VOLUME 18 • ISSUE 1

On Balance

Enjoying Today, Preparing for Tomorrow

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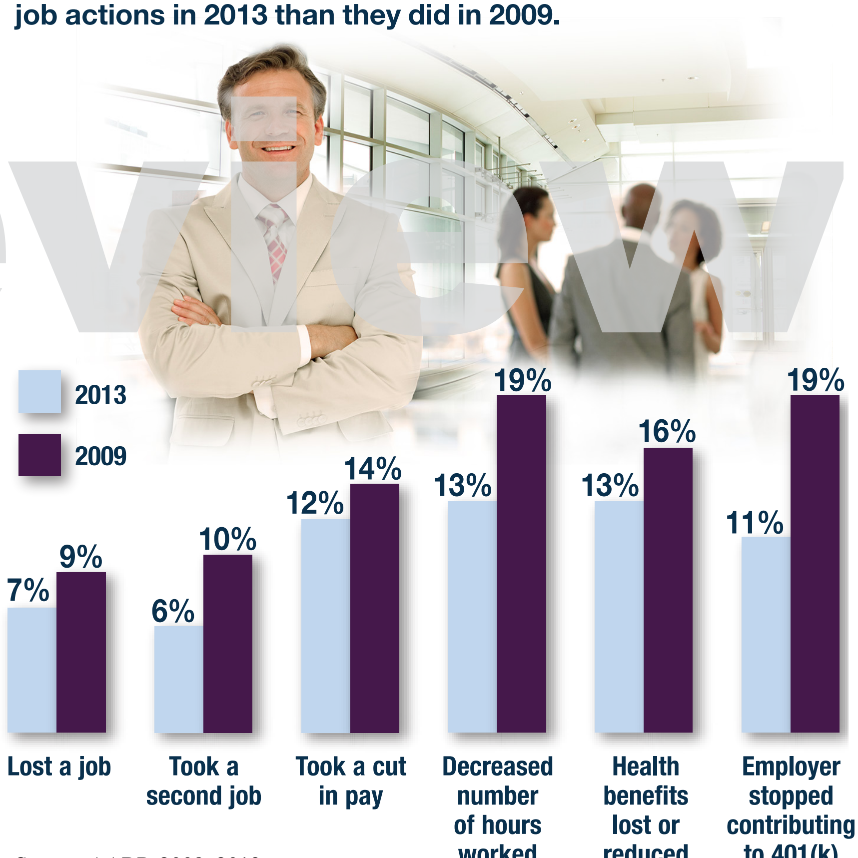
Keeping Financial Resolutions

A record 62% of adults said they stuck to their finance-related New Year's resolutions for 2012. How did you do with your resolutions for 2013?

Source: TIME.com, February 11, 2013

Improved Job Situation

Workers aged 45 and older experienced fewer negative job actions in 2013 than they did in 2009.



Source: AARP, 2009, 2013

Inside:

Practical Insights for Your Financial Goals

Time for a Trust?

Trusts have often been used to help protect assets from estate taxes, but fewer estates are subject to federal estate taxation since the exemption rose to $5 million in 2010 with annual inflation adjustments. (The 2014 exemption is $5.34 million, or $10.68 million for married couples.) Even so, a trust can offer other benefits, such as sparing heirs the time-consuming and costly probate process and protecting assets so they will be distributed according to your wishes.

Legal Control of Assets

A trust is a legal arrangement under which one person or institution controls property given by another person for the benefit of a third party. The person giving the property is referred to as the *trustor* (or *grantor*), the person controlling the property is the *trustee*, and the person for whom the trust operates is the *beneficiary*. With some trusts, you can name yourself as the trustor, the trustee, and the beneficiary.

Although you may be hesitant to give up control of your assets, in some cases it may be worthwhile to choose an independent trustee who would be subject to strict legal requirements in administering the trust.

