FINANCIAL PLANNING CONSIDERATIONS FOR 2015

The New Year brings changes to a variety of financial planning topics including investing, tax planning, and estate planning. The Wealth Office™ at DiMeo Schneider assists clients in addressing these issues to encourage a proactive approach throughout the year. We hope you find the pages that follow to be a helpful resource. Please feel free to contact any of the professionals at DiMeo Schneider for further assistance.

**Tax Planning**

Federal income tax brackets are relatively unchanged from 2014; similarly, most contribution limits to tax-deferred retirement accounts remain at or near 2014 limits. 2015 marks the third year of additional taxes associated with the Affordable Care Act (ACA). Two of the more notable provisions affecting certain high income taxpayers are the additional 0.9% Medicare tax and the 3.8% Net Investment Income Tax (NIIT) (both items are explained in greater detail on page 3). For certain high income taxpayers, the 3.8% Net Investment Income Tax (NIIT) further reinforces the importance of specific asset allocation between taxable and tax-deferred accounts in an effort to maximize portfolio tax-efficiency.

**Retirement Planning**

Late last year (2014), the IRS established new rules concerning IRA Rollovers, while also issuing new guidance on rolling over after-tax contributions from a defined contribution plan to a Roth IRA. These new changes are highlighted in further detail on pages 7-8.

**Estate Planning**

The New Year marks a good time to revisit estate planning objectives, reviewing items such as intended asset distribution at death, powers of attorney, beneficiary designations, etc. The Federal Estate Tax Exclusion and the Lifetime Gifting Exemption increased from $5.34MM to $5.43MM per person. Even if total assets fall below the federal exemption amounts, it may still be beneficial to review the applicable resident state exclusion/exemption, as many states have “decoupled” from the federal estate exclusion in recent years, thus potentially resulting in estate taxes (at the state level) at death.

**Insurance Planning**

While investment, tax, and estate planning often take center stage, the importance of proper insurance planning cannot be overstated. A simple oversight in coverage could result in a meaningful loss, whereas the cost (premiums) for improved coverage (relative to current coverage) is often rather minimal. A proper insurance review should include an analysis of items such as life insurance, property and casualty insurance, disability insurance, etc.

**Education Planning**

The annual increase in college expenses (tuition, fees, room and board) was relatively modest this past year (2.9% for average tuition and fees for public 4-year institutions), though expenses have risen considerably over the past decade. The chart at the bottom of page 13 illustrates future annual college expenses assuming a 4% or 6% year-over-year increase, further indicating “there’s no time like the present” to set aside money for future college expenses. An education savings plan (529 plan) provides a great option to save for college; page 13 lists Morningstar’s “2014 Gold Medalist Plans” as well as a Marketwatch survey of 529 plans with the lowest “all-in” expenses.

Information in this report has been obtained from a variety of sources which are deemed but not guaranteed to be accurate. This report provides general information and does not represent a specific recommendation. DiMeo Schneider & Associates, L.L.C. does not provide tax or legal advice.

<table>
<thead>
<tr>
<th>Federal Tax Bracket</th>
<th>Single</th>
<th>Head of Household</th>
<th>Married Filing Jointly (MFJ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$ 0 - $ 9,225</td>
<td>$ 0 - $ 13,150</td>
<td>$ 0 - $ 18,450</td>
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<tr>
<td>15%</td>
<td>$ 9,226 - $ 37,450</td>
<td>$ 13,151 - $ 50,200</td>
<td>$ 18,451 - $ 74,900</td>
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<tr>
<td>25%</td>
<td>$ 37,451 - $ 90,750</td>
<td>$ 50,201 - $ 129,600</td>
<td>$ 74,901 - $ 151,200</td>
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<tr>
<td>28%</td>
<td>$ 90,751 - $ 189,300</td>
<td>$ 129,601 - $ 209,850</td>
<td>$ 151,201 - $ 230,450</td>
</tr>
<tr>
<td>33%</td>
<td>$ 189,301 - $ 411,500</td>
<td>$ 209,851 - $ 411,500</td>
<td>$ 230,451 - $ 411,500</td>
</tr>
<tr>
<td>35%</td>
<td>$ 411,501 - $ 413,200</td>
<td>$ 411,501 - $ 439,000</td>
<td>$ 411,501 - $ 464,850</td>
</tr>
<tr>
<td>39.6%</td>
<td>$ 413,201+</td>
<td>$ 439,001+</td>
<td>$ 464,851+</td>
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Portfolio Taxation (Federal Rates):

<table>
<thead>
<tr>
<th>Qualified Dividends &amp; Long-Term Capital Gains</th>
<th>0%</th>
<th>15%</th>
<th>20%</th>
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<tbody>
<tr>
<td>For taxpayers in the 10%, 15% income tax brackets</td>
<td>For taxpayers in the 25% - 35% income tax brackets</td>
<td>For taxpayers in the 39.6% income tax bracket</td>
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*A special 3.8% Net Investment Income Tax (NIIT) may also be applicable for taxpayers with modified adjusted gross income (MAGI) above a certain threshold – see the following page for details.

