Focus on Financial Freedom

Maintaining Your Financial Health

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Nonprofit Board Membership: A Primer

If you're looking for creative ways to "give back" to your community or society at large, consider joining a nonprofit board of directors. But where do you begin?

Assess your passions

"Passion for mission" is the most important criterion when recruiting board members.[1] Are you an animal lover or concerned about children's health? Do you currently support youth athletics, art, education, music, religion, or eldercare? Would you prefer to work with organizations whose impacts are felt on a local, regional, national, or international level?

Identify your areas of interest and geographical scope, then investigate potential opportunities. The resources at BoardSource may help you in your search.

Evaluate your contribution potential

Board membership generally requires commitments of time, effort, and money. Be sure you fully understand these commitments and are willing to devote what's necessary to fulfill your obligations.

Time: Board members generally agree to serve for multi-year terms, usually with limitations. (The most common term structure is two consecutive three-year terms.[2]) Meetings typically occur several times throughout the year, in person and/or via conference call. In-between regular meetings, committee work can consume additional time.

Effort: What professional skills do you bring to the table? Nonprofits often need assistance in the areas of financial management, legal counsel, marketing, fundraising, strategy, and operations, and often seek board members who can contribute these and other specific skill sets.

Money: Board members are generally expected to contribute their own money and are often asked to help solicit donations during fundraising drives. In addition, most board members are not reimbursed for expenses, so if you're required to travel, you will have to cover your own (often tax-deductible) costs.

Review your legal responsibilities

All board members carry some level of "fiduciary responsibility," or legal responsibility for financial oversight. Although you don't need to be a certified public accountant or investment manager (most boards have at least one experienced professional to advise on the most complex accounting, tax, and finance issues), you need at least a fundamental ability to interpret financial statements.

State nonprofit governance laws vary, so be sure to inquire about fiduciary responsibility as it relates to your target organization(s). You might also ask about directors and officers insurance, which helps protect board members in the event of a lawsuit.

Understand the recruitment process

Generally, potential board members are invited to join. They will typically undergo a series of two-way interviews with senior organizational management and other board members. These interviews are the perfect opportunity not only to evaluate the rate of success of the organization in pursuing its mission but also to gauge the culture of the organization and its board; to assess the leadership abilities of the executive staff members, board, and committee chairs; and to carefully review the board's by-laws, which govern the responsibilities of the board members and the frameworks under which they operate and make decisions.

Test the waters

Many nonprofits allow people to serve on committees without the multi-year commitment of board membership. For this reason, committee work might be an ideal way to gain valuable insight into the inner workings of an organization and build relationships among senior staff and board members before making the commitment to join a board.

[1-2] Boardsource, Leading With Intent: 2017 National Index of Nonprofit Board Practices

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In 2016, the first wave of baby boomers turned 70½, and many more reach that milestone in 2017 and 2018. What's so special about 70½? That's the age when you must begin taking required minimum distributions (RMDs) from tax-deferred retirement accounts, including traditional IRAs, SIMPLE IRAs, SEP IRAs, SARSEPs, and 401(k), 403(b), and 457(b) plans.

It's Time for Baby Boomer RMDs!

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If you're still employed (and not a 5% owner), you may be able to delay minimum distributions from your current employer's plan until after you retire, but you still must take RMDs from other tax-deferred accounts (except Roth IRAs). The RMD is the smallest amount you must withdraw each year, but you can always take more than the minimum amount.

Failure to take the appropriate RMD can trigger a 50% penalty on the amount that should have been withdrawn — one of the most severe penalties in the U.S. tax code.

Distribution deadlines

Even though you must take an RMD for the tax year in which you turn 70½, you have a one-time opportunity to wait until April 1 (not April 15) of the following year to take your first distribution. For example:

- If your 70th birthday was in May 2017, you turned 70½ in November and must take an RMD for 2017 no later than April 1, 2018.
- You must take your 2018 distribution by December 31, 2018, your 2019 distribution by December 31, 2019, and so on.

IRS tables

Annual RMDs are based on the account balances of all your traditional IRAs and employer plans as of December 31 of the previous year, your current age, and your life expectancy as defined in IRS tables.

