Newsletter
Summer 2016

TYLER LYNCH PC

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

INSIDE THIS ISSUE

www.TylerLynchPC.com (617)354-3814

Putting Your Money into Timeshares

Does it make sense to buy a timeshare? Negative opinions are easy to find, and there is little doubt that high-pressure sales pitches may lead to some bad decisions. Nevertheless, millions of Americans own timeshares. Surveys indicate that purchasers tend to be well educated, with comfortable incomes. Can so many capable and accomplished people all be wasting their money? The first question is, do you buy a timeshare as an investment or simply a means of getting assured vacation time?

Old and new

Buying a timeshare essentially means prepaying for lodging on future vacations. Originally, timeshares reserved a predicted vacation occupancy time at a fixed destination. However, many timeshare schemes include the ability to trade a particular time at a fixed destination for another timeshare.

Example 1:
Mel and Lana King bought a timeshare many years ago for $15,000. This entitled them to a two-week stay at Resort A, in Room B, at a set time period each year. This sort of arrangement might work well if the Kings wish to

Simple 401(k) Plans

Many workers value employer sponsored 401(k) retirement plans. Consequently, offering a 401(k) may help a small company attract and retain high-quality employees. Offering a standard 401(k) plan can involve considerable administrative time and expense, but business owners with fewer than 100 employees may find a practical solution in a SIMPLE 401(k). SIMPLE 401(k) plans are very similar to the traditional 401(k)s from major employers. Eligible employees can contribute part of their compensation to the plan; workers owe no income tax on the contributed amount and can choose how the money is invested, picking from a menu of choices.

Describing the differences

There are differences between SIMPLE 401(k) plans and the traditional version. In 2016, the maximum employee contribution to a SIMPLE 401(k) plan is $12,500, or $15,500 for those 50 or older. (In a traditional version, those numbers are $18,000 and $24,000.) In a traditional 401(k), employer matching is optional, but SIMPLE 401(k) plans require a match. The required SIMPLE 401(k) match can be dollar-for-dollar, up to 3% of compensation for all participating employees. Alternatively, employers can contribute 2% of compensation for all eligible employees, regardless of whether they contribute to the SIMPLE 401(k). All SIMPLE 401(k) contributions, from employers and employees, are fully vested.

(continued on page 2)

(continued from page 1)

spend the same two weeks at the beach every year. If they change their mind, the Kings might be able to rent the room and collect a fee (depending on the contract terms); alternatively, they could let friends or relatives use their slot. As you can see, such arrangements lack flexibility. The Kings' circumstances might change, and the same yearly vacation plan might lose appeal. Thus, timeshare companies have sought ways to bring choice into the timeshare experience. Now, many deals involve points, rather than some sort of room swap.

Pros and cons

Timeshare enthusiasts express many reasons to make this choice. You are guaranteed a place to stay on vacation, perhaps an extremely desirable one, without having to purchase and maintain a second home year-round. In a far-flung network, you might have access to some splendid vacation opportunities. Having a timeshare may force even the most dedicated workaholics to spend some time sailing or skiing.

Moreover, as the timeshare promoters might say, you could be paying for tomorrow's vacations at today's prices. Among their drawbacks, the financial benefits of timeshares are uncertain, to say the least. You will have a substantial upfront outlay, far more than the cost of vacation lodging for a year or two. If you make a partial initial payment, the seller probably will offer financing, but the interest charges might be steep. You will also have annual maintenance fees to pay, and perhaps some extra costs for using certain features of the plan. Moreover, timeshares may have little or no resale value. Indeed, one strategy is to acquire a timeshare on a growing online secondary market, for a fraction of the initial price. You will have to pay future maintenance fees, though.

Proceed with caution

Ultimately, you should approach a timeshare as you would evaluate any major outlay. Do not make a snap decision, especially after hearing a persuasive sales pitch. Read the contract carefully and get answers to any questions that arise. Crunch the numbers.

Example 2:
In example 1, the Grants pay $25,000 for a timeshare; each year they can use 200 points for vacations in the network. The Grants calculate that 200 points will get them around $3,000 worth of vacation lodging, at current rates. Assume the maintenance on this hypothetical timeshare is $800 a year. If so, the Grants will save $2,200 on their lodging: they will pay $800 maintenance instead of the $3,000 going rate.

In such a situation, it will take more than 11 years for the annual savings to justify the upfront outlay, assuming no resale value. If there were a resale value, the numbers would be much different. Our office can help you go over the numbers in a timeshare you are considering, to help you make an informed decision.