Employee/Retirement Benefits:

| Contribution Limits for 401(k), 403(b) | $ 18,000 |
| Age 50+ Catch-up for 401(k), 403(b) | $ 6,000 |
| Contribution Limits for SIMPLE IRA Plans | $ 12,500 |
| Age 50+ Catch-up for SIMPLE IRA Plans | $ 3,000 |
| Contribution Limits for IRAs | $ 5,500 |
| Age 50+ Catch-up for IRAs | $ 1,000 |

Modified Adjusted Gross Income (MAGI) Phase-out Limits for IRA Contributions:

| Traditional IRA | Single | $ 61,000 - $ 71,000 (for deductibility*) |
| Head of Household | $ 61,000 - $ 71,000 (for deductibility*) |
| Married Filing Jointly | $ 98,000 - $ 118,000 (for deductibility*) |
| Roth IRA | Single | $ 116,000 - $ 131,000 |
| Head of Household | $ 116,000 - $ 131,000 |
| Married Filing Jointly | $ 183,000 - $ 193,000 |

* Traditional IRA contributions are fully deductible to the extent 1) an individual is not covered by a qualified retirement plan or 2) Modified Adjusted Gross Income (MAGI) falls below the income phaseout limits cited above.
### Brief Summary of Affordable Care Act (ACA) Tax Provisions (Effective as of 01/01/2013)

To help offset the cost of the Affordable Care Act, high income taxpayers may face these additional taxes:

<table>
<thead>
<tr>
<th>Medicare Tax</th>
<th>Notes</th>
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| **0.9% Medicare Tax** | • Applicable for high income taxpayers with **earned income** above a specified threshold (see below)  
• Tax is only applicable on the **excess** of earned income above the specified threshold (see below)  
• “Earned income” is essentially the income derived from an individual’s labor – wages, salaries, commissions, etc.  
• *Example:* A married couple has earned income of $420k; as such, their earned income **exceeds** the cited threshold ($250k) by $170k. The 0.9% tax will be applied to this $170k amount above the threshold ($1,530 of additional tax). |

| 3.8% Net Investment Income Tax (NIIT) | • Applicable for **unearned income** (‘Net Investment Income’ (NII)), such as interest, dividends, rents, royalties, and certain capital gains) for high income taxpayers with an Adjusted Gross Income (AGI) above a certain threshold  
• Tax applies to the **lesser of:**  
  1) Net Investment Income (NII), or  
  2) Modified AGI above a certain threshold (see below)  
• The following items are **not** subject to the 3.8% Medicare tax:  
  o Distributions from qualified plans, 401k/403b plans, tax-sheltered annuities, IRAs, and eligible 457 plans  
  o Pension payments  
  o Social Security income  
  o Municipal bond interest  
  o Life insurance proceeds  
• *Example:* A single taxpayer has earned income of $185k and $75k of net investment income for a total AGI of $260k. The 3.8% tax is applied to the **lesser of** net investment income ($75k in this example) or the taxpayer’s AGI above the threshold ($60k in this example); as a result, the single taxpayer will be subject to additional tax of $2,280 ($60k x 3.8%). |

<table>
<thead>
<tr>
<th>High Income Thresholds</th>
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<tbody>
<tr>
<td>Single</td>
<td>$200,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$200,000</td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$250,000</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>$125,000</td>
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### Other Noteworthy Tax Provisions

<table>
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<tr>
<th>Tax Provision</th>
<th>Notes</th>
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| **Pease Limitation on Itemized Deductions**       | • Itemized Deductions will be limited for certain high income taxpayers with an Adjusted Gross Income (AGI) above a specified threshold (see box below).  
• The Pease limitation reduces most itemized deductions by 3% of the amount by which AGI exceeds a specified threshold, up to a maximum reduction of 80% of itemized deductions.  
• The Pease limitation does not apply to the deductions for medical expenses, investment interest expense, casualty/theft losses, or gambling losses.  
• The Pease limitation does not apply to deductions by estates or trusts. |
| **Personal Exemption Phase-out (PEP)**            | • Personal Exemptions ($4,000 for 2015) will be limited/phased out for certain high income taxpayers with an Adjusted Gross Income (AGI) above a specified threshold (see box below).  
• The applicable phase out is 2% for each $2,500 that the taxpayer’s AGI exceeds the income threshold.  
• The personal exemption will be completely phased out for taxpayers with an AGI exceeding the following amounts:  
  o $380,750 for Single  
  o $406,550 for Head of Household  
  o $432,400 for Married Filing Jointly |
| **Applicable AGI Thresholds for Pease Limitation & Personal Exemption Phase-out (PEP)** | • Single $258,250  
• Head of Household $284,050  
• Married Filing Jointly $309,900 |
Tax Planning:

