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!
Spring is on the way! We would like to apologize...we learned that some of you received the February newsletter twice. The problem was due to a glitch, and those of us in the office never received it at all, so we thought it didn't go out and we sent it again (and we still never received it!). So, whether you got it twice or not at all, please accept our apologies.
As the income tax deadline approaches, make sure things are in order to file your taxes. Also, the deadline for contributing to IRAs and Roth IRAs for 2013 is getting closer; you only have until April 15th to get those final contributions in.
Enjoy this month's articles!
Jim, Ken, Megan, Sharon, & Susie

March 2014 Financial Fitness

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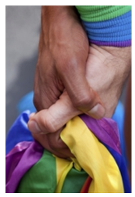
Duncklee & Nott Monthly Newsletter

Same-Sex Marriage: An Update



Here's an update on some of what has happened since the Supreme Court issued its decision that struck down Section 3 of the Defense of Marriage Act of 1996 (DOMA), which defined marriage as the union of a man and a woman.

Federal taxes

In August of 2013, the U.S. Department of the Treasury and the Internal Revenue Service (IRS) announced that same-sex couples who were legally married in jurisdictions that recognize same-sex marriage will be treated as married for all federal tax purposes (Rev. Rul. 2013-17, and associated Frequently Asked Questions). This is true even if the couple resides in a state that does not recognize same-sex marriage. In other words, if you legally married an individual of the same gender in a state that recognizes same-sex marriage, but reside in a state that does not recognize same-sex marriage, you will be treated as married for federal income tax purposes even though it is possible that you might not be treated as married for state tax purposes. Recognition also applies to same-sex couples legally married in the District of Columbia, a U.S. territory, or a foreign country. Registered domestic partnerships, civil unions, and other formal relationships recognized under state law do not qualify, however.

Social Security

The Social Security Administration has posted a statement on its website that the agency is working closely with the Department of Justice, and plans to develop and implement policy and processing instructions in the coming weeks and months. Even though there is not yet any clear guidance on benefit eligibility for same-sex married couples, the Social Security website states that the agency is processing some retirement and surviving spouse claims for same-sex couples, and encourages same-sex spouses and those in other legal same-sex relationships to apply for benefits, even if they live in a state that does not recognize same-sex marriage.

401(k) plans and other benefit plans

In September of 2013, the U.S. Department of Labor's (DOL) Employee Benefits Security Administration issued Technical Release 2013-04, which states that, in general, the term "spouse" in the legislation and regulations that govern most retirement plans will be deemed to include same-sex marriages. Like the IRS, the DOL recognizes as married those same-sex couples legally married in a jurisdiction that recognizes same-sex marriage, even if the couple resides in a state that does not recognize same-sex marriage.

Other considerations

- The U.S. Department of State has announced visa applications that are based on a same-sex marriage will be adjudicated in the same way that applications are evaluated for opposite gender spouses. If your marriage is valid in the jurisdiction (U.S. state or foreign country) where it took place, it is valid for immigration purposes. (Source: www.travel.state.gov, *U.S. Visas for Same-Sex Spouses,* 12/24/2013)
- The administration announced that it will no longer enforce particular sections of the law governing veterans benefits, effectively allowing benefits to be paid to legally married same-sex couples; however, variations in state law may prevent same-sex married couples from receiving benefits in some situations. (Source: www.eBenefits.va.gov, *DOMA and Your Benefits,* 1/27/2014)
- All branches of the military have extended spousal and family benefits to same-sex married couples (a valid marriage certificate is required). The Department of Defense, in announcing this policy, also announced that the department will implement policies to allow military personnel in same-sex relationships leave for the purpose of traveling to a jurisdiction where the couple may legally marry. (Source: U.S. Department of Defense, News Release No: 581-13, August 14, 2013)

See disclaimer on final page

Business Owners: Don't Neglect Your Own Retirement Plan

The right plan for you and your business will depend on a number of factors. Consider reviewing IRS Publication 560, "Retirement Plans for Small Business," and consulting a qualified financial professional before making any decisions.

Distributions from pretax accounts and nonqualified distributions from Roth accounts will be taxed at then-current income tax rates. In addition, taxable withdrawals before age 59½ (in some cases age 55) will be subject to a 10% penalty tax unless an exception applies.

All investing involves risk, including the possible loss of principal.

If you're like many small business owners, you pour your heart, soul, and nearly all your money into your business. When it comes to retirement planning, your strategy might be crossing your fingers and hoping your business will provide the nest egg you'll need to live comfortably. But relying on a business to fund retirement can be a very risky proposition. What if you become ill and have to sell it early? Or what if your business experiences setbacks just before your planned retirement date?

Rather than counting on your business to define your retirement lifestyle, consider managing your risk now by investing in a tax-advantaged retirement account. Employer-sponsored retirement plans offer a number of potential benefits, including current tax deductions for the business and tax-deferred growth and/or tax-free retirement income for its employees. Following are several options to consider.

IRA-type plans

Unlike "qualified" plans that must comply with specific regulations governed by the Internal Revenue Code and the Employee Retirement Income Security Act of 1974 (ERISA), SEP and SIMPLE IRAs are less complicated and typically less costly.

