eResources Review

Asset Management Resources' E-mail Newsletter

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Michael Perna, CFP® joins AMR

The addition of Michael Perna, CFP® to Asset Management Resources, LLC (AMR,LLC) is now official. We are so excited to have Michael as part of our talented team of advisors. We met when we were both working for New York Life, over 20 years ago. We have remained friends and I jumped at the chance to work with Mike again.

You will find that both Michael and I have similar ethical philosophies. We believe that the best interest of the client come first. Your needs and goals are what drives the choices for your portfolio. With the addition of Michael, AMR now has more depth which will be a valuable resource for portfolio services and much more.

Michael Perna, CFP® brings a wealth of financial planning experience and investment management skills to Asset Management Resources, LLC. He has been providing financial planning services since 1982. In 1989 he started his own firm, Perna Financial Services in Dedham, MA. In 2006 he was granted the professional designation of Certified Financial Planner™ by the CFP® Board of Standards.

Michael has a wide range of expertise in financial services. Prior to starting Perna Financial Services, he worked in many related fields including the insurance industry, investment banking, the Internal Revenue Service and the Social Security Administration. In addition, he was an adjunct professor at Stonehill College from 1995 to 2000 teaching investments and corporate finance.

Michael's extensive experience in the fields of investments, taxation, and risk management provide an integrated approach to addressing the financial needs of individuals and families. He will continue his unique personal counseling to clients through his office in Dedham. Chris will continue to serve his clients in Centerville directly, and both will benefit from each others research and support.

What else is new at AMR

The fall season is proving to be very busy at AMR. We added the branch office in Dedham run by Michael Perna, have closed the branch office in Dennis and will be moving our Centerville location shortly.

Our Centerville office will be moving across the street and down a block to the new office building next to CVS. The address is 1060 Falmouth Rd, Hyannis MA 02601. Our phone number will remain the same. Since it is brand new construction, we are awaiting the completion of the building and our new joint offices with Boyd & Boyd, PC. We will let everyone know when the move takes place.

I have been busy speaking at the Boyd & Boyd seminars, "Have Changes in the Law Sabotaged you Estate Plan?" These seminars have been very popular. Attendees are learning that the changes in the Estate planning law in 2012, and other recent changes are making some trusts obsolete.

"Something More with Chris Boyd," is expanding to a two-hour program starting Saturday Sept. 29, 2012. iTune in at 3pm or sign up for our RSS feed through ITunes or listen to the show on our new website.

We launched our new website on August 30, 2012. Our goal for our clients was to make it easier to navigate, interesting to read with helpful article and tips. Finally, we wanted to maintain easy access to your accounts. We would love your feedback, so we can continue to improve.

Volume IV 2012

Should You Make Large Gifts in 2012?

Other gift considerations

- *While it might seem obvious, gifts should only be made if you can afford to part with the property.*
- *In general, it is usually preferable to make as many gifts as possible using the annual exclusion and the qualified transfers exclusion for medical and educational expenses before making taxable gifts that use up the gift and estate tax exemption. Annual exclusion and qualified transfer exclusion gifts do not use up the gift and estate tax exemption.*
- *When you make a gift of property, your income tax basis in the property (generally, what you paid for the property, with some up and down adjustments) is generally carried over to the person who receives the gift. When you transfer property at your death, the basis of the property is usually "stepped up" (or "stepped down") to fair market value at the time of your death.*

Currently, the exemptions for federal gift tax, estate tax, and generation-skipping transfer (GST) tax are at historic highs, and the gift, estate, and GST tax rates are at historic lows. But, in 2013, the exemptions are scheduled to substantially decrease, and the tax rates are scheduled to substantially increase. This raises the question of whether 2012 might be a good time to make large gifts that take advantage of the current exemptions while they are still available.

Looking into the future

When you transfer your property during your lifetime or at your death, your transfers may be subject to federal gift, estate, and GST tax. (Your transfers may also be subject to state taxes.) Currently, there is a basic exclusion amount (sometimes referred to as an exemption) that protects up to $5,120,000 from gift tax and estate tax, a $5,120,000 GST tax exemption, and a top tax rate of 35%. Unless new legislation is enacted, in 2013 the gift tax and estate tax exemption will decrease to $1,000,000, the GST tax exemption will decrease to $1,000,000 (as indexed), and the top tax rate will increase to 55%.

No one knows what the future holds for these taxes, but there is a lot of speculation about what Congress might do. Among the possible scenarios, tax rates could increase and exemptions decrease, tax rates could decrease and exemptions increase, or current tax rates and exemptions could be extended. The question then arises: "Should large gifts be made in 2012 to take advantage of the large $5,120,000 exemption while it is still available?"