- **Maximizing Portfolio After-Tax Returns**…Review the allocation of investments between taxable accounts and tax-deferred accounts to ensure the portfolio is structured to maximize after-tax returns.
  - Academic studies have shown that taxes can cost investors as much as 1-2% of return per year. An investor must differentiate between what assets ideally belong in a Roth IRA/Roth 401k versus a Traditional IRA or 401k/403b versus a taxable account.
    1. Roth IRA/Roth 401k’s should generally be structured to hold a greater proportion of long-term growth investments (equities).
    2. Traditional IRA/401k/403b assets should generally hold a greater proportion of higher yielding investments which produce income that is taxable at ordinary income rates.
    3. Taxable accounts should “round out” the allocation following a proper allocation within any tax-deferred accounts; taxable accounts should ideally hold assets that produce tax-exempt income or long-term growth investments that produce favorably-taxed qualified dividends.
  - Allocating specific investments between certain accounts may sound like a subtle difference, but the impact on after-tax returns can be significant.

- **Harvesting tax losses**… Investors are allowed to offset capital gains and losses (with no limit). If losses exceed gains, investors can then deduct another $3,000 of net losses against ordinary income. Any additional unused losses carry forward into future years (but expire at death).
  - Special Note: Be aware of the “wash sale rule” which prohibits claiming a loss on a security for which the security was also bought either 30 days before or after the date of sale.
  - As a practical planning consideration, investors can sell a position and replace the exposure with a similar (but not identical) investment while waiting for the 30+ day wash sale period to pass, after which the original security can again be repurchased. In doing so, an investor is able to realize the loss for tax purposes while maintaining similar asset class exposure.

- **Flexible Spending Accounts (FSAs)**…are a great way to set aside pre-tax dollars to pay for annual medical expenses. If you visit the doctor several times per year or are taking regular medications, consider signing up for your employer's flexible spending plan.
  - The IRS slightly increased limits (per employee) to $2,550 for 2015.
  - In 2014, a subtle change was made to the general “use-it-or-lose-it” provision of Flexible Spending Accounts, as the government now allows up to $500 of unused funds to be rolled over each year. Provisions vary by employer, however, as the employer has the choice to allow…
    a) the new $500 rollover feature, b) the previously-established 2½ month grace period for which next year’s expenses (through the grace period) can be claimed against the previous year’s balance, or c) neither option.

- **Health Savings Accounts (HSAs)**… are tax-advantaged medical savings accounts available to taxpayers who are enrolled in a HSA-qualified high-deductible health plan (HDHP). Unused amounts in one year can be carried over to following years and added to subsequent contributions.
  - HDHP 2015 Minimum Required Deductibles: Self-only: $ 1,300; Family: $ 2,600
  - HDHP 2015 Out-of-Pocket Maximum: Self-only: $ 6,450; Family: $12,900
  - 2015 HSA Pre-Tax Contribution Maximum: Self-only: $ 3,350; Family: $ 6,650
  - 2015 HSA Pre-Tax Catch-up Contribution: Up to an additional $1,000 for individuals Age 55 or older.
• **Charitable IRA Rollover**…The Qualified Charitable Distribution (QCD) provision allows individuals over 70½ to give up to $100,000 from their IRAs to eligible charities. The Qualified Charitable Distribution (QCD) counts toward the taxpayer’s Required Minimum Distribution (RMD). While the taxpayer does not receive a charitable deduction for such a distribution, the amount of the QCD is not treated as taxable income (and therefore does not impact the taxpayer’s AGI).
  o The QCD provision may provide a planning opportunity for high income taxpayers whose AGI subjects them to additional taxes via the 3.8% Net Investment Income Tax (NIIT), the Pease limitation on itemized deductions, and/or the personal exemption phase out (PEP).
  o **Special Note:** As of this writing, Congress has not yet renewed the Qualified Charitable Distribution (QCD) provision (which expired as of 12/31/2014). As in years past, Congress may renew this provision in the future, while making it retroactive to January 1st. Taxpayers who are interested in potentially using this provision in 2015 may want to delay Required Minimum Distributions (RMD) until later in 2015 to see if Congress reinstates this provision.

