



## THE FINANCIAL FORMULA

Giving You The Financial Information You Need

January 2017



Hello to all of our FF readers!  
Please read our newsletter and take note of the article from our CEO that was picked up by CNBC earlier in January '17. Please let us know if you have any questions - thanks!

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### In This Issue

#### 5 ways to prepare for tax day

It's that time of year tax-preparation season will be here before you know it. I'm sure some of you dread this time of year, but I've got a few suggestions that can make it a bit more bearable and help you in the long run.

#### IRS to Allow Waiver of 60-Day Rollover Rule

Under certain circumstances, the IRS is now allowing individuals who miss the 60-day window to roll over assets from qualified retirement accounts to avoid paying the potential early distribution taxes.

#### What Can a Dollar Buy? Depends on Where You Live

The cost of living varies significantly across the country making it essential to be a savvy shopper and saver -- wherever you call home.

#### Too Young to Think About Investing? Think Again!

Time and compounding is a simple equation with potentially powerful long-term results.

## 5 ways to prepare for tax day

Link to this article on CNBC: <http://www.cnbc.com/2017/01/09/5-ways-to-prepare-for-tax-day.html>

It's that time of year - tax-preparation season will be here before you know it. I'm sure some of you dread this time of year, but I've got a few suggestions that can make it a bit more bearable and help you in the long run.

- If you're not the do-it-yourself type, hire an experienced, professional tax preparer to handle your returns. Stay away from the generic chain tax-prep services - they tend to significantly overcharge for preparing returns by charging by the form (which we view as being a rip-off) instead of using an hourly rate (which is much more fair).
- Make sure you have all necessary tax documents. Sounds simple enough, but being organized about collecting your tax documents ("Where did I put that W-2?") makes life much easier for your preparer (and you, too).
- Your preparer should ask you many questions, especially if it is the first time he or she is preparing your returns. Even after the first year, personal and financial situations change, and any qualified tax preparer will know to ask the important questions (e.g., law changes, new possible deductions, etc.) so you don't leave anything on the table.
- If you work with a certified public accountant, hopefully he or she offers advice for your specific tax situation during and after preparing your returns. This can be very important for not only the current year (e.g., "Can a [traditional IRA](#) contribution lower your tax bill?") but the following year, as well (e.g., "Should you contribute more to your [401\(k\) plan](#) at work?"). Offering suggestions that can improve the amount you get back (or help you pay less than you have in the past) can be very valuable for some.
- Your tax professional should be willing to speak with any other professionals you have hired. There are many reasons why insurance professionals, [financial advisors](#), attorneys, etc., should speak to your tax preparer (with your permission, of course) to coordinate on issues that may be important and need to be looked at from different perspectives. This way, you get the input of trusted professionals on issues that overlap into several areas of your personal financial/tax situation.

Find an experienced local tax preparer who works for a professional tax preparation firm, earns his or her money from hourly fees (not charging by the form), believes in helping clients improve their tax/financial situations and has the heart and demeanor of a teacher - not a salesman - and, chances are, you've found the right tax preparer to help you with your tax situation.

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### About *MF Advisers, Inc.*

MF Advisers, Inc. is a full-service, fee-only RIA firm and fiduciary based in PA & FL specializing in wealth management, investment advice, and financial planning (including retirement planning).

With 20+ years of licensed experience, over 10 years of professional education, and an unwavering commitment to improving your financial situation, MF Advisers, Inc. is the advisory firm to best serve YOU.

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## IRS to Allow Waiver of 60-Day Rollover Rule

In late August, the IRS announced new rules that will help retirement savers who aim to roll over distributions from qualified retirement plans or IRAs into another such plan -- but who unintentionally miss the 60-day window for doing so -- to avoid paying possible taxes and early distribution penalties.

Prior to this announcement, in order to qualify for tax-free rollover status account holders of workplace retirement plans or IRAs would need to roll the proceeds into another employer-sponsored retirement plan or IRA by the sixtieth day after which they received the distribution.

