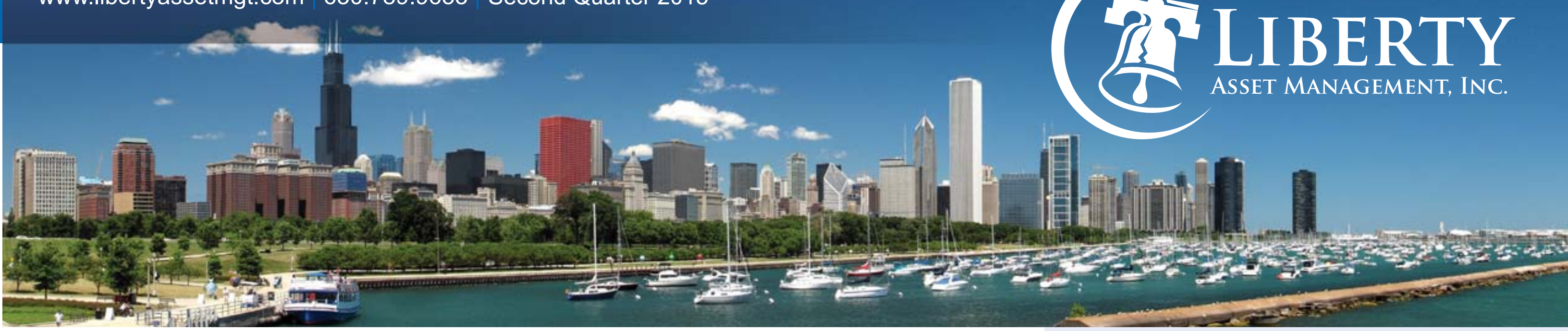

6 Common Estate Planning Myths: Here's The Reality

Some people avoid estate planning at all costs. But putting aside the inevitable emotions involved in looking ahead to your own demise, it's crucial to understand the process. A good place to start is by debunking these six common but potentially damaging myths:

Myth #1: My estate is too small to need an estate plan.

Reality: You don't need a small fortune for your heirs to benefit from estate planning. For instance, what if you decide to divide your assets among several beneficiaries, instead of designating just your spouse or another person? That could be very important if you're in a second or third marriage and have children from a previous marriage. In addition, you might want to leave some of your estate to charity. Wanting to help your family avoid the delays of probate, seeking to reduce estate taxes, and choosing who will administer your estate also call for estate planning.

Myth #2: I don't need an estate plan because my spouse will inherit everything.

Reality: This is closely related to the first myth. Just because you have left everything to your spouse under your will—and your spouse has returned the favor—doesn't mean you won't benefit from estate planning. What happens if your spouse dies first at a relatively early age, or if you die together in an accident? What then? There might be complications because of how assets are titled, who are named as beneficiaries of your life insurance policies and your retirement plans, or the estate laws of your state.

Myth #3: If you're wealthy, there's no way to avoid estate taxes.

Reality: That's simply not true. On the federal level, your estate can benefit from a generous $5.43 million exemption for those dying in 2015 (and that amount is indexed for inflation and will rise in future years). What's more, because you or your spouse can use the other's leftover exemption, the effective amount the two of you can shield from estate taxes is almost $11 million. Trusts and other tax-saving vehicles can further reduce estate tax exposure. Although state inheritance tax rules aren't always as generous, professional guidance may help there, too.

Myth #4: Everything is covered in my will so estate planning isn't necessary.

Reality: While a will is a good starting place for an estate plan, it's not likely to be enough on its own. There may be numerous other loose ends to tie up. In addition, depending on your state's laws, your heirs may have to go through a lengthy probate process that can be even more drawn out if you owned property in several states. A revocable living trust can help you pass

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Summer Soda

As summer approaches and thoughts turn to barbecues and picnics, we thought we would share with you a couple of our favorite summer soda recipes.

Blackberry-Lime Soda: Simmer 1 cup water, 3/4 cup sugar and 1 pint blackberries over medium heat until syrupy, 15 to 20 minutes; strain, pressing on the solids. Stir in the juice of 1 lime. Let cool completely. Mix 2 to 4 tablespoons of the syrup with 1 cup of cold seltzer; add ice. Makes 4 to 8 drinks.

