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Financial focus

Ways to Create an Affordable Family Vacation

By Karen Folk, Ph.D., CFP®
Champaign, Illinois

The kids are clamoring for a trip to Disney World, SeaWorld, and Universal Studios, but you want to relax on the beach, and you haven't saved the cost of a week in Orlando. What's the solution? Don't despair; there are many ways to vacation on the cheap without including camping (one of the lowest-cost options), if that is not your cup of tea. Here are some tips gleaned from various sources and practical experience while planning our family vacations, which included four perpetually hungry teens during a time of reduced family income.

TIP #1 Include some days of low-cost activities instead of, as my uncle calls it, only "manufactured fun" with high entry fees. A week's vacation in Orlando doesn't have to include visiting every attraction; save some for another trip and spend a few days at the beautiful Florida beaches relaxing, touring Cape Canaveral, or exploring one of Florida's diverse state parks. Vacations to natural attractions at national or state parks are also lower cost than theme or water parks.

TIP #2 Restaurant meals add up, take time, and may not appeal to the kids. Keep food costs low by packing a cooler. Breakfast can be cereal, fruit, and milk in the hotel or the free breakfast. Lunch can be more relaxing than a restaurant if you return to your cool hotel room, prepare sandwiches, fruit, and drinks, and then settle in for naps and/or time in the hotel pool.

TIP #3 Consider renting a vacation home, apartment, or condo rather than staying in a hotel. The advantages of having a full kitchen and several bathrooms plus other amenities can make these rentals attractive. You can find a range of accommodations from vrbo.com, homeaway.com, and airbnb.com. You do need to research these thoroughly, read the reviews, and make sure you understand the full charges and what is required when you leave. We have had excellent experiences with these for multi-family gatherings.

TIP #4 If possible, you can save by traveling in the off-season or to less visited but still scenic places near major tourist destinations. Save by booking hotels a few miles away rather than onsite. Spending several days in one locale may allow you to find less expensive lodging. Multi-day passes to attractions or CityPASS tickets to a number of places can also save over individual admission.

TIP #5 Research (i.e. Google) attractions prior to your trip. You can print out maps and guides, or save them to your phone. The local library is a good source for a variety of guidebooks to discover interesting places to visit. Don't overlook free local attractions; lunching in the local park with the awesome playground or visiting a small nature center can add to the enjoyment of your vacation. On long car-travel days, we just stop at any small town, ask where the city park is, and let the kids play while we prepare a sandwich lunch.

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Cut Taxes and Save on Energy Bills with Home Energy Credits

You can reduce your taxes and save on your energy bills with certain home improvements. Here are some key facts that you should know about Residential Energy Efficient Property Credit:

- This tax credit is 30 percent of the cost of alternative energy equipment installed on or in your home.
- Qualified equipment includes solar hot water heaters, solar electric equipment, wind turbines, and fuel cell property.
- There is no dollar limit on the credit for most types of property. If your credit is more than the tax you owe, you can carry forward the unused portion of this credit to next year's tax return.
- The home must be in the US. It does not have to be your main home, unless the alternative energy equipment is qualified fuel cell property.
- This credit is available through 2016.

IRS Tax Tip 2015-38

Advice for New (and Maybe Not-So-New) Couples

By Claire Emory, CFA, CFP®
Arlington, VA
Contributor - Anthony Kure

June remains the most popular month for weddings, followed closely by October, and with many states now recognizing same-sex marriages, the definition of a newlywed couple has expanded. Where marriage is concerned, it's hard to avoid the topic of finances. Research reveals that money is one of the subjects couples argue about the most, and a 2014 survey by the credit bureau Experian found that 73% of women and 60% of men said they considered their spouse more attractive when he or she was willing to discuss personal finances. So being open to money talk may well lead to other advantages in your relationship.

If you find yourself hesitant to discuss money, ask yourself the following questions:

- What is keeping you from being open with your spouse? Is it fear? Is it discomfort resulting from dysfunctional attitudes toward money when you were growing up? Are there ways you could more effectively deal with those feelings?
- What could your spouse do to make it easier for you to discuss money and its role in your lives?
- Does knowing that a willingness to discuss money might make you more attractive to your spouse inspire you to make more of an effort to have this type of conversation?

If you're faced with a partner who is reluctant to discuss money, ask yourself:

- Do you have any idea why your spouse avoids talking about personal finances?
- Is it possible that you try to discuss finances at inopportune or inappropriate times?
- What could you do to alleviate some of the tension that your spouse may be subject to when the topic of money comes up?

As far as the nuts and bolts of setting up a shared financial life are concerned, what should you be paying attention to as a new couple? One decision you will need to make is how to structure your various banking and investment accounts, including whether to keep your separate accounts or combine them. Optimally, the two of you will find a balance between the efficiency and clarity of shared accounts and the autonomy of keeping accounts separate.

