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INVESTMENT HOUSE, LLC

Financial Solutions Under One Roof

The Frugal Habits of Millionaires

The word "millionaire" typically conjures up images of a lavish, jet-setting lifestyle, but behind the scenes, that may not always be the case. Like Warren Buffett, who famously still lives in the relatively modest house in Omaha, Nebraska, that he bought in 1958 for $31,500, many millionaires (and billionaires) live a modest, if not downright frugal lifestyle--a lifestyle that may have helped them become millionaires in the first place.

We've all heard the saying "It takes money to make money." So how can you find extra dollars to save and invest? If you're looking to improve your financial position, consider putting some of these habits into practice.

Cultivate a frugal mindset

Many people equate being frugal with being cheap, but that's not really correct. Being frugal means carefully watching your dollars and not spending more than you need to--a trait many millionaires employ. To help cultivate a frugal mindset, get in the habit of asking yourself this question: "With a little extra effort and/or sacrifice on my part, is there any way I can save money here?" Having a frugal mindset can really help when it comes time to playing the role of American consumer, where temptation is everywhere.

Buy wisely and sparingly

We all need "stuff" now and then; the key is not overdoing it or overpaying for it. Try to buy mostly what you really need, not what you really want. Money you save can then be used to build your savings and investment accounts.

Don't let the price tag of your car, home, or designer suit define your character. For example, a reliable car that safely gets you from Point A to Point B may be completely sufficient for your needs. According to the book *The Millionaire Next Door,* the top car brand among millionaires is Toyota, not Mercedes or BMW. Even Mark Zuckerberg, the billionaire founder of Facebook, has been spotted driving an Acura TSX, an entry-level luxury car whose base price is about $30,000. The bottom line? As you move up the net worth ladder, avoid the temptation to elevate your "status" by overspending on luxury goods.

You can be smart about everyday consumer purchases, too. You might be surprised to learn that many millionaires clip coupons, buy in bulk, wait for sales, scour eBay and Craigslist for deals, limit clothing purchases, fly coach, avoid credit cards, and save half their restaurant meal for lunch the next day--habits that can free up cash for the occasional splurge.

Shun debt

Debt is bad. Well, mostly. At times taking on debt is necessary, for example when buying a home or attending college, because without it, many people won't have saved enough money. But generally speaking, you should be leery of taking on debt for things that cause you to live beyond your means. Remember, every dollar you borrow today is a dollar you'll have to pay back tomorrow, with interest.

People who turn a modest financial base into wealth often do so by living frugally, saving regularly, investing wisely, and avoiding debt. By contrast, people who end up in a perpetual cycle of debt are often those who spend and borrow excessively to support an unsustainable lifestyle.

Take action

What do CEOs Tim Cook (Apple), Ursula Burns (Xerox), Robert Iger (Disney), and Indra Nooyi (PepsiCo) have in common? They're all up by 5:00 a.m., hitting the gym, reading, working. As Benjamin Franklin famously quipped: "Early to bed and early to rise makes a man healthy, wealthy, and wise." And indeed, many millionaires and leaders aren't couch potatoes. They don't sit around waiting for things to happen; they make things happen--by getting up early, working hard, looking for opportunities, constantly educating themselves, taking calculated risks, networking, staying active, and generally trying to improve themselves day in and day out. And with the explosion of information online 24/7, learning new things has never been easier.

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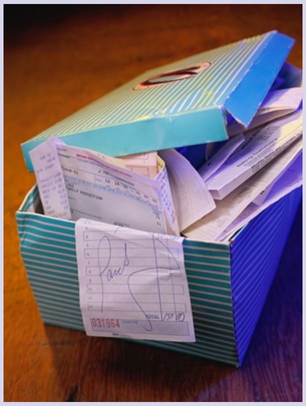
Think Outside the Shoe Box When Organizing Financial Records



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.

Married Filing Jointly or Separately? The Choice Is Yours

Because of a number of special rules, your combined income tax will often be lower if you file married filing jointly than if you file married filing separately, but that is not always the case. It all depends on your unique circumstances. You should generally calculate your tax both ways and choose the filing status that results in the lower combined tax.

If you are married, you generally have a choice of filing your federal income tax return(s) as married filing jointly (MFJ) or as married filing separately (MFS). Because of a number of special rules, your combined tax will often be lower if you file married filing jointly than if you file married filing separately, but that is not always the case. You should generally calculate your tax both ways to determine which filing status results in the lower total tax.

Basic rules

You and your spouse can file as married filing jointly if you are considered married and you both agree to file a joint return. On a joint return, you and your spouse report your combined income, exemptions, deductions, and credits. You are both responsible for any tax, interest, or penalty due on a joint return.

