First Quarter 2015

TOBIA$ TIME$

www.tobiasfinancial.com
954-424-1660

When Should Millennials Start Retirement Saving?

This is a true story about Jane X, who graduated from a prestigious university five years ago. She's on her third job, but she's now communications director at a private foundation and finally earning decent money.

Jane's student loans are paid off, and her good salary leaves her some money to invest. However, like many of her millennial friends, she doesn't know a lot about investments or the differences between various retirement plans. But she is thinking about her future and wonders when she should start saving for retirement.

There's a short, simple answer: NOW.

The best time to begin saving for retirement is as soon as you can. Granted, relaxing on the deck of a retirement cottage overlooking the ninth green isn't first and foremost in the minds of most 20-somethings. But you can't ignore the sheer weight of the saving numbers. Let's go back to Jane, who's 27. If she manages to save $5,000 a year in a 401(k) for the next 40 years—until she's 67, the Social Security full retirement age for her generation—and she earns an average annual return of 7%, she will end up with $1,035,632. But if she waits 10 years to start saving, when she's 37, her accumulated savings will be just $490,027.

If you're convinced that now would be a good time to get started, consider these seven steps that could help you reach your goals:

1. Budget and save. It's difficult to be diligent about setting aside money for retirement when you're young and have a million things you'd rather do with your money. But if you're able to set objectives for saving and you do your best to stick to them, it could pay off beautifully down the road. Try to train yourself to live within your means while you move ahead in your career and your personal life.

2. Take advantage of employer retirement plans. Your company probably offers a tax-deferred retirement plan—a 401(k) or a 403(b)—and your employer may provide matching contributions (for example, up to 3% of your compensation) to go alongside the pre-tax earnings you put into the plan. With all of that money invested for the long haul, it can grow and compound and you won't be taxed on the growth until you pull out funds during retirement.

3. Don't forget about IRAs. Regardless of whether you participate in an employer-sponsored retirement plan, you also can set up an IRA. With a traditional IRA, the money you put in may be partly or wholly tax-deductible, if your salary is relatively low. But here, too, you'll be taxed on withdrawals during retirement. Another option, a Roth IRA, doesn't give you a tax deduction on money going in but may provide 100% tax-free distributions in retirement.

(Continued on page 4)

Ben's Banter

Over the last few months, the US dollar increased in value by about 25% versus the Euro. In early September 2014, the cost to purchase one euro was over $1.30; as I write this today, one euro costs approximately $1.05. The good news is that if you have the ability to plan a quick trip over the Atlantic, you may be able to obtain a 25% discount compared to about 6 months ago. The other side of that coin is that with the dollar's strength, the value of investments overseas has been negatively affected and volatility has returned to the US markets. Despite the strong dollar, the beginning of 2015 has started with the overseas markets outperforming the US markets.

On a totally different note, we have seen a disturbing trend relating to clients' adult children. Unfortunately, the number of children who have disabilities as well as adult children, who for one reason or another, are not able to support themselves seems to be increasing. Both of these situations can affect one's retirement both from a financial perspective as well as a personal perspective. Happily, we have also seen other adult children who have successfully managed to support themselves despite various hardships. If you are in one of these situations and think we could help, please do not hesitate to contact us.

Remember no one plans to fail; many simply fail to plan.

Thanks,
Ben
CPA/PFS, CFP®, CIMA®

Unused Estate Tax Election

"DSUEA" sounds like a top-secret agency inside the government.

But that's not even close. It's actually the acronym for "deceased spouse unused exclusion amount," a key component of the portability provision in the federal estate tax law.

It's important to understand how the DSUEA is calculated and how portability can save a family hundreds of thousands—or possibly even millions—of estate tax dollars.

Consider the basic federal estate tax framework. For starters, there's an unlimited marital deduction between spouses. Any amount that's transferred from one spouse to another, whether through a bequest or a lifetime gift, is automatically exempt from estate and gift taxes. In addition, each person's estate can benefit from an exemption for transfers to heirs other than a spouse.

Under the latest tax law changes, the estate tax exemption is permanently fixed at an inflation-adjusted amount based on $5 million. The "basic exclusion amount" (BEA) for 2014 is $5.34 million and increases to $5.43 million in 2015. That allows a married couple to transfer up to $10.77 million to other heirs in 2015, and that amount will be even higher in future years.