It's generally a good idea to have a joint working household account from which all core shared living expenses can be paid. This makes it easier to keep up with reconciliation of transactions and, most importantly, monitor your spending level. Having an accurate picture of your core living expenses is essential to setting priorities for your household and keeping on track to meet your short- and long-term goals as a partnership.

Many couples find that combining a joint checking account with separate "independence accounts" provides an effective balance between the beneficial efficiency and clarity of shared accounts and the sense of individual freedom that many participants desire to maintain within a marriage. These independence accounts can take the form of checking, savings, or taxable brokerage accounts. What's important to remember is that these types of accounts are meant for discretionary spending, the little luxuries each person yearns for, and they receive money only after your joint household and retirement accounts have been funded. By regulation, retirement accounts are kept separate and individual; they should, however, be considered within the overall partnership picture, with beneficiary designations kept up to date.

It's not always easy to overcome the obstacles that can make it difficult to talk about, nor is it simple to satisfactorily combine your personal finances as a couple. But if you are committed to making an effort, you may well find that both your financial outlook and partnership benefit from that effort. Here's a toast to weddings everywhere, and a happy shared financial life!

Suggested Gifts for Newlyweds and College Grads

- ***The Young Couple's Guide to Growing Rich Together,*** by Jill Gianola
- ***The Pre-Marital Planner***, by Vikki Ziegler
- ***The Wealthy Barber: Everyone's Common-Sense Guide to Becoming Financially Independent***, by David Chilton
- ***Get a Financial Life: Personal Finance in Your Twenties and Thirties***, by Beth Kobliner
- ***Coin: The Irreverent Yet Practical Guide to Money Management for Recent College Graduates***, by Judy McNary and Jenna Kusmierek
- ***Happy Money: The Science of Happier Spending***, by Elizabeth Dunn and

What I Have Learned

By Mike Ryan
Hendersonville, TN

In 1980, I was a captain in the USAF with a 4-year-old daughter. She was obviously brilliant, so I was getting serious about saving for her college expenses when my recently retired former squadron commander, Lt. Col. Terry, paid me a visit as a rep for a mutual fund company, his new gig. Although I did not invest with him, he did encourage me to get serious about saving and investing. Shortly after his visit, I made my first investment in equities, a no-load mutual fund through the Mutual Series of funds. Since that first investment, I have experienced both investing successes and failures and learned something from both. I have also learned a great deal from the clients I have served as a financial advisor. In short, I have seen what has worked with investments over the past 30+ years. Here are some of the things I have learned:

1. Establish goals. Have a plan. Almost any plan is better than no plan. Know what you are aiming for and develop a long-term plan to get there.

2. It is important to invest on a regular basis and take advantage of "dollar-cost averaging." This ensures that you will continue to invest when the markets inevitably go down, when you will pay less for each share you buy. A regular, long-term contribution to a 401(k) accomplishes this.

3. Don't try to time the market where you jump in and out attempting to sell high and buy low. No one has been able to do this with any long-term success. Stick to dollar-cost averaging!

4. Most of us do not have the time, or rather will not take the time, to intelligently buy individual stocks and bonds. Most of us are better served by buying low-cost, no-load mutual funds such as those offered by Vanguard and Fidelity.

5. The importance of saving early, often, and hard cannot be overemphasized. You will accomplish much more for your long-term success by saving regularly than by shrewdly making the very best investment.

6. Diversify! The Standard and Poor's 500 Index lost 38.5% in 2008, the worst loss for that index since 1931, yet a portfolio diversified 50% in stocks and 50% in bonds lost only 18.4%. Though diversification cannot insulate one against all losses, it can protect somewhat. Diversification becomes more important the closer people get to their retirement date.

7. Be patient, and don't panic during market downturns. So far, the market has always recovered from its losses. Remember that often, the best change to make is none. Stick with your savings/investment plan.

8. The "talking heads" on CNBC and other financial news programs are there to sell advertisements and really have no better idea of what the markets will do in the short term than you or I. The same thing goes for the various market newsletter writers. And "top economists" have a dismal record when it comes to simply predicting future interest rates. Tune all of them out and stick with your plan.

9. And finally, keep everything in perspective. Your happiness is seldom dependent on how much money you have, but still, money matters.

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TIP #6 Plan within the amount you can afford; you can also start saving now with a "family vacation" jar. The money saved at home by forgoing a local restaurant meal or renting a movie rather than going to the theater can be deposited in the vacation jar, and it gets the kids involved.

TIP #7 Don't forget the little things that add up. Forgotten toiletries, sunscreen, etc. are cheapest purchased at home, not in the hotel gift shop or souvenir stores. Bring refillable water bottles and use them; buying bottled water in the summer heat can cost up to $20 per day for a family.

TIP #8 If you are flying, research airport parking for the best rates. Consider park-and-fly packages where the airport hotel provides free parking and a shuttle to the airport. If renting a car at your destination, consider off-airport rental locations to avoid high airport fees. Check your insurance coverage before you go; both personal auto insurance and credit card coverages may mean you don't need to add expensive daily collision and damage waiver insurance purchased from the rental agency.

