with no federal income tax on qualified distributions.**

Special tax rates

The tax rate on long-term capital gains and qualified dividends is generally 0% for taxpayers in the 10% and 15% tax brackets, 15% for taxpayers in the 25% to 35% tax brackets, and 20% for taxpayers in the 39.6% tax bracket. In some cases, such as with stock, special tax rates may be combined with tax deferral.

Example: *You purchase stock that pays no dividends for $5,000. Assume you will be subject to a 15% capital gain tax rate, both now and in the future. If the stock increases 5% in value each year and you hold on to the stock for 20 years, the $5,000 will grow to $13,266, with an after-tax value of $12,027.**

Example: *You purchase a dividend-paying investment for $5,000. Assume you will be subject to a 15% capital gain tax rate, both now and in the future. If you earn a 5% annual rate of return consisting of qualified dividends and long-term capital gains that are taxable each year, the $5,000 will grow at a 4.25% after-tax rate to $11,460 in 20 years.**

Note: *To the extent that distributions from tax-advantaged accounts such as qualified plans and IRAs, annuities, HSAs, ESAs, and 529 plans are subject to tax, ordinary income tax rates apply; they generally do not qualify for special capital gain tax rates.*

*These hypothetical examples are for illustrative purposes only, and the results are not representative of any specific investment or mix of investments. Actual results will vary. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, because they may further impact the results of the comparison. These illustrations assume a fixed annual rate of return; the rate of return on your actual investment portfolio will be different, and will vary over time, according to actual market performance, and could include losses. This is particularly true for long-term investments. It is important to note that investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

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Duncklee & Nott
Kenneth Nott, CFP®, AIF®, CFS
19 Central Street
Hallowell, ME 04347
207-622-5222
877-582-2835
ken@dnretire.com
www.dnretire.com

How can I protect my Social Security number from identity theft?

Your Social Security number is one of your most important personal identifiers. If identity thieves obtain your Social Security number, they can access your bank account, file false tax returns, and wreak havoc on your credit report. Here are some steps you can take to help safeguard your number.

Never carry your card with you. You should never carry your Social Security card with you unless it's absolutely necessary. The same goes for other forms of identification that may display your Social Security number (e.g., Medicare card)

Do not give out your number over the phone or via email/Internet. Oftentimes, identity thieves will pose as legitimate government organizations or financial institutions and contact you to request personal information, including your Social Security number. Avoid giving out your Social Security number to anyone over the phone or via email/Internet unless you initiate the contact with an organization or institution that you trust.

Be careful about sharing your number. Just because someone asks for your Social Security number doesn't mean you have to share it. Always ask why it is needed, how it will be used, and what the consequences will be if you refuse to provide it.

If you think someone has misused your Social Security number, contact the Social Security Administration (SSA) immediately to report the problem. The SSA can review your earnings record with you to make sure their records are correct. You can also visit the SSA website at www.ssa.gov to check your earnings record online.

Unfortunately, the SSA cannot directly resolve any identity theft problems created by the misuse of your Social Security number. If you discover that someone is illegally using your number, be sure to contact the appropriate law-enforcement authorities. In addition, consider filing a complaint with the Federal Trade Commission and submitting IRS Form 14039, Identity Theft Affidavit, with the Internal Revenue Service. Visit www.ftc.gov and www.irs.gov for more information.

I've recently changed my legal name. Do I need to change my name on my Social Security card?

Whenever an individual legally changes his or her name, it is important to contact the Social Security Administration (SSA) as soon as possible. Failure to notify the SSA of a name change could prevent your wages from being posted correctly to your Social Security earnings record and might even result in a delay when you file your taxes.

To obtain a new card with your new name, you need to provide the SSA with a recently issued document that proves your identity and legal name change. Acceptable documents include:

- Marriage certificate
- Divorce decree
- Certificate of Naturalization showing new name
- Court order for approving the name change

If the document you provide doesn't offer enough information for the SSA to identify you in their records, you must also provide an identity document in your old name (expired documents with your old name are allowed).

In addition, if you were born outside the United States or you aren't a U.S. citizen, you typically must provide documentation to prove U.S. citizenship or lawful noncitizen status.

Once you have gathered the appropriate documentation, you need to complete the SSA Application for a Social Security Card. However, Social Security card applications are not accepted on the SSA website. As a result, you need to take or mail your application, along with your supporting documents, to your local Social Security office.

For more information on applying for a new Social Security card or finding a Social Security office in your area, visit the Social Security Administration website at www.ssa.gov.

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