Shannon & Associates, LLP | 1851 Central Place S, Suite 225 | Kent, WA 98030 | 253.852.8500
SA-KG Advisors, LP 6500 River Place Blvd., Building 7, Suite 250, Austin, TX 78730 800.542.4916 info@kgadvisors.com

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Live Long And Prosper: Roll Out A Stretch IRA

The individual retirement account (IRA) is a time-tested way to save for retirement. Typically, you make contributions to an IRA during your working career, or you roll over funds to an IRA from a 401(k) or another employer plan, or both. You might end up with a sizable stash from which you'll be able to withdraw during retirement.

But you may not have to tap that part of your nest egg much if you can rely upon retirement income from other sources, though you will have to take required minimum distributions (RMDs). If it looks as if much of the account will survive you, you might consider the potential benefits of a "stretch IRA." That can help an IRA be there for your chosen beneficiaries long after you're gone.

Under the rules for IRAs, you can take as much as you want out of your account whenever you want, although there's normally a 10% tax penalty on distributions you take before you reach the age of 59½. At the same time, though, you can leave money in the IRA indefinitely, except for taking the RMDs that must begin when you hit age 70½. Those are taxed as ordinary income, which means the tax rate on that money may be as high as 39.6%. And there can be other tax consequences, too.

The idea behind the RMD rules is to force you to use, and pay tax on, the funds that have been accumulating in the account without being touched by taxes. The amount of your annual RMD normally will be based on your account balance on December 31 of the prior year, with that amount divided by your life expectancy according to an IRS table. For example, a 75-year-old with $500,000 in IRA assets would use a factor of 22.9 from the universal life expectancy table to get an RMD of $21,834 for the current tax year.

This system is designed to exhaust the account if you live long enough. But there's an alternative that could reduce the size of the RMDs. If you designate your spouse as the IRA's sole beneficiary, and if your spouse is more than 10 years younger than you, RMDs can be based on your joint life expectancy. Assuming our 75-year old owner with $500,00 in IRA assets has a 60-year-old spouse, their joint life expectancy would be 26.5, resulting in an RMD for the year of $18,868.

The basic concept behind the stretch IRA is to postpone withdrawals as long as possible and to minimize RMDs both before and after your death. The following steps could help you get there:

- Make sure you have properly established beneficiaries, both primary and secondary, for all of your IRAs. Double-check your paperwork.

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Warren Buffet Gives Sage Advice But You Must Really Listen

Warren Buffett, the billionaire CEO of Berkshire Hathaway, is known as an investment guru, and there are plenty of people and websites dedicated to following his every move and trying to replicate each one. When Buffett decided it was time to buy a car dealership, other high rollers decided to buy car dealerships. He wields that kind of influence.

Admittedly, Buffett is brilliant, yet he often dispenses homespun advice that shows common sense can lead to more dollars and cents. Here are just a few of his pearls of wisdom:

"Rule No. 1: Never lose money. Rule No. 2: Don't forget rule No. 1."

"You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ."

"When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever."

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

"Time is the friend of the wonderful business, the enemy of the mediocre."

"I try to buy stock in businesses that are so wonderful that an idiot can run them, because sooner or later one will."

Maybe you can take a page out of Warren Buffet's book without risking a small fortune. Invest for the long term and don't fall into the trap of market timing.

When To Start Social Security?

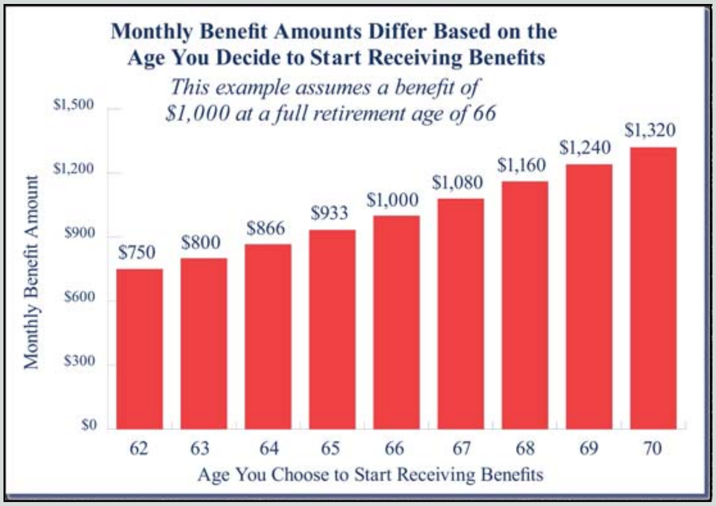
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

Can You Avoid Estate And Gift Tax?

Are you hoping to pass investment assets to your heirs without any tax damage? Under the current rules, you have plenty of leeway to avoid estate and gift taxes on the federal level, although state taxes may be another story. However, keep in mind that your investment returns may outpace the inflation adjustments to the personal gift and estate tax exemption—and this could mean that your wealth will grow enough to be subject to taxes when you die.

