Kusske Financial Management

Your success is our business

What's New in the Housing Market for 2015?

Home buyers and sellers finally have reason to celebrate in 2015. After almost a decade of limping along toward recovery, it seems as though the housing market has finally hit a more comfortable stride. According to the S&P/Case-Shiller Home Price Indices, well-known gauges of the U.S. housing market, real estate is finally showing healthy signs of improvement.

Data released by Case-Shiller at the end of April indicates that home prices have continued to rise across the United States. (Source: S&P/Case-Shiller Home Price Indices, April 2015) And as it turns out, no one factor is responsible for the trend. Rather, a variety of factors are being credited for the recovery.

Low mortgage interest rates

This year, mortgage rates have remained at all-time lows. (Source: Freddie Mac U.S. Economic & Housing Market Outlook, April 2015) A slower-than-expected economic recovery may be partly responsible, with the Federal Reserve holding off on raising interest rates until the economy is on more solid ground. And while interest rates are expected to go up at some point (possibly later this year), home buyers are taking advantage of the historically low rates while they can.

Less-stringent mortgage lending

Obtaining a mortgage has gotten easier this year thanks to less-stringent lending requirements. (Source: Mortgage Credit Availability Index, March 2015) A number of changes are being credited for making mortgage lending more readily available.

Fannie Mae and Freddie Mac lowered their down payment thresholds this past December to as little as 3% of a home's purchase price, a boon for first-time home buyers and buyers with low down payment funds available.

In addition, the Federal Housing Administration (FHA) announced this past January that it will lower what it charges for annual mortgage insurance premiums. The 0.5% decrease, from 1.35% to 0.85%, is expected to reduce an FHA borrower's annual mortgage payment by $900 per year, on average. (Source: U.S. Department of Housing and Urban Development, HUD No. 15-001)

Low housing inventory

A low housing inventory frequently gives home sellers the advantage, since it often leads to an increase in housing prices. While inventory does vary by location, total unsold inventory was on the lower end, with a 4.6-month available supply. (Source: National Association of Realtors, News Release, April 2015)

Buying a home is more affordable than renting

According to Trulia's Rent vs. Buy Index, it was cheaper to buy a home than to rent one in all of the nation's largest 100 cities in late 2014. And nationwide, owning was 38% less expensive than renting, although the gap varied widely by location. (Source: Trulia.com, Rent vs. Buy Index, October 2014)

Millennials are entering the market

Despite living with high student debt and a tepid job market, millennials are finally entering the real estate market. In fact, adults age 34 and younger made up the largest percentage of home buyers in 2014, accounting for 32% of all home purchases nationwide. (Source: National Association of Realtors, Home Buyer and Seller Generational Trends study, 2015)

Of course, this doesn't mean that all millennials are buying homes. Those with the highest student loan debt may have trouble meeting the debt-to-income ratios required by lenders for a mortgage. Others are postponing starting a family, which affects their urgency to purchase a home.

Kusske Financial Management Inc
11986 Portland Ave S
Burnsville, MN 55337
952-895-6963
kfminc@kusskefinancial.com
www.kusskefinancial.com

We hope you are having a wonderful summer. Don't miss the information about Roth 401(k) and Roth IRA rules on page four. Call us if you are confused!

Coming Soon - Great information on our website and Facebook page about IRAs.
www.kusskefinancial.com
Like us on Facebook!

Summer Hours: Closed Fridays at 3:00 pm
Office Closed July 3,10,17,24 and 31st

If you want to work for the rest of your life, that's your business. If not, it's our business.

