Accredited Wealth Management
Steve Giacobbe, CFA, MBA, CFP®
Chief Investment Officer
6010 Brownsboro Park Blvd
Suite F
Louisville, KY 40207
502-290-1905
sgiacobbe@accreditedwm.com
www.accreditedwm.com

As Valentine's Day approaches, it's a good time to reflect on relationships and the people we care about most. In the spirit of the holiday we wanted to share some of our favorite quotes on the topic of love and hope it inspires you to share it with someone you care about.

"Not all of us can do great things. But we can do small things with great love." --Mother Theresa

"Where there is love there is life."-- Gandhi

"Of all forms of caution, caution in love is perhaps the most fatal to true happiness."-- Bertrand Russell

"We love the things we love for what they are."-- Robert Frost

"Love is all you need."-- The Beatles

Happy Valentines Day from AWM!!

February 2015

Accredited Wealth Management

February 2015

Happy Valentine's Day!

Key Numbers for 2015

Every year, the Internal Revenue Service (IRS) announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2015.

Retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $18,000 in compensation in 2015 (up from $17,500 in 2014); employees age 50 and older can defer up to an additional $6,000 in 2015 (up from $5,500 in 2014)
- Employees participating in a SIMPLE retirement plan can defer up to $12,500 in 2015 (up from $12,000 in 2014), and employees age 50 and older will be able to defer up to an additional $3,000 in 2015 (up from $2,500 in 2014)

IRAs

The limit on annual contributions to an IRA remains unchanged at $5,500 in 2015, with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2014	2015
Single / head of household (HOH)	$60,000 - $70,000	$61,000 - $71,000
Married filing jointly (MFJ)	$96,000 - $116,000	$98,000 - $118,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Note: *The 2015 phaseout range is $183,000 - $193,000 when the individual making the IRA contribution is not covered by a workplace retirement plan, but is filing jointly with a spouse who is covered.*

The modified AGI phaseout ranges for individuals making contributions to a Roth IRA are:

	2014	2015
Single / HOH	$114,000 - $129,000	$116,000 - $131,000
MFJ	$181,000 - $191,000	$183,000 - $193,000
MFS	$0 - $10,000	$0 - $10,000

Estate and gift tax

- The annual gift tax exclusion remains $14,000
- The gift and estate tax basic exclusion amount for 2015 is $5,430,000, up from $5,340,000 in 2014

Personal exemption

The personal exemption amount has increased to $4,000 (up from $3,950 in 2014). For 2015, personal exemptions begin to phase out once AGI exceeds $258,250 (Single), $309,900 (MFJ), $284,050 (HOH), or $154,950 (MFS).

Note: *These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2014 threshold amounts were $254,200 (single), $305,050 (MFJ), $279,650 (HOH), and $152,525 (MFS).*

Standard deduction

The standard deduction amounts have been adjusted as follows:

	2014	2015
Single	$6,200	$6,300
HOH	$9,100	$9,250
MFJ	$12,400	$12,600
MFS	$6,200	$6,300

Note: *The 2015 additional standard deduction amount (age 65 or older, or blind) is $1,550 if filing as single or HOH (unchanged from 2014) or $1,250 (up from $1,200 in 2014) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

See disclaimer on final page

10 Financial Terms Everyone Should Know

Understanding financial matters can be difficult if you don't understand the jargon. Becoming familiar with these 10 financial terms may help make things clearer.

1. Time value of money

The time value of money is the concept that money on hand today is worth more than the same amount of money in the future, because the money you have today could be invested to earn interest and increase in value.

Why is it important? Understanding that money today is worth more than the same amount in the future can help you evaluate investments that offer different potential rates of return.

2. Inflation

Inflation reflects any overall upward movement in the price of consumer goods and services and is usually associated with the loss of purchasing power over time.

Why is it important? Because inflation generally pushes the cost of goods and services higher, any estimate of how much you'll need in the future--for example, how much you'll need to save for retirement--should take into account the potential impact of inflation.

3. Volatility

Volatility is a measure of the rate at which the price of a security moves up and down. If the price of a security historically changes rapidly over a short period of time, its volatility is high. Conversely, if the price rarely changes, its volatility is low.