Most people use the Uniform Lifetime Table (Table III). If your spouse is more than 10 years younger than you and the sole beneficiary of your IRA, you must use the Joint Life and Last Survivor Expectancy Table (Table II). Table I is for account beneficiaries, who have different RMD requirements than original account owners. To calculate your RMD, divide the value of each retirement account balance as of December 31 of the previous year by the distribution period in the IRS table.

Aggregating accounts

If you own multiple IRAs (traditional, SEP, or SIMPLE), you must calculate your RMD separately for each IRA, but you can actually withdraw the required amount from any of your accounts. For example, if you own two traditional IRAs and the RMDs are $5,000 and $10,000, respectively, you can withdraw that $15,000 from either (or both) of your accounts.

Similar rules apply if you participate in multiple 403(b) plans. You must calculate your RMD separately for each 403(b) account, but you can take the resulting amount (in whole or in part) from any of your 403(b) accounts. But RMDs from 401(k) and 457(b) accounts cannot be aggregated. They must be calculated for each individual plan and taken only from that plan.

Also keep in mind that RMDs for one type of account can never be taken from a different type of account. So, for example, a 401(k) required distribution cannot be taken from an IRA. In addition, RMDs from different account owners may never be aggregated, so one spouse's RMD cannot be taken from the other spouse's account, even if they file a joint tax return. Similarly, RMDs from an inherited retirement account may never be taken from accounts you personally own.

Birthday Guide: This chart provides sample RMD deadlines for older baby boomers.

Month & year of birth	Year you turn 70½	First RMD due	Second RMD due
Jan. 1946 to June 1946	2016	April 1, 2017	Dec. 31, 2017
July 1946 to June 1947	2017	April 1, 2018	Dec. 31, 2018
July 1947 to June 1948	2018	April 1, 2019	Dec. 31, 2019
July 1948 to June 1949	2019	April 1, 2020	Dec. 31, 2020
July 1949 to June 1950	2020	April 1, 2021	Dec. 31, 2021

Examining the Taxpaying Population: Where Do You Fit In?

Sources for data: IRS Statistics of Income Bulletins, Spring 2017 and Summer 2017, Washington, D.C., irs.gov/statistics

What is adjusted gross income (AGI)?

Adjusted gross income, or AGI, is basically total income less adjustments for certain items, such as deductible contributions made to an IRA, alimony paid, and qualified student loan interest paid.

Every quarter, the Statistics of Income Division of the Internal Revenue Service (IRS) publishes financial statistics obtained from tax and information returns that have been filed with the federal government. Recently published reports reflect data gleaned from 2014 individual federal income tax returns. These reports offer a snapshot of how the U.S. population breaks down as taxpayers.

The big picture

For tax year 2014, U.S. taxpayers filed roughly 139.6 million individual income tax returns.[1] Total adjusted gross income reported on these tax returns was $9.71 trillion, resulting in a total income tax of $1.37 trillion. That works out to an overall average tax rate of 14.16% for all returns filed — the highest total average rate in the 10-year period represented by the statistical report.

If your 2014 AGI was $38,173 or more, you were in the top 50% of all federal income tax filers based on AGI. This group accounted for 88.7% of all AGI reported and paid 97.3% of total federal income tax for the year.

A look at the top

How much AGI did it take to make the top 10% of all individual filers? Probably not as much as you might think. If your AGI was $133,445 or greater, you would have been one of the almost 14 million filers making up the top 10%. This group reported about $4.58 trillion in AGI (more than 47% of all AGI reported) and accounted for about 70.9% of total individual income tax for the year.

To make the top 5%, you would have needed $188,996 or more in AGI. You would have been among approximately 7 million filers who reported almost $3.5 trillion in total AGI and accounted for about 60% of total income taxes paid.

It's also worth noting that the top 3% of all 2014 individual income tax returns based on AGI accounted for 52.9% of total income tax paid for the year.

The very, very top

For the 2014 tax year, 1.4 million returns had an AGI of $465,626 or more. These taxpayers make up the top 1% of filers, reporting almost $2 trillion in total AGI and responsible for just under a 40% share of the total tax haul.

The 1,396 income tax returns that showed $56,981,718 or more in AGI make up the top 0.001% (that's the top one-thousandth of 1%) of 2014 filers. These filers together reported over $207 billion in AGI and paid over 3.6% of taxes.

