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FROM AUSTIN BRYAN

As we approach the "Dog Days" of summer, this month's *Directions* will focus on many different aspects of big life challenges and how we can help you prepare for them. As always, please let your adviser know if you would like to discuss these or any other topics further. Thank you for being part of the Smith Capital family.

DIRECTIONS FOR LIFE

The path of the righteous is like the morning sun, shining ever brighter till the full light of day.

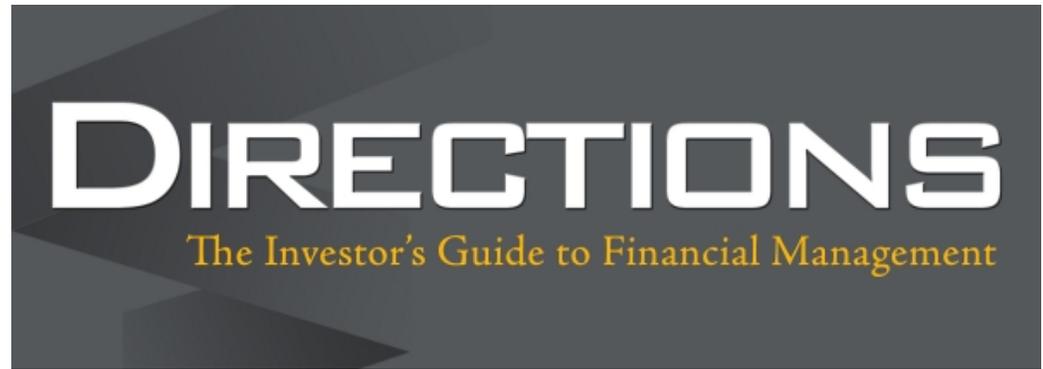
Proverbs 4:18

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The Cost of a Wedding



Congratulations, you're getting married! While you're looking forward to the big day, chances are you're overwhelmed with all the planning you have to do...and how you can possibly afford the wedding

of your dreams. After all, your wedding will probably be the priciest party you will have in your lifetime. According to a study conducted by The Knot, the national average price of a wedding in 2016 was \$35,329, an increase of \$2,688 from 2015.¹

By following some basic budgeting, saving, and planning guidelines, you can estimate what your wedding will cost.

Figure out who's paying for the wedding

One of the first things you should do is have a discussion with your future spouse about how you will foot the bill for the wedding. Be honest about your expectations and agree on an amount you both feel comfortable spending.

If your families have expressed a desire to help cover the cost, talk to them next. Ask them exactly how (and what) they would like to contribute. One family might decide to give a set dollar amount, whereas another may commit to paying for a particular expense, such as the ceremony or the reception. Regardless of how your families may help, you should leave the conversation with a better idea of how much you and your partner will need to contribute toward wedding expenses.

Establish your budget

When you consider the venue, wedding dress, invitations, catering, cake, DJ or band, photographer, flowers, and more, it's no wonder that weddings are so expensive. This is why it's important to break down your budget at the outset of your planning to help make sure you don't break the bank.

The first step in establishing your budget should be to write down a list of priorities. For example, if you and your future spouse want to provide your wedding guests with a spectacular culinary

experience, you will need to allot more money for food. Or perhaps you both want to have a more modest celebration and put most of your money toward a grand honeymoon. Your personal taste and how much you're willing to spend overall will help you figure out how much you need to save and what you want to splurge on. Search online for useful tools and calculators to help stay on track with your budget.

Start saving

The sooner you start setting money aside specifically for your wedding, the better off you'll be. Set a goal and reserve a percentage of your monthly income to help you reach it. In addition, put an extra 10% aside in the event that costs are higher than expected.

In addition to stashing cash, stay in line with your budget by looking for hidden costs and being frugal. Expenses that may seem minor but add up over time include stamps for invitations and RSVP cards, favors, tips/gratuities, and marriage license fees, among others. If you find yourself spending too much in one area, make cuts in another. Trim down the guest list, choose flowers that are in season or grown locally, scale down your centerpieces, or opt for a lower- or no-cost venue, such as a park or family member's backyard. Use creativity and sensibility to see how much you can save.

Consider wedding insurance

Remember that bit about emergency funds? Depending on when and where your wedding will take place, that cash may come in handy. But even with careful planning, it's still possible that unforeseen circumstances could complicate your plans. Fortunately, wedding insurance coverage may be available. Coverage options and limitations vary, so you'll need to read the fine print carefully before you purchase a policy. Contact an insurance agent and each of your vendors to learn more about your options. You may find it's worth the peace of mind for your walk down the aisle.