Why is it important? Understanding volatility can help you evaluate whether a particular investment is suited to your investing style and risk tolerance.

4. Asset allocation

Asset allocation means spreading investments over a variety of asset categories, such as equities, cash, bonds, etc.

Why is it important? How you allocate your assets depends on a number of factors, including your risk tolerance and your desired return. Diversifying your investments among a variety of asset classes can help you manage volatility and investment risk. Asset allocation and diversification do not guarantee a profit or protect against investment loss.

5. Net worth

Net worth is what your total holdings are worth after subtracting all of your financial obligations.

Why is it important? Your net worth may fund most of your retirement years. So the faster and higher your net worth grows, the more it may help you in retirement. For retirees, a typical goal is to preserve net worth to last through the retirement years.

6. Five C's of credit

These are character, capacity, capital, collateral, and conditions. They're the primary elements lenders evaluate to determine whether to make you a loan.

Why is it important? With a better understanding of how your banker is going to view and assess your creditworthiness, you will be better prepared to qualify for the loan you want and obtain a better interest rate.

7. Sustainable withdrawal rate

Sustainable withdrawal rate is the maximum percentage that you can withdraw from an investment portfolio each year to provide income that will last, with reasonable certainty, as long as you need it.

Why is it important? Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio.

8. Tax deferral

Tax deferral refers to the opportunity to defer current taxes until sometime in the future.

Why is it important? Contributions and any earnings produced in tax-deferred vehicles like 401(k)s and IRAs are not taxed until withdrawn. This allows those earnings to compound, further adding to potential investment growth.

9. Risk/return trade-off

This concept holds that you must be willing to accept greater risk in order to achieve a higher potential return.

Why is it important? When considering your investments, the goal is to get the greatest return for the level of risk you're willing to take, or to minimize the risk involved in trying for a given return. All investing involves risk, including the loss of principal, and there can be no assurance that any investing strategy will be successful.

10. The Fed

The Federal Reserve, or "the Fed" as it's commonly called for short, is the central bank of the United States.

Why is it important? The Fed has three main objectives: maximum employment, stable prices, and moderate long-term interest rates. The Fed sets U.S. monetary policy to further these objectives, and over the years its duties have expanded to include maintaining the stability of the entire U.S. financial system.

Accredited Wealth Management

For an accurate comparison among the states, you'll need to consider your total tax burden. A tax professional can assist you in this task.

Retiring and Relocating? Don't Neglect State Taxes!

If you're retired, or about to retire, you may be thinking about relocating to a state that has low tax rates or provides special tax benefits to retirees. Here's a survey that may jump-start your search for a tax-friendly state in which to spend your golden years.

State income taxes in general

State income taxes typically account for a large percentage of the total taxes you pay. So you may consider yourself lucky if you live in one of the seven no-income-tax states: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. (New Hampshire and Tennessee impose income tax only on interest and dividends.)

But if you're considering a state that does impose an income tax, as a retiree you'll want to know how that state treats Social Security and retirement income.

State income taxes and Social Security

Social Security income is completely exempt from tax in 28 of the states with an income tax (as well as the District of Columbia): Alabama, Arizona, Arkansas, California, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, and Wisconsin.

Some states (for example, Connecticut, Kansas, Missouri, and Montana) don't tax Social Security benefits if income is less than a specified dollar amount (Nebraska joins this list in 2015). And at least three states (Colorado, Utah, and West Virginia) provide a general income exclusion or credit for seniors that takes Social Security into account. Most of the remaining states tax Social Security benefits to the same extent they're taxed under federal law.

State income taxes and retirement income

Of the states with an income tax, most provide at least some relief for retirement income, but this can range from a credit of less than $500 (Ohio and Utah) to an exclusion for all or most retirement income (Hawaii, Illinois, and Mississippi). Only a handful of states, including California, Nebraska, North Carolina, North Dakota, Rhode Island, and Vermont, currently tax all retirement income and don't provide any general income exclusion for seniors.

Make sure you understand how your particular type of retirement income is treated. Some states exempt public pensions, but tax private pensions; or exempt public pensions earned in that state, but not public pensions earned in another state. Some states exempt employer retirement benefits, but not IRA income. Others exempt a specific dollar amount of retirement income, but only if you've reached a certain age or have income within certain limits. In some states, military pensions are partially or fully exempt, while in others they're fully taxable. Some states exempt defined benefit pension payments, but tax 401(k) distributions. A good source for information is your state's Department of Revenue website.

