



Abel Financial Strategies

Augustus W. Abel, CFP®
Financial Advisor
3130 Winding Woods Dr
Powell, OH 43065
phone (614) 499-1201
aw@awabelfinancial.com
www.awabelfinancial.com

Hi Everyone,

Well December is here and the year is almost over. Whew - That went fast!

We've had a pretty good year so far although it included 1st Quarter and 3rd Quarter that didn't take us anywhere. We did get the correction in October that had been expected for a couple years. Oil prices are dropping like a rock and that will be good as we go forward although it creates a concern about economic growth for the rest of the world, and will impact countries where oil production is a primary economy for the country (Russia, Venezuela, etc). Europe is probably back in recession. China continues to slow. But the US continues to strengthen! Eventually the rest of the world will recover. So I'm pretty encouraged going into 2015.

Aside from all of this we will be celebrating Christ's birth in a few weeks! Alleluia!

Please enjoy the articles and let me know if you have any questions.

God's Peace,
A.W.

December 2014

Four Questions to Ask Before You Open Your Wallet

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The Abel Advisor

a Financial Stewardship Newsletter

Four Questions to Ask Before You Open Your Wallet



Even if you have the best of intentions, it's easy to overspend. According to a Gallup poll conducted June 9-15, 2014,* 58% of people who had shopped during the previous four weeks said they spent more at the store than

they originally intended to. Even if you're generally comfortable with how much you spend, you may occasionally suffer from a case of buyer's remorse or have trouble postponing a purchase in favor of saving for a short- or long-term goal. Here are a few key questions to consider that might help you fine-tune your spending.

How will spending money now affect me later?

When you're deciding whether to buy something, you usually focus on the features and benefits of what you're getting, but do you think about what you're potentially forgoing? When you factor this into your decision, what you're weighing is known as the opportunity cost. For example, let's say you're trying to decide whether to buy a new car. If you buy the car, will you have to give up this year's family vacation to Disney World? Considering the opportunity cost may help you evaluate both the direct and indirect costs of a purchase.

Some other questions to ask:

- How will you feel about your purchase later? Tomorrow? Next month? Next year?
- Will this purchase cause stress or strife at home? Couples often fight about money because they have conflicting money values. Will your spouse or partner object to your purchasing decision?
- Are you setting a good financial example? Children learn from what they observe. What messages are you sending through your spending habits?

Why do I want it?

Maybe you've worked hard and think you deserve to buy something you've always wanted. But are you certain that you're not

being unduly influenced by other factors such as stress or boredom?

Take a moment to think about what's important to you. Comfort? Security? Safety? Status? Quality? Thriftiness? Does your purchase align with your values, or are you unconsciously allowing other people (advertisers, friends, family, neighbors, for example) to influence your spending?

Do I really need it today?

Buying something can be instantly and tangibly gratifying. After all, which sounds more exciting: spending \$1,500 on the ultra-light laptop you've had your eye on or putting that money into a retirement account? Consistently prioritizing an immediate reward over a longer-term goal is one of the biggest obstacles to saving and investing for the future. The smaller purchases you make today could be getting in the way of accumulating what you'll need 10, 20, or 30 years down the road.

Be especially wary if you're buying something now because "it's such a good deal." Take time to find out whether that's really true. Shop around to see that you're getting the best price, and weigh alternatives--you may discover a lower-cost product that will meet your needs just as well. If you think before you spend money, you may be less likely to make impulse purchases, and more certain that you're making appropriate financial choices.

Can I really afford it?

Whether you can afford something depends on both your income and your expenses. You should know how these two things measure up before making a purchase. Are you consistently charging purchases to your credit card and carrying that debt from month to month? If so, this may be a warning sign that you're overspending. Reexamining your budget and financial priorities may help you get your spending back on track.

*Source: American Consumers Careful With Spending in Summer 2014, www.gallup.com.

Helping Your Parents Manage Their Finances



Postponing a discussion about helping a parent with his or her finances increases the odds that problems could arise before that discussion takes place.

