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Tax Planning throughout Life

Most people do not plan their taxes throughout the year or in the future. They file their taxes and then shunt the whole process aside until the next year. This is a huge mistake and often made because most people believe that tax planning is only for the ultrawealthy. In reality, anyone who earns money and files taxes can save money by planning throughout their life.

In Your 20s

The good news is that you're probably not heavily taxed yet, but the bad news is this is because you are not making very much money. Chances are this is the first time you start filing taxes on your own without being claimed as a dependent of your parents. Make sure you have all of your key financial documents organized and identity information like your birth certificate and Social Security card in a secure place. If your parents opened any accounts for you when you were younger, make sure you have all relevant paperwork now. Consider meeting with an accountant or advisor to make sure you start off on the right foot. Tips:

✔ Contribute to a tax-deferred retirement account, like a 401(k) plan or IRA. Take full advantage of any employer-matching contributions, even if you want to pay off student loans quickly. That free money will most likely grow in your account at a higher rate of return than your low-interest loans.

✔ Keep track of what you pay on student loans. You can deduct interest paid on your loans when you file taxes and can sometimes qualify for an income-based repayment plan if you owe more than you make.

✔ Save receipts and records if you relocate for a job, since these expenses can be deducted.

Continued on page 2

Everyone's Plan Is Different

Everyone's goals for retirement are different. Maybe your dream is to travel the world, or maybe it's to live closer to your grandchildren. Maybe your plan is to while away the days fishing or quilting, or perhaps you're planning to take up a second career. Maybe your goal is to save enough to leave a substantial sum to your beneficiaries. Whatever your dreams are, your retirement plan needs to reflect them — and because your dreams are uniquely yours, your retirement plan should be, too.

The biggest question most people have about retirement is: How much do I need? While that's not the only question, it is an important one. And while using an online retirement calculator is fine to get a very rough idea of how much you might need for retirement, those calculators don't take your dreams or particular circumstances into account. As such, the amount you'll actually need for retirement can vary greatly from the number on the online calculator.

To properly plan for retirement, you should consider all the options, aspects, and opportunities. Please call if you'd like to discuss your retirement plan in more detail. ❍❍❍

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Tax Planning

Continued from page 1

✔ Make sure you are withholding the correct amount. Getting a big refund at tax time lets the government sit on your cash instead of making it work for you during the year.

In Your 30s

Now your finances get significantly more complicated as your savings increase along with your expenses. Tips:

✔ Keep saving in tax-deferred accounts, but also consider opening a tax-free account like a Roth IRA or Roth 401(k) plan, so you will have more income options in retirement.

✔ If you plan to get married or have children, meet with a tax or financial advisor to ensure you are making the best financial decisions for this point in your life. Consider setting up a 529 plan for your children's future educations.

✔ Review the credits and deductions available to you, especially the ones related to child and dependent care. Make sure you are getting everything you qualify for.

✔ Use a flexible spending plan and reimbursement accounts for any medical bills.

In Your 40s

This is when you will probably hit your earning peak. This may bump you into a higher tax bracket, so maximizing possible deductions (like contributions to a retirement account) is more important than ever. Tips:

✔ Upgrade your charitable giving and keep track of any eligible gifts made. Keep all documentation so you can deduct your giving at tax time.

✔ Make sure to meet with an advisor before drawing money from taxable investment accounts for large expenses (such as your child's college tuition), as there may be complicated tax ramifications. Also stay abreast of any tax credits for education

In Your 50s

Retirement is edging closer and you should now focus on saving as much as possible. Tips:

✔ Max out your contributions to IRAs and 401(k) plans. Now that you've turned 50, you can contribute an extra $6,000 to your 401(k) plan and an additional $1,000 to your IRA in 2018.

✔ Start planning for future healthcare expenses. Open a tax-free health savings account to reduce taxable income now and provide a fund for health expenses in retirement.

✔ Know the tax implications of cashing out any stock options or other perks from your employer.

In Your 60s

This tax-planning decade is crucial to your retirement years. Tips:

✔ Plan for all taxes that may apply to you in retirement. For example, your retirement income level will determine whether you have to pay taxes on Social Security benefits.

✔ Consider converting a tax-deferred IRA to a Roth IRA for tax-free income in retirement (but know you will have to pay any taxes owed when converting).