Can the state I'm moving *from* tax my benefits?

What happens if you spent your working life in a state like California that fully taxes retirement income, but you relocate after you retire to Florida, a state that has no income tax? Can California tax your pension benefit? While the answer used to be unclear, federal law now clearly prohibits states from taxing certain retirement income unless you're a resident of, or domiciled in, that state.

Whether you're considered a resident of, or domiciled in, a state is determined by the laws of that particular state. In general, your residence is the place you actually live. Your domicile is your permanent legal residence--even if you don't currently live there, you have an intent to return and remain there. So in our example, if you're no longer a resident of, or domiciled in, California, that state cannot tax your pension benefit under federal law.

The law applies to all qualified plans (for example, 401(k), profit-sharing, and defined benefit plans), IRAs, 403(b) plans, 457(b) plans, and governmental plans.

The law provides only limited protection for other (nonqualified) deferred compensation plan benefits. So-called "top-hat" plan benefits that are paid over an employee's lifetime, or over a period of at least 10 years, are covered by the law. But stock options, stock appreciation rights (SARs), and restricted stock are not; states are free to tax these benefits even after you relocate.

Other considerations

Remember that states impose many other kinds of taxes (for example, sales, real estate, and gift and estate taxes). Some states offer special tax breaks to seniors, like property tax reductions or additional exemptions, standard deductions, or credits based on age. For an accurate comparison among the states, you'll need to consider your total tax burden. A tax professional can assist you in this task.

Accredited Wealth Management

Accredited Wealth Management
Steve Giacobbe, CFA, MBA, CFP®
Chief Investment Officer
6010 Brownsboro Park Blvd
Suite F
Louisville, KY 40207
502-290-1905
sgiacobbe@accreditedwm.com
www.accreditedwm.com

Should I be worried about a Federal Reserve interest rate hike?

After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they've deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren't all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolios in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CDs are likely to do better at providing income than they have in recent years.

Also, bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under- or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust a bond portfolio to help cope with rising interest rates. However, don't forget that a bond's total return is a combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though past performance is no guarantee of future results, that's what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars.

Remember that bonds are subject not only to interest rate risk but also to inflation risk, market risk, and credit risk; a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

Should I unwind my qualified personal residence trust?

When the economy dips, it's not uncommon for real estate that has been transferred to a QPRT to appreciate at a rate that's less than what was assumed and planned for when the trust was formed. Consequently, one of the purposes of the QPRT--removing future appreciation from an estate--may go unachieved. Faced with this situation, you may be inclined to "unwind" (undo) the QPRT. That, however, may not be the best option.

If you unwind the QPRT, you will have wasted any payment of federal gift tax or use of the gift and estate tax applicable exclusion amount associated with the original transaction.

For example, say you transferred your primary residence valued at $500,000 to a QPRT with a 20-year term when you were 40 years old and the Section 7520 rate was 3%. The QPRT provides that if you die during the 20-year term, the primary residence reverts to you. Otherwise, the primary residence passes to your children at the end of the 20-year term. You made a gift of approximately $251,505, and you either paid gift tax on that amount or you used up $251,505 of your $5,340,000 (in 2014) gift and estate tax applicable exclusion amount. Either way, you will have squandered that amount because you won't get it back when you unwind the QPRT.

You may be better off keeping the QPRT. Even if there will be zero appreciation in the property, you might still enjoy some tax savings if you let the QPRT continue. That's because when the gift was valued at the time the property was placed in trust, the calculation assumed there would be no appreciation in the property; additionally, there was a discount because of the possibility you might die during the trust term. So, if you outlive the trust term, you will still enjoy the benefit of that discount.

Not only that, but when the QPRT terminates, you will have to pay the remainder beneficiaries fair market rent if you wish to continue living in the residence. These payments will reduce your estate even further.

That said, if you still want to unwind the QPRT, your best option may be to invalidate the QPRT by ceasing to use your home as a primary residence (a requirement for a valid QPRT). How? You might sell the home or rent it out. It's important to get professional legal advice before taking any action.