Alternatively, you and your spouse can file as married filing separately. On a separate return, you each generally report only your own income, exemptions, deductions, and credits. You each are responsible only for any tax, interest, or penalty due on your separate return.

Special rules for married filing separately

Maybe not unexpectedly, many tax items for MFS are exactly half of the amounts for MFJ:

- The tax brackets (for MFS, higher tax rates are reached at lower income levels than for MFJ)
- The phaseout thresholds for personal exemptions
- The limitation thresholds for itemized deductions
- The limits on the amount of income that can be excluded under an employer's dependent care assistance program
- The alternative minimum tax exemptions
- The amount of capital losses you can deduct
- The income levels at which the child tax credit is reduced
- The income levels at which the retirement savings contributions credit is reduced
- The income thresholds for the additional 0.9% Medicare tax on Social Security wages and self-employment income and the 3.8% Medicare tax on net investment income

Some items are not available for MFS:

- The credit for child and dependent care expenses (in most cases)
- The earned income credit
- The exclusion or credit for adoption expenses (in most cases)
- The American Opportunity credit and the Lifetime Learning credit
- The deduction for student loan interest, and the deduction for tuition and fees
- The exclusion for interest from qualified U.S. savings bonds used for higher education expenses

Other rules that apply to MFS:

- With MFS, if your spouse itemizes deductions, you cannot claim the standard deduction, and even if you claim the standard deduction, the standard deduction for MFS is half the amount for MFJ
- The thresholds for taxation of Social Security benefits are lower for MFS than for MFJ
- The phaseout thresholds for deductible contributions to a traditional IRA (if you were covered by an employer retirement plan) or for contributions to a Roth IRA start at $0 for MFS

Something else to consider

If your adjusted gross income (AGI) for MFS is lower than for MFJ, you may be able to deduct a larger amount for certain deductions that are deductible only to the extent they exceed a percentage of your AGI (e.g., medical expenses, casualty and theft losses, and job expenses and other miscellaneous deductions) for MFS. For example, medical expenses are generally deductible only to the extent they exceed 10% of AGI. By claiming medical expenses on a separate return with a lower AGI, the amount of medical expenses that can be deducted may be increased.

New rules for same-sex marriages

In response to a 2013 Supreme Court decision invalidating a key provision of the Defense of Marriage Act, the IRS has ruled that same-sex couples who were legally married in a jurisdiction that recognizes their marriage are treated as married for federal tax purposes, regardless of whether the jurisdiction the couple lives in recognizes same-sex marriages. However, the rule does not apply to registered domestic partnerships, civil unions, or similar formal relationships recognized under state law. As a result, legally married same-sex couples generally must file their 2013 (and future) federal income tax returns as married filing jointly or married filing separately. Also, legally married same-sex couples may wish to consider filing amended returns for earlier years as married filing jointly or married filing separately. State tax treatment of same-sex couples varies widely.

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Are you ready to retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?

It's obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off of your retirement savings. The average American can expect to live past age 78. (Source: CDC, "Deaths: Preliminary Data for 2011") With future medical breakthroughs likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?

You can begin receiving Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

How will retirement affect your IRAs and employer retirement plans?

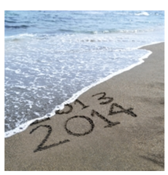
The longer you delay retirement, the longer you can build up tax-deferred funds in your IRAs--remember that you need compensation to contribute to an IRA. You'll also have a longer period of time to contribute to employer sponsored plans like 401(k)s--and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not yet fully vested.)

Will you need health insurance?

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or a private individual policy--which could be an expensive proposition.

Is phasing into retirement right for you?

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.



How much can I contribute to my IRA in 2014?

The amount you can contribute to your traditional or Roth IRA remains $5,500 for 2014, $6,500 if you're 50 or older. You can contribute to an IRA in addition to an employer-sponsored retirement plan like a 401(k). But if you (or your spouse) participate in an employer-sponsored plan, the amount of traditional IRA contributions you can deduct may be reduced or eliminated (phased out), depending on your modified adjusted gross income (MAGI). Your ability to make annual Roth contributions may also be phased out, depending on your MAGI. These income limits (phaseout ranges) have increased for 2014:

Income phaseout range for deductibility of traditional IRA contributions in 2014	
1. Covered by an employer-sponsored plan and filing as:	
Single/Head of household	$60,000 - $70,000
Married filing jointly	$96,000 - $116,000
Married filing separately	$0 - $10,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	$181,000 - $191,000

Income phaseout range for ability to fund a Roth IRA in 2014	
Single/Head of household	$114,000 - $129,000
Married filing jointly	$181,000 - $191,000
Married filing separately	$0 - $10,000