Liberty Asset Management, Inc.

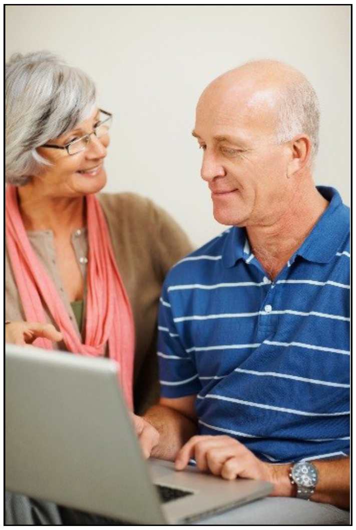
Make Sure That You Comply With All The RMD Rules

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.

(Continued on page 4)

Where There's A Living Will, There's A Way

Will your family members know how to handle a life-threatening illness or injury involving a loved one? A "living will" can point them in the right direction.

Simply put, a living will is a legal document that establishes guidelines for prolonging or ending medical treatment. It's important to have a living will created for yourself, and for relatives such as your spouse and parents, to inform health-care providers in case of a medical emergency or terminal illness.

A living will indicates the types of medical treatments you want or do not want applied in the event you suffer a terminal illness or fall into a permanent vegetative state. The living will doesn't become effective unless you're incapacitated. Typically, a physician must certify that you have a terminal illness or that you're permanently unconscious.

To cover situations in which someone is incapacitated and can't speak, yet the condition isn't so dire that the living will becomes effective, you can execute a health-care power of attorney or health care proxy.

The requirements for living wills vary from state to state. Have an attorney who is experienced in these matters prepare the living will based on applicable laws. The best approach is to coordinate your living will with your regular will, any trusts or powers of attorney you may have, and other estate-planning documents.

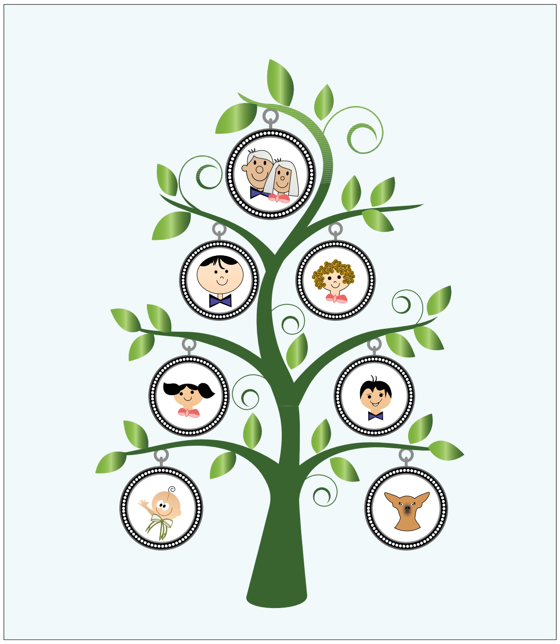
What Do You Want Your Legacy To Be?

Imagine what would happen to your family if you died unexpectedly. Even if you have a will and an estate plan in place, your spouse and children may feel rudderless without your guidance. They won't be able to take advantage of what you might have taught them about financial matters or about life in general. And you'll never have the chance to pass along the stories and memories that helped make you the person you are.

A process known as legacy planning could help you avoid that sad result. This isn't about tangible items such as wills, trusts, and powers of attorney. Instead, legacy planning encompasses your personal values, hopes, and expectations. It also touches on practical issues you may not have addressed with your family.

The concept of a legacy plan isn't new. In fact, its roots can be traced back to the "ethical wills" used in biblical times. But legacy planning is often neglected today, to the detriment of family members who might benefit from your efforts. And while there's no precise blueprint for what to do, these four steps could get you started.

1. Organize and update documents. Create a spreadsheet listing where you keep important papers and other items. These locations may range from a safe deposit box in which you store trust documents to the hook in the garage where you hang spare car keys. Make sure the list includes the names and contact information of your professional advisors and other important people.



2. Share your personal values and history. Spell out in writing your preferences regarding culture, religion, education, and other traditions. Impart any personal messages and inspirations you would like to pass along to a younger generation. If you're especially diligent, you might even chronicle the main events of your life in a brief autobiography.

3. Document the details. Be as specific as you can be regarding your future wishes. For instance, you could leave detailed instructions regarding how to manage investments and other financial matters, funeral arrangements, and other related concerns. You might even include suggestions about how to care for a pet or run the household.

