CRAIG WILLEKE'S FINANCIAL NEWS DIGEST

MONEYLINE

Converting Your House To A Rental Property

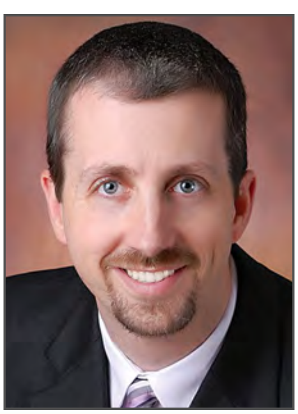
Courtesy of Craig Willeke, LUTCF, CLTC

A real estate agent who has experience leasing properties is a good place to start. If you're moving to another city, you may want to hire someone to manage the property. Ask your real estate agent and other landlords for referrals.

Rental income is taxable at your ordinary income rate, so don't overlook deductible expenses that will lower your tax bill. Property-management fees, insurance, mortgage interest, property taxes, cleaning services and repairs, plus travel expenses to make repairs or collect rent, are all deductible.

As a landlord, you're also allowed to deduct depreciation. Depreciation is based on the lesser of the fair market value of your home at the time you convert it to a rental or your tax basis, which is basically the amount you paid for the home plus improvements and additions. In either case, you must subtract the value of the land. Once you've established the appropriate value, divide it by 27.5 (the tax code assumes residential real estate has a useful life of 27½ years) to calculate a full year's deduction.

There's a catch. When you sell your home, you'll have to pay tax on the amount you claimed for depreciation at a maximum rate of 25 percent. Consider getting help from a tax professional.



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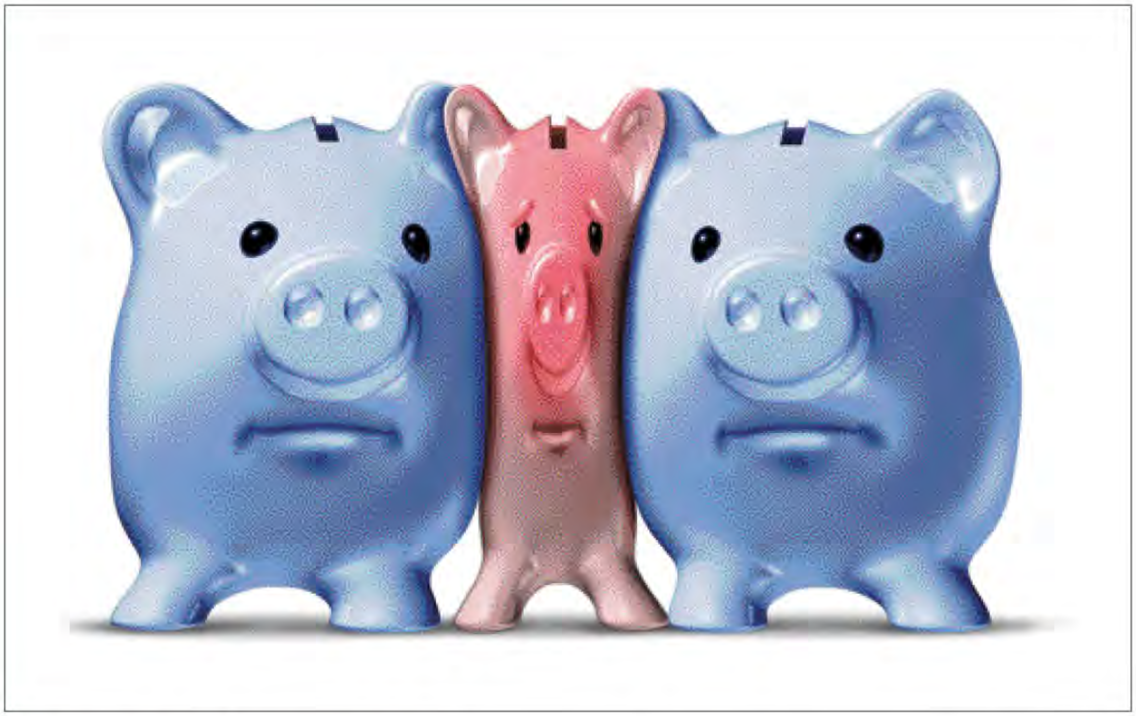
Don't buy vacation property while you are on vacation. It may be tempting to imagine a future with no hotels and no packing and unpacking—and the ability to get away to your own place whenever you wish. But many people find that they do not visit the property as often as they expected to...get bored going to the same place for all vacations...underestimate the cost of furnishing a second home...do not think about the repairs and maintenance that the property will need...and forget that there is no room service—you have to shop and do all your own cooking and cleaning. Be realistic about how often you will use the property...add 20% to whatever costs you expect...and determine whether the property will fit your future lifestyle, not just your current needs.