- **SEP-IRA:** A SEP allows you to set up an IRA for yourself and each of your eligible employees. Although you contribute the same percentage of pay for every employee, you're not required to make contributions every year. Therefore, you can time your contributions according to what makes sense for the business. For 2014, total contributions (both employer and employee) are limited to 25% of pay up to a maximum of $52,000 for each employee (including yourself).
- **SIMPLE IRA:** The SIMPLE IRA allows employees to contribute up to $12,000 in 2014 on a pretax basis. Employees age 50 and older may contribute an additional $2,500. As the employer, you must either match your employees' contributions dollar for dollar up to 3% of compensation, or make a fixed contribution of 2% of compensation for every eligible employee. (The 3% contribution can be reduced to 1% in any two of five years.)

Qualified plans

Although these types of plans have more stringent regulatory requirements, they offer more control and flexibility. (Note that special rules may apply to self-employed individuals.)

- **Profit-sharing plan:** Typically only the business contributes to a profit-sharing plan. Contributions are discretionary (although they must be "substantial and recurring") and are placed into separate accounts for each employee according to an established allocation formula. There's no fixed amount requirement, and in years when profitability is particularly tight, you generally need not contribute at all.
- **401(k) plan:** Perhaps the most popular type of retirement plan offered by employers, a 401(k) plan allows employees to make both pre- and after-tax (Roth) contributions. Pretax contributions grow on a tax-deferred basis, while qualified withdrawals from a Roth account are tax free. Employee contributions cannot exceed $17,500 in 2014 ($23,000 for those 50 and older) or 100% of compensation, and employers can choose to match a portion of employee contributions. These plans must pass tests to ensure they are nondiscriminatory; however, employers can avoid the testing requirements by adopting a "safe harbor" provision that requires a set matching contribution based on one of two formulas. Another way to avoid testing is by adopting a SIMPLE 401(k) plan. However, because they are more complicated than SIMPLE IRAs and are still subject to certain regulations, SIMPLE 401(k)s are not widely utilized.
- **Defined benefit (DB) plan:** Commonly known as a traditional pension plan, DB plans are becoming increasingly scarce and are uncommon among small businesses due to costs and complexities. They promise to pay employees a set level of benefits during retirement, based on a formula typically expressed as a percentage of income. DB plans generally require an actuary's expertise.

Total contributions to profit-sharing and 401(k) plans cannot exceed $52,000 or 100% of compensation in 2014. With both profit-sharing and 401(k) plans (except safe harbor 401(k) plans), you can impose a vesting schedule that permits your employees to become entitled to employer contributions over a period of time.

For the self-employed

In addition to the options noted above, sole entrepreneurs may consider an individual or "solo" 401(k) plan. These types of plans are very similar to a standard 401(k) plan, but because they apply only to the business owner and his or her spouse, the regulatory requirements are not as stringent. They can also have a profit-sharing feature, which can help you maximize your tax-advantaged savings potential.

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Test Your Knowledge of Financial Basics

A little knowledge can go a long way in pursuing your financial goals. For more information about the topics in this article, or for other personal finance-related questions, speak with a trusted financial professional.

All investing involves risk, including the possible loss of principal.

Working with a trusted financial professional is one of the best ways to help improve your overall financial situation, but it's not the only thing you can do. Educating yourself about personal finance concepts can help you better understand your advisor's recommendations, and result in more productive and potentially more prosperous financial planning discussions. Take this brief quiz to see how well you understand a few of the basics.

Questions

1. How much should you set aside in liquid, low-risk savings in case of emergencies?

a. One to three months' worth of expenses

b. Three to six months' worth of expenses

c. Six to twelve months' worth of expenses

d. It depends

2. Diversification can eliminate risk from your portfolio.

a. True

b. False

3. Which of the following is a key benefit of a 401(k) plan?

a. You can withdraw money at any time for needs such as the purchase of a new car.

b. The plan allows you to avoid paying taxes on a portion of your compensation.

c. You may be eligible for an employer match, which is like earning a guaranteed return on your investment dollars.

d. None of the above

4. All of the money you have in a bank account is protected and guaranteed.

a. True

b. False

5. Which of the following is typically the best way to pursue your long-term goals?

a. Investing as conservatively as possible to minimize the chance of loss

b. Investing equal amounts in stocks, bonds, and cash investments

c. Investing 100% of your money in stocks

d. Not enough information to decide

Answers

1. d. Conventional wisdom often recommends setting aside three to six months' worth of living expenses in a liquid savings vehicle, such as a bank savings account or money market mutual fund. However, the answer really depends on your own individual situation. If your (and your spouse's) job is fairly secure and you have other assets, you may need as little as three months' worth of expenses in emergency savings. On the other hand, if you're a business owner in a volatile industry, you may need as much as a year's worth or more to carry you through uncertain periods.

2. b. Diversification is a smart investment strategy that helps you manage risk by spreading your investment dollars among different types of securities and asset classes, but it cannot eliminate risk entirely. You still run the risk of losing money.