(continued from page 1)

Assessing the advantages

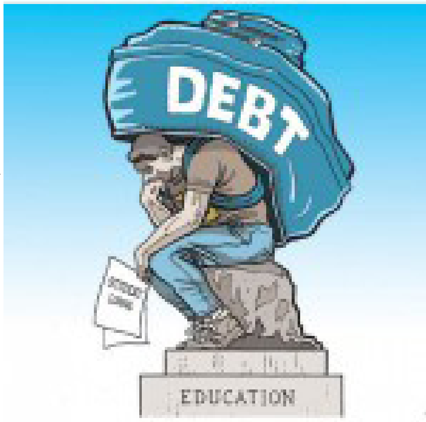
Why would you offer a retirement plan that requires an employer match (Especially a plan with lower contribution limits than a traditional 401(k))? For one reason, the 401(k) label can help send the message that your company provides excellent employee benefits. Pointing out the required employer match can emphasize that idea, as some traditional 401(k) plans do not have matching contributions.

In addition, SIMPLE 401(k) plans live up to their names because they do not require discrimination testing. In the traditional version, employers must go to considerable lengths to show their plan does not favor highly-paid executives. If lower-paid workers fail to participate adequately in a traditional 401(k), key employees may find their permissible contributions reduced. That would not be an issue with a compliant SIMPLE 401(k).

Simple selections

Compared with SIMPLE IRAs (which are similar in many respects), SIMPLE 401(k) plans require more administration. For example, you must file IRS Form 5500 each year. In addition, current employees and prospective employees may respond more favorably to SIMPLE 401(k) rather than SIMPLE IRA's. SIMPLE 401(k)s sound more like a workplace plan and may offer plan loans while SIMPLE IRAs do not. The SIMPLE 401(k) flexibility does add to the plan's appeal to workers but can add to an employer's paperwork burden. If this type of simple retirement plan might work for your company, you have until October 1 to decide on establishing a plan for 2016.

What You Should Know About Student Loans



Recently, concerns about student loans have been in the headlines. In 2015, the Federal Reserve Bank of New York put total student loan debt at $1.16 trillion, greater than outstanding auto loans or credit card balances. Publications such as the New York Times have published articles about "A Generation Hobbled by the Soaring Cost of College." The reason for the growth in student loan debt is straightforward: Many families need to borrow money in order to cover the expense of higher education. If you are in that situation, knowing the choices can help you make practical decisions. Today, most higher education loans come from the U.S. Department of Education. Broadly, they fall into one of two categories: student loans or parent loans.

Student loans

The most common federal loans, formerly known as Stafford loans, are now called Direct Loans. Students are the borrowers; in order to be eligible for these loans (in fact, for any federal education loans), the student must fill out the Free Application for Federal Student Aid (FAFSA). There is no credit check, but there are limits on how much students can borrow. Typically, annual loans to undergraduate students who are parents' dependents can be as large as $5,500 for freshmen, $6,500 for sophomores and $7,500 for others. Besides an origination fee of approximately 1% of the amount borrowed, Direct Loans have fixed rates, set each summer, based on then-current interest rates. From July 2015 through June 2016, the fixed rate for Direct Loans is 4.29%. Direct Loans are either subsidized (for students who demonstrate financial need) or unsubsidized. If a student has an unsubsidized loan, payments are due after the funds are disbursed. Borrowers can choose not to make payments until six months after leaving school, but all unpaid interest will be added to the loan balance. With subsidized Direct Loans, the federal government pays the interest until six months after the borrower leaves school. Students with exceptional financial need may qualify for a federal Perkins Loan. If so, no interest will be charged until nine months after leaving school. The fixed interest rate is 5%, and loans to undergraduates go up to $5,500 a year. For federal student loans, the standard repayment period is 10 years, but there are various extension, deferral, and even loan forgiveness opportunities.

Parent loans

Formerly known as Parent Loans to Undergraduate Students, federal Direct PLUS Loans are offered to parents of undergraduates. (PLUS Loans also are available to graduate students.) Again, a student must fill out the FAFSA in order for a parent to get a PLUS Loan. PLUS Loans can be as large as the total amount of college costs, minus any financial aid. Example: Dave Evans attends a college where the posted cost of attendance is $40,000 for this academic year. Including a student Direct Loan, Dave receives financial assistance that totals $16,000. Thus, Dave's parents can borrow up to $24,000 ($40,000 minus $16,000) with a PLUS loan for that year. The origination fee for a PLUS Loan is 4.272%, and the fixed interest rate is 6.84% for the 2015–2016 academic years. In order to receive a PLUS Loan, a parent must pass a credit check. If the parent's application is rejected, the child may be able to receive larger student loans.

If you would like more information on these topics or if you would like to read other relevant topics, please refer to our website at

www.TylerLynchPC.com

Join

Connect

Call us @ (617)354-3814

186 Alewife Brook Parkway, Suite 200
Cambridge MA 02138

This newsletter is intended to provide general information and not designed to encourage specific action without further consultation.