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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

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Please enjoy this month's edition of The Financial Formula, and let us know if you have any questions. Happy Thanksgiving!

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In This Issue

Few Cost of Living Adjustments for Retirement and Health Plans for 2016

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The IRS has released the cost-of-living adjustments (COLA) affecting dollar limitations for Individual Retirement Accounts (IRAs), defined contribution and other retirement-related items for tax year 2016. In general, most limits will remain unchanged for 2016 because the increase in the cost-of-living index did not meet the threshold that would trigger their adjustment.

The table below compares both the retirement plan and health insurance plan limits for 2014 through 2016, with items that have changed for 2016 asterisked. Further guidance can be found on the IRS website.

Retirement Plans	**2014 Limit**	**2015 Limit**	**2016 Limit**
IRA contribution limit	$5,500	$5,500	$5,500
IRA catch-up contributions for ages 50+	$1,000	$1,000	$1,000
IRA AGI Deduction Phase-Out Starting at			
Joint Return	$96,000	$98,000	$98,000
Single or Head of Household	$60,000	$61,000	$61,000
IRA contributor not covered by a workplace retirement plan, but filing joint return with spouse who is	$181,000	$183,000	$184,000*
AGI Phase-Out for Contributions to Roth IRA			
Joint Return	$181,000	$183,000	$184,000*
Single or Head of Household	$114,000	$116,000	$117,000*
401(k), 403(b), 457(b)(2) elective deferrals	$17,500	$18,000	$18,000
401(k), 403(b) "catch-up" contributions for ages 50+	$5,500	$6,000	$6,000
SIMPLE plan elective deferral	$12,000	$12,500	$12,500
SIMPLE "catch-up" contributions for ages 50+	$2,500	$3,000	$3,000
Defined contribution plan maximum	$52,000	$53,000	$53,000
Defined benefit plan maximum	$210,000	$210,000	$210,000
Maximum includible compensation	$260,000	$265,000	$265,000
Highly compensated employee	$115,000	$120,000	$120,000
FICA taxable wage base	$117,000	$118,500	$118,500
Health Insurance Plans	**2014 Limit**	**2015 Limit**	**2016 Limit**
Health Savings Account (HSA) contribution limit -- individual	$3,300	$3,350	$3,350
HSA contribution limit -- family	$6,550	$6,650	$6,750*
HSA "catch-up" contributions for ages 55+	$1,000	$1,000	$1,000
Minimum deductible for high-deductible health plan (HDHP) --	$1,250	$1,300	$1,300

individual			
Minimum deductible for HDHP -- family	$2,500	$2,600	$2,600
Maximum out-of-pocket for HDHP -- individual	$6,350	$6,450	$6,550*
Maximum out-of-pocket for HDHP -- family	$12,700	$12,900	$13,100*
Flexible Spending Account (FSA) contribution limit	$2,500	$2,500	$2,550

*Represents change from 2015.

Three Year-end Tax Reduction Tips

Even though April 15 now seems a distant deadline for filing your 2015 tax returns, in order to take advantage of some of the biggest tax reduction strategies, you have to act before the end of this year. Without further ado, here are three "go-to" maneuvers that you may want to execute by December 31.

1. Maximize Contributions to Tax-Advantaged Accounts

Contributing to your employer's retirement plan is one of the smartest tax moves you can make. For 2015 (and 2016) you can save up to $18,000, or $24,000 if you are age 50 or older. Because contributions are typically made on a pretax basis, qualified plans such as 401(k)s and 403(b)s help to lower your current taxable income. Plus, the money in the account is allowed to grow tax deferred until you begin taking withdrawals, usually in retirement.[1]

If you are interested in supplementing your contributions to your employer's plan, consider funding a traditional IRA. You can contribute up to $5,500 in 2015 and 2016, adding $1,000 to that total if you are 50 or older and catching up on your retirement savings. Like 401(k)s, IRAs offer a "one-two punch" in tax savings: tax deferral on your investment until you start withdrawing money, along with a potential tax deduction on all or part of your annual contribution if you meet the IRS's eligibility rules.

You could also direct your savings to a Roth IRA or a Roth 401(k), if offered by your employer. Although contributions to Roth retirement vehicles are made with after-tax dollars, withdrawals are tax free provided certain conditions are met. Keep in mind that the annual contributions limits for 2015 -- $18,000 per individual or $24,000 for those age 50 or older -- apply cumulatively to all employer-sponsored plans, Roth or traditional.

Even though you have until tax day -- April 15, 2016 -- to fund an IRA for 2015, why wait? Funding it by year-end potentially gives it all the more time to grow in a tax-deferred shelter.

2. Consider Tax-Loss Harvesting

Simply stated, tax-loss harvesting is the process of balancing portfolio losses against gains to help minimize your exposure to capital gains tax. In a year like 2015, in which the stock market experienced a significant late-summer swoon, such a strategy may be particularly attractive.

