Pathway Financial Services

Footsteps

News To Help You Along Your Pathway of Life

Summer 2016

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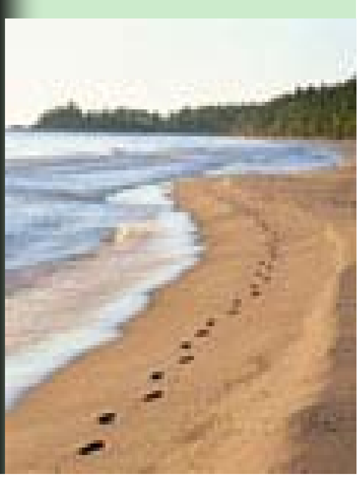
In this issue:



Mid-Year 2016: An Investment Reality Check

Market volatility is alive and well in 2016. Low oil prices, China's slowing growth, the prospect of rising interest rates, the strong U.S. dollar, global conflicts--all of these factors have contributed to turbulent markets this year. Many investors may be tempted to review their portfolios only when the markets hit a rough patch, but careful planning is essential in all economic climates. So whether the markets are up or down, reviewing your portfolio with your financial professional can be an excellent way to keep your investments on track, and midway through the year is a good time for a reality check. Here are three questions to consider.

1. How are my investments doing?

Review a summary of your portfolio's total return (minus all fees) and compare the performance of each asset class against a relevant benchmark. For stocks, you might compare performance against the S&P 500, Russell 2000, or Global Dow; for mutual funds, you might use the Lipper indexes. (Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security, and you can't invest directly in an unmanaged index.)

Consider any possible causes of over- or underperformance in each asset class. If any over- or underperformance was concentrated in a single asset class or investment, was that consistent with the asset's typical behavior over time? Or was recent performance an anomaly that bears watching or taking action? In addition, make sure you know the total fees you are paying (e.g., mutual fund expense ratios, transaction fees), preferably as a dollar amount and not just as a percentage of assets.

2. Is my investment strategy on track?

Review your financial goals (e.g., retirement, college, house, car, vacation fund) and market outlook for the remainder of the year to determine whether your investment asset mix for each goal continues to meet your time frame, risk tolerance, and overall needs. Of course, no one knows exactly what the markets will do in the future, but by looking at current conditions, you might identify factors that could influence the markets in the months ahead--things like inflation, interest rates, and economic growth projections from the Federal Reserve. With this broader perspective, you can then update your investment strategy as necessary.

Remember, even if you've chosen an appropriate asset allocation strategy for various goals, market forces may have altered your mix without any action on your part. For example, maybe your target was 70% stocks and 30% bonds, but now you have 80% stocks and 20% bonds. To return your asset mix back to its original allocation, you may want to rebalance your investments. This can be done by selling investments and transferring the proceeds to underrepresented asset classes, or simply by directing new contributions into asset classes that have been outpaced by others. Keep in mind that rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.

Asset allocation does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

3. Am I maximizing my tax savings?

Taxes can take a significant bite out of your overall return. You can't control the markets, but you can control the accounts you use to save and invest, as well as the assets you choose to hold in those accounts. Consider the "tax efficiency" of your investment portfolio. Certain types of investments tend to result in larger tax bills. For example, investments that generate interest or produce short-term capital gains are taxed as ordinary income, which is usually a higher rate than long-term capital gains. Dividing assets strategically among taxable, tax-deferred, and tax-exempt accounts may help reduce the effect of taxes on your overall portfolio.

All investing involves risk, including the loss of principal, and there can be no guarantee that any investing strategy will be successful.

Charles Cheryl Matt

Quiz: Which Birthdays Are Financial Milestones?

When it comes to your finances, some birthdays are more important than others. Take this quiz to see if you can identify the ages that might trigger financial changes.

Questions

1. Eligibility for Medicare coverage begins at what age?

a. 62

b. 65

c. 66

2. A child can stay on a parent's health insurance plan until what age?

a. 18

b. 21

c. 26

3. At this age individuals who are making contributions to a traditional or Roth IRA or an employer-sponsored retirement plan can begin making "catch-up" contributions.

a. 50

b. 55

c. 60

d. 66

4. This age is most often associated with drops in auto insurance premiums.

a. 18

b. 25

c. 40

d. 50

5. Individuals who have contributed enough to Social Security to qualify for retirement benefits become eligible to begin collecting reduced benefits starting at what age?

a. 62

b. 65

c. 66

d. 70

6. To obtain a credit card, applicants under this age must demonstrate an independent ability to make account payments or have a cosigner.

a. 16
b. 18
c. 21

Answers

1. b. 65. Medicare eligibility begins at age 65, although people with certain conditions or disabilities may be able to enroll at a younger age. You'll be automatically enrolled in Medicare when you turn 65 if you're already receiving Social Security benefits, or you can sign up on your own if you meet eligibility requirements.

2. c. 26. Under the Affordable Care Act, a child may retain his or her status as a dependent on a parent's health insurance plan until age 26. If your child is covered by your employer-based plan, coverage will typically end during the month of your child's 26th birthday. Check with the plan or your employer to find out exactly when coverage ends.