✔ Be careful and strategic about how you make withdrawals to avoid paying higher taxes than necessary. Form a plan with your advisor to ensure you are not paying more than necessary.

Please call if you'd like to discuss this in more detail. ❍❍❍

Factors to Consider before Switching Jobs

When considering a job switch, it's tempting to just look at the difference in salary between the two positions. But before deciding whether to change jobs, consider these factors:

✔ **401(k) plan** — Compare the 401(k) plan features at both employers. How long will you have to wait before making contributions to the new plan? What matching contributions does each employer offer? What investment alternatives are available with each plan? 401(k) plans are becoming increasingly important to help fund retirement, so you thoroughly review each plan.

✔ **Health insurance** — How much of your health insurance premium do you have to pay at each employer? How does the coverage compare? What out-of-pocket expenses are you likely to incur with each plan?

✔ **Other fringe benefits** — Thoroughly compare the fringe-benefit package at each employer, looking at vacation days, sick days, life and disability insurance, dental and optical insurance, and other benefits.

✔ **Commuting costs** — How far is each job from your residence? Will there be additional commuting costs involved, including gasoline, parking fees, and wear and tear on your automobile? Will you have to spend additional time commuting, keeping you away from your family longer?

✔ **Other costs** — How do you have to dress at each job? Will you need to purchase new or more expensive clothing? Will you have to go out to lunch more frequently?

✔ **Advancement opportunities** — While this is difficult to quantify, what are the advancement possibilities at each job? You might want to stick with a lower-paying job, if you'll have better advancement opportunities in the long run. ❍❍❍

The Downside of Taxes Determining Investment Strategy

While you should always keep the tax consequences of investment decisions in mind, it's a mistake to let them drive those decisions. Why? Because the goals for each are fundamentally different: the goal of investing is to make money over the long run, while the goal of tax planning is to minimize paying taxes in the short run.

Ideally, these goals should complement each other to achieve the maximum long-term growth of your portfolio given your investment objectives and risk tolerance. The danger is that by trying to avoid paying taxes today, you will frustrate your efforts to make the money you could have made or need for tomorrow. A few examples of what can go wrong will illustrate the point.

Skewing Your Asset Allocation

Studies have found that the most important factor in determining an investor's long-term rate of return is asset allocation, or how your portfolio is spread out among different classes of investments: stocks, bonds, cash, real estate, and commodities. When properly structured, your portfolio aims for a given rate of return that's chosen to meet your long-term financial needs.

One way to decrease the absolute dollar amount of the taxes paid is to minimize returns. You can accomplish that by concentrating in low-return investments, like money market funds, savings accounts, certificates of deposit, or bonds. But if your investment goals require the higher rate of return only obtained through stocks, this strategy will succeed at minimizing returns, but fail at meeting your investment goals.

Concentrating Investment and Credit Risk

Municipal bonds are a great way to reduce your exposure to both federal and state taxes. While a municipal bond from any state shelters interest payments from federal taxation, only municipal bonds issued from within your resident state will lower your liability for state income taxes. For that reason, investors frequently confine their investments in municipal bonds to in-state issues. The problem with that is concentrating exposure to the risk that your home state could run into financial problems that jeopardize your returns.

When it comes to municipal bond portfolios, it can pay to diversify, both away from a single issuer and single state. That way, you reduce the risk the market value of your bonds will suffer from a default or credit downgrade.

Holding onto an Investment Too Long

The higher tax rate on short-term capital gains — those realized in less than a year — than on long-term gains encourages some investors to hold on to an investment too long. Stock prices can move quickly, and holding on to a stock just because you want a more favorable tax rate can cause you to lose some or all of your profits or deepen the losses you've already suffered.

Selling an Investment Too Soon

Conversely, investors can be tempted to sell a stock prematurely in an attempt to harvest capital losses to shelter capital gains. While it might be a good idea to exit a stock position before its losses mount, you could regret it if the sold stock later results in big gains. Selling may also leave a hole in your asset allocation strategy and diminish your portfolio's level of risk-reducing diversification.

The Proper Approach to Tax-Efficient Investing

That doesn't mean taxes are a good thing or you shouldn't try to minimize the taxes your investments trigger. But there's a wrong way to go about it — and a right way, which consists of doing the following:

- ✔ Taking full advantage of tax-sheltered investment retirement accounts, like IRAs, 401(k) plans, and annuities.
- ✔ Investing in municipal bonds only when they generate a higher after-tax rate of return.
- ✔ Selling stocks based on their intrinsic ability to generate gains or losses.
- ✔ Prudently culling losing stocks from your portfolio when harvesting capital losses.