TIP #9 Avoid pleas for souvenirs by giving children a daily trip allowance they may spend however they like. Inexpensive blank books for each child to collect autographs of costumed characters and use as travel journals can become treasured souvenirs.

TIP #10 Even at entertainment or water parks that do not allow outside food or drink, pack small snacks in a purse, pockets, or stroller. A nibble may stave off succumbing to a high-price snack or meal in the park rather than waiting to find a more affordable venue.

Why Knowing Your Tax Rate Is Important

By Ed Fulbright, CPA, CGMA, PFS
Durham, NC

Do you like paying more taxes? If not, then understanding your income tax rate can help. Some people believe that can be as complicated as picking your NCAA tournament brackets. It is not. Here is my four-step process to simplify and pay lower taxes.

Step 1: Understand your filing status, which can be:

1. Single (S)
2. Married Filing Jointly (MFJ)
3. Married Filing Separately (MFS)
4. Head of Household (HOH)
5. Qualifying Widow(er) with Dependent Child

Changes in your filing status can result in major changes to your taxes owed. I find that couples who married in the previous year are often surprised when they file their tax return together. Two people who are both in 25% and higher brackets as Single may owe more taxes when they file jointly (MFJ). This is called the marriage penalty tax. To know what your marriage penalty is, visit http://calc.taxpolicycenter.org/marriagepenaltycalculator/ or call your financial planner. On the other hand, you may pay lower taxes after you marry and file MFJ if one spouse has significantly higher income than the other. In event of divorce or separation, you may qualify for Head of Household status (HOH). Normally you qualify as HOH when you have a child and/or certain other dependents. Filing your return using HOH status will lower your taxes more than filing using Single status.

Step Two: Understand what tax bracket you are in now and will be in the future.

Federal tax brackets change as taxable income goes higher. (Taxable income is your adjusted gross income minus your deductions and exemptions.) The seven brackets are 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. The highest rate you pay is your tax bracket (marginal rate). Every additional dollar of income is taxed at your highest rate, except for capital gains income (Step Four). Levels of taxable income for each filing status are summarized at http://www.tax-brackets.org/federaltaxtable.

The average rate you pay is lower than your bracket rate because some of your income is taxed at lower percentage rates. For example, a married couple with taxable income of $100,000 would be in the 25% bracket. However, their average tax rate would be 17%. This is how their tax is figured:

Step Three: Know whether your income will change from year to year and your tax bracket.

If you know you will have higher income in future years, increasing your current income now to fill up a lower tax bracket can save you taxes. For example, when you reach 70.5, you are required to take annual distributions (Required Minimum Distribution - RMD) from your IRA or retirement plan. Before you turn 70.5, if you have a year in which your total income has not filled up the 15% tax bracket, it probably makes sense to increase income by converting a portion of your IRA to a Roth IRA. You will pay lower taxes now at 15% than later when your required minimum distribution income pushes you into the 25% or higher tax bracket.

Step Four: Understand the tax rates on differing types of income.

Here are some examples:

1. Ordinary Income – Salary, Taxable Interest, Taxable Social Security, Pension & IRA distributions, Employer Stock Options, Real Estate, Short Term Gain & Losses, Business, Farm, and Miscellaneous Income. These are subject to ordinary income tax rates.
2. Tax Exempt Income - interest income from certain Municipal Bonds, not taxed by the IRS, but often taxed by the state.
3. Investment income - long term capital gains and qualified dividends receive the most favorable tax rates of 0% to 20%.
   a. If your tax bracket is 10% or 15%, you can pay no taxes on individend/capital gain income.
   b. If your tax bracket is 25%, 28% or 33%, you pay 15% on dividend/capital gain income.
   c. If your tax bracket is 39.6%, you pay 20% on dividend/capital gain income.

Depending on your situation, it sometimes makes sense to sell investments in a year in which you are in a lower income tax bracket. This can result in little or no additional taxes if you plan carefully.

Understanding your income and tax bracket for multiple years can save you thousands of dollars annually. You want to accelerate your deductions in high-income years and increase income in low tax-bracket years. Working with your advisor to follow this four-step process can help you legally lower your tax bill and have sweet dreams at night.

2015 tax bracket for MFJ taxable income	Tax bracket rate	Tax computation for couple with $100,000 taxable income	Tax on each bracket's income
$0-$18,450	10%	Pay 10% of $18,450	$1,845
$18,450-$74,900	15%	Pay 15% of $56,450 ($74,900 less $18,450)	$8,468
$74,900 - $151,200	25%	Pay 25% of $25,100 ($100,000 less $74,900)	$6,275
$151,200 and up	28%, 33%, 35%, and 39.6%		
Total Tax due			$16,588
Average or Effective Tax Rate	17%	$16,588-$100,000	
Tax Bracket (Marginal Rate)	25%	Highest rate paid	