Lemon-Lime: Simmer 1 cup each sugar and water until the sugar dissolves; let cool completely. Stir in 1/2 cup each lemon and lime juice. Mix with 1 cup cold seltzer; add ice (use ½ cup syrup per drink).

Cranberry: Simmer 2 cups cranberry juice with 1/2 cup sugar over medium heat until syrupy, 15-20 minutes; let cool completely. Mix 2 to 4 tablespoons flavored syrup with 1 cup cold seltzer; add ice.

Finally, we also would like to take this opportunity to offer you a copy of our current Form ADV. Please contact us at the office if you would like to receive this document. It also can be viewed by clicking the link at the bottom of our website home page.

Enjoy your summer!

Social Security: Taxes In And Out

It seems like the IRS has you coming and going on Social Security. While you are working for a living, you must pay taxes into the system to provide benefits for current retirees. Then, when you finally retire, you're entitled to receive retirement benefits but they might be subject to tax as well.

Don't confuse the two taxes. The Social Security tax you pay as an employee is a payroll tax that applies to wages, commissions, and other compensation as part of the FICA tax. An employee's combined FICA rate for Social Security and Medicare in 2015 is 7.65% on the first $118,500 of compensation and 1.45% (Medicare only) above that. But the tax that may apply to Social Security benefits you get in retirement is a federal income tax that is reported along with other items on Form 1040. It's more complicated than the payroll tax.

Here's how it works: You're liable for tax on Social Security benefits if your provisional income (PI) exceeds certain thresholds in the tax law. For this purpose, PI is the total of (1) your adjusted gross income (AGI), (2) your tax-exempt interest income (for example, from municipal bonds), and (3) one-half of the Social Security benefits you received. For example, if the combined AGI of you and your spouse is $100,000 and you collect $5,000 in municipal bond income and $20,000 in Social Security benefits, your PI is $125,000 ($100,000 + $5,000 + $20,000).

There are actually two thresholds for computing the tax on Social Security benefits.

Threshold 1: For a PI between $32,000 and $44,000 ($25,000 and $34,000 for single filers), you're taxed on the lesser of one-half of your benefits or 50% of the amount by which PI exceeds $32,000 ($25,000 for single filers).

Threshold 2. For a PI greater than $44,000 ($34,000 for single filers), you're taxed on 85% of the amount by which PI exceeds $44,000 ($34,000 for single filers) plus the lesser of the amount determined under the first tier or $6,000 ($4,500 for single filers). Silver lining: You'll never owe tax on more than 85% of your total benefits.

These two thresholds aren't indexed annually for inflation. If your PI exceeds a relatively low level of $32,000 ($25,000 for single filers), you'll owe the tax year in and year out. And you'll get hit with the higher tax rate every year that your PI exceeds just $44,000 ($34,000 for single filers).

What can you do about it? You might lower your PI by harvesting capital losses to offset capital gains or deferring taxable income to the following year. But remember that the income from tax-free municipal bonds counts against you in the calculation of PI. Consider all the relevant factors, including the potential tax implications for Social Security benefits, in your investment decisions. ●

Reminders On Your Beneficiary Choices

Quick: Who are the beneficiaries of your retirement plan, life insurance policies, and investment accounts? Many people don't remember whom they named as a beneficiary or are uncertain. But it's important to know, especially if your circumstances have changed since you completed the original paperwork.

You probably carefully considered whom to designate as beneficiaries of your financial accounts and life policies when you initially established them. But you may have shoved the documents into a drawer and forgotten all about them.

Suppose your family situation has changed. Maybe you have remarried and you have children from an earlier union. Do you still want your former spouse to inherit anything? Should your new spouse be named as a beneficiary? Aging, death, divorce, and other life-events, including the birth of a child or a job-switch, make it wise to periodically review beneficiary choices and ensure your assets go to the people you want to benefit most.

One reason it's so important to get beneficiary designations right is that when you name a beneficiary on your retirement accounts and life insurance policies, those assets will be transferred without going through probate or facing other complications. Moreover, the designations for financial accounts and insurance policies trump whatever it may say in your will. So, even if you change your will to cut out an estranged relative, that person still could benefit unless the beneficiary designations also are changed. And if there are discrepancies, the matter could end up in court—probably the last thing you would want.

