

FINANCIALink

Your Money Management Newsletter

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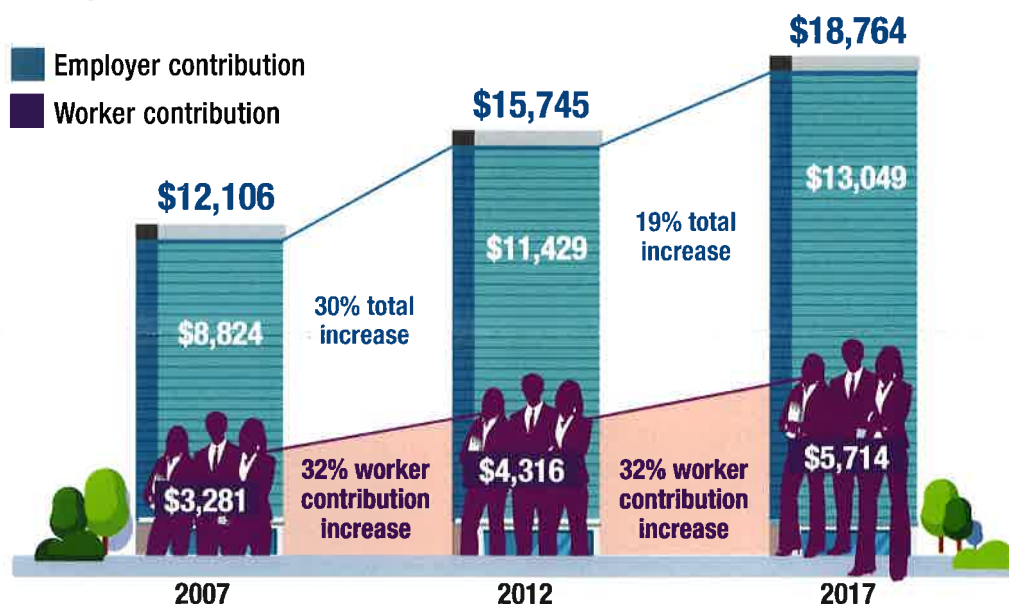


Gregory Taranto, CPA

Rising Health Insurance Costs

In 2017, the average annual premium for employer-sponsored health insurance was \$6,690 for single coverage and \$18,764 for family coverage — an increase of 4% and 3%, respectively, over 2016. Total premium increases have slowed down over the last five years, but the worker contribution for family coverage has increased more quickly than the total. Deductibles and other out-of-pocket costs have also increased.

Average annual health insurance premiums for family coverage



Source: Kaiser Family Foundation, 2017 (worker and employer contributions may not equal total due to rounding)



Average cost for the IRS to collect \$100 in taxes in FY 2016. This was unchanged from 2015, which had the lowest cost dating back to 1987. By contrast, it cost 53¢ in 2010 and a high of 60¢ in 1993. The number of IRS employees has dropped, while electronic filing and processing have increased.

Source: Internal Revenue Service, 2017

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Practical insights for your **FINANCIAL GOALS**

Four Financial Numbers You Should Know

Daily life is full of numbers, and some matter more than others. Here are four that could help you understand and potentially improve your financial situation.

Retirement Plan Contribution Rate

What percentage of your salary are you contributing to a retirement plan? Making automatic contributions through an employer-sponsored plan is a convenient way to save for retirement, but this out-of-sight, out-of-mind approach may result in a disparity between what you need to save and what you are actually saving. There is no magic number, but one common guideline is to save 10% to 15% of your salary. If you start late, you may need to save even more.

If that seems like too much, you should at least contribute enough to receive the full company match (if any) that your employer offers. Some plans let you sign up for automatic increases each year, which is a simple way to bump up the percentage you're saving over time.

