



Financial Insight Quarterly

Your Source for Financial Well-Being

It's Complicated: Money and Happiness



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Does more wealth lead to more happiness? Researchers have tackled this question for decades, and although the results have differed, one fact is certain: The relationship between money and

happiness--or "well-being," as many researchers put it--is complicated.

Think before you spend

In their book, *Happy Money: The Science of Smarter Spending*, Professors Elizabeth Dunn and Michael Norton summarize their own and others' research. What they found is that it's not necessarily how much you make that matters to overall happiness (although that certainly contributes), but what you do with your money. They boiled down the findings to five "key principles of happy money."

1. Buy Experiences. Investing in memories can result in a more sustained level of happiness than buying a bigger house, a more luxurious car, or other material goods. Buying the latest technological gadget might elicit the kind of joy a child experiences opening a new toy on the holidays, but just like that new toy, the gadget loses its novelty with time--a principle psychologists refer to as "hedonic adaptation." On the other hand, experiences--even those that are fleeting or may initially provoke trepidation, such as hang gliding--create memories that help foster prolonged contentment.

2. Make It a Treat. While you're investing in those experiences, be sure to spread them out so they don't become expectations or habits. In this way, the novelty of each new experience will be fully realized. As the book says, "Abundance is the enemy of appreciation." This is also true with something as simple as a cappuccino. If you make it a daily ritual, it becomes a habit. If you instead substitute your daily coffee once a week with a froth-covered treat, then it becomes a reward to savor.

3. Buy Time. According to Dunn and Norton, individuals should ask themselves the question, "How will this purchase change the way I use my time?" For example, will it allow you to spend more time with your friends or family, or create more "to-dos" to clog your list? Will it free you up to participate in more activities you enjoy? Investing in products or services that allow you to spend time on the things you love will lead to greater overall well-being. And, say the authors, don't fall into the trap of putting a dollar value on your time, as this leads to increased stress levels. "Simply feeling like your time is valuable can make it seem scarce."

4. Pay Now, Consume Later. Paying for a treat or experience up front, such as event tickets you buy months in advance, allows you to benefit from the extended pleasure of eager anticipation. With all due respect to Tom Petty, the waiting, it seems, may be the best part. Conversely, credit cards can be a dangerous, albeit convenient, financial tool, facilitating a "consume now, pay later" dynamic. One study cited in *Happy Money* found that all 30 people surveyed underestimated their monthly credit-card bills by a sizable average of nearly 30%.

5. Invest in Others. Regardless of your circumstances--wealthy or not, young or old--research finds that spending money on others leads to greater happiness than spending on oneself.

The danger zones

While some experts differ on whether higher incomes result in greater levels of happiness, they tend to agree on the following: Increasing debt levels are detrimental to happiness, and keeping up with the Joneses can lead to a general sense of dissatisfaction. Instead, actively managing debt while finding ways to appreciate what you already have on a day-to-day basis may help you make well-thought-out saving and spending choices that support your overall level of well-being.

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2015 Year-End Tax Planning Basics



AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home; and the exercise of incentive stock options.

Required minimum distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

As the end of the 2015 tax year approaches, set aside some time to evaluate your situation and consider potential opportunities. Effective year-end planning depends on a good understanding of both your current circumstances and how those circumstances might change next year.

Basic strategies

Consider whether there's an opportunity to defer income to 2016. For example, you might be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. When you defer income to 2016, you postpone payment of the tax on that income. And if there's a chance that you might be paying taxes at a lower rate next year (for example, if you know that you'll have less taxable income next year), deferring income might mean paying *less* tax on the deferred income.