Furthermore, getting the beneficiaries right may affect estate taxes. For instance, if you name your spouse as the beneficiary of your

What To Spend First During Retirement

Retirement day is a financial rite of passage, a transition from accumulating wealth to spending it. The leading edge of the massive baby boom generation is reaching age 59½. That's the age at which you may begin taking money from a traditional retirement account without incurring the dreaded 10% early withdrawal penalty. But distribution planning is complex, and just because you can take the money doesn't mean you necessarily should.

Which money should you spend first during retirement? The retirement plan? Personal accounts? What kind of holdings should you sell, and in what order? The answers depend on your circumstances. Key variables include:

- Expectations about future tax rates
- Your basis in taxable assets
- Whether your portfolio includes concentrated holdings
- Whether you hope to leave something to heirs
- Your charitable objectives
- Whether you'll pay estate tax

Still, many individuals—particularly if you won't owe estate tax—fare better spending non-retirement accounts first. Potential benefits of tapping personal accounts first include the following:

Lower current taxes. Cash in personal accounts has already been taxed, and appreciated assets may qualify for taxation at long-term capital gain rates, generally at a maximum rate of 15% (20% for upper income taxpayers). Beginning in 2013, withdrawals from employer plans and traditional IRAs are taxable at ordinary rates as high as 39.6%%.

Continued tax-deferred growth. Spending taxable accounts first allows your retirement account to keep growing free from current taxation.

More for heirs. Leaving an IRA to loved ones lets them continue the tax-deferred ride. With a "stretch" IRA, beneficiaries withdraw from the account over their life expectancies—especially attractive when their tax brackets are lower than the IRA owner's. Note that non-spouse beneficiaries are no longer required to empty company plan accounts, generating current taxes. Rolling plan assets to an IRA could allow your heirs to maximize your retirement money.

Which taxable assets should you sell first? Let annual rebalancing be your guide. By selling from portfolio positions that have grown larger than your target allocations, you get cash to live on while keeping your investments well diversified.

Estate tax liquidity. If your estate lacks the cash to pay estate taxes, heirs might have to raid your retirement account, triggering income tax. If estate taxes are likely, it may be wise to keep some taxable assets in reserve to cover the bill.

Highly appreciated assets. Currently, when you leave taxable assets to heirs, their basis in the property is normally its value on the date of your death. This increase—or step-up—in basis to the current value effectively eliminates capital gains tax liability for investment appreciation during your lifetime. So it could pay to leave such assets to heirs and live off other taxable assets and your retirement account instead. However, highly appreciated assets also make good charitable gifts, because you can deduct their fair market value when they're donated. It takes detailed analysis to determine the best approach.

Concentrated holdings. If you are retired or nearing retirement and much of your net worth is tied up in the stock of your company, trimming that exposure should be a priority. If the shares are in a retirement plan at work—and if you've participated in the plan for the past five years—you may benefit by taking the actual shares out of the plan when you leave the firm. You'll pay income tax on the shares' cost basis, but all of their prior appreciation will be taxed at lower, long-term capital gains rates. To benefit, however, the distribution must follow very specific rules. Don't make a move until you have received professional advice. ●

401(k) and IRAs, those accounts won't be included in your taxable estate (although the assets eventually could be subject to estate tax when your spouse dies).

Another money-saving idea that might surface from reviewing your beneficiaries: If you have more than one child and intend to divide your IRA proceeds evenly, you may be able to reduce taxes owed by splitting your account. For example, if you have three children, you can split an IRA into three individual IRAs, naming one child as beneficiary of each new IRA. As a result, your children can take distributions from their inherited IRAs based on their longer individual life expectancies, not yours.

Finally, if you name a charity as an account beneficiary, the asset will pass to the charity tax-free. In addition, your estate will be entitled to a charitable deduction, which may reduce or eliminate tax liability.