Credit Score

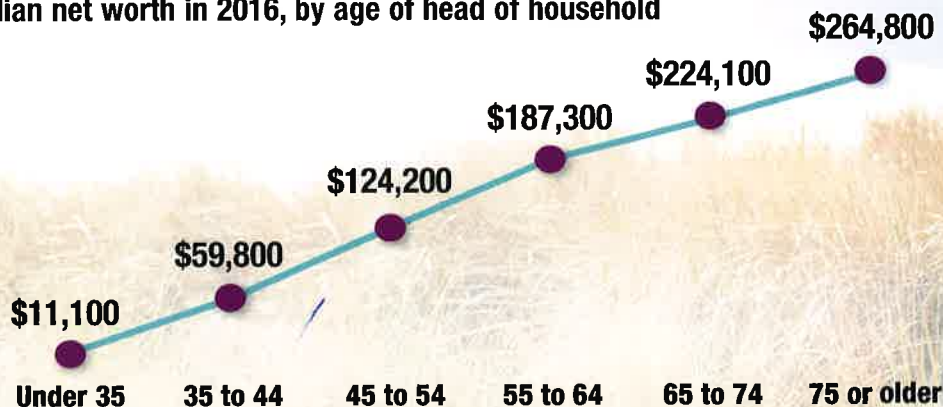
When you apply for credit, such as a mortgage, a car loan, or a credit card, your credit score will likely factor into the approval decision and affect the terms and the interest rate you'll pay.

The most common credit score is a FICO® Score, a three-digit number that ranges from 300 to 850. At one time, you had to pay to check your score, but many credit-card companies now offer this as a free service to customers. You should also regularly check your credit report, which contains the information used to calculate your score. You're entitled to one free copy every 12 months from each of the three major credit-reporting agencies. To request a free report, visit annualcreditreport.com.

Rising Net Worth

The median net worth of American families increased by 16% from 2013 to 2016, rising from \$83,700 to \$97,300. In general, net worth tends to increase with age as people earn more, accumulate assets, and pay down debt.

Median net worth in 2016, by age of head of household



Source: Federal Reserve, 2017

Debt-to-Income Ratio

Your debt-to-income ratio (DTI) is another number that lenders may use when deciding whether to offer you credit. A DTI that is too high might mean that you are overextended. Your DTI is calculated by adding up your major monthly expenses and dividing that figure by your gross monthly income. The result is expressed as a percentage. If your monthly expenses total \$2,000 and your gross monthly income is \$6,000, your DTI is 33.3%.

Lenders decide what DTIs are acceptable, based on the type of credit. For example, a ratio of 43% or less is standard for many types of mortgages, but the percentage might be more or less depending on the specific situation.¹

Once you know your DTI, you can take steps to reduce it if necessary. You may be able to pay off a low-balance loan to remove it from the calculation and/or avoid taking on new debt that might negatively affect your DTI. Check with your lender if you have questions about acceptable DTIs or what expenses are included in the calculation.

Net Worth

Your net worth provides a snapshot of where you stand financially. To calculate your net worth, add up your assets (what you own) and subtract your liabilities (what you owe). Ideally, your net worth will grow over time as you save more and pay down debt, at least until retirement. If your net worth is stagnant or even declining, then it might be time to make some adjustments to target your financial goals, such as trimming expenses or rethinking your investment strategy.

1) Consumer Financial Protection Bureau, 2017



It's Tax Time — Prepare with Care

Almost one out of four Americans say they would rather go without a car for a week than prepare their taxes, and almost one out of five would rather memorize U.S. presidents in order.¹ Unfortunately, the IRS doesn't offer that choice. You can walk instead of drive and memorize the presidents if you want to, but you still have to file your taxes.

Part of the tax-time dread for some people is fear of an audit. In fact, audits have dropped in recent years due to IRS budget cuts and a shift in focus to larger enforcement actions. Just 0.7% of personal returns filed in 2015 were audited in FY 2016.² Even so, it's wise to be careful when preparing your taxes. Here are a few simple guidelines that may help reduce your stress level and your chances of an audit.

