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Hi Everyone,

The articles in this issue are all about helping you plan for the future. We hope you will find them informative.

The social security facts article may be especially enlightening. Consider how you might fare if you received only the average monthly retirement benefit.

Give us a call if we can help with your planning needs.

Warm regards,
Deidra

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July 2014

Financial Briefs

Guidance For Every Stage of Life

15 Facts about Social Security

It's easy to take Social Security for granted when retirement is years away, but with 94% of the U.S. workforce covered by Social Security,* it's likely that this program will play a role in your financial future, perhaps even sooner than you think. Here are some facts and statistics from the Social Security Administration that highlight why Social Security is important to so many people.

Retirement benefits

The Social Security program began in 1935 as a way to protect individuals against economic hardship. Over the years, Social Security has grown to include several other types of benefits, but Social Security is still synonymous with retirement.

Did you know that ...

- Approximately 70% of Social Security benefits are paid to retirees and their dependents**
- 73% of workers elect to receive reduced benefits early, before their full retirement age*
- The average monthly retirement benefit is $1,262**
- The maximum monthly retirement benefit payable in 2014 is $2,642 for someone retiring at full retirement age***

Survivors benefits

Upon your death, your surviving spouse, ex-spouse, children, or dependent parents may be eligible to receive benefits based on your earnings record. These benefits can be a valuable source of income when your family needs it the most.

Did you know that ...

- Survivors of deceased workers account for about 11% of Social Security benefits paid**
- About 96% of persons aged 20 to 49 have survivors protection for their children under 18 and for their surviving spouse who cares for those children****
- The average monthly family benefit is approximately $2,561 for a widowed mother or father and two children*

Disability benefits

Disability benefits from Social Security can help protect you and family members that rely on you for financial support in the event that due to sickness or injury you're unable to work and earn a living.

Did you know that ...

- Disabled workers and their dependents account for 19% of Social Security benefits paid**
- Approximately 90% of workers age 21 to 64 and their families are protected against long-term disability****
- The average age of a worker receiving disability benefits is 53.2**
- The average monthly benefit for a disabled worker is $1,130**

Other facts

Here are some other facts about Social Security that you may not know:

- 55% of adult Social Security beneficiaries are women**
- More than 3.4 million children under age 18 and students age 18 to 19 receive Social Security benefits**
- Social Security provides at least half of total retirement income for 74% of nonmarried beneficiaries age 65 or older**

All of the following source publications can be found on the Social Security Administration's website, www.ssa.gov.

**Annual Statistical Supplement, 2013, published February 2014*

***Fast Facts & Figures About Social Security, 2013, published July 2013*

****Fact Sheet: 2014 Social Security Changes, published October 2013*

*****Social Security Basic Facts, published July 2013*

Some Things to Consider about Gifts to Children

If you have property that would produce a loss if sold, you should consider selling the property, claiming the loss, and transferring the proceeds to the child, rather than transferring the property to the child who would not be able to claim the loss.

If you make significant gifts to your children or someone else's children, or if someone else makes gifts to your children, there are a number of things for you to consider.

Transfers that are not taxable gifts

There are a variety of ways for you to make transfers to children that are not treated as taxable gifts for gift tax purposes. Filing a gift tax return is generally required if you make gifts (other than qualified transfers) totaling more than $14,000 to an individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. This may provide a large umbrella for parents of minor children, college-age children, boomerang children, and special needs children.
- **Annual exclusion gifts.** You can generally make gifts of up to $14,000 per child gift tax free each year. If you split gifts with your spouse, the amount is effectively increased to $28,000. In the case of a gift to a qualified tuition program (529 plan) for a child, the annual exclusion can be effectively increased to five times the above amounts (i.e., to $70,000, or $140,000 if you split gifts with your spouse).
- **Qualified transfers for medical expenses.** You can make unlimited gifts for medical care gift tax free, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition gift tax free, provided the gift is made directly to the educational provider.