Mary B. Kusske, CFP ®

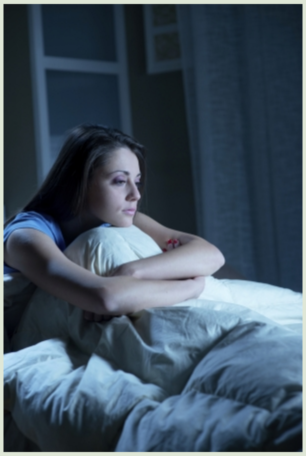
President

Travis L. Buck, CFP ®

Brett S. Kusske, CFP ®

July 2015

Five Steps to Tame Financial Stress



Seventy-two percent of adults report feeling stressed about money at least some of the time, and 22% say that the amount of stress they experience is extreme.

Source: American Psychological Association

Do you sometimes lie awake at night thinking about bills that need to be paid? Does it feel as though you're drowning in debt? If this describes you, you might take solace in the fact that you're not alone. A recent report released by the American Psychological Association (APA) showed that 72% of adults feel stressed about money at least some of the time, and 22% said the amount of stress they experienced was extreme.[1]

The bad news is that stress can be responsible for multiple health problems, including fatigue, headaches, and depression. And, over time, stress can contribute to more significant health issues, including high blood pressure and heart disease.[2] The good news is that there are some simple steps you can take to reduce or eliminate some of the financial stress in your life.

1. Stop and assess

The first step in reducing financial stress is to look at your situation objectively, creating a snapshot of your current financial condition. Sit down and list all of your financial obligations. Start with the items that are causing you the most stress. For debts, include the principal due, the applicable interest rate, and the minimum payment amount. If you're not already doing so, review your bank account and credit-card statements to track where your money is going. The goal here is not to solve the problem; it's to determine and document the scope of the problem. You might find that this step alone significantly helps alleviate your stress level (think of it as facing your fears).

2. Talk to your spouse

If you're married, talk to your spouse. It's important to communicate with your spouse for several reasons. First, you and your spouse need to be on the same financial page; any steps you take to improve your situation are going to be most effective if pursued jointly. Second, not being on the same page as your spouse is only going to lead to additional stress. In fact, the APA report showed that 31% of spouses and partners say that money is a major source of conflict or tension in their relationship.[3] Additionally, your spouse or partner can be a valuable source of emotional support, and this emotional support alone can lower stress levels.[4] If you're not married, family or friends might fill this role.

3. Take control

First, go back and take a look at where your money is going. Are there changes you can make that will free up funds you can save or apply elsewhere? Even small changes can make a difference. And exerting control over your situation to any degree can help reduce your overall stress level. Start building a cash reserve, or emergency fund, by saving a little bit each paycheck. Think of the emergency fund as a safety net; just knowing it's there will help reduce your ongoing level of stress. Work up to a full spending plan (yes, that's another way of saying a budget) where you prioritize your expenses, set spending goals, and then stick to them going forward.

4. Think longer term

Look for ways to reduce debt long term. You might pay more toward balances that have the highest interest rates. Or you might consider refinancing or consolidation options as well. Beyond that, though, you really want to start thinking about your long-term financial goals, identifying and prioritizing your goals, calculating how much you might need to fund those goals, and implementing a plan that accounts for those goals. Having a plan in place can help you with your stress levels, both now and in the future.

5. Get help

Always remember that you don't need to handle this alone. If the emotional support of a spouse, friends, or family isn't enough, or the level of stress that you're feeling is just too much, know that there is help available. Consider talking to your primary-care physician, a mental health professional, or an employee assistance resource, for example.

A financial professional can also be a valuable resource in helping you work through some of the steps discussed here, and can help direct you to other sources of assistance, like credit or debt counseling services, depending on your needs.

The most important thing to keep in mind is that you have the ability to control the amount of financial stress in your life.