Testamentary vs. Living Trusts

A **testamentary trust** becomes effective upon your death and is usually established by your last will and testament. It enables you to control the distribution of your estate, including the opportunity to name a guardian for minor children's assets, but does not avoid probate.

A **living trust** takes effect during your lifetime. When you set up a living trust, you transfer the title of all the assets you wish to place in the trust from you as an individual to the trust. Technically, you no longer own the transferred assets. If you name yourself as trustee, you maintain full control of the assets and can buy, sell, or give them away as you see fit. However, this option may negate any estate tax benefits.

Living trusts can be **revocable** or **irrevocable**. A revocable trust can be dissolved or amended at any time while the grantor is still alive. An irrevocable trust, on the other hand,

REVOCABLE OR IRREVOCABLE?

Effect on trust assets	Revocable living trust	Irrevocable living trust
Avoids probate	Yes	Yes
Avoids estate taxes	No	Maybe, depending on structure
Defers / reduces capital gains taxes	No	Yes
Defers / reduces income taxes	No	Maybe, depending on structure
Income taxes "pass through" to personal Form 1040	Yes	Maybe, depending on structure
Protects assets from lawsuits and creditors	Probably not	Typically offers protection if assets are transferred to independent trustee

is extremely difficult to modify or revoke (and is subject to state law). (By definition, testamentary trusts are always irrevocable.) See the chart for a comparison of these two kinds of trusts.

Other Types of Trusts

A variety of other properly executed trusts could be used to meet specific needs. Here are four of the most common:

- **Charitable trust:** Enables you to provide a charitable organization with a regular income for a set period or a lump sum at the end of the period.
- **Incentive trust:** Makes the transfer of assets to heirs contingent on their meeting goals or expectations, such as attaining higher education or starting a family.
- **Supplemental or special-needs trust:** Can help provide for a disabled child and may ensure that the child qualifies for government assistance programs.
- **Life insurance trust:** Helps ensure that the proceeds of a life insurance policy are excluded from your estate.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a life insurance strategy, it would be prudent to make sure you are insurable.

There are costs and expenses associated with the creation of a trust. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.

TIPS for Inflation Protection

After dropping sharply during the Great Recession, inflation — as measured by changes in the consumer price index (CPI) — has begun to creep upward, averaging a little more than 2% annually from July 2009 through July 2013.[1]

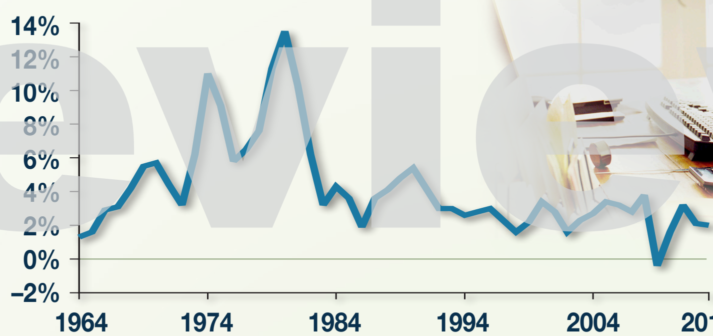
This rate is still relatively low, but even moderate inflation can have a negative impact on the purchasing power of investments. Consider that a hypothetical investment earning 5% annually during a period of 2% annual inflation would return only 3% after inflation. The rate of return would be further reduced by income taxes.

Preserving Purchasing Power

If you want to help protect your investment dollars from inflation, you might consider Treasury Inflation-Protected Securities (TIPS). Along with the earnings potential associated with other Treasury bonds, TIPS are indexed to inflation. If the CPI rises, the principal value of TIPS increases. If the CPI falls, the principal value falls. TIPS are guaranteed by the federal government as to the timely payment of principal and interest.