The same exceptions for transfers that are not taxable gifts generally apply for purposes of the generation-skipping transfer (GST) tax. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

Income tax issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.
- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rate on any unearned income over a certain amount. For 2014, this amount is $2,000 (the first $1,000 is tax free and the next $1,000 is taxed at the child's rate). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support. If the child's income would be taxed at the parents' high tax rates, it may make sense to invest in ways that can produce nontaxable income (e.g., tax-exempt bonds) or defer taxation (e.g., Series EE bonds) until after the kiddie tax period.
- **Basis.** When you make a gift, the person receiving the gift generally takes an income tax basis equal to your basis in the gift. (This is often referred to as a "carryover" or "transferred" basis.) The carried-over basis is increased--but not above fair market value (FMV)--by any gift tax paid that is attributable to appreciation in value of the gift (appreciation is equal to the excess of FMV over your basis in the gift immediately before the gift). The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. However, for purpose of determining loss on a subsequent sale, the carried-over basis cannot exceed the FMV of the property at the time of the gift.

Gifts to minors

Outright gifts should generally be avoided for any significant gifts to minors. In that case, you may wish to consider a custodial gift or a trust for a minor.

- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian holds the property for the benefit of the minor, generally until an age (often 21) specified by state statute. Generally, any adult or trust company can be the custodian, but check state law.
- **Trust for minor.** A Section 2503(c) trust is a trust specifically designed to obtain the gift tax annual exclusion for gifts to a minor. Principal and income can be distributed to the minor before age 21, but there is no requirement of any distribution to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21.

Consult a tax professional for more information about your specific situation.

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Saving through Your Retirement Plan at Work? Don't Let These Five Risks Derail Your Progress

Keep in mind that no investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.

As a participant in your work-sponsored retirement savings plan, you've made a very important commitment to yourself and your family: to prepare for your future. Congratulations! Making that commitment is an important first step in your pursuit of a successful retirement. Now it's important to stay focused--and be aware of a few key risks that could derail your progress along the way.

1. Beginning with no end in mind

Setting out on a new journey without knowing your destination can be a welcome adventure, but when planning for retirement, it's generally best to know where you're going. According to the Employee Benefit Research Institute (EBRI), an independent research organization, workers who have calculated a savings goal tend to be more confident in their retirement prospects than those who have not. Unfortunately, EBRI also found that less than half of workers surveyed had actually crunched the numbers to determine their need (Source: 2013 Retirement Confidence Survey, March 2013).

Your savings goal will depend on a number of factors--your desired lifestyle, preretirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. By examining your personal situation both now and in the future, you can determine how much you may need to accumulate to provide the income you'll need during retirement.

Luckily, you don't have to do it alone. Your employer-sponsored plan likely offers tools to help you set a savings goal. In addition, a financial professional can help you further refine your target, breaking it down to answer the all-important question, "How much should I contribute each pay period?"

2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your contribution dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

3. ...Or aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situation. Although it's a generally accepted principle to invest at least some of your money in more aggressive investments to pursue your goals and help protect against inflation, the amount you invest should be based on a number of factors.

The best investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Again, your employer's plan likely offers tools to help you choose wisely. And a financial professional can also provide an objective, third-party view.

4. Giving in to temptation

Many retirement savings plans permit plan participants to borrow from their own accounts. If you need a sizable amount of cash quickly, this option may sound appealing at first; after all, you're typically borrowing from yourself and paying yourself back, usually with interest. However, consider these points:

- Any dollars you borrow will no longer be working for your future
- The amount of interest you'll be required to pay yourself could potentially be less than what you might earn should you leave the money untouched
- If you leave your job for whatever reason, any unpaid balance may be treated as a taxable distribution

For these reasons, it's best to carefully consider all of your options before choosing to borrow from your retirement savings plan.

5. Cashing out too soon

If you leave your current job or retire, you will need to make a decision about your retirement savings plan money. You may have several options, including leaving the money where it is, rolling it over into another employer-sponsored plan or an individual retirement account, or taking a cash distribution. Although receiving a potential windfall may sound appealing, you may want to think carefully before taking the cash. In addition to the fact that your retirement money will no longer be working for you, you will have to pay taxes on any pretax contributions, vested employer contributions, and earnings on both. And if you're under age 55, you will be subject to a 10% penalty tax as well. When it's all added up, the amount left in your pocket after Uncle Sam claims his share could be a lot less than you expected.

