

# FINANCIALink

Your Money Management Newsletter

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## Doing OK

For the five-year period from 2013 to 2017, the percentage of U.S. adults who said they were at least “doing okay” financially rose steadily across all levels of education. However, higher education levels were associated with greater financial satisfaction.

Percentage of adults who said they were living comfortably or doing okay financially, by level of education

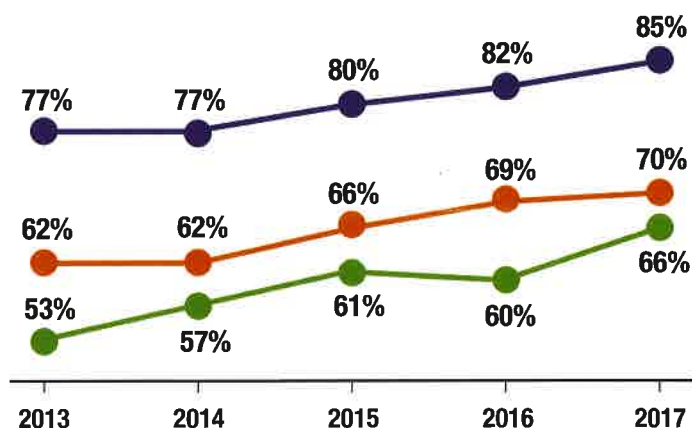


Bachelor's degree or higher

Some college or associate degree



High school degree or less



Source: Federal Reserve, 2018

## 40 million

Estimated number of Americans who work part-time, temporary, or seasonal jobs. This amounts to about 25% of the U.S. workforce and is expected to grow to 33% over the next 10 years.

Source: Employee Benefit News, June 19, 2018



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Practical insights for your **FINANCIAL GOALS**

# The Language of Bonds

Like many subject areas, bond investing involves terminology that can be a key to understanding the subject. Here are some basic terms that may help you become a more informed bond investor.

**Issuer.** The entity that is borrowing money by selling the bond. The issuer might be a corporation or a federal, state, or local government agency.

**Par or face value.** The value of a bond when issued; i.e., the **principal** that the issuer agrees to repay on the maturity date (as long as the issuer does not default). A \$1,000 bond has a par of \$1,000.

**Coupon.** The annual interest rate that the issuer pays in return for the loan. Typically, half of the coupon rate is paid every six months.

**Maturity date.** The date on which the issuer promises to repay the loan (principal) in full. Bond maturities generally range from 30 days to 30 years.

**Yield or current yield.** The interest rate of a bond in relation to its price. At the time of initial purchase, the yield is generally the same as the coupon rate. If Investor A buys a \$1,000 bond for \$1,000 with a coupon rate of 5% per year, the yield is 5% (\$50 annually). However, if Investor A wants to sell the bond on the secondary market before the maturity date, he or she may sell at a higher price (**premium**) or a lower price (**discount**) depending on the interest rate environment at the time of the sale.

For example, if interest rates have gone up, and Investor B could buy a newly issued \$1,000 bond with a coupon

rate of 6% (\$60 annually), Investor A might have to sell the bond at a discount for \$833 or less. That would give Investor B a yield of 6% (\$50 annually on 5% coupon + market price \$833 = 6%). If rates have gone down, Investor A would likely be able to sell the bond at a premium.

**Yield to maturity (YTM).** The total return from a bond that is held to maturity, based on its par value, coupon rate, price, duration (see below), and compound interest that could be earned by reinvesting coupon payments. Although YTM is calculated over the remaining life of the bond, it is expressed as an annual rate.

**Duration.** A measure of how many years it will take for an investor to recoup the bond's price from the bond's total cash flows. Duration is often used as an approximate measure of a bond's sensitivity to interest rates. As discussed above, when interest rates rise, bond prices typically fall, and vice versa. To estimate the impact of a rate change, multiply a bond's duration by the expected percentage change in interest rates. For example, if interest rates rise 1%, a bond with a seven-year duration might be expected to lose roughly 7% in value. A bond with a three-year duration might lose 3% in value.