4. Live with a purpose. Going through this process will undoubtedly give you a new perspective, and may encourage you to find new ways to live your life to the fullest. For instance, you could create your own "bucket list" of things you'd like to accomplish during your lifetime and then start working your way through those experiences.

Keep in mind that a legacy plan is meant to complement—not replace—your existing estate plan, although the process of creating it might lead you to modify your will or other documents. We would be glad to help you coordinate these plans. ●

Helping Grandchildren Pay For College

If you paid for most or all of your children's higher education, congratulations. You've given them a gift that will benefit them throughout their lives. But as high as college costs were when your kids were in school, they're stratospheric now, with one year at a top private university running well over $50,000. If you're in a position to help out your grandchildren, too, consider these savings options.

Section 529 plans. This is the fastest-growing vehicle for funding a college education. It lets you contribute generous amounts to a state-sponsored plan established on behalf of your grandkids. Plan investment growth and withdrawals to pay qualifying college expenses aren't taxed, you or a parent can control the account, and it can be transferred to another beneficiary if the original one doesn't need all of the money for education. There's also an estate planning benefit. Though gifts to 529s are potentially taxable as gifts, you and your spouse can each contribute $14,000 a year without gift-tax liability under current law, or you could make five years' gifts all at once, putting in $70,000 (or $130,000 with your spouse) to jump-start a plan. Every state has a plan and you don't have to be a resident or have your grandchild go to school there.

Custodial accounts. Before there were 529 plans there were custodial accounts, set up in a child's or grandchild's name but not accessible to the child until the age of maturity—18 or 21, depending on your state. In some cases, custodial accounts still make sense, but a recent change in the "kiddie tax" adds to tax costs that could undercut the value of your gift. Now, children up to age 24 are taxed on account earnings above an annual exempt amount—currently, $2,100—at their parents' top income rate.

Minor's trust. If you establish a Section 2503(c) trust (a "minor's trust") for a grandchild, all of the

4 Reasons To Update Traditional IRAs

If you're like most people, you probably set up a traditional IRA (as opposed to a Roth IRA) years ago and you may have continued to make contributions on a regular basis. Depending on your personal situation, the money going into the account may have been fully tax-deductible, only partially deductible, or not deductible at all. But regardless of any tax break you got on your contributions, you haven't had to pay tax on any investment income or capital gains generated inside the account.

You may also have used the same or a different IRA to receive rollovers from a 401(k) or another employer-sponsored retirement plan after you switched jobs. If it's done correctly, such transfers aren't taxable. With a traditional IRA, your only tax obligation comes when you take money out.

Often, IRAs get little scrutiny over the years. You may have left yours alone as you focus on more immediate financial priorities. Yet there are several reasons why it pays to look again at your IRA.

1. Investment allocations may need to be adjusted. Your retirement accounts undoubtedly suffered during the stock market decline of a few years ago, and depending on how the money is invested, the account balance may or may not have since regained lost ground. If you haven't already revisited your investment allocations, now would be a good time. Do the assets in the account—normally mutual funds or individual stocks and bonds—support your long-term financial goals? Does the investment mix feel comfortable in terms of the financial risk it entails? Do you need to rebalance, trimming allocations that have grown too large and adding to those that fall short of the ideal percentage in your portfolio?

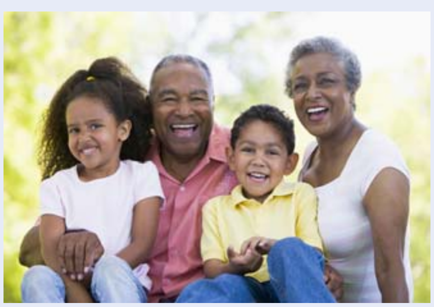
2. Beneficiary designations could be out of date. When you set up your IRA, you had to indicate who would receive the account assets if you died. But your financial circumstances may have changed since then. A divorce would have obvious implications, and retirement plan assets are often a part of the financial settlement when a marriage breaks up. Other family changes, however, can be easy to overlook. You and your spouse may decide to divide the account among your children, and if they're minors, the beneficiary designation would be different than if they've already reached the age of adulthood in your state. The important thing to remember is that you're not bound by your original choices, but it's important to know what your beneficiary form says.