Source: Bottom Line Personal Magazine

"A wise man should have money in his head, but not in his heart."
— Jonathan Swift (1667 - 1745)



The Retirement Squeeze

By Jill Schlesinger, Tribune Content Agency

Americans are worried about retirement... very worried. According to a recent survey from Wells Fargo and Gallup, despite recent gains in the economy and the financial markets, 46 percent of investors continue to be nervous that they will outlive their savings in retirement. That's probably a pretty valid concern, considering that a sizable percentage of workers report they have virtually no savings and investments. The reason for the dearth of retirement funds is clear: The cost of living and day-to-day expenses leaves little room in the savings category of a family's budget.

A new study by the Center for American Progress shows just how heavy the burden has grown: For a typical married couple with two children, the combined cost of child care, housing, health care and savings for college and retirement jumped 32 percent from 2000 to 2012 — and that's after adjusting for inflation. Meanwhile, median household income is down 5.7 percent from 2000. The Great Recession only exacerbated the trend. More than 20 percent of those who were laid off over the past five years are still unemployed and one in four, who found work, is in a temporary job. Of those who were lucky enough to land new jobs, 46 percent say they had to take a pay cut and 44 percent reported a drop in status.

The increase in expenses, combined with stagnant incomes is creating a retirement squeeze, where middle-income families are finding it hard to build savings. For those who are struggling, the advice remains the same: Do the best that you can to address what I like to call "The Big Three Financial Goals". Those include: (1) Paying down consumer debt (credit card, auto loans) (2) Establishing an emergency reserve fund (6-12 months' worth of living expenses for those who are still working and 12-24 months worth of living expenses for retirees) (3) Contributing to retirement accounts.

For many, conquering the Big Three requires that you figure out where your money is going. The easiest way to do that is to track your expenses for three months. You can use a software program, an app, a spreadsheet or an old-fashioned legal pad. Without determining how much money is coming in and going out today, it's tough to do any planning.