[1,3,4] American Psychological Association, "Stress in America™: Paying with Our Health," www.stressinamerica.org, February 4, 2015

[2] Mayo Clinic Staff, "Stress Symptoms: Effects on Your Body and Behavior," www.mayoclinic.org, July 19, 2013

KUSSKE FINANCIAL MANAGEMENT INC

Prepaid Funeral Arrangements Can Have Grave Consequences

Possible long-term care benefit

Irrevocable funeral trusts may also help you qualify for long-term care benefits through Medicaid. These trusts may be funded with assets that would otherwise be countable resources for Medicaid. Trust assets, including life insurance death benefits, are not countable resources when trying to qualify for long-term care benefits through Medicaid. And you can fund the funeral trust right before applying for benefits--there's no "look-back" period for these transfers. The legal expense to create an irrevocable funeral trust (IFT) is typically paid by the insurance company, which acts as the Trustee. There is typically no expense to the insured party to create the IFT other than the one-time cost of the insurance. Almost all states impose a limit on the amount of money that can be placed in a funeral trust. Not all funeral trusts are considered to be Medicaid-exempt assets. Consult with your estate planning attorney for help with your individual circumstances.

An important part of estate planning involves consideration of funeral or memorial arrangements, including paying for some or all of the costs in advance. Planning ahead not only spares your survivors from the stress of making these decisions, but prepaying for your services relieves your survivors from the burden of worrying about money during an otherwise difficult time.

Prepaid agreement

One way to prepay your funeral is by entering into a pre-need agreement with a funeral home of your choice. The funeral home may agree to "lock in" costs for future funeral or burial services at an agreed-upon price. This is often done through a trust or other arrangement that you can fund with cash, bonds, or life insurance. At your death, the funds are disbursed to pay for your funeral according to the terms of the agreement.

But before entering into a prepaid arrangement, you may want to get answers to the following questions:

- What happens to the funds you've prepaid? How are they held? Do they earn interest? Are they safe?
- What happens if the funeral home goes out of business? What protections, if any, do you have that your funds will be available when needed?
- Can you cancel the agreement and, if so, are you able to receive a refund?
- If you move, can your funds be transferred to another funeral home? Will the same terms apply? Is there a fee or cost to transfer your funds to another funeral home?

The Funeral Rule

There are some legal protections available to consumers of funeral home services. The Funeral Rule, enforced by the Federal Trade Commission (FTC), requires funeral providers to give consumers accurate, itemized price information and other disclosures about funeral goods and services. The Rule also prohibits funeral providers from misrepresenting service-related requirements and from engaging in unfair or deceptive practices.

The key feature of the Funeral Rule is the General Price List, which entitles consumers to receive itemized prices for the various goods and services offered, allowing them to comparison shop and to purchase goods and services on an itemized basis, and not solely as part of a package. For more information on shopping for funeral services, the Funeral Rule, and prepaying for some or all of the expenses involved, visit the FTC consumer website www.consumer.ftc.gov.

State law protections

The Funeral Rule generally governs funeral providers. It does not offer specific remedies or causes of action for consumers who are victims of funeral providers that do not comply with the Rule. Laws in individual states regulate funeral providers and help ensure that advance payments are available when they're needed. However, protections vary widely from state to state, sometimes providing a window of opportunity for unscrupulous operators.

What can you do?

Before entering into a prepaid agreement, here are some steps you can take to safeguard your funds and ensure you'll get the services you've payed for:

- Find out what kind of consumer protection your state provides and whether it regulates the payment methods.
- Be sure that your funds or insurance policy are held in a trust at a reputable bank or other financial institution that you can check on to be sure your money or policy is safe. You may even be entitled to an annual statement.
- If you're funding some or all of the pre-need arrangements with life insurance purchased through the funeral services provider, be sure the policy is permanent insurance, such as whole life, and not term insurance (if you outlive the term of the policy, there will be no insurance proceeds to pay for your funeral).
- The agreement should address what happens to any excess funds that may be available after paying for your services. Some pre-need contracts allow you to designate how excess funds are to be disposed (e.g., surviving family members, your church or other charity).
- Along those same lines, if you cancel the contract, you may be entitled to a partial or full refund, although some states allow the funeral provider to retain a portion of the funds, often depending on how long the contract has been in existence.