3. Additional rollovers or transfers may be in order. Consolidating your retirement accounts in one place has several potential advantages. Getting allocations right in a single account is easier than trying to mix and match investments in several, and you can hold all of your money in an account that meets your priorities regarding investment choices, fees, service, and other factors. Just keep in mind that rollovers must be completed within 60 days to avoid current taxes, and in order to avoid having taxes withheld in a transfer from an account at work, you need to arrange for a "trustee-to-trustee" transfer in which you never touch the money. (Otherwise, you'll have to wait until you file your taxes to recoup the withheld amount.) The same rules apply whether you're moving from a 401(k) to an IRA or moving money between two IRAs. But if you rollover funds from one IRA to another, you can't do another rollover involving those accounts for at least a year.

4. A Roth IRA might be a better fit. If you established an IRA before 1998, a Roth IRA wasn't an option, and before 2010, converting a traditional IRA to a Roth may not have been possible because of a $100,000 ceiling for modified adjusted gross income in the year of conversion. But now, anyone can convert an IRA to a Roth IRA, which provides tax-free distributions during retirement. To get that advantage, you'll have to pay income tax on the previously untaxed funds you move from a traditional IRA. Whether a conversion makes sense for you depends on several factors, including whether you expect to be taxed at a higher or lower rate during retirement, and whether you intend to leave all or part of your retirement account to your heirs. You can also decide to make only a partial conversion, or to move the money gradually over several years.

Your retirement accounts are an essential part of your overall financial picture, and we'll work with you to make sure your money is deployed in a way that makes the most sense for your situation. ●

trust's income will be taxed directly to the trust, thus avoiding kiddie tax complications. And you can keep control of a trust past the state age of majority, as long the child doesn't exercise a limited right to withdraw the funds. However, downsides of a trust include marginal tax rates that climb quickly and costs of setting up and maintaining, including annual income tax preparation fees.



Coverdell ESAs. The Coverdell Education Savings Account is basically an IRA for higher education instead of retirement. (It used to be called the "Education IRA.") But, annual tax-advantaged contributions to Coverdells are capped at $2,500, and there are income limits on eligibility.

Outright gifts. You and your spouse could also use the annual gift-tax exclusion to currently give up to $28,000 a year directly to a grandchild to help pay for college. Or, if you pay tuition directly to the student's college, your contribution doesn't count as a taxable gift at all. ●

Planning Ahead Doesn't End In Retirement

After working for many decades, buying a home, raising a family, sending children to college, and paying for a wedding or two, retirement probably seems like a just reward. Yet now is no time to sit on your nest egg. Even if you've been retired for several years, you need to keep planning for the future, which could extend beyond your 80s. In 2010, the average life expectancy for a U.S. citizen was 77.8 years. And if you've made it to age 70, the average rises to 87. Since many retirees can now reasonably expect to live into their eighties or nineties, retirement planning never really ends.

Of course, everyone's situation is different, but here are several areas that could have a major impact on your plans.

Investment portfolio. Most retirees tend to invest rather conservatively, and for good reason. When you're living on a fixed income, you need to make sure you have enough coming in to cover your basic expenses, and you may not have time to recover from steep market losses. Still, keeping too much of your portfolio in bonds and other comparatively safe investments may backfire over a long life span, especially if higher inflation returns. Allocating a judicious percentage of your assets to stocks may enable you to maintain your standard of living when expenses rise.

Insurance policies. Your coverage needs change with age, and a review during retirement of all of your policies can not only make sure you have enough insurance but also that you're not continuing to pay for coverage you may no longer need. Term life insurance may be an unnecessary luxury now, while long-term care insurance, to pay for extended care in a nursing home or in your residence could be a necessity. And while Medicare covers most doctor and hospital fees, you might need to buy additional supplemental coverage at a time that many employers are scaling back health insurance for retirees.

Wills and trusts. Estate planning, too, tends to be a work in progress, and wills and trusts created several years ago will likely need to be updated to reflect your evolving circumstances as well as changes in estate tax rules. During the course of your retirement, for example, your children may become so successful that they no longer need to inherit as much of your wealth, while bequests or trust payments to grand-children could help them buy a home or launch a business.

Weighing all of these factors and making sure that your retirement continues to unfold according to plan is a daunting proposition. But you don't have to go it alone. We are here to work with you and other advisors to help keep you on track regardless of where you are in your post-work life. Please call for an appointment to review your progress. ●

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(Continued from page 1)

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. ●