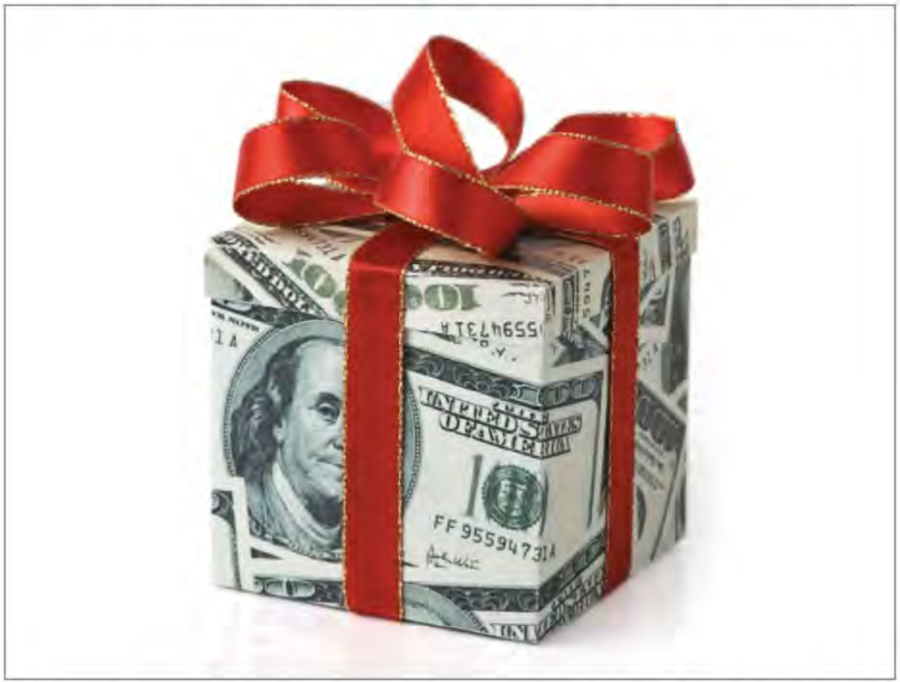
A word of encouragement here: When I was a financial planner, some of the clients who started with big debts, turned out to be fantastic savers. After they whittled down the loan balances, they simply shifted the outgoing payment into savings, and voila, they were able to build their nest eggs.

When it comes to older Americans, the lack of savings is more critical. According to the nonprofit National Council on Aging (NCOA), one in three Americans age 60 or older is economically insecure and 49 percent of Americans 60 and older are very concerned about whether their savings and income will be sufficient to last for the rest of their lives.

Get The Most From Inherited IRAs

By Sandra Block, Kiplinger's Personal Finance

Your adult children may covet your 1950s baseball-card collection, but unless there's a mint-condition Willie Mays or Ted Williams in the stack, it won't mean much to their financial security. An inherited IRA, on the other hand, could let them pay off the mortgage, plug a major hole in their retirement savings and more.



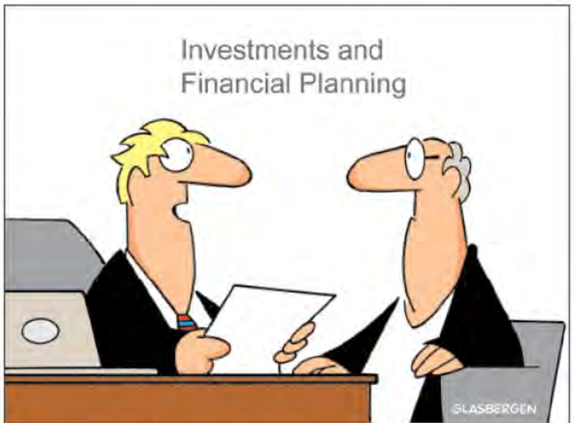
But unless you're careful, your children could end up sharing a large part of their inheritance with the IRS. The tax code treats IRAs inherited by children or other heirs differently than IRAs inherited by husbands and wives. Surviving spouses can roll IRAs into their own accounts, postponing required minimum distributions -- and taxes -- until they turn 70½. If children and other heirs want to continue to benefit from tax-deferred growth, each must roll his portion of the IRA into a separate account known as an inherited IRA, which comes with its own set of rules.

Naming your children as beneficiaries of the IRA (or secondary beneficiaries, if your spouse is still alive) gives them a lot more flexibility. Once they transfer the money to an inherited IRA, they can take annual distributions based on their own life expectancies. A 50-year-old heir, for example, could stretch distributions (and the life of the tax shelter) over the next 34 years.

Bequeathing a Roth IRA to your heirs? A Roth inheritance is usually tax-free, but your heirs can't leave the money in the account forever. The rules for withdrawals are the same as they are for traditional IRAs. If your heirs transfer the money to accounts for inherited Roth IRAs, they can usually stretch withdrawals over their life expectancies.

