CRAIG WILLEKE'S FINANCIAL NEWS
DIGEST

MONEYLINE

Self-Employed Retirement Saving?

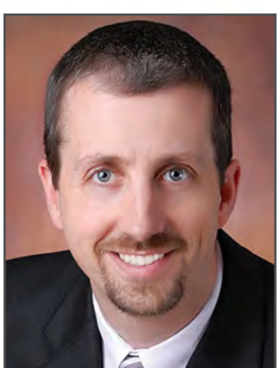
Courtesy of Craig Willeke, LUTCF, CLTC

Three of the best options for most self-employed workers are a Simplified Employee Pension (SEP), solo 401(k) and after-tax programs.

SEPs: If you're a sole proprietor, you can contribute up to 20 percent of your net self-employment income (business income minus half of your self-employment tax) for a maximum SEP contribution of $53,000 for 2016.

Solo 401(k)s: You may be able to contribute more to a solo 401(k) than to a SEP — up to $18,000 for 2016 (or $24,000 if you're 50 or older anytime during the year). You can also contribute up to 20 percent of your net self-employment income, with a total solo 401(k) contribution of $53,000 (or $59,000 if age 50 or older). Your total contributions cannot exceed your self-employment income for the year.

After-Tax Programs: After-Tax contributions are not tax-deductible now but, in some cases, can be withdrawn tax-free later. In the case of a Roth IRA, for example, withdrawals are tax free after age 59 1/2. For sole propietors wanting a survivor benefit component, a cash-value life insurance policy can also be a good option.



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Mortgages to buy condos are easier to get now, says Greg McBride, CFA. After the housing-market crash, some lenders required condominium down payments as high as 45%, and Fannie Mae guidelines required that new developments be 70% presold to owner-occupants, not investors, before loans could be made. Now down payments of as little as 5% may be accepted by some lenders, and the presale requirement has fallen to 50%.
Source: Bankrate.com

Designate a beneficiary for your HSA. Otherwise, the health savings account will be included in your estate — and its value will be taxable on your final income tax return. If your spouse is the designated beneficiary of the HSA, the account will be treated as his/her HSA after your death. If anyone else is designated, the HSA will be closed and the money will be taxable to the beneficiary in the year you die — although there is an exception for survivors who use HSA money for certain eligible medical expenses. Ask your financial adviser for details.
Source: Kiplinger.com

"A good plan today is better than a great plan tomorrow."
— General George S. Patton

Better Money Management Decisions

By Elliot Raphaelson, Tribune Content Agency

Even when you think you're doing the right thing — such as opening a retirement account and consistently funding it — you may not be making the optimal decisions.

For example, the bank where I worked for 23 years offered a 401(k) plan with a 50 percent matching contribution. I always contributed the maximum 6 percent of my salary, receiving an additional 3 percent from the bank. This enabled me to retire at 58.

I was too conservative initially. I invested too much in low-earning bonds early on. I learned my lesson and over time increased the proportion of my investment in diversified equities which are more volatile investments. Many of my colleagues with comparable salaries did not participate fully in the 401(k) program, and many invested too conservatively, and as a result were not in a position to retire early or comfortably.

To take another example, like many people, I saved for years in traditional IRAs. These accounts have the advantage of a tax deduction equal to the amount of the contribution, as well as deferral of taxes on any interest, dividends and equity appreciation. However, when withdrawals are made, either voluntarily or as mandated starting at age 70 1/2, all withdrawals are taxed at ordinary tax rates.

For many working people today, fully funding a traditional IRA would seem like a great decision, but it might be a mistake not to use a Roth IRA instead. Especially for someone early in his or her career, whose marginal tax bracket is low, the tax advantages of a Roth account are greater. Contributions to Roth IRAs are taxable in the year they are made, but earnings may be withdrawn (after five years, provided you've reached 59 1/2) tax free.

There are other situations in which a Roth contribution makes sense. Many individuals earn income after 70 1/2. At that age, the IRS does not allow traditional IRA contributions; however, Roth IRA contributions are allowed. I know many people who fail to take advantage of this option. Roth IRA contributions can be withdrawn without penalty at any time.

There are also situations in which converting from traditional IRAs to a Roth make sense. If you expect your income in a specific year to be low, consider a conversion. Several years ago, my wife and I incurred medical expenses that exceeded $50,000. I should have made a Roth conversion that year. I could have converted some funds with no income tax liability. If you anticipate a high marginal tax rate after 70 1/2, consider making annual conversions between 59 1/2 and 70, especially if you have postponed Social Security payments to age 70.

