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FINANCIAL ASSOCIATES

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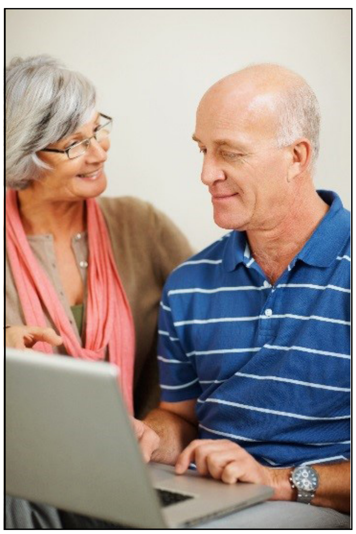
Guide...Protect...Preserve

Make Sure That You Comply With All The RMD Rules

If you are retired and in your 70s or older, you're generally required to withdraw money from your employer-sponsored retirement plans and traditional IRAs every year whether you want to or not. Under IRS rules for "required minimum distributions" (RMDs), you must take a withdrawal each and every year for the rest of your life the year after you turn 70½. And the tax penalty for missing an RMD or taking out too little can be onerous.

Benefits of Contributing to Tax-Advantaged Plans



Having to take RMDs does little to undercut the advantages of putting money into 401(k)s and IRAs. With a 401(k) or other workplace plan, your contributions up to a generous annual limit are normally free from current taxes. For instance with a 401(k) plan, you can defer up to $18,000 of salary to your account in 2015, or $24,000 if you're age 50 or older, and your employer also may match part or all of your contribution. Then you get to choose from a variety of investment options, and investment earnings inside the account are exempt from current taxes.

The benefits for IRAs are similar. Your annual contributions are subject to specified limits. For the 2015 tax year, the limit is your earned income or $5,500 (or $6,500 if you're age 50 of older), whichever is less. Depending on your situation, your contributions may be fully or partially tax-deductible, especially in the early stages of your career. And here, too, you can choose from a variety of investment options, and earnings inside your account are tax-free.

Tax Treatment of Distributions

However, it's time to pay the piper when you take money out of these retirement plans. Generally, money representing tax-deductible contributions and earnings will be taxed at ordinary income rates of up to 39.6%.

Under the RMD rules, you must begin annual withdrawals by April 1 of the year after the year in which you turn age 70½, followed by RMDs in every subsequent tax year. The amount of the RMDs is based on your account balances at the end of the prior year and life expectancy tables provided by the IRS.

Although the RMD rules apply to everyone, you can postpone distributions from a company plan if you're still working full time and you don't own 5% or more of the company. That exception doesn't apply to RMDs from IRAs.

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The Three Biggest Financial Mistakes That You Can Make

There are many things a young person may be able to do to achieve great financial success despite today's challenging job opportunity and difficult credit markets. Creative planning, hard work, perseverance, the ability to think, and yes, luck, all can help you to make it big. However, there are three mistakes you can make that will doom your future. Here they are:

1. Failure to save all that you can. Starting with your very first job or business opportunity, save every cent that you can. Put yourself on a pinch-penny budget and stay there for years and years. Invest the maximum in any and all retirement plans that are available to you. (At a minimum, use the company match). And – equally important – avoid high-interest debt like the plague. Don't buy new cars every year or so. Don't buy more house than you need.

2. Failure to keep working as long as possible. Do not – repeat, do not – retire at age 62. You may think that Social Security benefits will not play a big role in financing your retirement. Think again. Every dollar is going to count. Plus, by not retiring too soon you will continue to save more, and more.

3. Failure to seek financial advice. Select a trusted financial advisor early in your career and stick with him or her for guidance over your working life.

Mary Jane Callaghan &
Mitch Glicksman

How A Financial Advisor Can Help

What are your hopes and dreams for the future? They probably begin with being able to provide for yourself and your family. But you also might aspire to a bigger home, an exotic vacation or another luxury, savings for your children's education, and a nest egg for retirement.

While you may be able to achieve all of those things, you can't just snap your fingers and make them happen. You'll need hard work and financial discipline, and you'll need to make a long-term commitment to work toward your goals. Enlisting the services of a financial advisor could help guide you along the way.

Of course, you still would be the one calling the shots, but an advisor can provide valuable assistance in many respects. An advisor can help you:

- Assess your current financial status, including your income, investments, assets, liabilities, insurance coverage, tax situation, and estate plan;
- Set goals that are both ambitious and reasonable;
- Account for changes in your personal circumstances (births, deaths, marriage, or divorce);
- Address weaknesses in your current investment and retirement planning;
- Develop a comprehensive plan to suit your current needs and future desires.

Couldn't you do all of this on your own? If you're sufficiently savvy about financial matters you could, but few people have the time, expertise, and inclination to do all that's required. And even if you're determined to tackle your financial objectives by yourself, you could need a push to get you started. What's more, an objective third party such as a professional financial advisor may add a valuable new perspective to your own outlook. You might benefit from having someone review key decisions about your financial future.