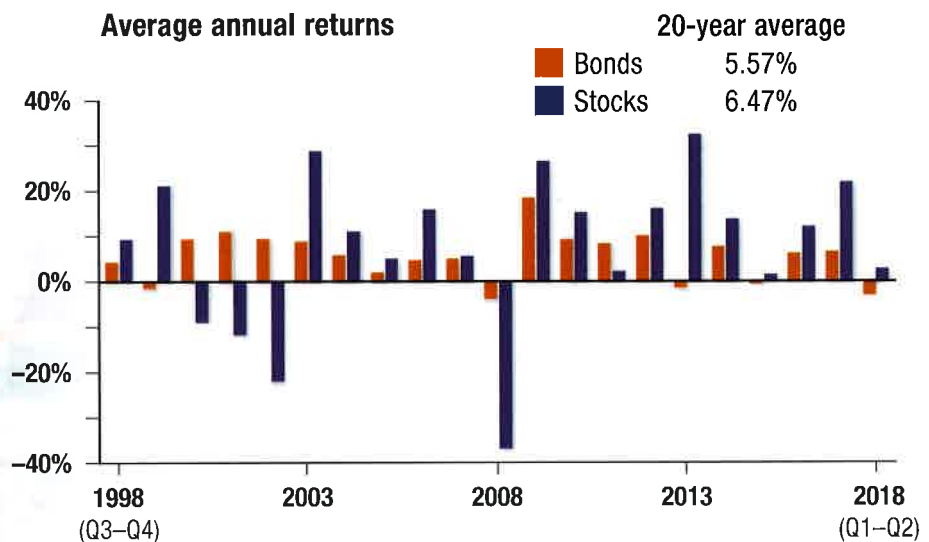
These are fundamental concepts, but many other terms apply to bond investing. The principal value of bonds will fluctuate with changes in market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

## Balancing Volatility

Bonds are often used to help balance a portfolio because they tend to be more stable than stocks while offering moderate growth potential.



Average annual returns



Source: Thomson Reuters, 2018, for the period 7/1/1998 to 06/30/2018. Bonds are represented by the Citigroup Corporate Bond Composite index. Stocks are represented by the S&P 500 Composite index (total return). The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

# ABLE Accounts for Disability Expenses

Achieving a Better Life Experience (ABLE) accounts allow eligible individuals to save and invest money in tax-advantaged plans to pay qualified disability expenses. Expenses that may qualify include housing, education, transportation, health, prevention and wellness, employment training and support, assistive technology, personal support services, and other disability-related expenses.

Along with tax advantages, ABLE accounts offer the opportunity to save for future disability needs without jeopardizing eligibility for Supplemental Security Income (SSI), Medicaid, and other public benefits. Funds in ABLE accounts generally do not count toward means/resource testing limits for these benefits.

## Who Can Open an ABLE Account?

If you have a significant disability that was diagnosed before age 26, you may be eligible to open an ABLE account. You must be receiving SSI or Social Security Disability Insurance (SSDI), or obtain disability certification from a physician.

If you have a family member who qualifies, you may be able to open and oversee an ABLE account on that person's behalf if you are the parent or legal guardian of a minor or someone who is legally unable to manage his or her account, or you have power of attorney. The individual with the disability remains both the account owner and the beneficiary. Each eligible beneficiary can have only one ABLE account.

## How Do ABLE Accounts Work?

You can open an ABLE account in your own state if it has an ABLE program, or in any state that allows nonresidents to join (most do). As of mid-2018, almost 40 states offered

## New ABLE Savings Opportunities

The Tax Cuts and Jobs Act of 2017 included three provisions (effective for tax years 2018 to 2025) that may allow individuals to save more.