Not all high-income returns showed tax

Of the 6.2 million income tax returns filed for 2014 with an AGI of $200,000 or more, 10,905 showed no U.S. income tax liability (the number drops to 3,927 if you eliminate returns filed by individuals who were responsible for income taxes to foreign governments and had no U.S. income tax because of a credit for such taxes paid).

Why did these high-income returns show no U.S. tax liability? The IRS report noted that these returns show no tax for a variety of reasons, including tax credits and deductions, most notably miscellaneous deductions and deductions for charitable contributions, medical and dental expenses, and investment interest expenses. A significant secondary factor was the deduction for taxes paid.

Average tax rates

Dividing total tax paid by total AGI yields the following average federal income tax rates for the 2014 tax year:

Top Filers (by Percentile)	AGI Threshold	Average Tax Rate
0.001%	$56,981,718	24.01%
0.01%	$11,407,987	25.92%
0.1%	$2,136,762	27.67%
1%	$465,626	27.16%
5%	$188,996	23.61%
10%	$133,445	21.25%
20%	$90,606	18.64%
30%	$66,868	17.19%
40%	$50,083	16.24%
50%	$38,173	15.52%

[1] Excludes returns filed by dependents; based on final estimates for tax year 2014 reported in Spring 2017 Statistics of Income Bulletin

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What financial resolutions should I consider making as I look ahead to 2018?

A new year is right around the corner, bringing with it a fresh start for you and your finances. What will you do this year to help improve your financial situation?

Evaluate your savings goals. The beginning of the year is a great time to examine your overall financial plan. Maybe you want to buy a new vehicle this year or save money toward a Caribbean cruise next year. Perhaps you want to focus less on material items and more on long-term goals, such as your retirement savings. Regardless of what you are setting money aside for, make sure you come up with a realistic savings plan that will help you achieve your goals and avoid the risk of significant loss.

Pay down debt. Whether you owe money on your credit cards or have student loan payments to make, the start of a new year is a good time to develop a strategy to reduce your overall level of debt. Reducing your debt can help create opportunities to contribute toward other goals throughout the year. But unless you can definitely afford it, don't plan to pay off all your debts in one fell swoop. Set a smaller goal that you'll be more likely to achieve over the course of the year.

Automate as much as you can. Your plan to pay down debt can be accomplished more easily if you automate your bill paying, saving, and investing. Most banks, credit card issuers, retirement plan providers, and investment companies offer services that make payments automatic — allowing you to worry less about payment dates. The best part is that it might only take a few taps on your smartphone to make these processes automatic.

Think about organizing your financial documents. If your overall financial situation is already in good shape for the new year, consider taking time now to clear out and organize your financial records. Do you have important documents, such as your tax returns or passport, in a safe place? Are you holding on to records that you no longer need? Organizing your financial records now can save you time and frustration later if you need to locate a particular document.

I still have money left in my FSA that I have to use by December 31st. How should I spend it?

Health flexible spending accounts (FSAs) are a great way for individuals to pay qualified medical and dental expenses using pre-tax dollars. While IRS rules do allow employers to offer either a carryover or grace period option for money left over in flexible spending accounts, many employer FSA plans still have provisions that don't allow for funds contributed to an FSA to carry over from one plan year to the next. In other words, if you don't use it, you lose it. If you find that you still have money left over in your FSA as the end of the year approaches, there are a number of ways to spend down your account balance.

FSA funds can be used to pay for a variety of out-of-pocket health-care expenses, such as deductibles and copayments. You can also use your FSA funds to pay for uncovered dental and vision care expenses. So now might be a good time to schedule any medical and dental appointments that you may have been putting off, stock up on contact lenses, or even replace an old pair of eyeglasses.

FSA funds can also be used to pay for both prescription drugs and many over-the-counter products, including:

- Athletic braces and supports
- Bandages
- First-aid kits
- Blood-pressure monitors
- Shoe insoles and inserts

Keep in mind that certain over-the-counter medicines (e.g., pain relievers and allergy medication) require a doctor's prescription in order for you to obtain reimbursement from your FSA.

If you continue to participate in your employer's FSA, remember to choose your contribution amount carefully so that you don't risk losing any contributions going forward. Many FSA plan administrators offer user-friendly websites that allow you to inquire about eligible expenses and keep track of your FSA purchases and account balances throughout the plan year.