FEDERAL NEWS NETWORK

INSIGHT BY CLEARLOGIC FINANCIAL

FEDERAL INSIGHTS

How to prepare for and reduce the burden of public financial disclosures

FEATURED GUEST

Shawn Steel

Certified Financial Planner, ClearLogic Financial

March 7, 2022 9:34 am
4 min read
This article is paid for by ClearLogic Financial.

Federal employees who are required to file confidential financial disclosures have done so already, and now it's time to face the infamous Form 278: public financial disclosures. As with other financial disclosures, the point is to ensure public servants have no conflicts of interest. The difference here is that these disclosures are made available to the public, albeit for specific purposes only. It's also far more extensive than a Form 450.

"If this is your first year filing a 278, be prepared. This is a burden," said Shawn Steel, certified financial planner with ClearLogic Financial. "Make sure you get your 278 right. Remember your 278 will be available to the public. The last thing you want is someone publicly pointing out mistakes."

Form 278 includes nine parts, including disclosures about income and assets belonging to your spouse and dependents. Any investment with a value of $1,000 or higher, or which earns more than $200 in income has to be reported. The disclosure requires four pieces of information:

- Whether the investment is an excepted investment fund
- Approximate balance
- Type of income received
- Amount of income received

Of course, there are exceptions. Only the first two pieces of information have to be reported for IRAs; type and amount of income aren't necessary. That's because the Office of Government Ethics only considers it income if you owe taxes on it. Since IRAs aren't taxed until the money is withdrawn, it doesn't count as income for the purposes of the report. And just like the form 450, Thrift Savings Plan investments don't have to be reported at all.

Brokerage accounts require all four pieces of information to be reported.

If this is starting to sound complicated, don't worry. There are things you can do to reduce the complexity of filing a Form 278.

"Avoid investment strategies that result in frequent trading, such as trying to time the markets, stock picking, or day trading. These will make your financial disclosure requirements a nightmare," Steel said. "You may have to report the individual transactions you make during the year as well. For example, if you buy and sell individual stocks and bonds, you have to file a 278-T within 30 days of the transaction. If you are trading frequently, you are going to have a lot of transactions to report."

That's why Steel recommends using an excepted investment fund; those only have to be reported annually.

But Steel said it's important to have your investments diversified, for a number of reasons. For example, many people aren't aware of the concept of tax diversification. If all of your money is in a tax-deferred account like the TSP, that means a big chunk of your retirement savings are going to go to taxes when you retire.

"The way it works is, let's say that you need to fund $100,000 to cover your expenses in retirement. If every dollar is in a tax deferred retirement account, you have to take out 100,000 plus enough to cover the tax on that 100,000," Steel said. "And if everything is in a tax deferred retirement account, the portion that you have to take out to cover the tax is going to be higher than it would be if you had a combination of tax deferred retirement accounts and brokerage accounts."

So tax diversification gives you the ability to better manage your own taxes in retirement. That's why it's important to contribute to both a Roth IRA – if you're eligible – and a brokerage account in addition to the TSP.

"The advantage of having a brokerage account, along with your TSP is that you're going to be able to fund the same level of expenses with less dollars from savings in retirement," Steel said. "And the reason for that is money from a brokerage account is taxed at lower rates than money from the TSP. And only the growth on your brokerage account is taxed, not your contribution. So every dollar you take out of your brokerage account in retirement will not be taxed, only the growth."

So how can you maximize your use and enjoyment without running out of money? Steel said to contribute to both a Roth IRA and a brokerage account. Brokerage accounts provide a source of money with no age restrictions and lower taxes than ordinary income rates.

"My clients who are positioned to get the most use and enjoyment from their resources all have something in common," Steel said. "Saving in a tax deferred retirement account was a major part of their portfolio, but they saved in a brokerage account too."

Shawn Steel is a CFP® practitioner and joined ClearLogic Financial in 2013 after several years of practicing law. Shawn advises clients on retirement planning, tax planning, investments, and federal employee financial disclosure requirements. He also supervises preparation of financial disclosure forms for federal employees and advises clients retiring from federal service on the retirement process. All investing involves risks, including the potential for loss of principal. There is no guarantee that any investment plan or strategy will be successful.