Even if you don't feel you need the help of a financial planner now, something could happen to trigger a call for help. For instance, maybe you've inherited a large sum of money or property and you're not sure how to handle it. Perhaps you, or your spouse, have been laid off from a job and suddenly money is tight and you're forced to make financial trade-offs. Or you may require assistance on other financial fronts ranging from elder-care planning to paying higher-than-expected college costs for your kids or resolving a shortfall in your retirement savings.

If you do decide to use a professional financial advisor, you'll still need to find one who is experienced and has experience helping clients in your situation. We would be glad to show you the high level of services that we provide. ●

Compare Minor's Account To 529 Plan

Until the Section 529 college savings plan came along, parents looking ahead to the high cost of college for their children often set up accounts under their states' Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). But the broad benefits of 529 plans have made them more popular than UGMAs and UTMAs in recent years. Here's how the two saving vehicles compare:

UGMA/UTMA accounts: These are custodial accounts to which you contribute money for a minor's benefit. As the custodian, you control the investments until the child reaches age 18 or 21, depending on the laws of your state.

However, for tax purposes, any earnings on account assets are taxed to your children at their lower tax rates. For 2015, the first $1,050 of earnings in a custodial account is tax-free and the next $1,050 is taxed at the child's rate. But earnings beyond $2,100 are generally subject to the so-called kiddie tax—they're taxed at the parents' top rate. And whether you pay or your child pays that tax, it creates an annual drain on the account during the years you're trying to build up funds for college.

Section 529 plans: With this type of state-sponsored plan, you contribute to an account for which you name your child as beneficiary. Then you're in charge of how the money is invested (though only among the options the plan offers, and the ability to switch investments is limited). Unlike in a custodial account, earnings from investments aren't taxed while they're accumulating. And distributions from the plan that go to pay qualified college expenses, such as tuition, also aren't taxed.

Those provisions give 529 plans a dramatic advantage over a custodial account. There aren't any kiddie tax complications with a 529 because the

10 Steps On The Path To An Early Retirement

The new American dream is to retire early, perhaps in your 50s or even your 40s. But how do you make this dream a reality? These steps could help:

1. **Map out a plan.** Retiring early requires starting early with very deliberate planning. Design a road map of how you will get there, including an analysis of your investments and how much income you anticipate getting from other sources, such as Social Security (which won't kick in until your 60s at the earliest), and spell out the details in writing. To accumulate enough to retire early, you'll likely need to take a fairly aggressive approach to investing while working full time. You'll also need continued growth during a phase-down period and a plan for how you'll manage assets when you're completely retired.

2. **Get going now.** Immediate action also is called for if you're going to meet this ambitious goal. Put your plan into motion today instead of waiting for a tomorrow that might never come.

3. **Control your debt.** One of the biggest impediments to early retirement is spending too much while you're working, especially if you build up substantial debt. The more you borrow, the harder it will be save enough to call it quits. Not only do debt payments siphon away money that you could use more productively, you're also paying extra in interest charges. You're bound to have a mortgage and perhaps a car payment, but if you eliminate luxury purchases now you'll be more likely to have the money later to support yourself without working.

4. **Educate yourself.** Knowledge is power, and learning about investing and other financial matters can help you make good choices on the way to early retirement. Understanding the more complex assets you may hold—bonds, exchange-traded funds, annuities, etc.—should enable you to avoid mistakes that could disrupt your progress. Take the time to learn everything you need to know.

5. **Make the process automatic.** Human nature being what it is, it may be difficult for you to remain diligent about saving more and spending less. But you could do yourself a favor by automating some things that can help steer you toward early retirement. Increasing your 401(k) plan contributions—perhaps by directing part of a salary increase into your account—can make a big difference. You also might take a systematic approach to prepaying mortgages or car loans.

6. **Don't ignore taxes.** It's not how only much you earn that makes a difference; it also matters how much you keep after taxes, and it's smart to make taxes a prime consideration in most of your investment and financial dealings. Tax-deferred growth inside a 401(k) and IRAs or investing in tax-free municipal bonds in taxable accounts could have a big impact, especially if you're in a high tax bracket. Savvy tax bracket management over time can save you tens or even hundreds of thousands of dollars.

7. **Go "all in."** Retiring early almost certainly will require an all-out effort over many years. It may help to work toward this goal as if you were running a business by keeping a steady eye on building toward the future. Try not to be unrealistic about the returns you expect to get from your investments and retirement plans, and follow through on the saving and spending objectives you've outlined in your early-retirement plan.

8. **Assume full responsibility.** Assuming you don't hit the jackpot in a lottery or receive a big, unexpected inheritance, you can succeed financially only if you take charge of all aspects of your life. That means correcting mistakes, making necessary adjustments, and striving for sound financial decisions. Part of taking responsibility can involve getting guidance from a knowledgeable professional advisor.