Report all income. Many types of income other than wages are reported by the payer to the IRS (typically on a 1099 form), so the IRS can identify a failure to report income by comparing payer reports to your tax return. Even if income is not reported by the payer, you should include it on your return. Along with wages and self-employment income, some potential sources of income include investments, interest, royalties, rent, compensation as an independent contractor, forgiven debt, alimony, tips, gambling winnings, health insurance reimbursements (for expenses deducted in a previous year), and proceeds from sales on online sites such as eBay.

Use good judgment when taking deductions. Take all deductions allowed by law, but keep in mind that certain deductions tend to raise a red flag. Among the most common are home-office deductions, vehicle expense deductions, and high-value

Taxpayer Bill of Rights

1. **The Right to Be Informed**
2. **The Right to Quality Service**
3. **The Right to Pay No More Than the Correct Amount of Tax**
4. **The Right to Challenge the IRS's Position and Be Heard**
5. **The Right to Appeal an IRS Decision in an Independent Forum**
6. **The Right to Finality**
7. **The Right to Privacy**
8. **The Right to Confidentiality**
9. **The Right to Retain Representation**
10. **The Right to a Fair and Just Tax System**

For more information on these rights, see [irs.gov/Taxpayer-Bill-of-Rights](https://www.irs.gov/Taxpayer-Bill-of-Rights).

charitable contributions. If you claim self-employment expenses, be sure you understand IRS regulations distinguishing a business from a hobby. Vehicle expense deductions require a written log. And remember that there are more rigorous record-keeping requirements for higher-value charitable deductions.

Check your math and personal information. The IRS sent out more than 1.6 million math-error notices in FY 2016.³ Even though a math error may not lead to an audit, it can call attention to your return. The same is true for entering incorrect personal information, such as the wrong Social Security number, or forgetting to sign your return.

File forms on time. Missing a filing deadline often leads to a letter from the IRS (though not necessarily an audit). Remember that even if you file an extension, you must pay all tax

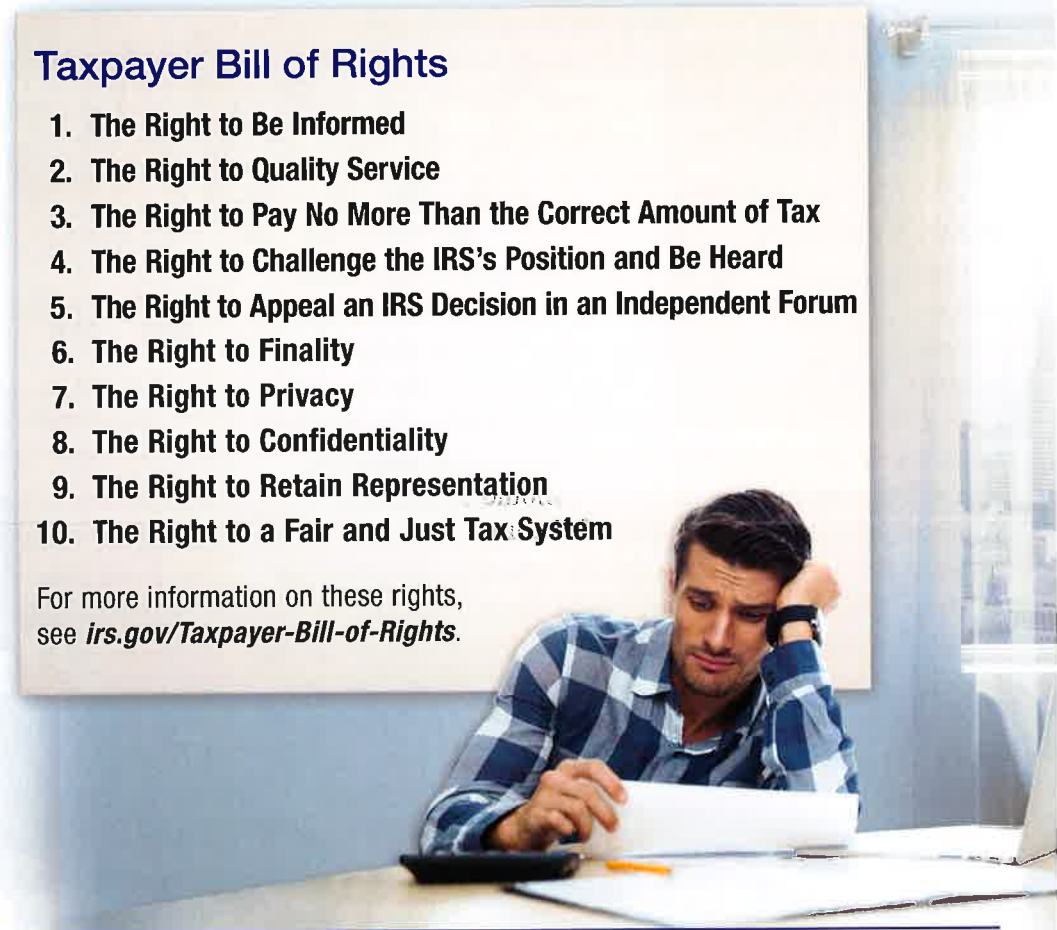
due by the regular filing deadline or you will be charged interest.

