Nest Builder Financial Advisors, Ltd. Start building a better tomorrow today

Nest Builder Financial Advisors, Ltd. is a fee-only firm that offers financial planning services and objective investment advice. We are not affiliated with mutual fund or insurance companies and do not receive commissions to promote their products.

"News from the Nest"

Welcome to our newsletter. Please email us at: Mary@NestBuilderFinancial.com with your suggestions, comments or questions.

Recently

The Federal Reserve raised interest rates one-quarter percent on June 14th, the fourth increase since late 2015. Job growth has been strong and wages have been growing at faster rate for low-income workers than for higher-earners, something not often seen.

The stock market was anticipating the rate increase and responded with a yawn. The Fed implied one more rate increase this year, assuming the economy keeps chugging along.

If interest rates increase considerably over the next few years, stocks, especially dividend-focused stocks may decline in value. Traders will consider the higher yields of relatively safe bonds as a good tradeoff over yields on more volatile stocks. However, there is still a lot of ground to cover before reaching this crossroad.

Common Cents

Did you know that Health Savings Accounts (HSAs) may just be the most tax-efficient type of accounts available? Contributions to HSAs are made with pre-tax dollars, grow tax free, and distributions are tax-free for qualified health care expenses. You can have your cake and eat it too.

There are two ways two to use these accounts: 1) you can use them for your annual health care expenses, and 2) if you have the financial wherewithal, you can use them as a health care retirement account. We are seeing more interest in the second option, which could work especially well for early retirees with no employer health care coverage, to bridge the gap until age 65 when Medicare starts. HSAs, unlike Flex Spending Accounts, allow you to roll your balance over year-after-year. You can invest it in mutual funds for long-term market returns.

You're also not stuck with an employer's choice for an HSA-provider. Online, you can search for 'Bogleheads' and 'HSA' to learn more.

Dear Mary,

My sister received a notice from her IRA brokerage that her account is being transitioned and there will be an ongoing fee to manage it. Do you know why they would they would do this?

Signed, Baffled Brother

Dear Baffled Brother,

Yes, the short answer is it's due to the Department of Labor's "fiduciary rule" which was part of the Dodd-Frank act in 2010; it's only recently been coming into focus. The fiduciary rule requires financial advisors, when giving advice on retirement accounts, to act in the best interest of their clients and adds considerable compliance burdens for all advisory firms, most for commission-based advice.

For the IRA investor working with a broker who was commission-based, this likely means a transition to fee-based compensation. For many, especially those with "smaller" accounts, this transition may mean a significant increase although they may offer an exemption. This is due to the additional regulatory requirements advisory firms now face. Note that advice on non-retirement accounts is not bound to the fiduciary standard of care.

Since founded in 2003, we have always adhered to the fiduciary standard of care for all aspects of our advice. We are working with our fee-only colleagues to better understand the effects of the 1,023 page-ruling to our clients and our practices.

Section 529 and Coverdell Education Savings Accounts

Saving for a college education can be daunting but is a little bit easier when realize you can receive a tax benefit for doing so. It's like starting an exercise program, it's hard to take the first step, but down the road you'll be happy that you did.

Most of the time, when talking about college savings, financial advisors talk about Section 529 college savings plans like Bright Start in Illinois because you can get a nice bang for your buck. For example, a married couple can receive the full tax deduction by contributing a total of $20,000 annually to a 529 plans (or $10,000 to two plans, etc.). This $20,000 deduction reduces your state income tax by $750. Not only do you get the deduction for every year you contribute, but the money grows tax-free if withdrawn for tuition, room & board, or books. Because college costs are so high, starting early and saving as much as you can without hindering your own retirement savings is critical. For many families, paying for college will require a combination of parental savings, student part-time work savings and financial aid, with loans being the most prominent. Scholarships and grants are bonuses that many won't be able to count on.

To open a Bright Start 529 you can contact us or go to www.brightstartsavings.com

Another option that is not talked about as much is the Coverdell Education Savings Account. Coverdell's maximum annual contribution is $2,000 per student per calendar year and your Modified Adjusted Gross Income must be less than $220,000 if married, half that if single. Coverdell ESA savings are not restricted to post-secondary education but can also be used for elementary or high school expenses. Investment growth and withdrawal of Coverdell accounts is also tax-free if used for qualified expenses.

Grandparents are often looking for ways to help their grandchildren and one of the best ways is to help fund their education. A grandparent's college savings account, whether it's a 529 or a Coverdell ESA, is not counted as an asset of the child or their parents for financial aid purposes. However, a grandparent's education savings of either flavor may be best used for the student's senior year; if used early on, the school assumes it will be there for each subsequent year and it may hinder other financial aid opportunities.

Not all financial institutions offer Coverdell ESAs. You can find a list of providers by going to www.savingforcollege.com/coverdell_esa_providers/

"Acknowledging what you don't know is the dawning of wisdom."

Charlie Munger

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