To answer that question, you should generally consider the following: the size of your estate and the rate at which it can be expected to grow (or decrease), whether you can afford to make large gifts, what the future of the transfer taxes might be, and whether "claw back" would apply in future years.

Claw back

Claw back refers to a situation where the benefit of certain tax provisions is essentially recaptured at a later time due to changes in tax law. There is some split in opinion as to whether claw back applies to the estate tax. A couple of examples will illustrate the difference.

Example(s): *Assume the gift and estate tax change as currently scheduled in 2013 and claw back applies. Assume you make a taxable gift of $5 million in 2012 that is fully protected by your gift tax exemption and you have a taxable estate of $5 million when you die in 2013. Estate tax, after reduction by the unified credit but not the state death tax credit, is $4,795,000. The result is essentially the same as if you had not made the taxable gift in 2012 and your taxable estate is $10 million in 2013.*

Example(s): *Assume the same facts as above, but with no claw back. Estate tax, after reduction by the unified credit but not the state death tax credit, would be $2,750,000. So, the federal estate tax is $2,045,000 lower if there is no claw back.*

Guidelines for large gifts in 2012

If you expect that you can keep your estate down to around $1 million ($2 million total for both spouses if you are married) using annual exclusion gifts (generally, up to $13,000 per recipient per year; effectively, $26,000 for gifts by married couples) and qualified transfers exclusion gifts for medical and educational expenses, there may be no advantage to making taxable gifts in 2012. If you have a larger estate, you may wish to consider making taxable gifts sheltered by exemptions in 2012, depending on your evaluation of how the guidelines here apply to your particular circumstances.

If you make taxable gifts sheltered by the gift and estate tax exemption in 2012, and the gift and estate tax rates later increase, the exemptions decrease, and there is no claw back, you may save gift and estate taxes by making the gifts in 2012. Even if there is claw back, your gift and estate taxes will probably be no worse than if you hadn't made the gifts. And, if the gift and estate tax rates later decrease or stay the same and the exemptions increase or stay the same, your gift and estate taxes will probably be no worse than if you hadn't made the gifts.

If you make generation-skipping transfers sheltered by the GST tax exemption in 2012, and the GST tax rate later increases and the exemption decreases, you may save GST tax by making the GST in 2012. Even if the GST tax rate later decreases or stays the same and the exemption increases or stays the same, your GST tax will probably be no worse than if you hadn't made the GST in 2012.

In each of these scenarios, it has been assumed that values do not appreciate. If the property transferred by gift increases in value after the gift, there may also be transfer tax savings from removing the appreciation from the transfer tax system.

You'll want to consider how these guidelines for large gifts in 2012 might apply to your specific circumstances. An estate planning professional can help you evaluate them.

Withdrawals from Traditional IRAs

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Why you should think twice

Financial professionals generally recommend using your retirement funds for one purpose only--retirement. Why? Because frequent dips into your retirement funds will reduce your ultimate nest egg. Plus, there will be less money available to take advantage of the twin benefits of tax deferral and any compound earnings. Depleting your retirement funds too soon can create a dire situation in your later years.

And then there are taxes. If you've made only deductible contributions to your traditional IRA, then all the funds in your account are subject to federal income tax when you withdraw them. They may also be subject to state income tax. If you've made any nondeductible (after-tax) contributions to your IRA, then each withdrawal you make will consist of a pro-rata mix of taxable (your deductible contributions and any earnings in your account) and nontaxable (your nondeductible contributions) dollars.

All your traditional IRAs (including SEPs and SIMPLE IRAs) are treated as a single IRA when you calculate the taxable portion of a withdrawal. So you can't just transfer all your nondeductible contributions into a separate IRA, and then withdraw those funds tax free. And, if you're not yet age 59½, the taxable portion of your withdrawal may be subject to a 10% federal early distribution tax (your state may also apply a penalty tax).

10% early distribution penalty

To discourage early withdrawals from IRAs, federal law imposes a 10% tax on taxable distributions from IRAs prior to age 59½. Not all distributions before age 59½ are subject to this penalty, however. Here are the most important exceptions:

- Distributions due to a qualifying disability
- Distributions to your beneficiary after your death
- Distributions up to the amount of your tax-deductible medical expenses
- Qualified reservist distributions
- Distributions to pay first-time homebuyer expenses (up to $10,000 lifetime)
- Distributions to pay qualified higher education expenses
- Certain distributions while you're unemployed, up to the amount you paid for health insurance premiums
- Amounts levied by the IRS
- Distributions that qualify as a series of substantially equal periodic payments (SEPPs)

The SEPP exception to the early distribution penalty

The SEPP exception allows you to withdraw funds from your IRA for any reason, while avoiding the 10% penalty tax. But the rules are complex, and this option is not for everyone. SEPPs are amounts you withdraw from your IRA over your lifetime (or life expectancy) or the joint lives (or joint life expectancy) of you and your beneficiary. You can take advantage of the SEPP exception at any age.

