



KNOPINSKI & FAUVER

FINANCIAL ADVISORS

A TNL Asset Management, LLC Company

303.666.6292

www.kffainc.com

20 Questions On Required Minimum Distributions

Do you remember playing “20 Questions” as a kid? Here are the answers to 20 questions about required minimum distributions (RMDs). Most of this information comes from the frequently asked questions section of the IRS website.

Q1. What is an RMD?

A. This is the amount you’re required to withdraw from your 401(k) plans, other employer-sponsored retirement plans, and IRAs.

Q2. Which plans do the RMD rules apply to?

A. The rules cover all employer-sponsored retirement plans, including pension and profit-sharing plans, 401(k)s, 403(b) plans for nonprofits, and 457(b) plans for government entities, plus traditional IRAs and IRA-based plans such as SEPs, SARSEPs, and SIMPLE-IRAs.

Q3. When do I have to begin taking RMDs?

A. The required beginning date (RBD) is April 1 of the year *after* the year in which you turn age 70½. For example, if your 70th birthday was January 1, 2017, you must begin taking RMDs no later than April 2, 2018. (April 1 is a Sunday.)

Q4. When do I have to take RMDs in future years?

A. The deadline is December 31 of the year for which the RMD applies. Thus, if you turn 70½ in 2017, you must take the RMD for the 2018 tax year by December 31, 2018.

Q5. How do you figure out the RMD amount?

A. Divide the balances in your plans and IRAs on December 31 of the prior

year by the factor in the appropriate IRS life expectancy table.

Q6. Can I withdraw more than the required amount?

A. You can withdraw as much as you like; the RMD is the least you are allowed to take.

Q7. If I take more than the RMD this year can I withdraw less in a future year?

A. No. Each RMD is calculated based on the account balance and life expectancy factor for that particular year.

Q8. Do I have to take RMDs from all of my retirement plans?

A. Although you must calculate the RMD separately for each IRA you own, you can withdraw the total amount from just one IRA or any combination of IRAs that you choose. However, for employer-sponsored plans other than a 403(b), the RMD must be taken separately from each plan account.

Q9. What happens if I fail to take an RMD?

A. The IRS imposes a penalty equal to 50% of the amount that should have been withdrawn (reduced by any amount actually withdrawn).

Q10. How are RMDs taxed?

A. Generally, the entire amount of an RMD is taxable at ordinary income rates. The exception is for amounts attributable to non-deductible contributions to an IRA.

Q11. Are there any exceptions to the RMD penalty?

A. The penalty may be waived if you can show that the shortfall was due to reasonable error and you now have withdrawn the required amount.



Keep Emotions In Check When Investing

Certified Financial Planners, or CFPs as we call ourselves, are well educated in areas ranging from investing to taxes to employee benefits to general financial planning. But there’s an area that’s not covered by our certification program that should be: behavioral finance.

As a recent *Fortune* article on investing and politics pointed out, behavioral finance can make a difference in portfolio performance. The article caught my attention for two reasons: First, it cited several studies about how investors—Democrat and Republican—react differently depending on whether their party is in charge. In summary, the study concluded investors affiliated with the party out of power trade more frequently and underperform. In other words, their emotions negatively impact their investing. It also concluded that investors affiliated with the party in power take more risk when investing.

Then to drive the point home, the author reviewed the performance over the last eight years of several themes that were widely anticipated to do well or poorly under the Obama administration. Obama’s campaign platform was going to hurt gun makers and health care providers and help alternative energy, according to the pundits in 2008. What really happened was health care outperformed the overall market, clean-energy stocks lost nearly half their value, and Smith & Wesson jumped nine-fold in the last five years.

This is not to say that your investments shouldn’t be aligned with your beliefs. We’re big believers in conscientious investing. We’re simply wary of changing investing tactics based on feelings. So, next time we talk you off the cliff, remember, it’s just science!