In Revenue Procedure 2016-47, the IRS details its decision to allow taxpayers to claim eligibility for a waiver of the 60-day requirement. Included in the IRS document is a sample "self-certification" letter that individuals can present on their own behalf to the IRA trustee or administrator of the plan receiving the rollover. In order to file the self-certification letter, the IRS must not have denied a previous waiver request with respect to this particular rollover. Additionally, the letter should list one or more of the 11 qualifying situations that caused the person to miss the 60-day deadline.

### Eleven Reasons to Waive

The RP 2016-47 self-certification sample letter lists the following conditions as qualifying events:

1. An error was committed by the financial institution making the distribution or receiving the contribution.
2. The distribution was in the form of a check and the check was misplaced and never cashed.
3. The distribution was deposited into and remained in an account that I mistakenly thought was a retirement plan or IRA.
4. My principal residence was severely damaged.
5. One of my family members died.
6. I or one of my family members was seriously ill.
7. I was incarcerated.
8. Restrictions were imposed by a foreign country.
9. A postal error occurred.
10. The distribution was made on account of an IRS levy and the proceeds of the levy have been returned to me.
11. The party making the distribution delayed providing information that the receiving plan or IRA required to complete the rollover despite my reasonable efforts to obtain the information.

Typically, given the circumstances indicated in the letter, the IRS and the plan administrator or IRA trustee receiving the rollover funds should accept a taxpayer's self certification as a legitimate claim to a waiver.

The IRS still encourages individuals to simplify matters when transferring assets from one qualified retirement plan or IRA to another by requesting a direct trustee-to-trustee transfer, rather than handling the rollover themselves.

For more information about rollovers and transfers, check out the [Can You Move Retirement Plan Assets?](#) section in Publication 590-A or the [Rollovers of Retirement Plan and IRA Distributions](#) page on IRS.gov.

*IRS, "New Procedure Helps People Making IRA and Retirement Plan Rollovers." August 24, 2016.*

*IRS, "Waiver of 60-Day Rollover Requirement." Rev. Proc. 2016-47.*

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## What Can a Dollar Buy? Depends on Where You Live

You know that \$25,000 car you've had your eye on? In just 10 years, it could cost almost \$34,000, assuming prices rise by a mere 3% per year. That's the reality of inflation, which is commonly understood as the increase in the price of any product or service.

While the consumer price index (CPI), which is based on a monthly survey by the U.S. Bureau of Labor Statistics, serves as the standard measure of inflation nationwide, prices on all sorts of goods and services -- from a gallon of gasoline to a house -- can vary widely by region, state, and even within states.

Such variations are captured by Regional Price Parities (RPPs), which measure the differences in the price levels of goods and services across states and metropolitan areas for a given year.<sup>1</sup> RPPs are expressed as a percentage of the overall national price level (gleaned from the CPI) equal to 100.<sup>2</sup>

For instance, if an area's RPP is greater than 100, it means that goods and services are more expensive than the national average; if an area's RPP is less than 100, goods and services are less expensive than the national average.<sup>2</sup>

In July the Bureau of Economic Analysis published RPPs for 2014. The data showed that the District of Columbia's RPP at 118.1 was greater than that of any state. States with the highest RPPs -- and lowest "real value" of a dollar -- were Hawaii (116.8), New York (115.7), New Jersey (114.5), and California (112.4).<sup>1</sup> States with the lowest RPPs -- hence, the biggest bang for your buck -- were Mississippi (86.7), Arkansas (87.5), Alabama (87.8), South Dakota (88.0), and Kentucky (88.7).<sup>1</sup>

How do these price differences play out in real dollars and cents? The same gallon of regular gas that costs \$2.74 in Hawaii might run you \$1.82 in South Carolina.<sup>3</sup> Or, viewed another way, if you had \$100 to spend at a store offering a range of goods at national-average prices, in Hawaii, that \$100 would feel more like \$85.60, while in Mississippi the national-average \$100 would be more like \$115.30.<sup>3</sup>

The Bureau of Labor Statistics asserts that in areas where goods and services are more expensive, wages tend to follow suit -- but that is not always the case.<sup>2</sup>

### Be a Savvy Shopper -- Wherever You Live

Regardless of where you live, consider some simple dollar-stretching tips.