As the U.S. population gets older, more people, particularly baby boomers, are confronting a dilemma. As parents age, their ability to manage their own finances may decline. That can make it more likely that they may neglect the life savings they've worked so hard to accumulate or make costly mistakes with them. Even worse, they're more likely to fall victim to one of the fraudulent schemes that frequently target seniors. "Financial Fraud and Fraud Susceptibility in the United States," a September 2013 report prepared for the FINRA Investor Education Foundation, found that seniors were 34% more likely to lose money to fraudsters than were those in their 40s.

And yet many seniors, especially those who have always been independent and/or money-savvy, may be reluctant to accept advice or help from their children, or even discuss living expenses, health care plans, investments, or general estate planning. Sadly, postponing that discussion can increase the difficulty of tackling whatever problems may eventually arise.

What's behind parental reluctance?

Suggesting that parents might benefit from assistance, either from their children or a professional, may remind them of their own mortality. People are living longer; if they're still active and involved, they may have difficulty accepting that their current good health and financial comfort may not always continue.

Also, some seniors may be reluctant to discuss finances because it can reinforce a sense of loss; this could be especially true if they can no longer drive or participate in activities they enjoy. Admitting that they need help with financial issues may make them feel as though one more area is no longer under their control. If this is the case, they might respond to the idea that addressing important issues now--planning for ill health or an incapacity--could give them greater decision-making power over their quality of life later.

Parents also may be uncomfortable discussing finances with only one child, preferring to involve all siblings. In this case, you may need to either try to reach a consensus about which child is best equipped to help, or divide responsibilities among siblings. For example, one child might assist with billpaying and day-to-day expenses while another reviews investments or handles health insurance, Medicare, and Social Security.

In some cases, parents may respond to the idea that taking action sooner rather than later can help prevent the loss of much of their

hard-earned savings to taxes or scams. If they're uncomfortable discussing finances with you, you could suggest working with a third party who can review their situation and make recommendations that could then be discussed jointly.

When to offer help

Here are some signs that a parent might need some assistance: confusion about whether direct-mail offers are advertising or bills; failing to pay bills or file documents properly, especially if someone has always been highly organized; complaints about being unable to make ends meet; talking about the merits of certain investments, especially unfamiliar ones and especially if a parent hadn't previously exhibited much interest in investing; unusual behavior, such as making unexpected large purchases or spending a lot of time gambling.

Be sure to rule out other physical problems, such as an infection or difficulties with vision or hearing, before assuming that mental confusion is automatically a sign of dementia.

A start is better than nothing

If parents are reluctant to discuss specific figures, try to make sure that key information, including online account information and passwords, is on paper, and that someone else knows the location of those items and will be able to access them if necessary.

You might start providing assistance in stages. Offer to review checking account statements and/or credit card bills to ensure they're not paying for services they want to cancel or didn't request; this may give you insight into the overall state of their finances. Because seniors may be more willing to discuss issues such as health insurance and preferences regarding long-term care or end-of-life decisions before other topics, building trust in these areas could increase comfort levels on both sides with other matters.

If a trust has been set up, a trustee might be the logical person to handle finances, since he or she may eventually have to deal with trust-related issues anyway. The same is true for someone who has been granted a durable power of attorney, even if he or she doesn't yet have full responsibility for managing finances. And in a worst-case scenario, children can petition a probate court to name a conservator or guardian. Whatever approach you take, one of the key challenges of this process is to respect a parent's dignity while protecting his or her ongoing well-being.





1 This hypothetical example is not intended to reflect the actual performance of any specific investment, nor is it an estimate or guarantee of future value.

2 If you wait until April 15, 2016, to actually withdraw funds from the Roth IRA to pay the conversion taxes, do you need to worry about paying estimated tax on the \$100,000 of conversion income? Technically, yes. You might need to increase your withholding on other income, or make estimated tax payments, as a result of the conversion.