Please call if you'd like to discuss this in more detail. ❍❍❍

Mobile Devices and Retirement

Twenty short years ago, I reluctantly purchased my first cell phone. Being constantly available was an imposing thought at the time. One day, shortly after purchasing that phone, I lost my connection while in full view of both the Empire State Building and World Trade Center (two of the biggest antennae in the world in 1998). I thought, "This fad is sure to go the way of the Pet Rock and acid-washed jeans." I was mistaken. I was mistaken because I thought of the device as a telephone. Today, many refer to these as "devices." Perhaps this is a purposefully vague description to account for the fact that there is so much you can do with them. Perhaps the term "phone" is now a misnomer for a device that many use to ***avoid*** having to speak with others. Regardless, the future of devices (i.e. the future evolution of the cell phone) is virtually limitless.

As mobile devices have evolved, so too have the ways that we use them. Many of us have come to rely on them for business, entertainment, education, and shopping, to name a few. Retirees, often thought to be "technologically challenged," are using smart phones in increasing numbers. This makes sense, as this technology could make retirement more fulfilling by addressing some of the common needs and desires of retirees.

Many retirees express a desire to maintain independence. One aspect of this is remaining in their own homes. However, do-it-yourself home maintenance presents an increasing challenge as we age. Apps such as Yelp, Angie's List and Home Advisor can help to identify reputable companies on whom one can rely to get work done. Each of these sites relies on the reviews provided by other consumers, which comes in handy if relocating to a less-familiar area in retirement.

Another aspect of independence is mobility. Staying mobile can be facilitated using ride-hailing apps like Uber and Lyft. Even Google Maps, with its spoken directions, can get drivers where they need to go without having them look away from the road. Mobile technology can also enhance life when mobility is restricted or limited. If unable to drive, apps like Blue Apron, GrubHub, or Amazon Fresh might be available for food delivery. If it becomes difficult to get around the house, there are systems that offer control of the thermostat, lights, shades, television, security, and more.

For the most part, retirees want to carry on relationships with family and friends. Social networks make it incredibly easy to keep up with what is going on in the lives of kids, grandchildren, extended family, etc. Further, apps like Skype or FaceTime allow retirees to have video calls with family members across the country or around the world. Facebook also notifies users of social events in which their "friends" have expressed interest.

There are mobile-based apps that help keep you healthy. Fitbit makes devices that you can wear and will monitor many aspects of your health. There are also apps, like Medisafe, that will alert you when it is time to take a medication, and will provide a picture of that medication.

There are applications for keeping the mind sharp. YouTube allows the user to search for videos on virtually any topic of interest. Years back, I explained to my father-in-law that he could search for just about anything. He simply replied, "The Lincoln–Douglas debates." …and they were there (reenacted). Lumosity provides games and exercises that they claim can keep the mind nimble.

What has really come a long way is the ease of adopting and using these technologies. First, search for the app in the App Store, Google Play, or equivalents. The results will include not only the searched app, but also the competitors to that one. For example, if you search for Uber, its competitor, Lyft, will be among the search results. The description will help you decide which to choose. Then it is as simple as selecting it.

New technologies are not without their own "costs." Often, there are fees to download. Some are free to download, but have a subscription fee to activate service. Many of the apps mentioned above are free from such fees, but sell advertising space. Others capture and, in various ways, use our data.

Use of apps has become incredibly intuitive. I was at a meeting one night, and my then-five-year-old called me using FaceTime. He did so without any assistance from my wife. As my eyes have gotten worse, I have relied on using the voice commands to perform web searches, open apps, play specific songs, etc.

Needless to say, this just scratches the surface.

You may have seen some who have become so immersed in their cell phones that they are missing out on life. At the same time, these are incredible tools that can enhance day-to-day life. Whether you want to be reminded to take your medication, watch the Lincoln–Douglas debates, get notified when the International Space Station is visible, find the best restaurant in an area, or yes, make a phone call, the ability to do so is at your fingertips.

To get started, download an app. If there is a better one, your friends will let you know. If you get stuck, ask a five-year-old.

Sincerely,

Christopher M. Trainor

Christopher M. Trainor, CFP®

Financial Advisor

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