To avoid the 10% penalty, you must calculate your lifetime payments using one of three IRS-approved distribution methods and take at least one distribution annually. If you have more than one IRA, you can take SEPPs from just one of your IRAs or you can aggregate two or more of your IRAs and calculate the SEPPs from the total balance. You can also use tax-free rollovers to ensure that the IRA(s) that will be the source of your periodic payments contain the exact amount necessary to generate the payment amount you want based on the IRS formulas.

Even though SEPPs are initially determined based on lifetime payments, you can change--or even stop--the payments after five years, or after you reach age 59½, whichever is later. For example, you could start taking SEPPs from your IRA at age 50, without penalty, and then, if you no longer need the funds, reduce the payments (or stop them altogether) once you reach age 59½.

Short-term loan

If you only need funds for a short period of time you may be able to give yourself a short-term loan by withdrawing funds from your IRA, and then rolling those dollars back into the same or a different IRA within 60 days. However, watch the deadline carefully, because if you miss it, your short-term loan will instead be treated as a taxable distribution. And keep in mind that you can only make one rollover from a particular IRA to any other IRA in any 12-month period. A violation of this rule can also have serious adverse tax consequences.

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Do I have the right type of life insurance?

Your need for life insurance changes as your life changes. You may need less life insurance when you're younger, but as you take on more responsibilities and as your family grows, the amount and type of life insurance that fits your circumstances changes.

There are many different types of life insurance. But generally, life insurance policies fall into one of two categories, temporary or term insurance, and permanent or cash value insurance.

Term insurance

Term insurance provides coverage for a specified period ranging from 1 to 30 years. Premiums are typically lower compared to permanent life insurance. If you die during the coverage period, your beneficiary receives a specified death benefit. If you live to the end of the specified period, coverage ends and the policy has no cash value.

Permanent insurance

Unlike term insurance, permanent insurance continues throughout your life as long as you pay the premiums. As with term insurance, permanent insurance pays a death benefit to your beneficiary at your death, but it also contains a cash value account funded by your premium dollars. The cash value portion of the policy grows, tax deferred, as long as the coverage remains in force. With permanent insurance, you can tap the dollars in the policy even while you're alive. You can borrow against the policy, and in some cases, withdraw part of the cash value. Keep in mind, though, that unpaid loans and withdrawals will decrease the death benefit available to your beneficiaries, and reduce the cash value, which may cause the policy to lapse.

What's right for you?

Think about what protection you need and what you can afford before you purchase any type of life insurance. If you really need insurance but don't have the discretionary income, term insurance may be your best choice. On the other hand, if you want lifetime coverage and you're interested in accumulating cash value, then permanent insurance may make more sense.

Should I buy my life insurance through my employer or on my own?

Many companies offer their workers employer-sponsored life insurance coverage as part of their employee benefits package. If you're offered this opportunity, it may be in your best interest to accept. Buying life insurance through your employer can be a relatively inexpensive and hassle-free way to get some of the life insurance coverage you need.

With a group life insurance plan, your employer purchases a single policy that covers all employees. This policy is subject to a single group premium payment. Some employers may pay the entire cost of the group policy (which is tax deductible to the employer). But if the plan requires you to pay a portion of the group premium, that amount will probably be lower than what you would pay for the same type and amount of individual insurance coverage. And you generally don't need to pass a medical exam when applying for group life insurance.

A disadvantage of employer-sponsored life insurance is that it may not be portable. If you leave your job, your group life insurance coverage may end--potentially leaving you underprotected, especially if you can't purchase an individual policy at a reasonable cost because of your age or changes in your health. However, you may be allowed to convert your group insurance to an individual policy, which would allow you to keep your insurance coverage, regardless of your age or health, but you'd have to pay the entire premium out-of-pocket.

Another disadvantage of group life insurance is that the policy may not be tailored to your individual needs. For example, the amount of coverage may be less than what you require to be fully protected. If so, the group policy may give you the option of purchasing more coverage for an additional cost and for which you may be asked to answer medical questions. But even if you end up buying supplemental insurance through a separate company, your employer-sponsored plan gives you a head start in meeting your life insurance needs.