(Continued on page 4)

IRS Adjusts Retirement Plan Limits

Every year, the Internal Revenue Service (IRS) adjusts the amounts you can contribute to employer retirement plans and IRAs, based on inflation indexing. For 2017, the limits are slightly higher in some cases, while others stay the same. Here's a rundown on the key limits for participants:

Limits that will change for 2017

Defined contribution plans – The limit on total annual additions to 401(k), profit-sharing plans, and other such vehicles is increased to \$54,000 for 2017 (up from \$53,000).

Defined benefit plans – The maximum size of the annual benefit for traditional pensions and related retirement plans increases to \$215,000 for 2017 (up from \$210,000).

Annual compensation – The maximum amount of compensation that can be taken into account for most employer retirement plan calculations increases to \$270,000 (up from \$265,000).

Deductible IRA contributions – Phase-outs in 2017 for deductible IRA contributions will reflect the following changes:

- For single filers participating in an employer plan, the phase-out range

increases to between \$62,000 and \$72,000 for 2017 (up from \$61,000 and \$71,000).

- For an IRA contributor filing jointly who participates in an employer plan, the phase-out range increases to between \$99,000 and \$119,000 (up from \$98,000 through \$118,000).

- For an IRA contributor filing jointly whose spouse participates in an employer plan, the phase-out range increases to between \$186,000 and \$196,000 for 2017 (up from a range of \$184,000 to \$194,000).



Roth IRA contributions – For single filers, phase-outs for the ability to make contributions increase to a range of from \$118,000 to \$133,000 for 2017 (up from \$117,000 to

\$132,000). For joint filers, the phase-out range increases to between \$186,000 and \$196,000 for 2017 (up from \$184,000 to \$194,000 for 2016).

Limits that won't change in 2017

Elective deferrals – The deferral limit for those who participate in a 401(k), 403(b), most 457 plans, and the government's thrift savings plan remains at \$18,000 for 2017. The limit for catch-up contributions to these plans for participants age 50 or over remains at \$6,000.

SIMPLE plan deferrals – The limit on earnings deferrals to a SIMPLE plan remains at \$12,500 for 2017. The limit for catch-up contributions for participants age 50 or over holds steady at \$3,000.

Highly compensated employees – The dollar limit used to define highly compensated employees (HCEs) for employer plans stays at \$120,000 for 2017.

IRA and Roth contributions – The maximum amount you can contribute to traditional and Roth IRAs stays at \$5,500 for 2017. The \$1,000 limit on catch-up contributions for participants 50 or over isn't subject to inflation indexing. ●

What's The Truth About Probate?

Have you heard horror stories from families that had to suffer through costly, protracted probate proceedings after a relative dies? The possibility is very real, especially if a will is contested. Yet while it might turn into a nightmare, sometimes probate works like a dream. Before you take drastic steps to avoid probate, it's important to know what it's likely to involve.

The first thing to know is that laws concerning probate vary from state to state. In some states, the process may be quick, while in others it's likely to take a while.

Probate is the court-supervised

process of distributing the assets of someone who has died, according to that person's will. Even when there's no will, however, assets usually still have to go through probate. Among the exceptions are life insurance proceeds, which normally can go to designated beneficiaries without passing through probate.

If there's a will and an executor, that person usually handles the probate process. When there's no will, the probate court will assign someone to assume those responsibilities. The person representing the person who has died will tally up and list the assets; pay outstanding debts, bills,

taxes, and fees; and distribute the assets to beneficiaries according to prevailing laws. It may be helpful to hire an attorney to assist a court-appointed representative.

Probate proceedings are open to the general public. And even if an estate is relatively simple, probate can eat up time and money, perhaps delaying the distribution of assets that family members are counting on. And the last thing grieving family members are likely to want is to be caught up in interminable meetings and legal wrangling.