ERODING DOLLARS

Average annual inflation rate



Source: U.S. Bureau of Labor Statistics, 2013 *Through July 2013

TIPS pay a fixed rate of interest twice a year based on the *current principal*, so the amount of interest may rise and fall. If you hold the bond to maturity, you will receive the greater of the original or inflation-adjusted principal. Unless you own TIPS in a tax-deferred account, however, you must pay federal income tax each year on the interest income plus any increase in principal, even though you won't receive the accrued principal until the bond matures.

One convenient way to add Treasury securities to your portfolio is through TIPS mutual funds. Unlike individual TIPS, TIPS mutual funds have no maturity date and are very sensitive to interest-rate movements. Moreover, the principal value is not guaranteed. When interest rates rise, the value of underlying TIPS investments typically falls, which can adversely affect the fund's performance.

The return and principal value of all bonds and mutual funds fluctuate with changes in market conditions. Shares, when sold, and individual bonds redeemed prior to maturity may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) U.S. Bureau of Labor Statistics, 2013

How Taxes Affect Social Security Benefits

Seven out of 10 retirees rely on Social Security benefits as a major source of income. Only one out of every three current workers places the same emphasis on future benefits, but people of any age should consider the taxes and other adjustments that could reduce net income from Social Security.[1]

Federal and State Income Taxes

If your "combined income" exceeds specific annual limits ($25,000 or $34,000 for single filers, $32,000 or $44,000 for joint filers), you may owe federal income taxes on up to 50% or 85% of your Social Security benefits. These income thresholds are not indexed for inflation, so they are the same every year.

Combined income is defined as adjusted gross income plus any tax-exempt interest plus 50% of your Social Security benefit. Some states tax Social Security benefits, whereas others do not tax them (see chart).

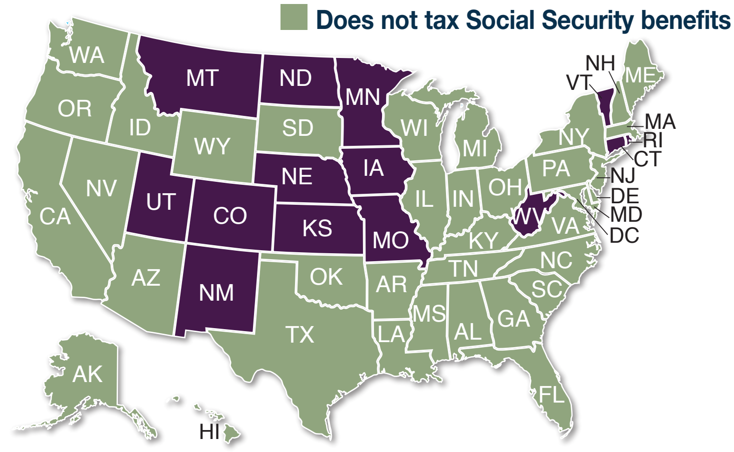
Receiving Benefits While Working

If you are under full retirement age for the entire year, $1 in benefits will be deducted for every $2 in gross wages or net self-employment income earned above the annual limit ($15,480 in 2014). In the year you reach full retirement age, the deduction is $1 in benefits for every $3 earned above a higher limit ($41,400 in 2014). (If any deductions were made, the benefit amount is recalculated after you reach full retirement age.) Starting in the month you reach full retirement age (66 to 67, depending on birth year), there is no limit on earnings or reduction in benefits. Regardless of your age, you must pay Social Security and Medicare payroll taxes on your earnings.

STATE BY STATE

Taxes Social Security benefits

Does not tax Social Security benefits



Source: Kiplinger.com, August 2013

Medicare Premiums

If you are receiving Social Security, you will be enrolled automatically in Medicare Parts A and B when you turn 65, and the premiums will be deducted from your monthly benefit. You also can request to have premiums for Part D prescription drug coverage deducted.

Considering these potential taxes and deductions, it might be wise to reduce your expectations for Social Security and place a greater emphasis on savings and other sources of retirement income.

1) Employee Benefit Research Institute, 2013

Would you like to discuss strategies that could help protect and preserve your assets? We're here to help.