3. c. Many employer-sponsored 401(k) plans offer a matching program, which is like earning a guaranteed return on your investment dollars. If your plan offers a match, you should try to contribute at least enough to take full advantage of it. (Note that some matching programs impose a vesting schedule, which means you will earn the right to the matching contributions over a period of time.)

Because 401(k) plans are designed to help you save for retirement, the federal government imposes rules about withdrawals for other purposes, including the possibility of paying a penalty tax for nonqualified withdrawals. You may be able to borrow money from your 401(k) if your plan allows, but this is generally recommended as a last resort in a financial emergency. Finally, traditional 401(k) plans do not help you avoid paying taxes on your income entirely, but they can help you defer taxes on your contribution dollars and investment earnings until retirement, when you might be in a lower tax bracket. With Roth 401(k)s, you pay taxes on your contribution dollars before investing, but qualified withdrawals will be free from federal, and in many cases, state taxes.

4. b. Deposits in banks covered by the Federal Deposit Insurance Corporation are protected up to $250,000 per depositor, per bank. This means that if a bank should fail, the federal government will protect depositors against losses in their accounts up to that limit. The FDIC does not protect against losses in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if those vehicles were purchased at an insured bank. It also does not protect items held in safe-deposit boxes or investments in Treasury bills.

5. d. To adequately pursue your long-term goals, it's best to speak with a financial professional before choosing a strategy. He or she will take into consideration your goals, your risk tolerance, and your time horizon, among other factors, to put together a well-diversified strategy that's appropriate for your needs.

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ken@dnretire.com
www.dnretire.com

How much money should I save for retirement?

The obvious answer is, as much as you can. You'll probably need to build a fund that you can draw on for much of your retirement income. This may be possible to do if you start early and make smart choices.

Contribute as much as you can to tax-advantaged savings vehicles (e.g., 401(k)s, IRAs, annuities). Make sure to contribute as much as necessary to get any employer matching contribution--it's essentially free money. Then round out your retirement portfolio with other taxable investments (e.g., stocks, bonds, mutual funds*). As you're planning and saving, keep in mind that you may have 30 or more years of retirement to fund. So, you may need an even bigger nest egg than you think.

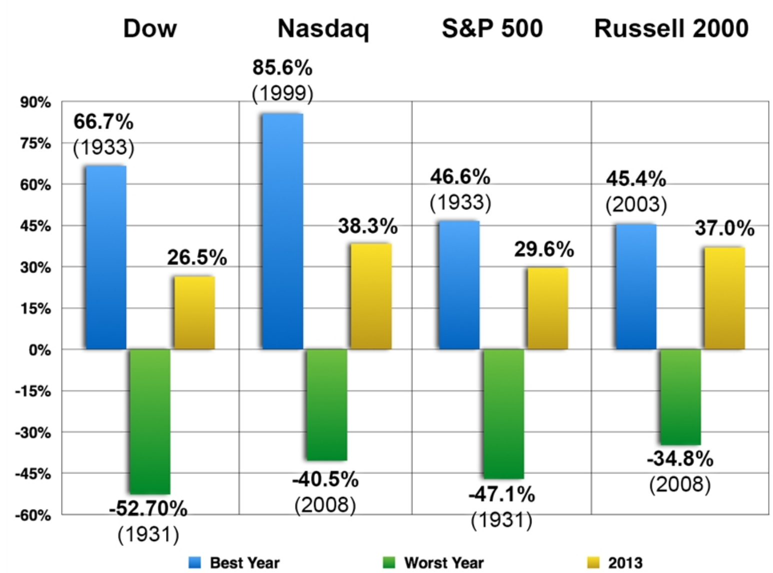
***Note:** All investing involves risk, including the possible loss of principal. Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.*

Your particular circumstances will determine how much money you should save for retirement. Maybe you have a pension plan, or your Social Security benefits will be large enough to tide you over. If so, you may not need to save as much as other people. But other personal factors will enter the picture, too. If you plan to retire early (e.g., age 50 or 55), you'll have even more retirement years to fund and may need more retirement assets than someone who plans to work until age 65 or 70. Conversely, you may need fewer assets if you plan on working part-time during retirement.

Your projected expenses during retirement will also help determine how much money you'll need and how much you need to save to get there. Certain costs (e.g., food, utilities, insurance) will be shared by almost all retirees. But you may still be saddled with retirement expenses that many retirees no longer have (e.g., mortgage payments or a child's tuition).

Expenses will also depend on the type of retirement lifestyle you want. How many nights a week will you dine out? How much traveling will you do? These kinds of questions will give you a better idea of how much money you'll be spending once you retire. In general, the greater your anticipated retirement expenses, the more you need to save each year to meet those expenses.

Graph: The Best of Times, the Worst of Times, and 2013



In 2013, the Standard & Poor's 500 had its best year since 1997, while the Dow Jones Industrial Average set 52 new record closing highs and the Nasdaq hit a level it hadn't seen in more than 13 years. Here's how 2013's price gains compare to each index's best and worst years since 1926 by percentage gain as listed in the "Stock Trader's Almanac 2014." ***Note:** All investing involves risk, including the possible loss of principal.*

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