9. **Manage your risk.** Avoiding substantial investment losses can be just as important as generating big gains. That's why it makes sense to emphasize risk reduction as you formulate your investment strategy. Keep in mind that financial markets are inherently volatile. And while that doesn't mean you should sink all of your money into U.S. Treasury bills and other traditionally safe investments, you probably will need to include such holdings in your overall portfolio mix to minimize the damaging ups and downs that can work against your goal of retiring early.

10. **Use common sense.** Finally, be as logical and rational as you can be in pursuing your goal. In particular, try to avoid panicking during inevitable market downturns. If you save diligently and stay the course with a well-diversified portfolio, early retirement might not be a pipe dream. It could happen to you! ●

growth in the account you've set up for your child isn't taxed at all during the years leading up to college. And whereas you may owe capital gains tax when you sell investments in a custodial account to pay college expenses, that doesn't happen when you take money from a 529 to pay for college.

In addition, if your kids have a custodial account, they get control of the money once they reach the age of majority in your state—and they can use it any way they want, not just for college. That doesn't happen with a Section 529 plan—you stay in control of the account regardless of the age of the beneficiary.

A final disadvantage of a custodial account is that it may hurt a student's eligibility for federal financial aid because it counts as that student's asset, not that of the parents. Section 529 plans, in contrast, are treated as if they belong to the parents and aren't likely to affect financial aid eligibility.

So while there may be situations in which a custodial account makes sense in saving for college, in most cases a 529 plan will work better. ●

4 Estate Issues For Business Owners

Estate planning is essential for almost everyone, but it's especially important if you own a business. Your company may account for the majority of what you leave to your heirs. And while you may be years away from retirement, it's far better to get started sooner rather than later. Consider these factors that you may need to address in your estate plan:

1. **Succession plan.** This can have a ripple effect on other aspects of your estate planning. Do you plan to sell the business to an outsider, or perhaps to hand the reins to a member of your family? If you're grooming a family member for the top spot, it's a good idea to make that clear to everyone involved. Similarly, if power within the company is to be shared among several family members, spell out how that will work. Establish how much control you may want to keep, and make sure you document the arrangement so there won't be misunderstandings.

2. **Buy-sell agreement.** A buy-sell agreement may work hand in hand with a succession plan. A buy-sell agreement is a contract between a company's co-owners or shareholders specifying what will happen if a principal dies or is disabled. The main benefit is that such an agreement establishes a value for the business, which may be helpful for various purposes—for example, if someone wants to buy or sell shares from or to another co-owner.

3. **Estate taxes.** The specter of potential tax consequences often lurks in the background for small businesses. Even with the generous federal estate tax exemption ($5.43 million in 2015), your heirs may face tax complications, especially on the state level. Because most businesses have a minimum of cash on hand to pay estate taxes, the company might have to be sold to satisfy federal or state obligations. Estate tax returns are generally due within nine months of death, so make provisions now to avoid a distress sale in the future. And find out what tax breaks could benefit the estate—for instance, a federal tax law provision that allows deferral of estate tax payments when a business interest comprises at least 35% of a taxable estate.

4. **Life insurance.** One way to avoid a forced sale of a business is to secure adequate life insurance protection for the owner or co-owners. Proceeds from a life insurance policy can be used to pay estate taxes, debts, or other business obligations when an owner dies. Life insurance also may be an essential part of a buy-sell agreement. Depending on your needs, you might choose a form of whole life insurance, term insurance, or another variation.

To avoid problems down the line, consider all of the estate planning implications of owning your business. We will be glad to assist you with the specifics based on your personal circumstances. ●

Comply With All The RMD Rules

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How to Figure the RMD

Generally, you can look up your age in the IRS table to determine how much of your account you must withdraw each year as an RMD. But there's an exception: If your spouse is your sole beneficiary and is at least 10 years younger than you are, you can use a joint life expectancy table to calculate the RMD. That option normally will produce a smaller required distribution than the one required under the table for individuals and may be especially beneficial to account holders who are in a second or third marriage.

Once you're required to begin RMDs, you can't miss a year. For instance, if you turn 70½ this year, you have until April 1 of next year to take your first RMD— but then you must take a second RMD by December 31 of that year.

If you have multiple accounts, the IRS provides more flexibility for IRAs than it does for employer plans. When you calculate the RMD for IRAs, you can take out the total amount from a single IRA or any combination of IRAs that you prefer, as long as the distributions add up to the required total. But if you have more than one workplace plan, you generally can't arrange your RMDs in this manner. Instead, you must take an RMD from each plan, based on the life expectancy table and the account balance.

Although these rules are complicated, you need to understand what's required of you, because the penalty for failing to take an RMD is severe—50% of the amount you should have taken. For example, suppose you're required to take a $10,000 RMD this year and you withdraw only $3,000. You'll owe a penalty of $3,500 (50% of $7,000 difference), on top of the regular income tax you have to pay.

But RMD rules don't apply to Roth IRAs during your lifetime. You can leave a Roth intact for as long as you like. However, when you die, your beneficiaries who receive Roth assets then have to comply with the RMD rules.

These rules can be tricky and you don't want to stumble into a huge tax liability. We can provide guidance with respect to your particular situation. ●

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