



Harris Financial Services

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From our family at Harris Financial Services to you and yours ... please have a happy and safe holiday season. We humbly thank you for the trust and confidence you have placed in us. Thank you for your continued support in 2012 and we renew our promise to serve you to the best of our collective ability in 2013 and beyond. God Bless and Merry Christmas!

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What health-care provisions are effective in 2013?



Your Money Matters

"Big City Solutions - Small Town Service"



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The Economics of Borrowing from Your 401(k)

When times are tough, that pool of dollars sitting in your 401(k) plan account may start to look attractive. But before you decide to take a plan loan, be sure you understand the financial impact. It's not as simple as you think.

The basics of borrowing



A 401(k) plan will usually let you borrow as much as 50% of your vested account balance, up to \$50,000. (Plans aren't required to let you borrow, and may impose various restrictions, so check with your plan administrator.) You pay the loan back, with interest, from

your paycheck. Most plan loans carry a favorable interest rate, usually prime plus one or two percentage points. Generally, you have up to five years to repay your loan, longer if you use the loan to purchase your principal residence. Many plans let you apply for a loan online, making the process quick and easy.

You pay the interest to yourself, but...

When you make payments of principal and interest on the loan, the plan generally deposits those payments back into your individual plan account (in accordance with your latest investment direction). This means that you're not only receiving back your loan principal, but you're also paying the loan interest to yourself instead of to a financial institution. However, the benefits of paying interest to yourself are somewhat illusory. Here's why.

To pay interest on a plan loan, you first need to earn money and pay income tax on those earnings. With what's left over after taxes, you pay the interest on your loan. That interest is treated as taxable earnings in your 401(k) plan account. When you later withdraw those dollars from the plan (at retirement, for example), they're taxed again because plan distributions are treated as taxable income. In effect, you're paying income tax twice on the funds you use to pay interest on the loan. (If you're borrowing from a Roth 401(k) account, the interest won't be taxed when paid out if your distribution is "qualified"--i.e., it's been at least 5 years since you made your first Roth contribution to the plan, and you're 59½ or disabled.)

...consider the opportunity cost

When you take a loan from your 401(k) plan, the funds you borrow are removed from your plan account until you repay the loan. While removed from your account, the funds aren't continuing to grow tax deferred within the plan. So the economics of a plan loan depend in part on how much those borrowed funds would have earned if they were still inside the plan, compared to the amount of interest you're paying yourself. This is known as the opportunity cost of a plan loan, because by borrowing you may miss out on the opportunity for additional tax-deferred investment earnings.

Other factors

There are other factors to think about before borrowing from your 401(k) plan. If you take a loan, will you be able to afford to pay it back and continue to contribute to the plan at the same time? If not, borrowing may be a very bad idea in the long run, especially if you'll wind up losing your employer's matching contribution.

Also, if you leave your job, most plans provide that your loan becomes immediately payable. If you don't have the funds to pay it off, the outstanding balance will be taxed as if you received a distribution from the plan, and if you're not yet 55 years old, a 10% early payment penalty may also apply to the taxable portion of that "deemed distribution."

Still, plan loans may make sense in certain cases (for example, to pay off high-interest credit card debt or to purchase a home). But make sure you compare the cost of borrowing from your plan with other financing options, including loans from banks, credit unions, friends, and family. To do an adequate comparison, you should consider:

- Interest rates applicable to each alternative
- Whether the interest will be tax deductible (for example, interest paid on home equity loans is usually deductible, but interest on plan loans usually isn't)
- The amount of investment earnings you may miss out on by removing funds from your 401(k) plan

How to Give Wisely and Well



These are a few of the organizations and agencies that publish reports and charity ratings, and/or give useful tips and information to consumers on choosing a charity and giving wisely:

- **Better Business Bureau's BBB Wise Giving Alliance**, www.bbb.org
- **Charity Navigator**, www.charitynavigator.org
- **CharityWatch**, www.charitywatch.org
- **Federal Trade Commission**, www.ftc.gov

Giving to charity has never been easier. You can donate the old-fashioned way--by mail--but you can also donate online, by text, or through social networking sites. According to the National Center for Charitable Statistics, over 1.4 million nonprofit organizations are registered with the IRS. With so many charities to choose from, it's more important than ever to ensure that your donation is well spent. Here are some tips that can help you become both a generous and wise donor.