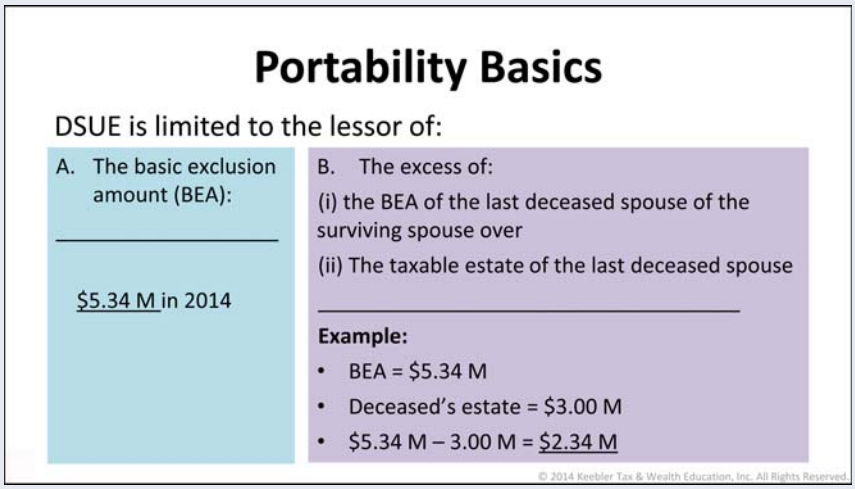
The basic premise behind portability is quite simple. When one spouse dies, any unused BEA amount is available to the estate of his or her surviving spouse. Normally a surviving spouse will be able to add the deceased spouse's unused exclusion amount to his or her maximum exempt amount.

Hypothetical example: Susan and Jim, husband and wife, own $3 million individually and $4 million jointly with rights of survivorship. (For simplicity, we will avoid any gains or losses in the value of the assets.) That adds up to a combined estate of $10 million. Their wills specify that their individually owned assets will go to their children when each parent dies.

Now suppose that Susan died in 2014 when the BEA was $5.34 million. Under the tax law formula (see chart), the DSUEA is limited to the lesser of (a) the BEA and (b) the excess of (i) the BEA of the last deceased spouse over (ii) the taxable estate of the last deceased spouse. In the example involving Susan and Jim, the DSUEA is $2.34 million. Therefore, when Jim dies, his estate will be able to utilize the $2.34 million DSUEA—plus the BEA available to Jim in the year of his death.

How much tax will that save? With a 40% top estate tax rate, the savings on the $2.24 million DSUEA is $936,000 ($2.34 million x 40%)!

To take advantage of the portability provision your heirs must make an election on an estate tax return. Coordinate this estate tax break with other aspects of your overall estate plan. ●



Franchise Costs Range From $10,000 To $14.6 Million

Franchises are a lot like wine and people: They come in all price ranges and sizes. For example, a Choice Hotel International franchise is reputedly the world's most expensive, at $14.6 million. On the other hand, you can buy a Win Home Inspection or a Cruise Planner (American Express Travel) franchise for a mere $10,000. Those are two of the cheapest.

Some other very expensive franchises include Amazing Spaces (storage units), for $8.25 million; Golden Corral for $6.76 million, KFC for $2.5 million, and Hardee's for $1.6 million. At the other end of the cost spectrum are Tru Blue Total House Care ($20,000), Good Feet ($75,000), Sport Clips Haircuts ($100,000), and Yum Yo's Frozen Yogurt ($150,000). The cost of owning a McDonald's franchise depends on a number of considerations.