• **Gifting Appreciated Securities**…Consider gifting long-term appreciated securities rather than cash for charitable contributions. The benefit is the same for the charity but allows the taxpayer to avoid paying capital gains tax on the appreciated securities.
  o Consider only gifting appreciated long-term securities (held for over 1 year), as the charitable deduction for gifting securities which were held less than a year is limited to the lesser of the cost basis or the fair market value on the date of contribution.
  o A donor-advised fund can be a good charitable vehicle to accelerate charitable contributions into the current year (for tax purposes), particularly if the donor does not have specific charities in mind to give to in the current year. As donor-advised fund options (Schwab vs. Fidelity vs. Vanguard, etc.) have increased over the last several years, minimums are often as low as $5,000 or $10,000 to open such an account.

• **All non-cash charitable donations over $5,000**… generally require a qualified appraisal (per IRS regulations); the appraisal should be attached with Section B of Form 8283 to the tax return.
  o **Special Note:** Gifts of publicly-traded securities (while still reported on Form 8283 (Non-Cash Charitable Contributions)) are excluded from the appraisal requirement.

• **0% Long-Term Capital Gains Rate**…presents a potential opportunity for gifting to children or others in the 10% and 15% income tax brackets (taxable income (2015 limits) up to $37,450 for single filers and $74,900 for married filing jointly). Keep in mind the gain is included in the taxable income calculation.
  o For example, if a single taxpayer had a long-term capital gain of $18,000 and had other income of $12,000, the taxpayer would fall under the $37,450 income threshold, thus making the long-term capital gain taxable at 0%.

• **The Alternative Minimum Tax (AMT)**…was created in 1969 with the intent to make the tax system fairer by taxing certain wealthy taxpayers who had taken excessive advantage of deductions and, as a result, were not paying federal income taxes. Because AMT was not previously indexed for inflation, it affected more and more individuals over the years. In 2013, Congress created a permanent “patch” to AMT which now indexes for inflation.
  o AMT exemption amounts are $53,600 for Single; $83,400 for Married Filing Jointly; and $41,700 for Married Filing Separately.
- **The Alternative Minimum Tax (AMT) (continued)**
  - While taxpayers generally have limited options to avoid the AMT, you should consider discussing your tax return with your tax preparer or investment advisor to determine if there are steps you can take to avoid/reduce the AMT by reviewing:
    - State and local income tax deductions
    - Property tax deductions
    - Miscellaneous itemized deductions subject to 2% of AGI

- **DOMA** – On June 26, 2013, the Supreme Court ruled that some provisions of the Defense of Marriage Act (‘DOMA’) are unconstitutional. Under the ruling, same-sex couples will be treated as married for all federal tax purposes, including income and gift and estate taxes. The ruling applies regardless of whether the couple lives in a jurisdiction that recognizes same-sex marriage or a jurisdiction that does not recognize same-sex marriage. Any same-sex marriage legally entered into in one of the 50 states, the District of Columbia, a U.S. territory or a foreign country will be covered by the ruling. This decision affects several federal tax and estate laws for spouses:
  - Same-sex couples must file as Married Filing Jointly or Married Filing Separately.
  - Same-sex spouses are eligible to collect Social Security spousal and survivor benefits based on the spouse’s earnings record.
  - An individual’s lifetime estate exclusion can now be transferred to his/her same-sex surviving spouse.
  - Couples can utilize the spousal deduction for gifts made during life and death.

**Retirement Planning:**

- **Savings Plans (401(k), 403(b))**…To the extent possible, consider maximizing the annual savings plan contribution. At a minimum, you should consider contributing up to your employer match (for example, if the employer matches up to 6% of contributions, defer at least 6% of your salary to get the full match).

- **New IRA Rollover Rules** – Starting in 2015, the IRS will allow only one IRA rollover in any 12-month period. This limit will apply by aggregating all of an individual’s IRAs (in essence, treating all IRA accounts as one IRA for purposes of the limit). The rule is designed to deter those taking advantage of accessing IRA assets during the traditional 60-day window before re-depositing such IRA assets back into an IRA.
  - **Special Note:** Direct IRA rollovers (“trustee-to-trustee transfers”) and Roth IRA conversions are excluded from this rule.

