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Dear Clients and Friends,

Welcome to the September edition of our "Partnering With You" newsletter. Remember that if you pay Quarterly Estimated Tax Payments, those are due by September 15th. We hope you enjoy this month's newsletter.

Jim, Pam, Ruth, Nikie, Todd, Cheryl, Sandy, Chris and Rich

Correlation and Portfolio Performance

Different types of investments are subject to different types of risk. On days when you notice that stock prices have fallen, for example, it would not be unusual to see a rally in the bond market.

Asset allocation refers to how an investor's portfolio is divided among asset classes, which tend to perform differently under different market conditions. An appropriate mix of investments typically depends on the investor's age, risk tolerance, and financial goals.

The concept of correlation often plays a role in constructing a well-diversified portfolio that strikes a balance between risk and return.

Math that matters

In the financial world, correlation is a statistical measure of how two securities perform relative to each other. Securities that are positively correlated will have prices that tend to move in the same direction. Securities that are negatively correlated will have prices that move in the opposite direction.

A correlation coefficient, which is calculated using historical returns, measures the degree of correlation between two investments. A correlation of +1 represents a perfectly positive correlation, which means the investments always move together, in the same direction, and at a consistent scale. A correlation of -1 means they have a perfectly negative correlation and will always move opposite one another. A correlation of zero means that the two investments are not correlated; the relationship between them is random.

In reality, perfectly positive correlation is rare, because distinct investments can be affected differently by the same conditions, even if they are similar securities in the same sector.

Correlations can change

While some types of securities exhibit general trends of correlation over time, it's not uncommon for correlations to vary over shorter periods. In times of market volatility, for example, asset prices were more likely to be driven by common market shocks than by their respective underlying fundamentals.

During the flight to quality sparked by the financial crisis of 2008, riskier assets across a number of different classes exhibited unusually high correlation. As a result, correlations among some major asset classes have been more elevated than they were before the crisis. There has also been a rise in correlation between different financial markets in the global economy. For example, the correlation coefficient for U.S. stocks (represented by the S&P Composite Total Return index) and foreign stocks (represented by the MSCI EAFE GTR index) increased from 0.75 over the last 25 years to 0.89 over the last 10 years.

Over the long run, a combination of investments that are loosely correlated may provide greater diversification, help manage portfolio risk, and smooth out investment returns. Tighter relationships among asset classes over the last decade may be a good reason for some investors to reassess their portfolio allocations. However, it's important to keep in mind that correlations may continue to fluctuate over time because of changing economic and market environments.

The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. All investing involves risk, including the possible loss of principal. Asset allocation and diversification strategies do not guarantee a profit or protect against investment loss; they are methods used to help manage investment risk.

Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility. When sold, investments may be worth more or less than their original cost.

1 International Monetary Fund, 2015
2 Thomson Reuters, 2015, for the period 12/31/1989 to 12/31/2014
Three Tax Planning Concepts

There are many ways to potentially reduce your tax burden. Here are three tax planning concepts that you should be familiar with.

**Tax deferral**

When you defer taxes to later years, any earnings compound without being reduced by income taxes. As a result, your investment may grow at a faster rate than if earnings were subject to income tax each year. In some cases, such as with a qualified plan or a traditional IRA, tax deferral may be combined with an initial tax deduction or exclusion from income for contributions.

Tax deferral can be provided by tax-advantaged accounts that generally defer any taxation until contributions are made. Examples include qualified plans and IRAs, annuities, health savings accounts (HSAs), Coverdell education savings accounts (ESAs), and 529 plans. Taxation of capital gains is generally deferred until property is sold. Tax deferral may also be available through the use of strategies such as installment sales and like-kind exchanges.

Tax deferral can be the most beneficial when you defer tax until a time when your tax rate will be lower, or at least when it will be no higher. If your tax rate will be higher later, there may still be an advantage to tax deferral, but you’ll need to run the numbers to determine whether the benefits of tax deferral might overcome the higher tax rate.

**Example:** You make a nondeductible contribution of $5,000 to a Roth IRA. Assume you will be subject to a 28% income tax rate, both now and in the future. If you earn a 5% annual rate of return for 20 years, the $5,000 will grow to $13,266, with an after-tax value of $10,952. (If you made a deductible contribution of $5,000 to a traditional IRA and placed any tax savings from the deduction in a side fund after 20 years would generally be even greater.) If instead you simply saved $5,000 in an account that is taxable each year, the $5,000 would grow at a 3.6% after-tax rate to $10,095 in 20 years. This is $857 less than with the tax-deferral advantage of making a nondeductible contribution to a traditional IRA.*

**Tax-free income**

Interest income from municipal bonds can generally be received free of federal income tax. Qualified distributions from Roth IRAs, Roth 401(k)s, HSAs, ESAs, and 529 plans can also be received free of federal income tax. In some cases, such as with a Roth IRA, tax deferral may be combined with tax-free income.

**Special tax rates**

The tax rate on long-term capital gains and qualified dividends is generally 0% for taxpayers in the 10% and 15% tax brackets, 15% for taxpayers in the 25% to 35% tax brackets, and 20% for taxpayers in the 39.6% tax bracket. In some cases, such as with stock, special tax rates may be combined with tax deferral.