- Cut back on nickel-and-dime items. You might be surprised at how much you can save by reducing out-of-pocket expenses. Instead of indulging on a "designer" cup of coffee, purchase a regular coffee. The amount saved can add up fast.
- Save on books, music, and movies. Visit your neighborhood library to check out books and music instead of purchasing your own.
- Brown bag meals. Work days can be hectic, but instead of buying breakfast or lunch out, carry it in. If you spend \$8 per day on lunch, you could free up \$160 per month for your long-term financial goals.
- Seek travel values. By traveling off-season or during the shoulder season -- the periods just before or after the peak tourist season -- you can receive discounted rates on lodging and airfares, which can cut your vacation expenses.
- Practice energy efficiency. By turning the thermostat back in winter while you're at work or sleeping, you can save on your heating bills. Same for the air conditioner in hot summer months.
- Be creative. Can't imagine skipping your daily trip to the vending machine? Don't fret. The main point is to look for effective ways to stretch a dollar -- and then do it. Over time, you might find that a little savings can make a big difference when it comes to funding your bigger ticket financial goals.

<sup>1</sup>The Bureau of Economic Analysis, news release, "[Real Personal Income for States and Metropolitan Areas, 2014.](#)" July 7, 2016.

<sup>2</sup>The Bureau of Labor Statistics, Monthly Labor Review, "[Purchasing power: using wage statistics with regional price parities to create a standard for comparing wages across U.S. areas.](#)" April 2016.

<sup>3</sup>The New York Times, "[What \\$100 Can Buy State by State.](#)" August 8, 2016.

Prices on all sorts of goods and services -- from a gallon of gasoline to a house -- can vary widely by region, state, and even within states.



## Too Young to Think About Investing? Think Again!

"How did it get so late so soon?" -- Dr. Seuss

Dr. Seuss's whimsical take on life has been delighting children of all ages for generations. His simple, but powerful words continue to resonate today, even in the context of planning for a financially secure future. Because when you get right down to it, the younger you are, the more you potentially have to gain by taking advantage of the time ahead of you.

### Compounding: A Snowball Effect

The word compounding describes what happens when your investment earns money and this amount is reinvested and generates more earnings. The process of compounding has often been compared to the way a snowball grows as it rolls downhill. You might say that a longer investment time frame is akin to a bigger hill, because each creates conditions for greater growth potential.

And thanks to the potential role of compounding, the more you invest, the more significant the potential long-term benefit. For example, assume that two workers both earn \$30,000 annually. Each invests 6% of income and receives a 3% raise each year. Investor A never increases her investment, but Investor B increases her investment by 1% of income each year until she is eventually investing 12% of income. Over the course of 30 years, each account earns an 8% average annual investment return.

The result? At the end of the 30-year period, Investor A would have \$296,864, whereas Investor B would have \$535,005 -- simply because she took advantage of time and gradually increased her investment amount.<sup>1</sup>

### Time and Compounding -- A Simple Equation

One easy way to estimate how long it may take for compounding to help double the value of an investment is to use the "rule of 72."

Here's how it works: Divide 72 by the rate of return earned by an investment. The number you end up with equals the approximate number of years it would take for the investment to double in value, assuming it continues to earn the same return. For example, an investment earning an 8% annual return would double in value in about nine years ( $72/8 = 9$ ).

### Stay in It for the Long Term

Maintaining a long-term time frame may also give you the luxury of being able to tolerate short-term market volatility. Because while past performance cannot guarantee future results, it's worth noting that longer-term holding periods have often been associated with a lower likelihood of portfolio losses.

<sup>1</sup>This is a hypothetical example intended for illustrative purposes only and does not represent the performance of an actual investment. Your results will vary.

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