Investor Insights & Outlook

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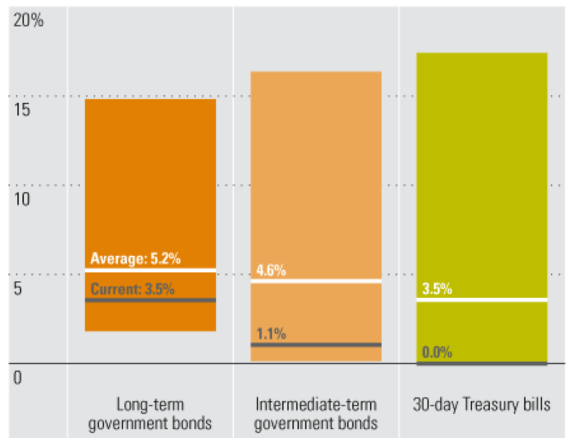
History of Interest Rates

It is commonly known that interest rates have been at historically low levels for a few years now. But how low are they? The image illustrates the characteristics of interest rates of various maturities. On average, long -term government bonds delivered the highest yield of 5.2%, while intermediate-term government bonds and 30-day Treasury bills provided an average yield of 4.6% and 3.5%, respectively. Current interest rates are positioned relatively close to the all-time lows, especially on the lower end of the maturity curve.

A rising interest rate environment seems to be the generally accepted forecast for the future. While rates can't drop much lower from their current level, the timing and magnitude of the rise still remains highly uncertain.

History of Interest Rates
January 1926–November 2013



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Indexes are unmanaged and not available for direct investment. Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. U.S. government bonds may be exempt from state taxes and income is taxed as ordinary income in the year received. With government bonds, the investor is a creditor of the government. In general, the price of a debt security tends to fall when interest rates rise and rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest-rate changes.

Data: The long-term government-bond yield is represented by the monthly Ibbotson SBBI U.S. Long-Term Government-Bond Yield Index. The intermediate-term government-bond yield is represented by the monthly Ibbotson SBBI U.S. Intermediate-Term Government-Bond Yield Index. The 30-day Treasury bill yield series uses annualized monthly Ibbotson SBBI U.S. 30-Day Treasury Bill Total Return Index.

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Jim has more than 16 years of experience in the financial services industry. He started his career with Ameriprise Financial where he became a member of their Advanced Advisor Group. In 2007 he became a founding partner of Kerntke Otto McGlone Wealth Management Group. Jim's primary focus is working with individuals and families to achieve their goals and dreams through a long term consultative relationship.

What You Need to Know about Health Savings Accounts

Health Savings Accounts (HSAs) are growing in popularity, and more companies are offering them to their employees. Many people, however, are confused about what these plans are and when it is appropriate to take advantage of them.

What Is an HSA? Health Savings Accounts were created by a provision in the Medicare Prescription Drug Improvement and Modernization Act of 2003 and signed into law in December of that year. The purpose of creating the accounts was to provide a way for Americans to prepare for future medical costs and lower their health insurance premiums by switching to higher-deductible medical plans. Employers can establish plans for employees, and HSAs are also offered by banks, credit unions, insurance companies, and other approved companies.

In 2013, an individual can contribute up to $3,250 to an HSA, while families can contribute $6,450. People over 55 can also make a catch-up contribution of $1,000.

What Type of Tax Benefits Does an HSA Offer? Personal contributions offer participants an “above-the -line” deduction, which allows them to reduce their taxable income by the amount they contribute to their HSA. Participants aren't required to itemize their deductions to realize this benefit.

If your employer offers a “salary reduction” plan (also known as a “Section 125 plan” or “cafeteria plan”), you can make contributions to your HSA on a pre-tax basis. However, the “above-the-line” deduction is off limits for those who elect to contribute on a pre-tax basis.

If you are self employed, you cannot contribute to an HSA on a pre-tax basis. However, you can contribute with after-tax dollars and take the above-the-line deduction.

Who’s Eligible? In order to be eligible to contribute to an HSA you have to be covered by a high-deductible health insurance plan. "High-deductible" is defined as a deductible (where you pay the first dollars for medical service out of your own pocket) of $1,250 or higher for singles and $2,500 or higher for families.

In order to be eligible to contribute to an HSA, you cannot be 65 years of age or older. People 65 and older can maintain an HSA established prior to age 65, but they can no longer make contributions into it.

An HSA cannot be established for those eligible to be claimed as a dependent on another person's tax return. Also, if you are covered by another health insurance plan (such as a spouse's), you are not eligible for an HSA.