One way to avoid the hassles of probate is to establish a living trust and

Take Your Best Shot At College Financial Aid

Will your child enter college soon? However much you have managed to save, it may fall short of the very high cost of today's higher education. Financial aid—in the form of grants, loans, or work-study programs—could help make up the difference, but your child will have to apply for this needs-based aid, and that means completing the Free Application for Federal Student Aid, or FAFSA.

Even if you don't think you'll qualify for financial aid, there's no harm in trying, and you may be surprised by the results. Even students from the wealthiest families are eligible for work-study programs. And some colleges offer generous aid packages to families with relatively high incomes. So filling out the FAFSA almost always makes sense.

Nuts and Bolts of the FAFSA

The FAFSA form can be daunting. It has 130 questions about your family's assets and income. You'll have to enter information about the size of your household, your family income, the number of students in college, and most of your assets, though retirement savings are excluded. Your answers are used to determine your "expected family contribution," or EFC. That's the amount you'll be expected to contribute to your student's college education for one year. The lower the EFC, the more financial aid you may be entitled to receive.

The FAFSA is available online at

www.fafsa.ed.gov. Due to a recent change, you now can file the FAFSA for the 2017-18 school year as early as October 1, 2016. (Previously, you would have been required to wait until January 1, 2017). File the form as early as possible because financial aid often is awarded on a first-come, first-served basis.

To fill out the form, you'll need detailed income and expense data from the "base year" for the student and the parents. Some common income items are:

- Wages, salaries, commissions, and tips
- Self-employment income
- Taxable interest
- Dividends and capital gains
- IRA distributions
- Pensions and annuities
- Rental income
- Income from alimony payments

Under another change, the base year for the 2017-2018 school year is the 2015 tax year. (It would have been 2016 before.) And it's the base year—not the year your child will be entering school—that really matters.

If you still have a few years before your child heads off to college, you may be able to take steps to minimize your income in the base year that's used for FAFSA calculations. Again, the base year is the tax year that ends more than a year and a half before your child starts school. So, if your son or daughter begins classes in the fall of 2018, 2016 is the

base year to focus on. For 2019, it's 2017, and so on.

7 Ways to Reduce Base-Year Income

These seven strategies could help you reduce your adjusted gross income (AGI) for FAFSA purposes—and might have tax benefits as well:

1. Transfer income-producing assets to your child. This can help because your income counts against financial aid more than your child's does. And at least some of the future earnings on those assets will be taxed at your child's lower rate.

2. Sell off stock losers. If you unload losing positions, you can use those losses to offset any capital gains plus up to \$3,000 of ordinary income. That could limit your income in the base year.

3. Hold onto stock winners. Not selling assets at a profit, meanwhile, could also minimize your income. In both cases, though, you need to consider the investment prospects of the assets as well as the potential tax implications.

4. Contribute more to your 401(k). The money you have in your employer-sponsored retirement plans and IRAs doesn't count against you in the FAFSA calculations. Increasing your contribution can help reduce your AGI while at the same time you save more for retirement.

5. Postpone year-end bonuses. If you're in line for a large bonus at the end of the base year, see whether you can arrange to receive the payment in January rather than December.

6. Launch a new business venture. Most new companies show a loss in the first year of operation. That could help offset your income from other sources.

7. Borrow against your home. Loans don't count as income. If you need cash, you might tap into home equity rather than selling off securities and raising your AGI.

Be aware that some schools also require the CSS Profile for financial aid. This form requires more information than the FAFSA.

You'll need to file a FAFSA for every year that your child is in college. But the optimal approach is to maximize benefits in the first year and go from there. Your financial advisers can help. ●

transfer assets into it. The contents of a living trust don't have to go through probate, and the amounts and recipients of bequests remain private.

Yet in some states, probate can work to a family's benefit, especially

if an estate is relatively small or someone has died without a will. State law can lay out a blueprint for ensuring that the right people receive the property. In addition, it may be better for the family to have the estate bear the cost of the probate process. The laws in some states include provisions for a relatively fast, inexpensive resolution to probate that may be preferable to using a living trust or other complex arrangements.