But keep in mind that there are a number of important exceptions to the estimated tax payment rules. For example, if your tax withholding for 2015 is at least equal to your 2014 tax liability, you generally would not be required to make estimated tax payments, and you would not be subject to an underpayment penalty, regardless of the amount of your Roth conversion income.

Importance of Timing a Roth IRA Conversion: An Example

Conventional wisdom holds that if you convert a traditional IRA to a Roth IRA, you should never pay the conversion taxes from IRA assets. The reason is that you'll be depleting IRA assets that might otherwise be available to grow on a tax-deferred basis. The withdrawal from a traditional IRA to pay the conversion taxes is also a taxable distribution, generating an additional tax liability, requiring an additional withdrawal, and so on--plus you'll generally pay a 10% penalty if you're not yet 59½.

It's also conventional wisdom that converting a traditional IRA to a Roth IRA is tax neutral so long as income tax rates remain the same at the time of conversion and after retirement.

Conventional wisdom isn't always right

But there's one scenario where conventional wisdom may not apply. This is best explained with an example.¹ Let's assume the following:

1. You'll be 59½ or older as of January 1, 2015, and you've had a Roth IRA for at least five years. So you'll be eligible for tax-free and penalty-free qualified distributions from your Roth IRA in 2015.
2. You've decided that it's appropriate for you to have more retirement assets in a Roth IRA.
3. You own a stock in your traditional IRA that you anticipate could be a candidate for higher-than-average gains. For example, let's assume you own 10,000 shares of Acme Pharmaceuticals, a highly speculative biotech that has a drug pending before the FDA. The shares are currently trading at \$10. After diligent research, you've determined that the Acme stock could climb to as much as \$50 if the drug is approved by the FDA, but it is equally likely to drop to \$1 if not approved. The FDA deadline for approval is October 1, 2015. (For simplicity, we'll assume the Acme stock is the only asset in your traditional IRA and that you are converting the entire IRA.)
4. You want to convert your traditional IRA to a Roth in 2015, before the potential appreciation in Acme stock, but you don't have any cash available to pay the conversion tax, or you simply don't want to pay the conversion tax from other (non-IRA) assets.

Now let's further assume that Acme's drug does receive FDA approval on October 1, 2015, and the stock does in fact jump from \$10 to \$50.

Result if you do not convert

If you did not convert your traditional IRA to a Roth IRA, your traditional IRA would now hold 10,000 shares of Acme stock worth \$500,000. Again, for simplicity, let's assume you sell the stock, your account now holds the \$500,000

cash proceeds, and you make no further trades or contributions to the account. Assuming you earn 6% until your retirement in 10 years, your account would grow to approximately \$895,000. Assuming a 28% federal income tax rate, the after-tax value of your account would be \$644,705 at retirement.

Result if you do convert

Now let's assume you did convert your traditional IRA to a Roth IRA before October 1, 2015. The stock was worth \$100,000 at the time of conversion, and assuming a 28% tax rate, the federal income tax is \$28,000, due when you file your 2015 tax return. On October 1, when the drug is approved, the value of the shares increases to \$500,000. Again, for simplicity, let's assume you sell the stock, your account now holds the \$500,000 cash proceeds, and you make no further trades or contributions to the Roth IRA.

On October 1 you also receive a tax-free \$28,000 qualified distribution from the Roth IRA to pay the conversion tax (although technically you wouldn't need to actually pay that tax until April 15, 2016).² Now your Roth IRA balance is \$472,000. Assuming the same 6% earnings rate, after 10 years your IRA would have grown to approximately \$845,000--about \$200,000 more than if you had not converted--even though tax rates have remained constant and you've paid the conversion tax from IRA assets.

There's no magic to this. You're simply paying--from the Roth IRA--conversion taxes on the stock before the appreciation, instead of paying taxes on the fully appreciated value of the stock in the traditional IRA at retirement. But by paying the conversion tax from the Roth IRA--instead of from the traditional IRA--you're able to convert your entire traditional IRA, keeping the funds in the Roth IRA (and potentially benefitting from the hoped-for appreciation) until you actually make a withdrawal from the Roth IRA to pay the tax.

