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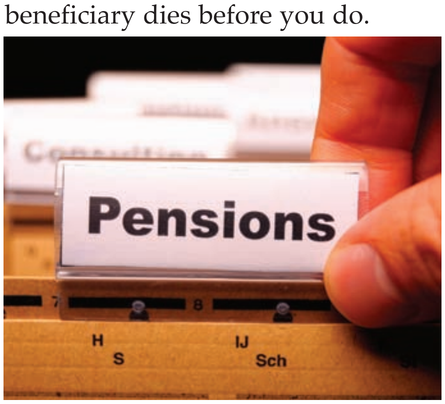
SPRING 2014

Estate Planning and Your Retirement Accounts

For many people, retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), are their most significant assets. While you may think you'll need every bit of money in those accounts for your retirement, what would happen if you die at an early age? You should include these accounts in your estate plan so heirs inherit them with minimal estate- and income-tax effects. Some strategies to consider include:

✔ **Review your beneficiary designations.** These assets are distributed based on beneficiary designations, not your will or other estate planning documents. Thus, you should name primary as well as contingent beneficiaries. Make sure you understand how your assets will be distributed if a primary beneficiary dies before you do.



For instance, if your primary beneficiaries are your children and one child dies before you, do you want that child's share to go to your remaining children or to that child's children? Review your beneficiary designations after major life changes, such as marriage, divorce, or a child's birth.

✔ **Consider rolling your 401(k) plan assets over to an IRA.** Now that 401(k) plans may allow nonspouse beneficiaries to withdraw funds over their life expectancy, there may not be as much need to roll 401(k) plan assets over to an IRA. However, with IRAs, you will often have many more investment options for your plan assets. Also, you may want to roll the amount over to a Roth IRA, but will first need to roll over to a traditional IRA.

✔ **Split an IRA when there are multiple beneficiaries.** When there is more than one nonspouse beneficiary for an inherited IRA, distributions must be taken over the

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Selecting a Trustee

One of the more critical decisions you'll make when setting up a trust is selecting a trustee. Depending on the trust's provisions, the trustee can serve for decades, with broad discretion in managing assets and distributing income and principal. Some thoughts to consider when deciding on a trustee include:

✔ **Decide whether to choose a family member, friend, or professional trustee.** You could decide to name two trustees, perhaps a family member and a professional. The professional could handle investment decisions while the family member could oversee those decisions.

✔ **Don't rule out a professional due to the fees involved.** The trustee's duties can be complex and time-consuming.

✔ **Name a successor trustee.** If your trustee dies, becomes incapacitated, or decides he/she doesn't want to serve as trustee, you should have a successor trustee named.

✔ **Set up performance guidelines.** That way, if the trustee does not meet those guidelines, your beneficiaries will have a means to change trustees. ❍❍❍

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Estate Planning

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oldest beneficiary's life expectancy. By splitting the IRA into separate accounts, each beneficiary can take distributions over his/her life expectancy. You can split the account while you are alive or your beneficiary can do so within nine months after your death. Separating the account is especially important when one of the beneficiaries is not an individual or qualifying trust, such as a charitable organization. If you die before required distributions begin at age 70½, the entire balance must be paid out in five years. If you die after required distributions begin, the balance must be paid out over your remaining life expectancy. When the account is split, the individual beneficiary can take distributions over his/her life expectancy.

✔ **Make sure your spouse understands the rules for inheriting an IRA.** Your spouse should be careful not to roll the balance over to a spousal IRA too quickly. Once the balance is rolled over, some planning opportunities are lost. For instance, spouses under age 59½ can make withdrawals from the original IRA without paying a penalty. Once the account is rolled over, withdrawals before age 59½ would result in a 10% federal income tax penalty. Also, spouses who are older than the original owner can delay distributions by retaining the IRA. The surviving spouse is not required to take distributions until the deceased spouse would have attained age 70½, even if the surviving spouse is over that age. The spouse may want to disclaim a portion of the IRA, which must be done within nine months of the original owner's death. If the account is rolled over, that disclaimer can't be made. Thus, it is usually best for the surviving spouse to determine his/her financial needs before rolling over the IRA balance.

✔ **Consider rolling your traditional IRA balances over to a Roth IRA.** All taxpayers can now convert from a traditional IRA to a Roth IRA regardless of income levels. You must pay income taxes on the taxable amount of the conversion, but those taxes can be paid with funds outside the IRA. That preserves the IRA's value and reduces your taxable estate. Your heirs will then receive qualified distributions free from income taxes, including all future appreciation on the balance.