Your financial advisor and your attorney can explain the laws in your state and help you decide how to proceed. ●



Do Robo Advisors Have Glitches?

Robots already do serious work in manufacturing, construction, and an increasing number of other fields. And now, “robo advisors” are invading financial services. Within the next decade, these automated portfolio managers are expected to be handling trillions of dollars in assets.

But are robo advisors an upgrade over their human counterparts? The jury is still out on that question, so let’s take a closer look.

How do robo advisors work? It’s not like R2-D2 sets up a face-to-face meeting at his office and devises a financial plan for your future. Instead, you input critical data—including your age, risk tolerance, assets, and goals—into a software package, which then spits out an investment “asset allocation” based on an algorithm. So, the technology does all of the grunt work.

Typically, the allocation will rely heavily on exchange-traded funds (ETFs) holding a mix of domestic and international stocks and bonds. Although robo advisors vary, normally the algorithms that determine which ETFs to hold are based on

modern portfolio theory or a version of it.

Although you may be attracted by the idea of a portfolio automatically tailored to your needs, robo advisors have certain shortcomings. For one thing, they haven’t been sufficiently tested during a range of market conditions such as the sustained downturn that began in 2008-2009.

In addition, there’s the fact that a faceless, mechanical robo advisor won’t react in the same way as a human advisor. Who is responsible if your investments go south? You can’t consult with the tech experts who provided the coding for the software (nor are they likely to know much about managing your investments). In some cases, there is an 800 number you can call, but the software still drives the final decisions.

Furthermore, a robo advisor operates in a virtual vacuum. It doesn’t have a complete financial picture or know you personally. If there’s a call center for a particular robo advisor, you’ll likely speak to a different person every time you call. In other words, the methodology behind these technological marvels won’t take into account all of the factors influencing your life.

Finally, proponents of robo advisors claim that they are less expensive than human advisors, but

that’s not always the case. In any event, you may find that the services of a trusted personal advisor are well worth the cost in the long run.



Despite the latest technological advancements, humans can still play a valuable role in guiding your investment decisions. ●

20 Questions On RMDs

(Continued from page 1)

Q12. Is an RMD subject to the net investment income (NII) surtax?

A. Distributions from retirement plans don’t count as NII. However, RMDs will increase your modified adjusted gross income (MAGI), and a higher MAGI could result in NII tax liability.

Q13. Can I still contribute to my plans if I’m taking RMDs?

A. Yes. If you’re still working and participating in a plan, you may qualify to continue your contributions.

Q14. Do I have to take an RMD if I’m still working?

A. Generally, you have to take RMDs from all employer-sponsored plans and IRAs. However, you don’t have

to withdraw an RMD from non-IRAs if you still work full-time and don’t own 5% or more of the business.

Q15. Can an RMD be rolled into an IRA or other plan?

A. Absolutely not. Rollovers are prohibited.

Q16. Can an RMD be donated to charity?

A. Yes. Under a recent tax law extension, if you’re 70½ or older you can transfer an RMD of up to \$100,000 directly from an IRA to a charity without paying tax on the distribution.

Q17. What happens if I die before my required beginning date?

A. No distribution is required for the year of death. For subsequent years, RMDs must be taken from inherited accounts. A spousal beneficiary has greater flexibility than non-spouses,

including being able to treat the account as his or her own.

Q18. What happens if I die after my RMD?

A. The beneficiaries of the accounts must continue to take RMDs under complex rules. Again, spousal beneficiaries have greater flexibility than other heirs.

Q19. Do the RMD rules apply to Roth IRAs?

A. No. You don’t have to take RMDs from a Roth IRA during your lifetime. After your death, however, your heirs must take lifetime RMDs from the Roth.

Q20. When should I arrange my RMD?

A. The sooner, the better. Don’t wait to get caught in a year-end crush. We can help with the particulars. ●