For 35 years, Entrepreneur Magazine has published its own top 10 list of franchises. The magazine's honor roll (with price ranges) for 2014 includes:

1. **Anytime Fitness, $56,290 - $353,890**
2. **Hampton Hotels, $3.69 million - $6.57 million**
3. **Subway, $85,690 - $262,850**
4. **Supercuts, $113,750 - $233,600**
5. **Jimmy John's Gourmet Sandwiches, $330,500 - $519,500.**
6. **7-Eleven Inc., $50,000 - $1.63 million**
7. **Servpro, $138,550 - $187,190**
8. **Denny's Inc., $1.12 million - $2.61 million**
9. **Pizza Hut Inc., $297,000 - $2.1 million**
10. **Dunkin' Donuts, $294,000 - $1.51 million**

Entrepreneur's selection process for the 2014 list began with a survey in July 2013. Of the 853 companies that survived a first round of culling, the top

7 Steps To Take After A Spouse's Sudden Death

The funeral is over, the mourners are gone, and now you're left with the rest of your life after the unexpected death of your beloved spouse. What's a devastated widow or widower to do? For starters, DON'T do anything rash, such as selling the homestead or cashing in all of your stock holdings right away. It may be difficult, especially from an emotional standpoint, but you can pick up the pieces slowly and get your finances in order. Here are seven steps for moving forward:

1. Meet with your professional advisors. One of the first steps – if not the absolute first – should be to contact your attorney, accountant, and financial advisor. These professionals can provide guidance for handling all of the legal, tax, and financial matters relating to you and your deceased spouse. Their counsel will be valuable as you work your way through the remaining six steps on this list.

2. Get the will probated. Assuming your spouse had a valid will and you're the executor—typically the case with married couples—you must begin to probate the will by filing a petition with the appropriate county office. Depending on the particulars, it can take as little as a few weeks or as long as a few years for the process to be completed. Keep your attorney in the loop the entire way.

3. Apply for benefits. Normally, you'll be entitled to Social Security benefits, including a one-time death benefit, plus Veteran's Administration (VA) benefits if your spouse was a military veteran. A surviving spouse over age 60 at the time of the other spouse's death may claim survivor benefits from Social Security. But don't continue to cash Social Security checks for a deceased spouse; you'll likely have to pay those back. It may be necessary to visit the local Social Security office and to contact the VA when appropriate. Also, don't forget to inquire about benefits from your spouse's employer if your spouse was still working.

4. Collect life insurance proceeds. Once reality sets in, you have to go about the regular business of making payments on the mortgage, the car loan, and other debts. Life insurance proceeds could be needed sooner rather than later. Examine your records to determine what you're entitled to receive through any private and employment-based policies. Your insurance agent can help, and your financial advisor can consult with you on how best to deploy any insurance benefit.

5. Review the books. Once you've had a chance to catch your breath, make a comprehensive review of your financial affairs. Go over your checkbooks, files, and online ledgers covering living expenses, loans, and other financial obligations. Separate accounts according to whether they're in your spouse's name, your name, or were held jointly. Then let banks, insurance companies, and other entities know about your spouse's death. And keep copies of these communications and verifications.

6. Change account titles. Begin the tedious process of re-titling accounts at banks, brokerage houses, and the like. Generally, you automatically will be granted a change on accounts owned as joint tenants with rights of survivorship (JTWROS), but the financial institution may require documentation. Contact each institution and comply with its procedures. Make sure you have enough death certificates to meet all of the obligations.

7. Start planning for the long term. Last, but not least, after you've addressed all of the issues requiring prompt attention, look to the future. It's time to circle back to the advisors who helped you at the outset. Reevaluate your investment portfolio, taking your evolving circumstances into account. Update your estate plan with an emphasis on passing wealth to your heirs, such as children and grandchildren, with minimum tax erosion. An estate tax return generally has to be filed within nine months of death. Finally, make those lifestyle choices – perhaps selling a home, heading off on extended travel, or both – that suit your changing needs.

Also make cancellation notices. Your review may reveal gym and club memberships and magazine and journal subscriptions that you can cancel right away. Re-titling your financial accounts will take precedence over this type of bookkeeping, but try not to let this linger, either. Usually, a phone call or a quick note will be enough to take care of things. ●

500 made the magazine's Franchise 500® ranking, based on financial and statistical data from July 2011 through July 2013.

All companies, regardless of size, are judged by the same criteria: objective, quantifiable measures of a franchise operation. The most important factors include financial strength and stability, growth rate, and size of the system.

The magazine also considers the number of years a company has been in business and the length of time it has been franchising, startup costs, litigation, percentage of franchise terminations, and whether the franchising company provides financing. An independent CPA analyzes financial data. Subjective elements such as franchisee satisfaction or management style are not included in the analysis. The objective factors are plugged into a special formula, with each eligible company receiving a cumulative score. The 500 franchises with the highest cumulative scores become the magazine's Franchise 500®. ●

What's The Step-Up In Basis Worth?