✔ **Teach your heirs the benefits of stretching out withdrawals from inherited IRAs.** After an IRA is inherited, a traditional deductible IRA still retains its tax-deferred growth and a Roth IRA retains its tax-free growth. Your heirs should extend this growth for as long as possible. If the IRA has a designated beneficiary, which includes individuals and certain trusts, the balance can be paid out over the beneficiary's life expectancy. Spouses have additional options that can stretch payments out even longer. Your heirs can elect to take the entire balance immediately, paying any income taxes due. Make sure to stress to heirs the importance of taking withdrawals as slowly as possible.

If you'd like to discuss the estate planning aspects of your retirement accounts, please call. ❍❍❍

A Portfolio Tune-Up

The need for rebalancing is part of the nature of investing. Since different investments earn different rates of return, their values grow at different rates, changing the weightings in your portfolio. While you should definitely rebalance when your financial objectives or life circumstances change, you also want to rebalance on a regular basis. There are three basic methods to consider:

✔ **Rebalance annually.** Choose a date to rebalance, perhaps at the beginning of the year, when you receive your annual statements, or at the end of a quarter. On that date every year, compare your current allocation to your target allocation. Any allocations off by more than 5–10% would require rebalancing. Once you have rebalanced, don't be tempted to make other rebalancing changes during the year.

✔ **Rebalance when your allocation differs from your target allocation by a designated percentage.** With this type of rebalancing, you monitor your portfolio more frequently, perhaps monthly. Once your allocation moves from your target allocation by a predetermined percentage, perhaps 5–10%, you rebalance your portfolio.

✔ **Rebalance based on current market conditions.** With this approach, rather than one specific percentage for each asset class, you might have a target range. For instance, you might allocate anywhere from 30–50% of your portfolio to large-capitalization stocks. Depending on your views of the market, you might want to allocate near the low or high end of that range. Thus, your allocation will change as your views about the market change.

There are many ways to accomplish changing your allocation among investments. You can purchase additional amounts of the investment that is underrepresented in your portfolio. You can sell investments in overrepresented portions and invest the proceeds in underrepresented portions. Any withdrawals can be taken from overweighted investments. Income from your portfolio can be invested in underweighted investments. Ultimately, you need to consider tax ramifications and your own individual investment preferences. ❍❍❍

How to Save More: Step by Step

For many of us, saving money is very difficult. The truth is that most people don't keep careful track of how much they spend and don't do enough to find ways to save. If that describes you, here's an eight-step program to help you find more savings in your household income.

Step 1: Create a budget. Don't think of a budget as a way to scrimp, but as a log that keeps you aware of where your money is going and enables you to manage it better. The key is to keep it organized and in a format that you can return to again and again.

Make a single sheet for each month. Organize it into two sections, one for expenses and the other for income. Divide the expenses section into two parts: the ones you pay out of your checking account and the ones you pay for in cash. Then create a line for every kind of recurring expense you have, from your mortgage or rent to your utilities, phone, and cable, your memberships and subscriptions, life insurance, and payments for loans and credit cards.

For out-of-pocket expenses, make estimates in advance and create line items for dining out; personal care, like the hairdresser or beauty shop; gas and oil; prescriptions; clothing; and entertainment. In each part, do your best to include everything, but your budget is a living document that you can add to as you remember items.

Devote another column to the net income you expect to receive for the month from all sources. Then, subtract your total expenses from your income. If the result is negative, you've discovered a problem. Fixing it, either by spending less or earning more, will bring your spending in line with your income.

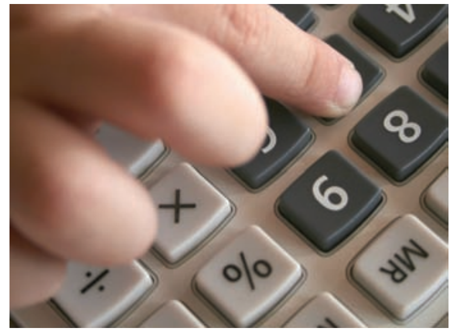
Step 2: Track your spending. What you've created in the first step is a master budget. Now, you have to start tracking what you actually spend. That's not too hard when making payments out of your checking account. The challenge is when you pay for things at a cash register, whether you use cash or a card.