¹ The Knot 2016 Real Weddings Study, February 2, 2017, theknot.com



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The intersection of student loan debt and Social Security benefits

Since 2001, the federal government has collected about \$1.1 billion from Social Security recipients to cover unpaid federal student loans, including \$171 million in 2015 alone. During that time, the number of Americans age 50 and older who have had their Social Security benefits reduced to pay defaulted federal student loans has risen 440%.

Source: *The Wall Street Journal*, *Social Security Checks Are Being Reduced for Unpaid Student Debt*, December 20, 2016

Student Loan Debt: It Isn't Just for Millennials

It's no secret that today's college graduates face record amounts of debt. Approximately 68% of the graduating class of 2015 had student loan debt, with an average debt of \$30,100 per borrower — a 4% increase from 2014 graduates.¹

A student loan debt clock at finaid.org estimates current outstanding student loan debt — including both federal and private student loans — at over \$1.4 trillion. But it's not just millennials who are racking up this debt.

According to the Consumer Financial Protection Bureau (CFPB), although most student loan borrowers are young adults between the ages of 18 and 39, consumers age 60 and older are the fastest-growing segment of the student loan market.²

Rise of student debt among older Americans

Between 2005 and 2015, the number of individuals age 60 and older with student loan debt quadrupled from about 700,000 to 2.8 million. The average amount of student loan debt owed by these older borrowers also increased from \$12,100 to \$23,500 over this period.³

The reason for this trend is twofold: Borrowers are carrying their own student loan debt later in life (27% of cases), and they are taking out loans to finance their children's and grandchildren's college education (73% of cases), either directly or by co-signing a loan with the student as the primary borrower.⁴ Under the federal government's Direct Stafford Loan program, the maximum amount that undergraduate students can borrow over four years is \$27,000 — an amount that is often inadequate to meet the full cost of college. This limit causes many parents to turn to private student loans, which generally require a co-signer or co-borrower, who is then held responsible for repaying the loan along with the student, who is the primary borrower. The CFPB estimates that 57% of all individuals who are co-signers are age 55 and older.⁵

What's at stake

The increasing student loan debt burden of older Americans has serious implications for their financial security. In 2015, 37% of federal student loan borrowers age 65 and older were in default on their loans.⁶ Unfortunately for these individuals, federal student loans generally cannot be discharged in bankruptcy, and Uncle Sam can and will get its money — the government is authorized to withhold a portion of a borrower's tax refund or Social Security benefits to collect on the debt. (By contrast,

private student loan lenders cannot intercept tax refunds or Social Security benefits to collect any amounts owed to them.)

The CFPB also found that older Americans with student loans (federal or private) have saved less for retirement and often forgo necessary medical care at a higher rate than individuals without student loans.⁷ It all adds up to a tough situation for older Americans, whose income stream is typically ramping down, not up, unlike their younger counterparts.

Think before you borrow

Since the majority of older Americans are incurring student loan debt to finance a child's or grandchild's college education, how much is too much to borrow? It's different for every family, but one general guideline is that a student's overall debt shouldn't be more than his or her projected annual starting salary, which in turn often depends on the student's major and job prospects. But this is just a guideline. Many variables can impact a borrower's ability to pay back loans, and many families have been burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

A recent survey found that 57% of millennials regret how much they borrowed for college.⁸ This doesn't mean they regretted going to college or borrowing at all, but it suggests that it would be wise to carefully consider the amount of any loans you or your child take out for college. Establish a conservative borrowing amount, and then try to borrow even less.

If the numbers don't add up, students can reduce the cost of college by choosing a less expensive school, living at home or becoming a resident assistant (RA) to save on room costs, or graduating in three years instead of four.

¹ The Institute for College Access & Success, *Student Debt and the Class of 2015*, October 2016

²⁻⁷ Consumer Financial Protection Bureau, *Snapshot of Older Consumers and Student Loan Debt*, January 2017

⁸ *Journal of Financial Planning*, September 2016





Self-employed individuals make up 10.1% of the total U.S. workforce.

Source: U.S. Bureau of Labor Statistics, March 2016

Tax Tips for the Self-Employed

Being self-employed has many advantages — the opportunity to be your own boss and come and go as you please, for example. However, it also comes with unique challenges, especially when it comes to how to handle taxes. Whether you're running your own business or thinking about starting one, you'll want to be aware of the specific tax rules and opportunities that apply to you.

Understand the self-employment tax

When you worked for an employer, payroll taxes to fund Social Security and Medicare were split between you and your employer. Now you must pay a self-employment tax equal to the combined amount that an employee and employer would pay. You must pay this tax if you had net earnings of \$400 or more from self-employment.