For these and other reasons, it's crucial to get beneficiary designations right, and to revise them when necessary as your circumstances change. Going to the trouble of regularly reviewing your designations could be time well spent. ●

A Walk Every Day Can Keep Aging At Bay

It's much easier to talk the talk about staying young than it is to walk the walk. Starting in our 20s and 30s, we commence a long, seemingly inevitable physical deterioration. Our maximum heart rate declines, and with it the amount of oxygen-bearing blood the heart can pump. Muscle is gradually replaced with fat and weight edges upward. And decade by decade, as oxygen intake drops, it becomes a little harder just to get around. Eventually, in our 70s, 80s, or 90s, most of us lose our "functional independence," the ability to live on our own. We move to assisted-living or nursing homes because, literally, our living needs to be assisted.

But what if there were a simple way to turn back the clock? In a recent article in the British Journal of Sports Medicine, Roy Shephard, a physician at the University of Toronto, reports that for people age 64 and older, a vigorous, hour-long walk five days a week cuts a dozen years from their biological age. In a review of other published work on the subject, Shephard found that such an exercise program could also extend a person's functional independence, which tends to be lost when maximal oxygen intake falls below 18 milliliters per kilogram per minute in men and 15 ml/kg/min in women.

Without this kind of exercise program, about 10 years of physical aging normally corresponds with a loss of about five ml/kg/min. But Shephard found that beginning a program of vigorous aerobic exercise could restore about 25% of maximal oxygen intake within three months, raising that essential level by an average of six ml/kg/min and decreasing biological age by 12 years.

Shephard also found that regular exercise provides other benefits, helping prevent conditions that may hasten aging including obesity, high blood pressure, diabetes, heart disease, osteoporosis, and even some kinds of cancer. And the improved muscle tone that comes with brisk walking, swimming, or other aerobic activities may help older people avoid falls.

Another study, from Texas, further highlights what exercise can do. In 1966, five healthy 20-year-olds were kept in bed around the clock for three weeks—and suffered many of the ills normally associated with aging. They gained weight, their heart rates and blood pressure rose, and their hearts lost pumping capacity. Then, an eight-week exercise program more than reversed the effects of inactivity. In a follow-up with the men 30 years later, actual aging had imitated the effects of the forced bed rest. But here, too, an endurance exercise regimen undid most of the damage, restoring all of their lost aerobic capacity.

The moral? Exercise always helps, and it's never too late to start pushing back the hands of time. ●

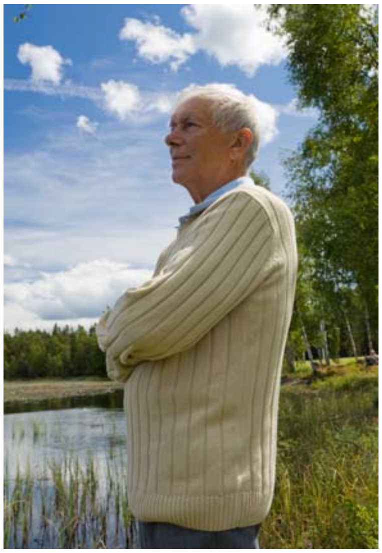
Estate Planning Myths

(Continued from page 1)

some assets to your heirs without probate, and your will probably also should be accompanied by a durable power of attorney authorizing a family member or a professional to act on your behalf if you're incapacitated.

Myth #5: I don't have to worry about life insurance and retirement plan designations.

Reality: This is overstating the case. Although the beneficiary designations you've made for life insurance and retirement plans, as well as for your IRAs, are a good start, you still need to coordinate those choices with other aspects of your estate plan. You might want to revise your designations, for example if you get divorced or a spouse dies, or you could need to add secondary or contingent beneficiaries. Also, proceeds from life insurance are included in the taxable estate of the insured, although the proceeds generally will be excluded if you transfer ownership of the policy to someone else or a trust.



Myth #6: Once my estate plan is complete, I don't have to do anything else.

Reality: Nothing could be further from the truth. Your family and financial circumstances almost certainly will continue to evolve, and your estate plan needs to reflect significant changes. Marriage, divorce, or the birth of children or grandchildren all could have an impact. And the best-laid plans could be affected by a disability or unexpected death of a spouse. Finally, your plan may have to be fine-tuned to take other events into account, especially if the estate tax laws are revised again. So be sure to review your plan periodically and revise it when necessary. ●