Ultimately, be sure to tell your family about the plans you've made and where you'll keep important documents, such as your last will and testament and any documentation you've retained concerning your pre-need funeral arrangements.

Kusske Financial Management Inc
11986 Portland Ave S
Burnsville, MN 55337
952-895-6963
kfminc@kusskefinancial.com
www.kusskefinancial.com

What is the Roth 401(k) five-year rule?

The Roth 401(k) five-year rule determines when you can begin receiving tax-free qualified distributions from your 401(k) plan Roth account. While it's similar to the five-year rule that applies to Roth IRAs, there are important differences.

Withdrawals from your Roth 401(k) plan account--including both your contributions and any investment earnings--are completely tax and penalty free if you satisfy a five-year holding period *and* one of the following also applies:

- You've reached age 59½
- You have a qualifying disability, or
- The withdrawal is made by your beneficiary or estate after your death

The five-year holding period begins on the first day of the calendar year in which you make your first Roth 401(k) contribution (regular or rollover) to the plan. For example, if you make your first Roth contribution to your company's 401(k) plan in December 2015, your five-year holding period begins on January 1, 2015, and ends on December 31, 2019.

If you participate in 401(k) plans maintained by different employers, your five-year holding period is determined separately for each plan. But there's an important exception. If you make a direct rollover of Roth dollars from your prior employer's plan to your new employer's plan, your five-year holding period for the new plan will be deemed to start with the year you made your first Roth contribution to the prior plan.

For example, Beth made Roth contributions to the Acme 401(k) plan beginning in 2011. In 2015, she changed jobs and began making Roth contributions to the Beacon 401(k) plan. Her five-year holding period for the Acme plan began on January 1, 2011, and ends on December 31, 2015. Her five-year holding period for the Beacon plan began on January 1, 2015, and ends on December 31, 2019. In 2015, Beth decides to make a direct rollover of her Acme Roth account to Beacon's 401(k) plan. Because of the rollover, Beth's January 1, 2011, starting date at Acme will carry over to the Beacon plan, and any distributions she receives from her Beacon Roth account after 2015 (rather than 2018) will be tax free (assuming she's at least age 59½ or disabled at the time of distribution).

What is the Roth IRA five-year rule?

Actually, there are *two* five-year rules you need to know about. The first five-year rule determines when you can begin receiving tax-free qualified distributions from your Roth IRA. Withdrawals from your Roth IRA--including both your contributions and any investment earnings--are completely tax and penalty free if you satisfy a five-year holding period *and* one of the following also applies:

- You've reached age 59½ by the time of the withdrawal
- The withdrawal is made due to a qualifying disability
- The withdrawal is made for first-time homebuyer expenses ($10,000 lifetime limit)
- The withdrawal is made by your beneficiary or estate after your death

This five-year holding period begins on January 1 of the tax year for which you made your first contribution (regular or rollover) to any Roth IRA you own. For example, if you make your first Roth IRA contribution in March 2015 and designate it as a 2014 contribution, your five-year holding period begins on January 1, 2014 (and ends on December 31, 2018). You have only one five-year holding period for determining whether distributions from any Roth IRA you own are tax-free qualified distributions. (Roth IRAs you *inherit* are subject to different rules.)

The second five-year rule is a little more complicated. When you convert a traditional IRA to a Roth IRA, the amount you convert (except for any after-tax contributions you've made) is subject to income tax at the time of conversion. However, your conversion isn't subject to the 10% early distribution penalty, even if you haven't yet reached age 59½.

But what the IRS giveth it can also taketh away. If you withdraw any portion of your taxable conversion within five years, you'll have to pay the 10% early distribution penalty on those funds that you previously avoided--unless you've reached age 59½ or qualify for another exemption from the penalty tax. This five-year holding period starts on January 1 of the year you convert your traditional IRA to a Roth IRA. And if you have more than one conversion, each will have its own separate five-year holding period for this purpose.

KUSSKE
FINANCIAL MANAGEMENT INC