The self-employment tax rate on net earnings (up to \$127,200 in 2017) is 15.3%, with 12.4% going toward Social Security and 2.9% allotted to Medicare. Any amount over the earnings threshold is generally subject only to the Medicare payroll tax. However, self-employment and wage income above \$200,000 is generally subject to a 0.9% additional Medicare tax. (For married individuals filing jointly, the 0.9% additional tax applies to combined self-employment and wage income over \$250,000. For married individuals filing separately, the threshold is \$125,000.)

If you file Form 1040, Schedule C, as a sole proprietor, independent contractor, or statutory employee, the net income listed on your Schedule C (or Schedule C-EZ) is self-employment income and must be included on Schedule SE, which is filed with your Form 1040. Schedule SE is used both to calculate self-employment tax and to report the amount of tax owed. You can deduct one-half of the self-employment tax paid (but not any portion of the Medicare surtax) when you compute the self-employment tax on Schedule SE.

Make estimated tax payments on time

When you're self-employed, you'll need to make quarterly estimated tax payments (using IRS Form 1040-ES) to cover your federal tax liability. You may have to make state estimated tax payments as well.

Estimated tax payments are generally due each year on the 15th of April, June, September, and January. If you fail to make estimated tax payments on time, you may be subject to penalties, interest, and a large tax bill at the end of the tax year. For more information, see IRS Publication 505, Tax Withholding and Estimated Tax.

Invest in a retirement plan

If you are self-employed, it is up to you and you alone to save sufficient funds for retirement. Investing in a retirement plan can help you save for retirement and also provide numerous tax benefits.

A number of retirement plans are suited for self-employed individuals:

- SEP IRA plan
- SIMPLE IRA plan
- SIMPLE 401(k) plan
- "Individual" 401(k) plan

The type of retirement plan you choose will depend on your business and specific circumstances. Explore your options and be sure to consider the complexity of each plan. In addition, if you have employees, you may have to provide retirement benefits for them as well. For more information, consult a tax professional or see IRS Publication 560, Retirement Plans for Small Businesses.

Take advantage of business deductions

If you have your own business, you can deduct some of the costs of starting the business, as well as the current operating costs of running that business. To be deductible, business expenses must be both ordinary (common and accepted in your field of business) and necessary (appropriate and helpful for your business).

Since business deductions will lower your taxable income, you should take advantage of any deductions to which you are entitled. You may be able to deduct a variety of business expenses, such as start-up costs, home office expenses, and office equipment.

Deduct health-care expenses

If you qualify, you may be able to benefit from the self-employed health insurance deduction, which would enable you to deduct up to 100% of the cost of health insurance that you provide for yourself, your spouse, your dependents, and employees.

In addition, if you are enrolled in a high-deductible health plan, you may be able to establish and contribute to a health savings account (HSA), which is a tax-advantaged account into which you can set aside funds to pay qualified medical expenses. Contributions made to an HSA account are generally tax deductible. (Depending upon the state, HSA contributions may or may not be subject to state taxes.)



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What is a rollover IRA, and do I need one?

Generally, the term "rollover IRA" refers to an IRA that you establish to receive funds from an employer retirement plan like a 401(k). A rollover IRA is also sometimes referred to as a "conduit IRA."

When you roll funds over from an employer plan to an IRA, your financial institution may suggest that you use a rollover IRA to receive the funds. Of course, you can transfer those dollars to any other IRA you own at some future date, because there's no legal requirement that you keep your plan distribution in a separate IRA. But even though separate IRAs are not legally required, there are at least two reasons to consider keeping your employer plan rollover separate from your contributory IRAs.

The first reason to maintain a separate rollover IRA deals with federal bankruptcy law. Your IRAs are protected from your creditors under federal law if you declare bankruptcy, but this protection is currently limited to \$1.28 million for all your IRAs.¹ The \$1.28 million limit doesn't apply, though, to amounts you roll over to an IRA from an employer plan, or any earnings on that rollover. These dollars are protected in full if you declare bankruptcy, just as they would

have been in your employer's plan. Obviously, it's easier to track the amount rolled over, and any future earnings, if you keep those dollars separate from your contributory IRAs. So a rollover IRA may make sense if creditor protection is important to you.

The second reason to maintain a rollover IRA is that you might decide in the future that you want to roll your distribution back into a new employer's plan. In the distant past, employer plans could accept rollovers only from rollover (conduit) IRAs — rollovers from contributory IRAs weren't permitted. Now, however, employer plans can accept rollovers from both contributory IRAs and rollover IRAs.² Despite this, employer plans aren't *required* to accept rollovers, and they can limit the types of contributions they'll accept. And while it's becoming less common, some still accept rollovers only from rollover IRAs. So keep this in mind if you are contemplating a rollover back to an employer plan in the future.

¹ SEP and SIMPLE IRAs have unlimited protection under federal bankruptcy law.

² Nontaxable traditional IRA dollars can't be rolled back into an employer plan.