Choose your charities

Choosing worthy organizations that support the causes you care about can be tricky, but it doesn't have to be time-consuming. There are several well-known organizations that rate and review charities, and provide useful tips and information that can help you make wise choices when giving to charity (see sidebar). To get you started, here are some questions to ask:

- *How will your gift be used?* It should be easy to get information about the charity's mission, accomplishments, financial status, and future growth by contacting the charity by phone or viewing online information.
- *How much does the charity spend on administrative costs?* Charities with higher-than-average administrative costs may be spending less on programs and services than they should, or may even be in serious financial trouble. Some charities who use for-profit telemarketers get very little of the money they raise, so ask how much of your donation the charity will receive.
- *Is the charity legitimate?* Ask for identification when approached by a solicitor, and never give out your Social Security number, credit card number, bank account number, account password, or personal information over the phone or in response to an e-mail you didn't initiate. There's no rush--take time to check out the charity before you donate.
- *How much can you afford to give?* Stick to your giving goals, and learn to say no. Legitimate fundraisers will not try to make you feel guilty, and will be happy to send you information that can help you make an informed decision rather than pressure you to give now.

Harness the power of matching gifts

Many employers offer matching gift programs that will match charitable gifts made by their employees. You'll need to meet certain guidelines--for example, your employer may only match your gift up to a certain dollar limit--and the charity may need to provide

information. Check with your employer's human resources department or the charity to find out how you can maximize your donations through a matching gift program.

Put your gifts on autopilot

If you're looking for an easy way to donate regularly to a favorite charity, look into setting up automatic donations from a financial account. When donors contribute automatically, the charity benefits by potentially lowering fundraising costs and by establishing a foundation of regular donors. And you'll benefit too, because spreading out your donations throughout the year may enable you to give more, and will simplify your record keeping.

Look for new ways to give

Although cash donations are always welcome, charities also encourage other types of gifts. For example, if you meet certain requirements, you may be able to give stock, direct gifts from your IRA or other retirement account, real estate, or personal property (but check with your financial professional to assess potential income and estate tax consequences based on your individual circumstances). You can also volunteer your time, using your talents to improve the lives of others in your community. And taking a "volunteer vacation" can be a fun way to involve your family and meet other people across the country or world who share your enthusiasm for a particular cause.

Use planned giving to leave a legacy

You can leave an enduring gift through your estate. For example, you might leave a will bequest, give life insurance, or use a charitable gift annuity, charitable remainder annuity trust, or charitable unitrust that may help you give away the asset now, while retaining a lifetime interest--check with your financial or tax professional regarding any potential estate or tax benefits or consequences.

Keep good records

If you itemize when you file your taxes, you can deduct donations you've made to a tax-qualified charity, but you may need documentation. Keep copies of cancelled checks, bank statements, credit card statements, or receipts from the charity showing the charity's name and the date and amount of the contribution. For donations or contributions of \$250 or more, you'll need a more detailed written acknowledgment from the charity. For more information and a list of requirements, see IRS Publication 526, Charitable Contributions.



Government Benefits for Returning Servicemembers/Veterans



The National Resource Directory is a government website that provides information and sources on topics such as benefits, education, employment, and housing for wounded warriors, servicemembers, veterans, and their families.

U.S. military servicemembers returning home often enter civilian life facing financial challenges they hadn't encountered while in the military. Many young men and women enter the military right out of high school and haven't had to hunt for a job or worry about wages, housing, or health care. Here are some benefits and programs offered by the government and other entities that may help returning veterans transition into civilian financial life.

Compensation and pension

Some servicemembers may be eligible for military retirement pay based on their qualifying base pay and the number of years of service completed. Generally, the servicemember must have completed 20 years of service. The longer the period of service, the higher the retirement pay. Specific information on how retirement pay is calculated can be found at the Department of Defense website, www.defense.gov.

Health benefits

Veterans and separating servicemembers (including their dependents, in some cases) may be eligible for health care based on a number of factors, including the nature of discharge (e.g., honorable, other than honorable, dishonorable), length of service, whether the veteran has sustained any service-connected disabilities, and income level. Some of the available programs are long-term, while others are temporary and provide transitional health-care benefits. For more information, go to the VA website at www.va.gov.

Retired servicemembers and their qualified family members also may receive health-care coverage through the Department of Defense health-care program known as TRICARE. Servicemembers may receive care either through military or civilian providers depending upon the availability of medical care at select military facilities and the TRICARE option chosen. For more information, see the TRICARE website at www.tricare.mil.

Education and training

The training servicemembers receive while on active duty may not readily translate to marketable job skills in civilian life, so servicemembers may want to go back to school for further education and training. Fortunately, servicemembers and veterans may be eligible for education benefits under several programs. The Post-9/11 GI Bill is available for veterans who served in the military for at least 90 days aggregate after September 10, 2001 (or 30 continuous days, honorably discharged for a service-connected disability). Other benefit

programs include the Montgomery GI Bill, the Reserve Educational Assistance Program (REAP), and the Veterans Educational Assistance Program (VEAP). Other programs include loan repayment and tuition assistance, scholarships, work-study, and tutorial assistance programs. For more information, visit www.gibill.va.gov.