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Have the rules for 401(k) in-plan Roth conversions changed?

Yes. Thanks to the American Taxpayer Relief Act of 2012 (ATRA), the rules for making 401(k) in-plan Roth conversions have gotten substantially easier. (These rules also apply to 403(b) and 457(b) plans.)

A 401(k) in-plan Roth conversion (also called an "in-plan Roth rollover") allows you to transfer the non-Roth portion of your 401(k) account into a designated Roth account within the same plan. The amount you convert is subject to federal income tax in the year of the conversion (except for any nontaxable basis you have in the amount transferred), but qualified distributions from the Roth account are entirely income tax free. The 10% early distribution penalty doesn't apply to amounts you convert (but that penalty tax may be reclaimed by the IRS if you take a nonqualified distribution from your Roth account within five years of the conversion).

While in-plan conversions have been around since 2010, they haven't been widely used, because they were available only if you were otherwise entitled to a distribution from your plan--for example, upon terminating employment, turning 59½, becoming disabled, or in other limited circumstances. But in that case, you already had the option of rolling your funds over (converting) into a Roth IRA.

ATRA eliminated the requirement that you be eligible for a distribution from the plan in order to make an in-plan conversion. Now, if your plan permits, you can convert any vested part of your 401(k) plan account into a designated Roth account regardless of whether you're otherwise eligible for a plan distribution. The IRS has also just recently issued regulations that provide additional clarity on how in-plan conversions work.

Caution: Whether a Roth conversion makes sense financially depends on a number of factors, including your current and anticipated future tax rates, the availability of funds with which to pay the current tax bill, and when you plan to begin receiving distributions from the plan. Also, you should consider that the additional income from a conversion may impact tax credits, deductions, and phaseouts; marginal tax rates; alternative minimum tax liability; and eligibility for college financial aid.

Is there a new one-rollover-per-year rule for IRAs?

Yes--starting in 2015.

The Internal Revenue Code says that if you receive a distribution from an IRA, you can't make a tax-free (60-day) rollover into another IRA if you've already completed a tax-free rollover within the previous 12 months. The long-standing position of the IRS, reflected in Publication 590 and proposed regulations, was that this rule applied separately to each IRA you own.

Using an IRS example, assume you have two traditional IRAs, IRA-1 and IRA-2. You take a distribution from IRA-1 and within 60 days roll it over into your new traditional IRA-3. Under the old rule, you could not make another tax-free 60-day rollover from IRA-1 (or IRA-3) within one year from the date of your distribution. But you could still make a tax-free rollover from IRA-2 to any other traditional IRA.

Recently a taxpayer, Mr. Bobrow, did just what the example above seemed to allow, taking a distribution from IRA-1 and repaying it back to IRA-1 within 60 days, and then taking a distribution from IRA-2 and repaying it back to IRA-2 within 60 days. Unfortunately for the taxpayer, the IRS decided this was no longer the correct interpretation, and told Mr. Bobrow that his transactions violated the one-rollover-per-year rule. The case made its way to the Tax Court, which agreed with the IRS and held that regardless of how many IRAs he or she maintains, a taxpayer may make only one nontaxable 60-day rollover within each 12-month period.

Not surprisingly, the IRS has announced that it will follow the Bobrow case beginning in 2015 (more technically, the new rule will not apply to any rollover that involves a distribution occurring before January 1, 2015). For the rest of 2014 the "old" one-rollover-per-year rule in IRS Publication 590 (see above) will apply to any IRA distributions you receive. But keep in mind that you can make unlimited direct transfers (as opposed to 60-day rollovers) between IRAs--these aren't subject to the one-rollover-per-year rule. So if you don't have a need to actually use the cash for some period of time, it's generally safer to use the direct transfer approach and avoid this potential problem altogether.

(Note: The one-rollover-per-year rule also applies--separately--to your Roth IRAs.)