- **Rolling Over After-Tax Contributions to a Roth IRA** – late last year (2014), the IRS issued new guidance allowing participants in a defined contribution plan to roll over after-tax contributions directly to a Roth IRA. The ruling effectively simplified the process for participants to maximize their potential tax savings by requesting the plan administrator to make two separate distributions – one for pre-tax savings and earnings and one for after-tax contributions.
  - **Special Note:** The distribution of both pre-tax and after-tax monies must be made at the same time; meaning, a participant cannot selectively choose to only transfer out the after-tax contribution to a Roth IRA while leaving the pre-tax portion within the plan.
• **“myRA” Retirement Accounts** – beginning in 2015, individuals will be able to open a new “myRA” account, a Roth IRA-like account invested in the Government Securities Fund (comprised of U.S. Treasuries).
  - myRA is designed as an alternative to those who do not have access to an employer-sponsored retirement plan or who lack options to save for retirement.
  - An individual must have an employer who is able to set up a direct deposit into their myRA account.
  - The rules governing the new myRA accounts are similar to those for Roth IRAs.
  - Eligible participants must have household income…
    - below $131,000 (Single)
    - below $131,000 (Head of Household)
    - below $193,000 (Married Filing Jointly)
  - The initial investment can be as low as $25, and workers can contribute as little as $5 per pay period (through automatic payroll deductions).
  - Once the myRA account reaches $15,000, the account is then rolled over into a private sector Roth IRA of the saver’s choosing.

• **Spousal IRA**...couples that file a joint tax return can each make IRA contributions, even if only one spouse has taxable earnings. The amount of the combined IRA contributions cannot exceed the amount of the taxable earnings reported on the joint tax return.
  - Special Note: Contributions cannot be made to a Traditional IRA for the year in which you reach age 70½ or for any later year.

• **Consider converting to a Roth IRA/401k**...Many assumptions must be made to determine if converting from a Traditional IRA (or 401k) to a Roth IRA (or Roth 401k) makes sense. While a conversion requires paying taxes upfront, qualified withdrawals from a Roth IRA are tax-free. The converted amount can be withdrawn tax-free and penalty-free following a 5-year holding period, regardless of the taxpayer’s age.
  - The Roth IRA may make sense for individuals with assets above the federal estate exclusion ($5.43MM), as it allows the taxpayer 1) to get additional assets out of the taxable estate (the tax attributable to the conversion) and 2) to ultimately pass along an asset to beneficiaries with tax-free withdrawals.
  - Special Note: The considerations outlined above assume the current income tax system; such considerations could change upon a revision to the income tax system.

• **Consider recharacterizing a prior Roth IRA conversion**...if the value of the converted amount declines below the taxable value of the conversion, it may make sense to recharacterize (undo) the conversion. The election to recharacterize must be made by the tax return due date plus the maximum 6-month extension period (regardless of whether or not the tax return is actually extended). In other words, taxpayers have until October 15th of the following tax year to elect for recharacterization.

• **Establish a SEP-IRA plan**...Self-employed individuals can save taxes by contributing to a SEP-IRA if established before the tax return due date. Once established, the taxpayer has until the due date of his/her tax return (including extensions) to make the plan contributions. In 2015, a self-employed individual can contribute the lesser of $53,000 or 25% of compensation.
Estate Planning:

- 2015 Federal Estate Tax Exclusion: $5,430,000
- 2015 Federal Maximum Estate Tax Rate: 40%

- 2015 Federal Lifetime Gifting Exemption: $5,430,000
- 2015 Federal Maximum Gift Tax Rate: 40%

- 2015 Annual Exclusion Gifts: $14,000

- Recent studies have indicated as many as 2 out of every 3 Americans do not have a basic will in place. Rich or poor, young or old, the New Year marks a great time to address fundamental estate planning issues such as wills, trusts, Health Care Power of Attorney (HCPOA), and Financial Power of Attorney (FPOA).

- A Will:
  - Appoints the guardian(s) for minor children
  - Appoints the executor for your estate (ask The Wealth Office™ for a copy of an executor checklist)
  - Spells out specifically how you want your property split
  - Note: Wills do not override beneficiary designations or determine who receives property owned by joint tenancy. Also, a will generally cannot be used to disinherit a spouse, unless the spouse had previously provided consent.

- A Revocable Trust:
  - Avoids probate (unlike a will)
  - Allows for privacy (whereas a will is a matter of public record)
  - Avoids a potential will contest
  - Allows the grantor (creator) to designate how assets are to be divided upon the grantor’s death

- Health Care Power of Attorney (HCPOA)…allows you to designate a health care agent to make health care decisions on your behalf in the event you are unconscious, mentally incompetent, or otherwise unable to make decisions for yourself. A Health Care Power of Attorney differs from a Living Will in that the Living Will specifies your wishes regarding life-sustaining procedures.

- Financial Power of Attorney (FPOA)…allows you to designate an agent to make financial decisions on your behalf in the event you are unconscious, mentally incompetent, or otherwise unable to make decisions for yourself.