You should also look for potential ways to accelerate 2016 deductions into the 2015 tax year. If you typically itemize deductions on Schedule A of Form 1040, you might be able to accelerate some deductible expenses--such as medical expenses, qualifying interest, or state and local taxes--by making payments before the end of the current year, instead of paying them in early 2016. Or you might consider making next year's charitable contribution this year instead. If you think you'll be itemizing deductions in one year but claiming the standard deduction in the other, trying to defer (or accelerate) Schedule A deductions into the year for which you'll be itemizing deductions might let you take advantage of deductions that would otherwise be lost.

Depending on your circumstances, you might also consider taking the opposite approach. For example, if you think that you'll be paying taxes at a higher rate next year (maybe as the result of a recent compensation increase or the planned sale of assets), you might want to look for ways to accelerate income into 2015 and possibly defer deductions until 2016 (when they could potentially be more valuable).

Complicating factors

First, you need to factor in the alternative minimum tax (AMT). The AMT is essentially a separate, parallel federal income tax system with its own rates and rules. If you're subject to the AMT, traditional year-end strategies may be ineffective or actually have negative consequences--that's because the AMT effectively disallows a number of itemized deductions. So if you're subject to the AMT in 2015, prepaying 2016 state and local taxes

probably won't help your 2015 tax situation, and, in fact, could hurt your 2016 bottom line.

It's also important to recognize that personal and dependency exemptions may be phased out and itemized deductions may be limited once your adjusted gross income (AGI) reaches a certain level. This is especially important to factor in if your AGI is approaching the threshold limit and you're evaluating whether to accelerate or defer income or itemized deductions. For 2015, the AGI threshold is \$258,250 if you file as single, \$309,900 if married filing jointly, \$154,950 if married filing separately, and \$284,050 if head of household.

IRA and retirement plan contributions

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2015 taxable income. (Note: A number of factors determine whether you're eligible to deduct contributions to a traditional IRA.) Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars--so there's no immediate tax savings--but qualified distributions are completely free of federal income tax.

For 2015, you're generally able to contribute up to \$18,000 to a 401(k) plan (\$24,000 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2015 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2015 IRA contributions.

Important notes

The Supreme Court has legalized same-sex marriage nationwide, significantly simplifying the federal and state income tax filing requirements for same-sex married couples living in states that did not previously recognize their marriage.

A host of popular tax provisions (commonly referred to as "tax extenders") expired at the end of 2014. Although it is possible that some or all of these provisions will be retroactively extended, currently they are not available for the 2015 tax year. Among the provisions: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

Six Life Insurance Beneficiary Mistakes to Avoid



Note: As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.



Note: While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. Naming your policy's beneficiaries should be a relatively simple task. However, there are a number of situations that can easily lead to unintended and adverse consequences. Here are six life insurance beneficiary traps you may want to avoid.

Not naming a beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together, or that your named beneficiary may die before you. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

Death benefit paid to your estate

If your life insurance is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payment to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming primary, secondary, and final beneficiaries may avoid having the proceeds ultimately paid to your estate. If the primary beneficiary dies before you do, then the secondary or alternate beneficiaries receive the proceeds. And if the secondary beneficiaries are unavailable to receive the death benefit, you can name a final beneficiary, such as a charity, to receive the insurance proceeds.

Naming a minor child as beneficiary

Unintended consequences may arise if your named beneficiary is a minor. Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian--a potentially costly and time-consuming process--to handle the proceeds until the minor beneficiary reaches the age of majority according to state law.

If you want the life insurance proceeds to be paid for the benefit of a minor, you may consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that

works best for your situation.

Per stirpes or per capita

It's not uncommon to name multiple beneficiaries to share in the life insurance proceeds. But what happens if one of the beneficiaries dies before you do? Do you want the share of the deceased beneficiary to be added to the shares of the surviving beneficiaries, or do you want the share to pass to the deceased beneficiary's children? That's the difference between per stirpes and per capita.

You don't have to use the legal terms in directing what is to happen if a beneficiary dies before you do, but it's important to indicate on the insurance beneficiary designation form how you want the share to pass if a beneficiary predeceases you. Per stirpes (*by branch*) means the share of a deceased beneficiary passes to the next generation in line. Per capita (*by head*) provides that the share of the deceased beneficiary is added to the shares of the surviving beneficiaries so that each receives an equal share.