Your beneficiaries should have funds transferred directly from your IRA to their inherited IRAs. If they receive checks made out to them personally, they'll be prohibited from depositing them in inherited IRAs and will have to pay taxes on the entire amount. There is no 60-day window to deposit the money in the new accounts, as there is with rollovers of other IRAs. Once the money is safely in the inherited IRAs, your heirs have until December 31 of the year after the year of your death to take their first distribution. If they miss that deadline, they may have to pay a penalty of up to 50 percent of the amount they should have withdrawn.

The December 31 deadline is particularly important if you name multiple beneficiaries for your IRA. As long as your heirs divide the account among themselves by that date, they can base distributions on individual life expectancies. If they miss the deadline, they'll all have to base distributions on the oldest child's life expectancy.



"Good news — you can't afford to be old, so that means you're still young!"

Don't assume a certified car has been thoroughly inspected. Used-car dealers are supposed to inspect cars under their certification programs, but not all dealers do. There have been a number of recent cases in which certified used cars had been in accidents or had other problems. Insist on a Carfax or Auto-Check used-car history report from the seller, and contact the company that issued the report to be sure that the report has not been changed. Check the vehicle title to be sure that it does not contain words such as "salvage," "rebuilt" or "flood." Ask the dealer how to contact the former owner—call to verify the car's history. Have the vehicle checked by a mechanic you trust, and ask for a written report—this should cost about $100.

Source: Consumer Reports Money Adviser Magazine

The five best states for retirees based on cost of living, crime statistics, tax rates, health care and weather are South Dakota, Colorado, Utah, North Dakota and Wyoming. *10 worst states:* New York is the worst, followed by West Virginia, Alaska, Arkansas, Hawaii, Alabama, Louisiana, Oklahoma, Maryland and Kentucky.

Source: Bankrate.com

"Feeling gratitude and not expressing it is like wrapping a present and not giving it."
— William Arthur Ward

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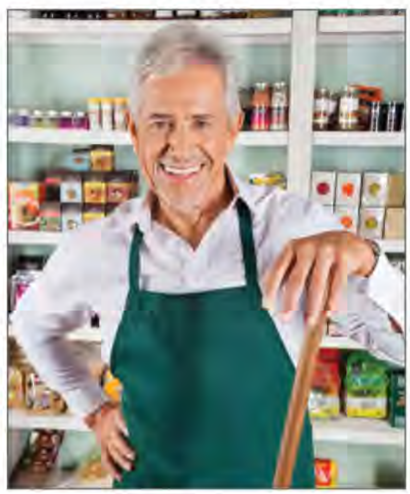
Working During Retirement Can Reduce Social Security Benefit

By Elliot Raphaelson, Tribune Content Agency



You should definitely know that wages earned in retirement can affect Social Security benefits for you and your dependents.

The key factor is whether you have reached your full retirement age (FRA). For example, if you were born in the years 1943 through 1954, your FRA is 66; if you were born in 1960 and later, your FRA is 67. People may elect to receive Social Security benefits at 62, before reaching FRA, although the benefit amount will be less than if you waited until FRA.

If you have reached your FRA, there is no limit to how much you can earn in wages without reducing your benefits. However, if you receive benefits before reaching FRA and also earn wages or salary, the amount of your earnings will determine whether your Social Security benefits will be affected.

In the latter scenario, if your 2015 earnings are no more than $15,720, then your Social Security benefits are not reduced.

However, if you earn more than $15,720 in 2015, for every $2 you earn above $15,720, $1 will be deducted from your Social Security payment. If you earn more than $15,720 in the year you reach FRA, for every $3 you earn above $41,880, $1 will be deducted from your payment in the months before your birth month only. There is no penalty beginning at the birth month.

If you are self-employed, the SSA uses hours of work rather than earnings to determine whether Social Security earnings are withheld. Working more than 45 hours is considered "substantial services" and bars Social Security payments that month.

The types of income that count toward these limits are gross earnings from employment or net earnings from self-employment. Other income, such as investment income, interest, inheritances, and other government payments do not affect your Social Security income, and do not have to be reported to SSA.

More detailed information is available from the Social Security Administration.