- Portability…The American Taxpayer Relief Act of 2012 permanently extends “portability” (for federal estate tax purposes) which allows for the transfer of a deceased spouse’s unused estate exclusion to the surviving spouse without the need for specific provisions in estate planning documents.
  - While portability was made permanent for federal estate tax purposes, you should check if your resident state also allows for portability of a deceased spouse’s unused estate exclusion. In the event your resident state does not allow for portability, it may make sense for both spouses to have assets in their respective name (or trust’s name) up to the resident state’s estate exclusion amount.
• **Grantor-Retained Annuity Trusts (GRATs)**…This advanced estate planning technique may serve as a potentially meaningful option for passing assets to beneficiaries in a tax-efficient manner (from an estate planning perspective), should your assets exceed the current estate exclusion ($5.43MM per person).
  
  o Given the current low-interest rate environment, GRATs may be of particular interest, as the Section 7520 rate used for GRATs (while up from the historic lows of late 2012/early 2013) currently stands at 2.0% as of December 2014. The 7520 rate is often referred to as the “discount rate” or “hurdle rate.”

• **Annual gifting exclusion**…The maximum lifetime gifting exemption is currently $5,430,000 (limit for 2015). However, in 2015, you are allowed to make “annual exclusion gifts” up to $14,000 per beneficiary ($28,000 per beneficiary as a couple), which do **not** count against the lifetime gifting exemption. To the extent gifts are made in excess of the annual gifting exclusion, a gift tax return should be filed.
  
  o Special Note: 529 College Savings Accounts allow for a 5-year front-loaded contribution (gift), which means that a donor could gift up to $70,000 (or up to $140,000 for a married couple) to a 529 plan, thereby using the next 5 years of annual gifting to the specified beneficiary. Should this election be made, a gift tax return should be filed.
  
  o Special Note: Direct payments to an educational institution or a healthcare provider do **not** constitute gifts; as a result, such direct payments do not count against the annual gifting exclusion or the lifetime gifting exemption.

• **Beneficiary designations**…Review the beneficiary designations for all employer benefit plans, IRAs, insurance policies, and investment accounts to make sure the designations reflect current intentions and align with current estate planning documents.

• **Effectively communicate the names and contact information of trusted advisors** (investment advisor, attorney, accountant, insurance agent, etc.) to individuals of your choosing (beneficiaries, executor, etc.), as such information will be very important in the event of your incapacitation or death. Consider storing this list and other important documents in a safety deposit box.

• **Review estate planning documents**…to ensure the provisions in such documents reflect current wishes. Critically, a review is necessary upon certain life events – marriage, divorce, births, adoptions, etc.

• **Review whether assets are positioned and titled to maximize estate tax efficiency**. To the extent total assets exceed the federal estate exclusion (currently $5.43MM per person), consider consulting with an estate planning attorney to discuss the advantages of more in-depth estate planning and potential gifting opportunities.
  
  o Special Note: In recent years, many states have “decoupled” from the federal estate exclusion; as a result, such states have estate exclusions below the federal level which may result in estate taxes (at the state level) at the first-to-die of a couple, depending on how current estate planning documents are structured.
Insurance Planning / Risk Management:

- **Does your life insurance policy still meet your objectives?** We recommend reviewing the reasons, necessity, and beneficiaries of life insurance policies as circumstances and objectives may have changed since the original purchase.
  - Specifically, does your current life insurance meet your needs for income replacement, educational funding, etc.? Has an insurance professional reviewed your policy in the context of the current insurance market?
  - If you currently have term insurance, do you know how long the policy will last? Will the coverage period be sufficient for your objectives?
  - Are the owner and beneficiaries of your life insurance policies consistent with your estate planning objectives and creditor protection objectives?

- **Disability insurance policies** are designed to replace some/all of the insured’s earned income in the event of disability. While the statistics may not sound alarming (roughly 7% to 8% of men and women are affected per year (ages 18-64)), the reality is that several months of lost income could have a significant effect on your financial situation.
  - If you have a disability policy, are you aware how disability is defined?
  - In the event of disability, how much of your compensation is covered?
  - What is the required waiting period for qualifying for disability insurance benefits?

- **Umbrella (or Excess Liability) policies** are designed to supplement the liability coverage provided by a homeowners and/or auto policy; however, not all umbrella policies are equal. A periodic review of umbrella policy coverage is a worthwhile exercise to ensure adequate, updated, and complete coverage. Given the traditionally low cost of umbrella insurance, current umbrella coverage should be compared against current net worth and expectations for future net worth.
  - Review your umbrella policy to ensure there are no gaps between the beginning limits of the umbrella insurance policy and the maximum underlying coverage provided by your homeowners and auto insurance policies.