If you die and have money in an HSA, your spouse can use the account as if it were his or her own. If you are not married, the account can pass to a beneficiary but will no longer be considered an HSA and will be taxable to the beneficiary. If your estate is the beneficiary, the value of the HSA will be included on your final income tax return.

Making Withdrawals from Your HSA: Withdrawals made from your HSA are tax-free if used for qualified medical expenses. The same things you can deduct on Schedule A are considered medical expenses for HSAs. For more information on exactly what qualifies, see IRS Publication 502: Medical and Dental Expenses.

If you don't need to withdraw the funds from your HSA, you can let your contributions grow over time tax-free (similar to IRA accounts). HSA contributions grow on a tax-deferred basis. Moreover, unlike flexible spending accounts you may have used in the past, HSA contributions are not “use it or lose it.”

Get Your Estate Plan in Gear

Estate planning laws have undergone swift changes over the past several years and may change again in the years ahead. If you're creating or updating an estate plan, it's essential that you seek the advice of an attorney who's well versed in this area. Before you hire an estate-planning attorney to draft or update your estate plan, it's important to understand your role in the estate-planning process.

Find a qualified attorney: Because your estate plan will likely need to be updated as the years go by and your personal circumstances change, it makes sense to find an attorney who practices in the community where you live. This can help you meet with him/her on an ongoing basis.

Take stock of your assets: Before you meet with your attorney, spend some time enumerating your assets and their value: your investment accounts, life insurance, personal assets such as your home, and your share of any businesses that you own. Also gather current information about any debts outstanding. Your estate-planning attorney is likely to provide you with a worksheet to document your assets and liabilities, but it's helpful to collect this information in advance.

Identify key individuals: Another important aspect of estate planning is identifying the individuals you trust to ensure that your wishes are carried out once you're gone.

Executor: A person who gathers all of your assets and makes sure that they are distributed as spelled out in your will.

Durable (Financial) Power of Attorney: A person you entrust with making financial decisions on your behalf if you should become disabled and unable to manage your own financial affairs.

Power of Attorney for Health Care: A person you entrust with making health-care decisions on your behalf if you are disabled and unable to make them on your own.

Guardian: A person who would look after your children if you and your spouse were to die when your children are minors.

Know the key documents you need: When you meet with your estate-planning attorney, he or she will make recommendations about your estate plan. At a minimum, you should ask your attorney to draft the following documents.

Last Will and Testament: A legal document that tells everyone, including your heirs, how you would like your assets distributed after you're gone.

Living Will: A document that tells your loved ones and your health-care providers how you would like to be cared for if you should become terminally ill; usually includes details about your views toward life-support equipment.

Durable (Financial) Power of Attorney: A document that gives an individual the power to make financial decisions and execute financial transactions on your behalf if you are unable to do so.

Medical Power of Attorney: A document that gives an individual the power to make health-care decisions on your behalf if you are unable to do so.

Manage your documents: Once your estate-planning documents are drafted, destroy any older versions of them. Notify your executor of the whereabouts of your estate-planning documents, and provide copies of the relevant documents to your executor, powers of attorney, and the guardian for your children.

Plan to keep your plan current: Last but not least, plan to keep your estate plan current. One of the biggest estate-planning pitfalls is drafting an estate plan but not keeping it up to date. Changes may include change in marital status, assets, financial status, death or ill health of your beneficiaries, executor, power of attorneys, or guardian.

Making Up for Retirement Shortfalls

Given the backdrop of economic uncertainty and the rise in both life expectancy and medical costs, prospects look difficult for those facing retirement shortfalls. Fortunately, a financial advisor can show you how pulling these key levers can help your retirement nest egg last.

Work Longer: Working longer is one of the easier solutions for those facing retirement shortfalls, allowing you to contribute to your savings for a few more years.

Reduce Spending During Accumulation Years: One of the best ways to save more is to spend less. Setting explicit goals with a financial advisor, having a clear understanding of your net worth, and carefully tracking expenses are essential to reducing your spending.

Reduce Planned Expenses in Retirement: Your retirement nest egg may last longer if expenses, such as home costs during retirement years, are reduced.

Optimize Your Asset Allocation: As you near retirement, a portfolio that is too conservative can be just as risky as one that is too aggressive. Retirement can be a 30-year prospect, long enough to consider a specific allocation to stocks, which, although they are more volatile, offer higher return potential over time.

Delay Taking Social Security: If you're healthy and expect to live long, waiting until age 70 to receive Social Security benefits can result in a higher payout.

Returns and principal invested in stocks are not guaranteed. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses, and that investing in securities always involves risk of loss. Please consult with a financial professional for advice specific to your situation.

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