Disqualifying the beneficiary from government assistance

A beneficiary you name to receive your life insurance may be receiving or is eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to the government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

Taxes

Generally, life insurance death proceeds are not taxed when they're paid. However, there are exceptions to this rule, and the most common situation involves having three different people as policy owner, insured, and beneficiary. Typically, the policy owner and the insured are one in the same person. But sometimes the owner is not the insured or the beneficiary. For example, mom may be the policy owner on the life of dad for the benefit of their children. In this situation, mom is effectively creating a gift of the insurance proceeds to her children/beneficiaries. As the donor, mom may be subject to gift tax. Consult a financial or tax professional to figure out the best way to structure the policy.

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How do I change or revoke a will?

Your will does not take effect until you die. You can create a new will or revoke or amend an existing will up until your death.

A will remains valid until properly revoked or superseded. Revoking your will must be done very carefully. Most state laws require that the will be revoked by a subsequent instrument (a new will) or by a physical act (e.g., destroying or defacing it). This means the will must either be burned, torn, or canceled with the intent to revoke. You might, for example, write REVOKED across the will and sign and date the revocation.

You can amend (change) your will by executing a codicil. A codicil is a separate, written, and formally executed document that becomes part of your will. More specifically, a codicil is a supplement or addition to a will that explains, modifies, or revokes a previous will provision or that adds an additional provision. A codicil generally should be used only for minor changes to your will. You should execute a new

will if there are many changes or a major change.

A codicil should generally be executed with the same formalities as required for a will. In general, the codicil must be signed, dated, and witnessed in accordance with the laws of the appropriate state.

The codicil should be attached to the will it is amending. Be sure to draft, execute, and attach a copy of the codicil to each copy of your will.

Although a new will usually must be contested in its entirety, some states will allow a codicil to be contested on its own. If it is found to be invalid, only the changes contained in the codicil will be voided and the remaining will provisions remain valid.

Some states provide that provisions in a will may be revoked automatically upon marriage or divorce. It is generally a good practice to review your will and make changes as needed upon marriage or divorce, or for any other major changes in your life.



What should I consider as a ride-sharing service passenger?

Despite the surface appeal of ride-sharing services, there are some important factors to bear in mind before hopping into a stranger's car to get to your destination of choice. Doing some homework up front will help ensure that you'll have a positive and safe ride-sharing experience.

Safety. You'll want to research how your ride-sharing service screens drivers. What background checks do they run before hiring a driver? Is it a one-and-done process, or are drivers regularly screened to account for changes to their criminal histories or driving records? Similarly, most ride-sharing services require drivers to use vehicles that are reasonably new. This makes it more likely that the vehicle will be in good working condition.

Cost. It may seem obvious, but you'll want to pay close attention to how much a ride-sharing trip will cost. Rates will vary depending on the service you use, the length of your trip, and even how much demand there is for rides at the time. Fares are usually quoted on the service's mobile app, providing you with that information prior to booking the trip. In some cases, using a

ride-sharing service might be more cost-effective than using another mode of transportation, but you should be aware that certain holidays, rush hours, and special events can drive up prices dramatically. Moreover, transactions typically occur via a ride-sharing service's app, so fares are charged automatically to your credit card. That could be a convenient way to collect the fare, but there are risks associated with keeping your credit card information on file. Other payment options may also be available.

Insurance. You may wonder how insurance would come into play if you are injured in an accident while you are a paying passenger. Consider looking into the specifics of the company's insurance policies, especially if you use a particular service frequently. If you have a personal auto policy, it may provide coverage above and beyond the ride-sharing service's policy. You can also reach out to your state insurance department to find out about insurance requirements for ride-sharing services and how they might affect you as a passenger.