Generally, the IRS allows you to offset capital gains with capital losses to the extent of your total gains -- and above that, you may be allowed to deduct up to $3,000 against ordinary income each year, thus potentially lowering your tax liability. Losses in excess of that limit can be carried over to the next year.

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Yet as simple as this strategy may sound, it is fraught with caveats. For starters, before selling, consider the length of time you have held a security. Securities sold within a year of their purchase can generate short-term capital gains, which are taxed at the investor's ordinary income tax rate -- up to a maximum rate of 39.6% for the highest earning individuals.

Gains from the sale of securities held for more than one year are considered long-term gains and are taxed at a maximum rate of 15% for most Americans, but that rises to 20% for those with taxable incomes of over $400,000 ($450,000 for joint filers). In addition, the Medicare surtax on net investment income, which includes capital gains, results in an overall top long-term capital gains tax rate of 23.8% for high-income taxpayers.

Also keep in mind that the IRS prohibits you from claiming a loss on the sale of a security in a "wash sale." The rule defines a wash sale as one in which an individual sells or trades securities at a loss and then goes on to buy additional shares in the same or substantially identical security within the 30 days before or after the date of sale.

The bottom line on tax-loss harvesting? If you are considering employing this strategy, evaluate carefully the investments you may select for sale, then discuss your plan with a trusted financial advisor.

3. Timing Is Everything

Another popular year-end tax management strategy -- particularly if you expect your taxable income to be higher than normal for the 2015 tax year -- is to accelerate tax deductions and, where possible, to defer income. For instance, you could increase your charitable deductions or make advance payments for state and local taxes, insurance premiums, interest payments, medical procedures, or other deductible expenses for which you may be able to control the timing. Similarly, you may be able to delay some forms of discretionary income or hold on to stocks that have performed exceptionally well at least until early 2016, being mindful of what you expect your tax/income situation to be next year.

These are just some of the many steps you can take to help keep your taxes in check. Work with your financial and tax advisor(s) to make tax planning an integral part of your overall financial plan.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

[1]*Withdrawals from traditional IRAs are taxed at then-current income tax rates. Withdrawals prior to age 59½ may be subject to an additional federal tax.*

When Changing Jobs, It Pays to Keep Track of Your 401(k)

Make your wishes known -- an employer can only roll your account balance into a forced-transfer IRA if you provide no instructions as to what you would like to happen to your account balance.

Americans are on the move, not only in their leisure pursuits, but in their jobs as well. According to the Bureau of Labor Statistics, about 38% of U.S. workers change jobs every year. If your employment situation changes, do you know what your choices are for managing the money in your 401(k) account?

Generally, workers have four options available to them: leave the money in their former employer's plan, transfer the money into their new employer's 401(k) (if allowed), roll the money into an IRA, or take a cash distribution. What many individuals don't realize is that if they fail to choose one of those options -- and their account balance is small enough -- the decision can be made for them. Specifically, current law allows employers to force participants with vested balances of $5,000 or less out of their 401(k) plans into an IRA without their consent. Further, if the account balance is less than $1,000 when the participant separates from the employer, the plan is allowed to cash out the account, triggering taxes and penalties if the participant does not take action in a timely manner to redeposit the money in another retirement account.

How prevalent are these practices? According to the Plan Sponsor Council of America, more than half (57%) of 401(k) plans transfer account balances of between $1,000 and $5,000 to an IRA when a participant leaves the company and/or cash out those accounts with balances of less than $1,000.[1]

High Fees, Low Returns

According to one study conducted by the Government Accountability Office (GAO), the trouble with these so-called "forced-transfer" IRAs is that most balances decreased over time if not transferred out and reinvested, due to the fees charged and the low returns earned by the conservative investments they are required to invest in.[2]

Specifically, the GAO studied 10 forced-transfer IRA providers, including information about the fees they charged, the default investments they used, and the returns earned. The typical investment return (prior to fees) ranged from 0.01% to 2.05%. That coupled with account initiation fees ranging from $0 to $100 and subsequent annual fees of $0 to $115 "can steadily decrease a comparatively small stagnant balance," the study found. Further, when projecting these effects on a $1,000 balance over time, the GAO found that 13 of 19 balances decreased to $0 within 30 years.[2]

Given these circumstances, it is easy to see how a worker who changes jobs frequently and accumulates several forced-transfer IRAs could be putting his or her retirement savings in jeopardy. Consider the following tips to help keep your savings growing, not stagnating.

- Make your wishes known -- an employer can only roll your account balance into a forced-transfer IRA if you provide no instructions as to what you would like to happen to your account balance.
- Keep contact information current -- when leaving one job for another, be sure you provide up-to-date contact information to the 401(k) plan administrator.
- Save more -- forced transfers only apply to low-balance accounts. By keeping your account above the $5,000 mark you ensure that it stays protected from any unintended or unwanted actions.

[1]*U.S. News, "How to Avoid Being Forced Out of Your 401(k)," January 13, 2015.*

[2]United States Government Accountability Office, "401(k) Plans: Greater Protections Needed for Forced Transfers and Inactive Accounts," November 2014.