

Participant Corner

What Could You Do With Your Tax Refund?

The Month in Brief

Stocks went sideways rather than north in March, with the S&P 500 losing just 0.04%. The Federal Reserve made another quarter-point interest rate move, and overseas, the United Kingdom initiated Brexit proceedings. While new data showed weak consumer spending, consumer optimism remained high and hiring was once again strong. A subpar month for commodities did bring major gains for two energy futures. In the housing market, existing home sales decelerated, while new home sales picked up. A little volatility did not upset the primarily bullish outlook on Wall Street.¹

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+4.56	+16.84	+11.28	+6.73
NASDAQ	+9.82	+21.39	+18.24	+14.41
S&P 500	+5.53	+14.71	+13.55	+6.63
REAL YIELD	3/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.43%	0.16%	-0.09%	2.21%

Sources: barchart.com, bigcharts.com, treasury.gov – 3/31/17^{1,16,17,18}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

MONTHLY QUOTE

“Reality is something you rise above.”

- Liza Minnelli

MONTHLY TIP

Do you live in a flood-prone region? Are you moving to one? A homeowner insurance policy will not cover flood damage. Consider buying a flood insurance policy, either from an insurance company or the National Flood Insurance Program (NFIP).

MONTHLY RIDDLE

Three sisters walk toward school with just one small umbrella, which they must all try to fit under. When they reach their school, none of them are the slightest bit wet. How is this possible?

Last month's riddle:

The world measures them using units of temperature and time, but they have no clocks or heat. What are these two things?

Last month's answer:

Latitude and longitude.

What Could You Do With Your Tax Refund?

Instead of just spending the money, you could plan to pay yourself.

About 70% of taxpayers receive sizable refunds from the Internal Revenue Service. Just how sizable? The average refund totals about \$2,800.¹

What do households do with that money? It varies. Last year, consumer financial services company Bankrate asked Americans about their plans for their federal tax refunds. Thirty-one percent of the respondents to Bankrate's survey said that they would save or invest those dollars, and 28% indicated they would attack their debts with the money. Another 27% said they would buy food with that cash or use it to pay utility bills. Just 6% said they would earmark their refunds for shopping sprees or vacations.²

So, according to those survey results, about six in ten people who get a refund will use it to try and improve their personal finances. You could follow their example.

Do you have an adequate emergency fund? If not, maybe you could strengthen it with your refund. If you have no such fund at all, your refund gives you an opportunity to create one.

You might use your refund to pay off your worst debts. High-interest debts, in particular – if you pay off a debt that carries 16% interest, getting rid of that liability is, effectively, like getting a 16% return. If you lack an emergency fund, you should create that first, then think about reducing your debt. Paying debt down without an emergency fund or some reservoir of savings just sets you up for quickly accumulating more debt.

If you own a home, you may want to consider making a thirteenth mortgage payment before 2017 ends. Putting your refund to work that way may make more sense financially than putting it in the bank, given the minimal interest rates on so many deposit accounts today.

You could pay insurance premiums with the funds. An IRS refund of around \$3,000 could go a long way. If you have put off buying a term or permanent life policy, your refund might make insuring yourself easier.

Could you invest the money the IRS returns to you? You could increase (or max out) your annual retirement plan contribution with it or simply direct it into another type of investment account. Whether the savings or investment vehicle is tax-advantaged or not, you have a chance to make that lump sum grow with time.

Aside from investing in equities or debt instruments, you could take your refund and invest in yourself. Maybe you might use it to start a business or support a business you already own. It could also be spent on education. Think of these options as “indirect investments” that might help you or your household grow wealthier one day.

Lastly, remember what a federal or state tax refund represents. It is a percentage of your earnings that the government holds back, in the event that you owe it in taxes. If you repeatedly get a refund, you might want to carefully adjust your W-4 withholding, so that your paychecks are larger during the year.³

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Capstone Retirement Group is a professional retirement plan consulting firm. We partner with plan fiduciaries to identify and implement the optimal retirement plan for their organization.

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