- **Homeowners and Auto Insurance policies** vary across the country. High-end insurance providers generally include contractual clauses to ensure you get the full replacement value of your property if damaged or destroyed. Be careful, however, to address this up-front, as insurance providers generally leave you little negotiating room after any damage has occurred.
  - What are the contractual limits of your homeowners’ policy? Are valuable items such as jewelry and artwork adequately insured by your policy?
  - Does your homeowners’ policy provide sufficient coverage to rebuild your home if it was necessary? Is your home covered in the event of water damage (such as flooding)?
  - Do you know the liability limits of your auto insurance policy? Have you reviewed the coverage provided for uninsured/underinsured motorist (in the event of an accident for which the other driver is at fault)?
Health Insurance –
- As a provision of the Affordable Care Act (ACA), the penalty for not carrying health insurance increases in 2015. The penalty is the greater of:
  - 2% of your yearly household income (maximum penalty capped at the national average yearly premium for a bronze plan)
  - $325 per person ($162.50 per child under 18) (with a maximum penalty of $975 per family)
  - After 2015, the penalty is 2.5% of income or $695 per person and then adjusted for inflation
- If an individual does not obtain health insurance coverage and, as a result, faces the penalty, it is important to note that, even upon paying the penalty, the individual does not have health insurance coverage and is still therefore responsible for 100% of medical care costs.
- The open enrollment period for 2015 is November 15, 2014 – February 15, 2015. An individual will not be able to get coverage through the Marketplace (“exchange”) until the next annual enrollment period, unless he/she has a “qualifying life event.”

Long-Term Care (LTC) – protects against prolonged illness, accident and disability – areas that are typically not covered by traditional health insurance.
- Long-Term Care generally covers:
  - Skilled care – licensed therapists, nursing homes, rehabilitation services; Custodial care – home health aides, companion services; Assisted living and sheltered care; Adult day care and hospice care; Care coordination services.
- Qualifying for benefits generally involves assistance with two of the Activities for Daily Living (ADLS): Dressing, eating, toileting, bathing, transferring and continence.
- Average length of care: 2½ - 3 years (8-10 years with Alzheimer’s)

<table>
<thead>
<tr>
<th>Service</th>
<th>USA Median Cost in 2014 (year)</th>
<th>USA Median Cost in 2014 (day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Day Health Care</td>
<td>$16,900</td>
<td>$46/day</td>
</tr>
<tr>
<td>Assisted Living Facility</td>
<td>$42,000</td>
<td>$115/day</td>
</tr>
<tr>
<td>Nursing Home (Semi-Private)</td>
<td>$77,380</td>
<td>$212/day</td>
</tr>
<tr>
<td>Nursing Home (Private)</td>
<td>$87,600</td>
<td>$240/day</td>
</tr>
</tbody>
</table>

Source: Genworth 2014 Cost of Care Survey

Long-Term Care (LTC) (continued)
- Ideally, start the conversation for coverage by age 50, as the incremental cost associated with delaying the acquisition of LTC insurance can be significant. Quotes should be obtained from multiple insurance carriers for comparability.
- When comparing quotes and policy provisions, review the following items: the length of coverage, the elimination period (similar to an insurance deductible), inflation protection, the benefit amount, and a waiver of premium (avoids premium payments when receiving benefits). A rider to consider adding to the policy is a shared care rider, which allows a spouse to utilize the benefit without having to purchase a separate stand-alone policy.
**Education Planning:**

- **Expenses on the rise**...According to The College Board, over the decade from 2004 to 2014, published tuition and fees in addition to room and board (public 4-year colleges and universities) increased at an average rate of 3.5% per year beyond the rate of general inflation. **Assuming an annual increase of 6%, the cost of college would double every 12 years (at 8%, every 9 years).**

- Average Estimated Undergraduate Budgets (The College Board, “Annual Survey of Colleges”):
  - Public 4-Year In-State, On-Campus: $23,410 / year
  - Public 4-Year Out-of-State, On-Campus: $37,229 / year
  - Private Non-Profit 4-Year, On-Campus: $46,272 / year

- **Consider setting aside money in a 529 plan.** The money grows tax-deferred and, if used for qualified expenses, is federally tax-exempt (and may be state tax-exempt depending on the resident state and the 529 plan). 529 plans now allow you to revise the investment allocation up to 2 times per year. Websites such as Savingforcollege.com can be a helpful resource for evaluating the various 529 plans available.
  - Special Note: *Your resident state may provide a valuable tax deduction for contributions made to the resident state’s 529 plan. As of 2014, 34 states and the District of Columbia offered tax deductions for contributions to the resident state’s 529 plan.*
    - Maryland College Investment Plan (T. Rowe Price), Alaska’s T. Rowe Price College Savings Plan (T. Rowe Price), Utah Educational Savings Plan (Vanguard & DFA), Nevada’s The Vanguard 529 College Savings Plan of Nevada (Vanguard)
  - Lowest Total Costs among 529 Plans (Marketwatch survey):
    - New York 529 College Savings Plan (0.17%), Illinois Bright Start College Savings Program (0.20% for index portfolios), Nevada’s Vanguard 529 Savings Plan (0.21%), Utah Educational Savings Plan (UESP) (0.22%), Wisconsin Edvest College Savings Plan (0.24%)

- Estimating Future Annual College Expenses...