- In addition to regular contributions, the designated beneficiary may be able to contribute earnings from work. The additional contribution is limited to the federal poverty line for a one-person household, which is \$12,140 in 2018 for the continental United States (\$13,960 in Hawaii and \$15,180 in Alaska). The additional contribution is not allowed if the designated beneficiary's employer contributes to a workplace retirement plan on his or her behalf.
- The designated beneficiary may be eligible for the saver's credit for contributions to an ABLE account.
- Some funds may be rolled into an ABLE account from the designated beneficiary's own 529 plan or from the 529 plan of certain family members.



ABLE accounts.<sup>1</sup> Contributions can be made by the account owner or by family members, friends, employers, and others who want to provide financial support.

**Contribution limits.** In general, contributions from all donors combined during the year cannot exceed the annual gift tax exclusion (\$15,000 in 2018 and 2019). However, see New ABLE Savings Opportunities above. Each state sets its own lifetime limit (at least \$350,000 in many states), which is also the state's maximum for Section 529 college savings plans. But when an ABLE account exceeds \$100,000, SSI payments will be suspended until the balance falls to \$100,000 or less.

**Tax benefits.** Any earnings accumulate tax deferred at the federal level and in some cases at the state level. When money is withdrawn, the earnings on distributions will be tax-free if used to pay qualified expenses. There is no federal income tax deduction, but some states offer tax incentives to residents.

**Medicaid payback provision.** If an ABLE account owner dies and he

or she was receiving Medicaid, a state is allowed to file a claim against the account balance for medical expenses that were paid during the period that the ABLE account was open. (Not all states will pursue payback.) Any funds remaining after the state is reimbursed may be distributed to heirs.

*Participating in an ABLE account may involve investment risk, including the possible loss of principal, and there can be no assurance that any investing strategy will be successful. Carefully consider a portfolio's level of risk, charges, and expenses before investing. Read the program's official disclosure statement and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company.*

*Before investing in an ABLE plan, consider whether your state offers an ABLE program that provides residents with favorable state tax benefits. Consult a tax professional for more information. ABLE accounts may be protected from creditors if you invest in your own state's program, depending on the state.*

1) specialneedsanswers.com, 2018

# Are Your Designated Heirs Up-to-Date?

The end of the year is a time when families often gather together. Although these gatherings may keep you busy, this could be a good time to think about the future and make sure that you have correctly designated family members and any others you wish as beneficiaries in your will, insurance policies, and financial accounts.

This is especially important if there have been changes in your life, such as the birth of a child or grandchild, a death in the family, a divorce, or a remarriage. But even if your family situation remains the same, it's a good idea to review your beneficiary designations to be sure they are complete and reflect your current wishes.

## Beneficiary Forms May Override Your Will

A will is an essential legal document for designating your heirs and facilitating distribution of your assets if your estate goes through the probate process. However, the assets in most investment accounts, retirement accounts, and life insurance policies convey directly to the people named on the beneficiary forms — even if they are different from the people named in your will — and do not go through probate.

Fortunately, it's fairly easy to designate or change your account beneficiaries. A will may incur costs to update, but a new beneficiary designation form can be filed with the appropriate financial institution or insurance company. Here are some issues to consider.

- Your current spouse must be the beneficiary of an employer-sponsored retirement plan unless he or she waives that right in writing. Without a waiver, any



children from a previous marriage might not receive account proceeds.

- Designate secondary (contingent) beneficiaries in the event that the primary beneficiaries predecease you. Otherwise, proceeds would be distributed according to the default method specified in the account documents and/or state law.
- Some insurance policies, pension plans, and retirement accounts may not pay death benefits to minors. If you want to leave money to young children, you should designate a guardian or a trust as beneficiary.

*The use of trusts involves complex tax rules and regulations. Consider the counsel of an experienced estate planning professional and your legal and tax advisers before implementing such strategies.*

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*Are bonds playing an appropriate role in your portfolio? Call us for an appointment today.*

*Working toward a better financial future,*

A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.