3. a. 50. If you're 50 or older, you may be able to make contributions to your IRA or employer-sponsored retirement plan above the normal contribution limit. These "catch-up" contributions are designed to help you make up a retirement savings shortfall by bumping up the amount you can save in the years leading up to retirement. If you participate in an employer-sponsored retirement plan, check plan rules--not all plans allow catch-up contributions.

4. b. 25. By age 25, drivers generally see their premiums decrease because, statistically, drivers younger than this age have higher accident rates. Gaining experience and maintaining a clean driving record should lead to lower premiums over time. However, there's no age when auto insurance rates automatically drop because rates are based on many factors, including type of vehicle and claims history, and vary by state and insurer; each individual's situation is unique.

5. a. 62. You can begin receiving Social Security retirement benefits as early as age 62. However, your benefits will be reduced by as much as 30% below what you would have received if you had waited until your full retirement age (66 to 67, depending on your year of birth).

6. c. 21. As a result of the Credit Card Act of 2009, credit card companies cannot issue cards to those under age 21 unless they can show proof that they can repay the debt themselves or unless someone age 21 or older with the ability to make payments cosigns the credit card agreement.

What is the birthday rule? The birthday rule may be used by health insurers to coordinate benefits when a dependent child is covered by the health plans of both parents and the parents are married or living together. The plan of the parent whose birthday falls earlier in the calendar year is generally the primary plan, providing benefits and paying claims first, and the plan of the other parent provides secondary coverage. If the parents share the same birthday, primary coverage is provided by the plan that has covered one parent the longest.

Source: National Association of Insurance Commissioners, naic.org

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Can I make charitable contributions from my IRA in 2016?

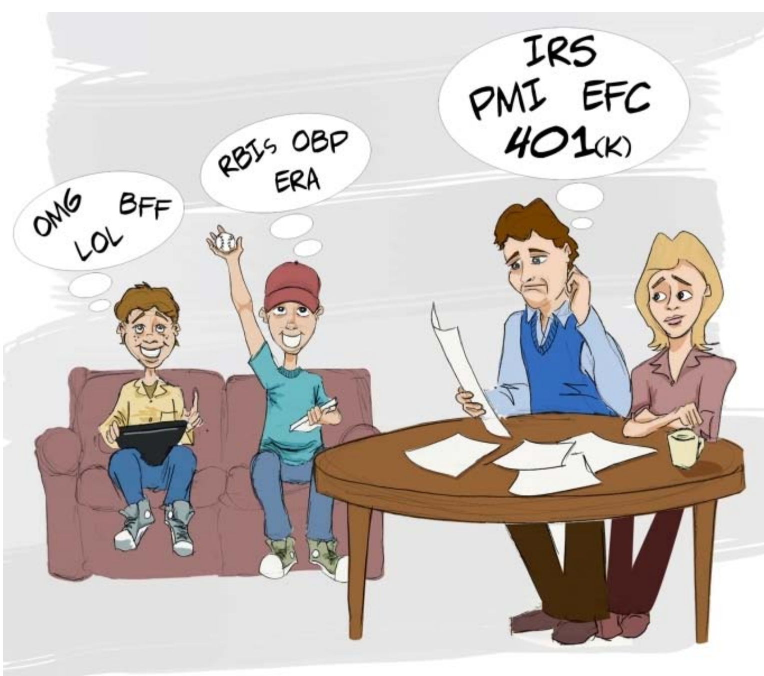
Yes, if you qualify. The law authorizing qualified charitable distributions, or QCDs, has recently been made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015.

You simply instruct your IRA trustee to make a distribution directly from your IRA (other than a SEP or SIMPLE) to a qualified charity. You must be 70½ or older, and the distribution must be one that would otherwise be taxable to you. You can exclude up to $100,000 of QCDs from your gross income in 2016. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional $100,000 of QCDs. But you can't also deduct these QCDs as a charitable contribution on your federal income tax return--that would be double dipping. QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to take from your IRA in 2016, just as if you had received an actual distribution from the plan. However, distributions (including RMDs) that you actually receive from your IRA and subsequently transfer to a charity cannot qualify as QCDs.

For example, assume that your RMD for 2016 is $25,000. In June 2016, you make a $15,000 QCD to Qualified Charity A. You exclude the $15,000 QCD from your 2016 gross income. Your $15,000 QCD satisfies $15,000 of your $25,000 RMD. You'll need to withdraw another $10,000 (or make an additional QCD) by December 31, 2016, to avoid a penalty.

You could instead take a distribution from your IRA and then donate the proceeds to a charity yourself, but this would be a bit more cumbersome and possibly more expensive. You'd include the distribution in gross income and then take a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction due to IRS limits. QCDs avoid all this by providing an exclusion from income for the amount paid directly from your IRA to the charity--you don't report the IRA distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

Cartoon: Ages, Acronyms, and Abbreviations



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"Our mission is to help our clients realize their financial goals with compassion and integrity as they travel their pathway of life."