Finally, don't be greedy. Consider taking some of your profits off the table. I have seen too many investors wait too long to sell. Balance your portfolio periodically — at least once a year. This will allow you to retain significant gains, and rebalance your portfolio.

Review your long-term investment performance. Identify your mistakes, learn from them and don't repeat them.

What Happens When You Pay Off Your Mortgage?

By Patricia Mertz Esswein, Kiplinger's Personal Finance

Owning a home free and clear is an impressive financial milestone. You'll want to take steps to make sure your final payment is credited quickly and the mortgage lien is cleared from your title. Plus, your homeowners insurance and property taxes will no longer be paid from an escrow account, so the bills will be your responsibility.

About 30 to 60 days before you expect to make your last payment, ask for a payoff quote from your lender or loan servicer. Because you pay your mortgage in arrears, you could owe more than you think: This month's payment covers last month's principal and interest, and the tab for interest grows daily while the loan remains open. Or you could owe less than you expect if you occasionally prepaid principal.

The loan servicer must generally deliver a payoff quote within seven days of your request and set an expiration date for the quote. In addition to the final month's principal and interest, you'll pay a fee (usually $25 to $50) to file a request with your county's real estate recording office to release the mortgage lien from your title. You could also owe a prepayment penalty plus any unpaid late fees.

For the final payment, your servicer may require a wire transfer from your bank account (which will cost about $15 to $20) or a cashier's check ($7 to $10). In most states, the servicer must file a release request with the county recorder within 30 days of payoff.

If the servicer paid your bills for property taxes and homeowners, flood and windstorm insurance from an escrow account, it must send you a refund check for any remaining balance within 20 days of payoff and close the account. Call your insurers and tax department to make sure you'll receive the bills in the future and confirm the due dates.

Even if you've received a confirmation letter from your servicer and your account shows a zero balance, you won't hold clear title to your home until the county has recorded the release request. It's a done deal when you receive a copy of the release showing the recording date and the county's identifying document number.

Your insurance policy or policies list your loan servicer as an "additional insured" to protect its interest in your home; ask the insurers to remove the servicer's name. Before they do, they'll probably ask you for copies of the recorded release request and your deed.

When you receive the original, now cancelled, mortgage note, file it — or frame it. And give yourself a well-deserved pat on the back.

"I finally put something aside for my retirement. I put aside my plans to retire!"

Scam alert: Fake Windows 10 upgrades. Avoid opening links in your e-mail promising a free copy of Microsoft's new operating system, Windows 10. Although the e-mail appears legitimate, clicking on the link actually downloads malicious software that locks you out of the files on your computer, then forces you to make a ransom payment to the sender to regain access. *The only ways you should download the upgrade:* Click on the Windows 10 icon that appears in the notification area of your task bar in Windows 7, 8 and 8.1...or get the software directly from Microsoft.com.

Source: PCMag.com

Pros and cons of certified used cars. The cars may be almost as good as new ones, at lower prices, but they sell for premiums over other used cars — sometimes less than $500, but sometimes $1,400 or more. Not all certified programs are the same — look for ones backed by manufacturers, not dealers. Programs run by manufacturers typically have higher standards. But even manufacturer-backed programs can vary widely. Shop around for good deals and special offers — for example, Lexus may provide a loaner when your certified car is in for service.

Source: CBSNews.com

"Generosity is giving more than you can, and pride is taking less than you need."
— Kahlil Gibran

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How Do I Set Up A Scholarship Fund?

By Kimberly Lankford, Kiplinger's Personal Finance

Q: *My uncle passed away last year, and I'd like to establish a scholarship fund in his name. What steps do I need to take, and how much money do I need?*

A: You usually need about $20,000 to $25,000 to endow a scholarship that pays out $1,000 every year. Some institutions will let you create a shorter-term scholarship fund with less money. For example, San Diego State University requires $50,000 to endow a $2,000 annual scholarship, or you can commit to giving $5,000 a year over three years to finance three $5,000 scholarships for one year.

The development office at a school or community foundation will help you set up the scholarship. You may want to focus on students who live in your uncle's hometown or those who plan to major in his line of work or who have a certain grade point average and attend his alma mater. The organization can help you determine the type of requirements to impose without making the applicant pool too small. It may also help you create a fund even if you don't have enough money to endow an annual scholarship. Rather than paying for college tuition, for example, your gift could pay for students to attend a study-abroad program or educational camp.

A community foundation can assist you in setting up a scholarship that isn't tied to a particular school -- say, to help local students who are interested in studying engineering. You can find a community foundation in your area at cof.org/locator.

Ask what types of assets you can give and how the school or community foundation will invest the money. You can give cash, appreciated stock or other investments to create the scholarship fund. Or use a life insurance policy as part of your estate planning.