Find a good tax preparer. Depending upon the complexity of your return, you may want to consult with a tax professional before taking specific action related to your taxes. The IRS offers a searchable, online directory of federal tax preparers by ZIP code and preparer credentials at irs.treasury.gov/rpol/rpo.jsf.

Even if you do receive a letter from the IRS, there is no reason to panic. Many queries can be resolved by providing additional information or clarification, and relatively few require a personal meeting. Some audits result in no change or even a tax refund. Keep in mind that the IRS will not contact you by phone unless you have first received an official letter.

1) TaxSlayer, 2017

2–3) Internal Revenue Service, 2017



TIPS for Inflation Protection

The Federal Reserve's decision to gradually raise interest rates reflects a belief that the economy is stable and inflation is approaching the Fed's target rate of 2%.¹ That's lower than the 30-year average of 2.6% (see chart). But even moderate inflation can have a negative impact on the purchasing power of fixed-income investments.

Adjusted Principal

One way to help protect your investment dollars from inflation is by purchasing Treasury Inflation-Protected Securities (TIPS). The principal value of these securities is adjusted twice each year, based on changes in the consumer price index (CPI). When the CPI rises or falls, the principal increases or decreases. If you hold the bond to maturity, you will receive the greater of the original or inflation-adjusted principal. Considering that every year over the past 60 years has seen at least some CPI inflation, the principal value of TIPS held to maturity is likely to increase.²

TIPS pay a fixed rate of interest twice a year based on the inflation-adjusted principal, so the amount of interest may fluctuate. You must pay federal income tax each year on the interest income plus any increase in principal, even though you won't receive the accrued principal until the bond matures. For this reason, many investors hold TIPS in a tax-deferred account such as an IRA.

Treasuries typically pay lower interest rates than riskier corporate bonds, and TIPS typically pay lower interest rates than equivalent Treasuries that are not adjusted for inflation. When evaluating a TIPS investment, you should

Annual Inflation Rate



Source: U.S. Bureau of Labor Statistics, 2017 (based on 12-month December change to CPI-U; 2017 data through August)

consider the potential increase in principal value. TIPS may be a better value than equivalent Treasuries when inflation rises faster than the market anticipates.

TIPS are sold in \$100 increments and are available in maturities of 5, 10, and 30 years. Like all bonds, the return and principal value of TIPS on the secondary market vary with market conditions and are sensitive to movements in interest rates. When interest rates rise, the value of an existing TIPS will typically fall on the secondary market. However, changing rates and secondary-market values should not affect the principal of TIPS held to maturity. All Treasuries are guaranteed by the federal government as to the timely payment of principal and interest.

1) Federal Reserve, 2017

2) U.S. Bureau of Labor Statistics, 2017

The information in this newsletter is not intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Broadridge Advisor Solutions. © 2018 Broadridge Investor Communication Solutions, Inc.

*Have you taken time to analyze your current financial position in relation to your future goals?
We are here to help.*

Working toward a better financial future,