Keep all your receipts and make a daily record of any expenses for which you don't receive a receipt. Then once a week, enter what you actually spent into your budget. Take note of how your actual spending affects the balance between your expenses and total income for the rest of the month.

Step 3: Set a saving goal. As you make your master budget, you need to think about a goal for the extra savings you want to achieve. Enter that amount as a line item in your column of recurring monthly expenses.

Step 4: Make the savings automatic. The key to actually saving what you intend to save is to make the transfer from your paycheck automatically. It's best to do one of three things: increase the amount that you contribute to a workplace savings plan by payroll deduction, authorize a deduction every month from your checking account, or write and deposit a check into your saving account as soon as you get paid.

Step 5: Cut down on discretionary spending. The places you'll find savings are from things you can really do without. These range from snacks at vending machines to



meals out, movies, shows, concerts, premium TV channels, expensive smart phone data plans, and even vacations. It can be difficult at first to say no to yourself, but with practice it gets easier, especially when you see your savings balances start to grow faster.

Step 6: Review your big-ticket finances — mortgage, car loans, or lease. You can find your biggest savings by carefully reviewing your biggest expenses. With mortgage rates near record lows, refinancing could save you hundreds of dollars a month. If you're leasing a luxury vehicle, consider going down a notch or two when it expires, or buy a recent-year used car — you'll save thousands on the depreciation and could lower your monthly spending significantly.

Step 7: Avoid late payment penalties and overdraft fees. Pay all your bills on time so you avoid being charged costly late charges and fees, and keep your checkbook up to date to avoid overdraft charges.

Step 8: Buy only with cash. As much as possible, make your purchases with cash instead of using high-interest credit cards. The idea is to force yourself to postpone impulse purchases that increase your balance and interest charges.

It's always better to err on the side of saving too much than too little. Please call if you would like to discuss this in more detail.
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Field Trip to New York Stock Exchange (NYSE)!

On Friday, April 4, I had the opportunity to get a private tour of the floor of the NYSE. Wow! The history of the exchange is extraordinary. The stock exchange started back in 1817, almost 200 years ago. Yet, the first trading on Wall Street started in 1792.

This icon has withstood many wars, market bubbles, market crashes, the Great Depression, and a pretty major bombing in 1920. Today, the NYSE is owned by IntercontinentalExchange, Inc., which is, ironically, a publicly traded company (ICE). The floor is still the largest exchange in terms of dollars in the world. One big change, besides now being owned by an international company, is the media coverage of the NYSE on a daily basis. While electronic trading has taken over much of the floor trading, many media outlets now occupy the floor space today. Many of the large brokerage houses still maintain "a desk" of sorts on the floor; but it is no longer as essential to have that trading capacity as before.

One shocker was the lack of people who work there today. At the peak, there used to be over 5000 traders jammed into five trading rooms on the floor of the NYSE. Today, that number is down to 700 traders in three trading rooms!

I generally watch CNBC Squawk Box in the mornings to get the financial news of the day. I was surprised to see the set for the show located directly below the opening bell. On the morning I was there, Jim Cramer, Carl Quintanilla, and David Faber were hosting.

Another kind of exciting part of the morning was the Initial Public Offering (IPO) of GrubHub Inc. (symbol GRUB). I had never heard of the company before this day. GRUB is an application for your mobile phone; the

app processes take-out orders from your favorite local restaurants and keeps all of your information stored. It makes it easy for you to order from many different places through a single app. They are located in 600 cities. I'm not for or against this stock, I just found it interesting, since I was there the morning they raised almost 200 million (*The Spokesman-Review*, April 5, 2014).

Andrew Wade
President

Financial Thoughts

The top 10% of the world's population owns 86% of global wealth, compared to 1% for the bottom half of all adults. It is estimated that more than two-thirds of the planet's adults have less than $10,000 in wealth. Approximately 42% of all millionaires live in the United States (Source: *Financial Advisor Magazine*, November 2013)

Approximately 67% of families rule out colleges due to cost. Approximately 57% of students live at home while attending college, and 48% of parents cut spending in order to pay college costs for children (Source: Sallie Mae, 2013).

While the maximum annual contribution to 401(k) plans is $17,500, the average amount actually contributed, excluding employer-matching contributions, was $2,733 (Source: Bloomberg, 2013).

During the last five years of their lives, Medicare recipients spent $38,688 in out-of-pocket costs (Source: Mount Sinai School of Medicine, 2013).

The average monthly Social Security benefit for retired workers is $1,237 (Source: Social Security Administration, 2013). ❍❍❍