When you're developing an estate plan for your family, several elements factor into the equation, including a lot of tax ramifications—which may include both estate taxes and income taxes. They're not mutually exclusive and, in fact, they're often intertwined.

A case in point is the so-called "step-up in basis" on inherited assets. That can be a reason to keep some assets in your estate rather than trying to reduce the estate's value.

Slimming down an estate, particularly by making gifts to family members during your lifetime, is often a good idea. However, there's a marital deduction that normally allows you to leave unlimited assets to your spouse free of estate tax, while transfers to other heirs are sheltered by a generous individual estate tax exemption that's inflation-indexed. Each person can shield $5.43 million from estate and gift taxes in 2015, up from $5.34 million in 2014.

Meanwhile, if you sell real estate or other assets before you die, you'll owe capital gains tax on your profits. The maximum tax rate on a long-term gain (on assets you've held longer than a year) is 15%, or 20% for investors in the top ordinary income tax bracket. In addition, you may be liable for a 3.8% surtax on net investment income (NII), including capital gains, that exceeds an annual threshold. That adds up to a possible effective tax rate of 23.8% on capital gains at the federal level.

But if you bequeath appreciated assets to your heirs, they can largely avoid capital gains taxes. Those taxes are calculated according to how much the price has gone up from your "basis" in the asset—basically what you paid for it, subject to adjustment. When you die, the basis of the assets your heirs receive is "stepped up"—increased to their value on the date of your death. That eliminates tax liability on the appreciation of the assets during the time you owned them. Of course, those assets have to be in your estate to qualify for that benefit, but the generous exemptions for estates will help your heirs avoid estate taxes, too.

Consider this example. Tom, a resident of Florida, bought an apartment building for $900,000 that is currently worth $2.2 million. If Tom sells the building now, he must pay an effective tax rate of 23.8% on a $1.3 million capital gain, or $309,400 (23.8% of $1.3 million). But what if he keeps the property and leaves it to his heirs? The basis of the property is stepped up to the full $2.2 million, and they'll owe capital gains taxes only if it appreciates further before they sell it. What's more, the estate tax exemption means they won't owe estate taxes on their inheritance.

Note that Florida doesn't have a state income tax. If Tom resided in a high tax state, such as California or New York, the savings would be even more pronounced. ●

Millennials Retirement

(Continued from page 1)

4. Invest wisely. This is good advice not only for money in tax-advantaged retirement accounts but also for money you invest in taxable brokerage accounts. We can help you find the investment balance that best suits your personal needs, objectives, risk tolerance, and other circumstances. Although there's no foolproof method, you should have more leeway to be aggressive now than you would when you're nearing retirement or already retired. Of course, past performance is no guarantee of future results, but you can use historical stock market trends to help shape your investment strategies.

5. Expect the unexpected. Even the best-laid plans of retirement saving can be derailed by an emergency such as a hospital stay or the loss of a job. Try to leave enough wiggle room within your budget to account for some unforeseen financial trouble. Rather than put yourself in a position to have to skip or slash retirement plan contributions, remember to put aside cash in a "rainy day" fund. Most experts recommend building up enough to sustain you for at least half a year during which you may have no other income.

6. Avoid debt like the plague. One of the biggest impediments to retirement saving is a crushing debt load. You're not doing yourself any favor by deferring part of your salary to an employer plan at the same time that you're charging luxury items on a credit card with sky-high interest rates. That's not to say that borrowing isn't warranted at times—perhaps to help buy a home or car—but make sure it fits into your overall plan.

7. Educate yourself. Finally, you can improve the chances for a secure, comfortable retirement by learning all of the rules of the road, including the nuances of investments and the tax differences between various accounts. Knowledge is your friend. Rely on us to give you a solid foundation for going forward. ●

Tobias Financial Advisors
1000 S. Pine Island Road, Suite 250, Plantation, FL 33324 · Phone: 954-424-1660 · Fax: 954-424-9545 · www.tobiasfinancial.com

©2015 API