Employment

Finding a job after leaving the military can be a frustrating experience. But several programs are available to help land the right position. The Department of Labor Veterans' Employment and Training Service in each state offers employment and training services to eligible veterans through the Disabled Veterans' Outreach Program and the Local Veterans' Employment Representatives Program.

Qualified veterans who have been honorably discharged receive an extra 5 points when passing any competitive examinations if they earned a campaign ribbon or spent time on active duty during certain periods. Qualified disabled veterans and veterans who were awarded a Purple Heart (and qualifying family members) can receive an extra 10 points on examinations. This means that the hiring preference for veterans doesn't guarantee a job to the veteran, but it does give the veteran a slight advantage.

Home loans

The VA guarantees loans to servicemembers, veterans, and reservists who want to purchase a home, condominium, or manufactured home. The loan is issued by a financial institution but guaranteed by the federal government. The primary advantages of VA home loans are that they require no down payment and, because the loan is partially guaranteed by the federal government, no mortgage insurance payments. For more information on VA loans, visit www.homeloans.va.gov.

Life insurance

Servicemembers are eligible for coverage under Servicemen's Group Life Insurance. Servicemembers are automatically insured for \$400,000 but can elect a lesser amount or decline coverage. However, this coverage terminates 120 days after you leave active duty. One option is to convert to Veterans' Group Life Insurance, but the premiums may be more expensive for a healthy veteran when compared to a commercial plan, especially group coverage that might be available through an employer.



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What health-care provisions are effective in 2013?

With the Supreme Court's favorable ruling on the constitutionality of the Patient Protection and Affordable Care Act (ACA), more of the law's provisions will become effective in 2013. Here are some of the new features that may be important to you.

Medicare Part D participants who reach a gap in their drug coverage (the "donut hole") are required to pay the entire cost of prescription drugs out-of-pocket. In 2013, the ACA will continue to close this gap by increasing subsidies to reduce the cost of brand-name and generic drugs to participants who reach the donut hole. These subsidies will continue until 2020, when the participant's maximum contribution toward the cost of prescriptions will be reduced to 25%.

The threshold for the itemized deduction for medical expenses increases from 7.5% to 10% of adjusted gross income, beginning in 2013. However, this increase is waived for taxpayers age 65 and older through 2016.

In 2013, the annual pretax employee contribution to a Section 125 cafeteria plan flexible spending account (FSA) is reduced to

\$2,500, subject to annual increases for cost-of-living adjustments. The reduction does not apply to certain employer nonelective contributions (e.g., flex credits).

Beginning in 2013, the hospital insurance (HI) portion of the payroll tax, commonly referred to as the Medicare portion, increases by 0.9% for individuals with wages exceeding \$200,000 (\$250,000 for married couples filing a joint federal income tax return, and \$125,000 for married individuals filing separately).

In addition, 2013 marks the imposition of a new 3.8% Medicare contribution tax on the unearned income of high-income individuals. This 3.8% contribution tax generally applies to the net investment income of individuals with modified adjusted gross income that exceeds \$200,000 (\$250,000 for married couples filing a joint federal income tax return, and \$125,000 for married individuals filing separately).

Looking ahead, 2014 brings the implementation of the health insurance exchanges, premium and cost-sharing subsidies, and the requirement that most individuals have health insurance.



How does health-care reform affect women?

The Patient Protection and Affordable Care Act (ACA) expands women's access to health insurance and adds several reforms to the existing health-care system that are specifically beneficial to women.

Access to care and affordability are important issues for women. According to the U.S. Department of Health and Human Services, because almost twice as many women than men who receive employer-provided health insurance are covered as dependents, they are susceptible to losing that coverage should they become widowed, divorced, or if their husbands lose their jobs.

In addition, the cost of coverage may significantly impact women. Women earn less than men, on average, and are more likely to be out of the workforce to care for children, parents, or other dependents. Because of this trend, out-of-pocket costs such as co-pays, deductibles, and premiums can pose a particular threat to women's access to affordable care.

The ACA provides for the creation of state-level health insurance exchanges, available to small

businesses and uninsured individuals, that will serve as a marketplace of private and public health plans. Individuals and families purchasing insurance through insurance exchanges may be eligible for subsidies or tax credits (based on income) that can be applied towards the cost of insurance. According to the U.S. Census Bureau, 20% of women between the ages of 18 and 64, or about 19 million women, are uninsured. Of those, it is estimated that 36% will be eligible for tax credits and subsidies.

ACA specifies essential health benefits for women that must be offered by nongrandfathered plans. These benefits include maternity and newborn care, including prenatal visits and pediatric services. Several preventive services must be offered without co-payments or deductibles, including mammography exams; Pap tests; colonoscopies; type 2 diabetes screening; obesity screening; several immunizations including hepatitis, influenza, and HPV; and alcohol and tobacco counseling. Specific coverage benefits will continue to be shaped by U.S. Health and Human Services regulations.