<table>
<thead>
<tr>
<th></th>
<th>Current Cost $30,000/year</th>
<th>Current Cost $40,000/year</th>
<th>Current Cost $50,000/year</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>+4%/year Increase</td>
<td>+6%/year Increase</td>
<td>+4%/year Increase</td>
</tr>
<tr>
<td>5 Years (2020)</td>
<td>$36,500</td>
<td>$40,147</td>
<td>$48,666</td>
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<tr>
<td>10 Years (2025)</td>
<td>$44,407</td>
<td>$53,725</td>
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<td>12 Years (2027)</td>
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<td>15 Years (2030)</td>
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<td>18 Years (2033)</td>
<td>$60,774</td>
<td>$85,630</td>
<td>$81,033</td>
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</table>
**Miscellaneous Planning:**

- **Review your credit report every year**… By law, you can obtain a free credit report every 12 months from [www.annualcreditreport.com](http://www.annualcreditreport.com); according to the Federal Trade Commission, this is the only authorized source for the free annual credit report (though it will not include your FICO score). You should review your credit report for any discrepancies (unauthorized accounts, etc.).
  - Additionally, you may pay for a credit report from one of the three nationwide credit reporting companies (Equifax, Transunion, Experian). Generally speaking, these companies offer a 3-in-1 report (typically between $30 and $60) which details your credit report from each company and may also include your FICO score.

- **Protect yourself against identity theft**… Use these helpful tips to lower your risk of identity theft:
  - Use caution when giving out your personal information. Scam artists "phish" for victims by pretending to be banks, stores, or government agencies. They do this over the phone, in emails, and by postal mail.
    - With the increase of ‘phishing’ emails, use caution in opening emails from unfamiliar sources. Do not click on links or attachments in spam email or in pop-up windows.
  - Treat your trash carefully. Shred or destroy papers containing your personal information including credit card offers and “convenience checks” that you don’t use.
  - Check your bills and bank statements. Open your credit card bills and bank statements right away. Check carefully for any unauthorized charges or withdrawals and report them immediately.
  - Protect your computer. Protect personal information on your computer by following good security practices.
    - Use strong, non-easily guessed passwords (preferably with a combination of letters (including CAPS) and numbers).
    - Use firewall, anti-virus, and anti-spyware software that you update regularly.
    - Download software only from sites you know and trust, and only after reading all of the terms and conditions.

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**Additional Resources:**

For additional information, please see the following:

### Federal Income Tax Rates & Brackets *

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<thead>
<tr>
<th>Income Level</th>
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<th>28%</th>
<th>33%</th>
<th>35%</th>
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<td>$50,001 – $100,000</td>
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**Top Federal Income Tax Rate of 39.6%**

*Income Threshold refers to Taxable Income*

### 0.9% Medicare Tax on Earned Income

0.9% Tax Applies on Earned Income Above the $200k Threshold

### 3.8% Net Investment Income Tax (NIIT) **

3.8% Tax Applies on Lesser of: 1) Net Investment Income or 2) AGI Above the $200k Threshold

### Qualified Dividends ***

Qualified Dividends Taxed at 15%

Qualified Dividends Taxed at 20%

### Long-Term Capital Gains ***

Long-Term Capital Gains Taxed at 15%

Long-Term Capital Gains Taxed at 20%

### Pease Limitation on Itemized Deductions **

Pease Limitation on Itemized Deductions (Begins at $258,250 AGI)

### Phaseout of Personal Exemption **

Partial Phaseout

Personal Exemption Phased Out Above $380,750 AGI

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*Income Threshold refers to Adjusted Gross Income (AGI)*

**Income Threshold refers to Taxable Income. Qualified dividends and long-term capital gains are taxed at a federal rate of 20% for Single Taxpayers with Taxable Income over $413,200, or MFI with Taxable Income over $464,850**

Information in this report has been obtained from a variety of sources which are deemed but not guaranteed to be accurate. This report provides general information and does not represent a specific recommendation.

DiMeo Schneider & Associates, L.L.C. does not provide tax or legal advice.