**Example:** You purchase stock that pays no dividends for $5,000. Assume you will be subject to a 15% capital gain tax rate, both now and in the future. If the stock increases 5% in value each year and you hold on to the stock for 20 years, the $5,000 will grow to $13,266, with an after-tax value of $12,027.*

**Example:** You purchase a dividend-paying investment for $5,000. Assume you will be subject to a 15% capital gain tax rate, both now and in the future. If you earn a 5% annual rate of return consisting of qualified dividends and long-term capital gains that are taxable each year, the $5,000 will grow at a 4.25% after-tax rate to $11,460 in 20 years.*

**Note:** To the extent that distributions from tax-advantaged accounts such as qualified plans and IRAs, annuities, HSAs, ESAs, and 529 plans are subject to tax, ordinary income tax rates apply; they generally do not qualify for special capital gain tax rates.

*These hypothetical examples are for illustrative purposes only, and the results are not representative of any specific investment or mix of investments. Actual results will vary. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, because they may further impact the results of the comparison. These illustrations assume a fixed annual rate of return; the rate of return on your actual investment portfolio will be different, and will vary over time, according to actual market performance, and could include losses. This is particularly true for long-term investments. It is important to note that investments offering the potential for higher rates of return also involve a higher degree of risk to principal.
Six Life Insurance Beneficiary Mistakes to Avoid

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. Naming your policy’s beneficiaries should be a relatively simple task. However, there are a number of situations that can easily lead to unintended and adverse consequences. Here are six life insurance beneficiary traps you may want to avoid.

**Not naming a beneficiary**
The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together, or that your named beneficiary may die before you. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

**Death benefit paid to your estate**
If your life insurance is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payment to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming primary, secondary, and final beneficiaries may avoid having the proceeds ultimately paid to your estate. If the primary beneficiary dies before you do, then the secondary or alternate beneficiaries receive the proceeds. And if the secondary beneficiaries are unavailable to receive the death benefit, you can name a final beneficiary, such as a charity, to receive the insurance proceeds.

**Naming a minor child as beneficiary**
Unintended consequences may arise if your named beneficiary is a minor. Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian—a potentially costly and time-consuming process—to handle the proceeds until the minor beneficiary reaches the age of majority according to state law.

If you want the life insurance proceeds to be paid for the benefit of a minor, you may consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

**Per stirpes or per capita**
It’s not uncommon to name multiple beneficiaries to share in the life insurance proceeds. But what happens if one of the beneficiaries dies before you do? Do you want the share of the deceased beneficiary to be added to the shares of the surviving beneficiaries, or do you want the share to pass to the deceased beneficiary’s children? That’s the difference between per stirpes and per capita.

You don’t have to use the legal terms in directing what is to happen if a beneficiary dies before you do, but it’s important to indicate on the insurance beneficiary designation form how you want the share to pass if a beneficiary predeceases you. Per stirpes (by branch) means the share of a deceased beneficiary passes to the next generation in line. Per capita (by head) provides that the share of the deceased beneficiary is added to the shares of the surviving beneficiaries so that each receives an equal share.

**Disqualifying the beneficiary from government assistance**
A beneficiary you name to receive your life insurance may be receiving or is eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to the government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

**Taxes**
Generally, life insurance death proceeds are not taxed when they’re paid. However, there are exceptions to this rule, and the most common situation involves having three different people as policy owner, insured, and beneficiary. Typically, the policy owner and the insured are one in the same person. But sometimes the owner is not the insured or the beneficiary. For example, mom may be the policy owner on the life of dad for the benefit of their children. In this situation, mom is effectively creating a gift of the insurance proceeds to her children/beneficiaries. As the donor, mom may be subject to gift tax. Consult a financial or tax professional to figure out the best way to structure the policy.
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I've recently changed my legal name. Do I need to change my name on my Social Security card?
Whenever an individual legally changes his or her name, it is important to contact the Social Security Administration (SSA) as soon as possible. Failure to notify the SSA of a name change could prevent your wages from being posted correctly to your Social Security earnings record and might even result in a delay when you file your taxes.

To obtain a new card with your new name, you need to provide the SSA with a recently issued document that proves your identity and legal name change. Acceptable documents include:
- Marriage certificate
- Divorce decree
- Certificate of Naturalization showing new name
- Court order for approving the name change

If the document you provide doesn't offer enough information for the SSA to identify you in their records, you must also provide an identity document in your old name (expired documents with your old name are allowed).

How can I protect my Social Security number from identity theft?
Your Social Security number is one of your most important personal identifiers. If identity thieves obtain your Social Security number, they can access your bank account, file false tax returns, and wreak havoc on your credit report. Here are some steps you can take to help safeguard your number.

Never carry your card with you. You should never carry your Social Security card with you unless it's absolutely necessary. The same goes for other forms of identification that may display your Social Security number (e.g., Medicare card)

Do not give out your number over the phone or via email/Internet. Often times, identity thieves will pose as legitimate government organizations or financial institutions and contact you to request personal information, including your Social Security number. Avoid giving out your Social Security number to anyone over the phone or via email/Internet unless you initiate the contact with an organization or institution that you trust.

Be careful about sharing your number. Just because someone asks for your Social Security number doesn’t mean you have to share it. Always ask why it is needed, how it will be used, and what the consequences will be if you refuse to provide it.

If you think someone has misused your Social Security number, contact the Social Security Administration (SSA) immediately to report the problem. The SSA can review your earnings record with you to make sure their records are correct. You can also visit the SSA website at www.ssa.gov to check your earnings record online.

Unfortunately, the SSA cannot directly resolve any identity theft problems created by the misuse of your Social Security number. If you discover that someone is illegally using your number, be sure to contact the appropriate law-enforcement authorities. In addition, consider filing a complaint with the Federal Trade Commission and submitting IRS Form 14039, Identity Theft Affidavit, with the Internal Revenue Service. Visit www.ftc.gov and www.irs.gov for more information.