And you can always recharacterize if things go wrong

But what happens if you turn out to be wrong, the FDA does not approve Acme's drug, and the stock drops to \$1? Well, in that case, you can simply undo the conversion. You have until October 15, 2016, to recharacterize the Roth IRA back to a traditional IRA, and for tax purposes you'll be treated as though the conversion never happened (with no resulting tax bill, or a tax refund if you already paid taxes on the conversion).

Before taking any specific action, be sure to consult with your tax professional.



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Augustus W. Abel, CFP®
Financial Advisor
3130 Winding Woods Dr
Powell, OH 43065
phone (614) 499-1201
aw@awabelfinancial.com
www.awabelfinancial.com

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How can college students save and spend money wisely?

College is a pivotal time in a young adult's life. Students gain a sense of independence that is accompanied by responsibility--especially when it comes to finances. If you're a new college student, it can be overwhelming to figure out how to save and spend money wisely. However, if you take time to plan, you won't have to worry about spending money carelessly. And your parents will be glad to avoid desperate pleas for cash over the phone.

It may be helpful to review campus resources ahead of time so you can eliminate items that you don't necessarily need to bring with you to school. Why bring your car and pay for an expensive parking pass if you can use free public transportation? Similarly, it might make more sense to borrow textbooks from your university's library or rent them rather than fork over the dough to buy pricey books you'll use for a single semester.

Next, establish a monthly budget. Track your expenses for a month to determine where most of your money is going, then look for the areas where you need to reevaluate your spending.

For example, you may be spending too much on take-out when you already have a prepaid meal plan at your school. Take advantage of your plan and put that money toward something else in your budget like clothing or entertainment.

What if you have excess cash? Set aside a few dollars each week to create an emergency fund. Over time, that money could accumulate, and you never know when it might come in handy.

But if you still find yourself strapped for cash, most college campuses offer a variety of part-time jobs that are designed to fit into a student's busy schedule. Ask about a job the next time you go to the gym for a workout or the dining hall for a meal. Or you can use your school's career service website to browse work-study options available on campus. As long as you're aware of what's available to you, you'll be better informed to make wise money decisions, which enables you to focus on making the most of this chapter in your academic career.



I'm having trouble paying my student loans. Do I have any options?

If you or someone you know is having difficulty paying back student loans, consider investigating the government's three income-driven repayment plans. These plans--available for federal student loans, not private loans--are designed to make student loan debt more manageable by reducing your monthly payment.

The first and newest program is called Pay As You Earn (PAYE). Under PAYE, borrowers pay 10% of their discretionary income toward their federal student loans each month, and all remaining debt is generally forgiven after 20 years of timely payments. Your monthly loan payment is based on your income, family size, and state of residence. It is readjusted each year based on these criteria.

The second plan is called Income-Based Repayment (IBR), which is similar to Pay As You Earn. Under IBR, borrowers pay 15% of their discretionary income toward their loans each month, and all remaining debt is generally forgiven after 25 years of payments. (For new borrowers who take out loans after July 1, 2014, the IBR terms are the same as PAYE.)

Both PAYE and IBR have an eligibility requirement before you can enter the plan. The payment that you would be required to make under PAYE or IBR (a technical calculation based on your income and family size) must be less than what you would pay under the government's standard repayment plan, which is a fixed amount over a 10-year term.

The third plan is called Income-Contingent Repayment (ICR). The ICR plan does not have an initial eligibility requirement, so any borrower with eligible loans can make payments under this plan. Under ICR, your payment is equal to the lesser of 20% of your discretionary income or what you would pay under a repayment plan with a fixed payment over a 12-year repayment term. The repayment period is 25 years.

Under all three plans, loans are forgiven after 10 years for those in certain public-service jobs.

The U.S. Department of Education offers a Repayment Estimator calculator on its website www.studentaid.ed.gov that you can use to see whether you qualify for certain plans, and to compare monthly payments and total lifetime costs under different plans.

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