There are two main estate and gift tax breaks: the annual gift tax exclusion and the unified estate and gift tax credit.

1. Annual gift tax exclusion. You can give each recipient, such as a younger family member, assets valued up to $14,000 a year without paying any gift tax (or even having to file a gift tax return). The exclusion is doubled to $28,000 for joint gifts made by a married couple. So, if you and your spouse each give the maximum $14,000 to five other family members, you can reduce your taxable estate by $140,000. And you can do this year after year.

The annual gift tax exclusion is indexed for inflation but rises only when the cost of living increases enough to result in a $1,000 bump to the exempt amount. With inflation very low in recent years, increases have slowed to a crawl. The last adjustment was made in 2013, from $13,000 to the current $14,000.

2. Unified estate and gift tax credit. This generous credit can wipe out either estate taxes, gift taxes, or a combination of the two.

After a decade of gradual increases, Congress permanently locked in the exemption amount at an inflation-adjusted $5 million. For 2015, the exemption is $5.43 million (up from $5.34 million in 2014). That means a couple easily can shelter more than $10 million in assets from estate tax, although any lifetime gifts exceeding the annual gift tax exclusion will reduce the amount available to help an estate avoid estate taxes.

But you can't simply take this tax shelter for granted. Remember that your assets may appreciate in value at a rate

7 Retirement Saving Steps For Millennials

This is a true story about Jane X, who graduated from a prestigious university five years ago. She's on her third job, but she's now communications director at a private foundation and finally earning decent money.

Jane's student loans are paid off, and her good salary leaves her some money to invest. However, like many of her millennial friends, she doesn't know a lot about investments or the differences between various retirement plans. But she is thinking about her future and wonders when she should start saving for retirement.

There's a short, simple answer: NOW.

The best time to begin saving for retirement is as soon as you can. Granted, relaxing on the deck of a retirement cottage overlooking the ninth green isn't first and foremost in the minds of most 20-somethings. But you can't ignore the sheer weight of the saving numbers. Let's go back to Jane, who's 27. If she manages to save $5,000 a year in a 401(k) for the next 40 years—until she's 67, the Social Security full retirement age for her generation—and she earns an average annual return of 7%, she will end up with $1,035,632. But if she waits 10 years to start saving, when she's 37, her accumulated savings will be just $490,027.

If you're convinced that now would be a good time to get started, consider these seven steps that could help you reach your goals:

1. Budget and save. It's difficult to be diligent about setting aside money for retirement when you're young and have a million things you'd rather do with your money. But if you're able to set objectives for saving and you do your best to stick to them, it could pay off beautifully down the road. Try to train yourself to live within your means while you move ahead in your career and your personal life.

2. Take advantage of employer retirement plans. Your company probably offers a tax-deferred retirement plan—a 401(k) or a 403(b)—and your employer may provide matching contributions (for example, up to 3% of your compensation) to go alongside the pre-tax earnings you put into the plan. With all of that money invested for the long haul, it can grow and compound and you won't be taxed on the growth until you pull out funds during retirement.

3. Don't forget about IRAs. Regardless of whether you participate in an employer-sponsored retirement plan, you also can set up an IRA. With a traditional IRA, the money you put in may be partly or wholly tax-deductible, if your salary is relatively low. But here, too, you'll be taxed on withdrawals during retirement. Another option, a Roth IRA, doesn't give you a tax deduction on money going in but may provide 100% tax-free distributions in retirement.

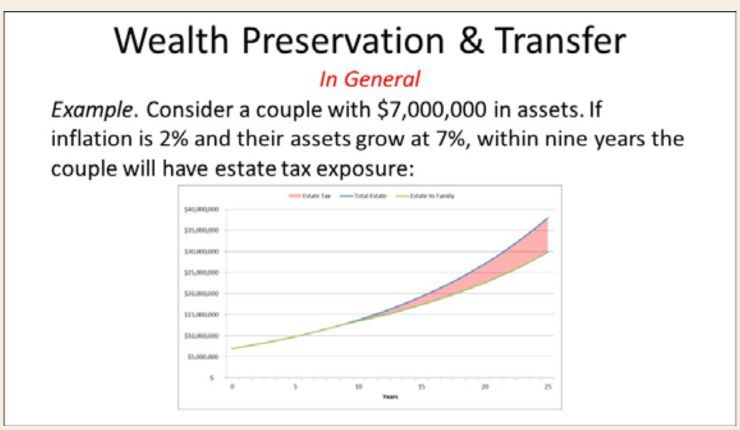
4. Invest wisely. This is good advice not only for money in tax-advantaged retirement accounts but also for money you invest in taxable brokerage accounts. We can help you find the investment balance that best suits your personal needs, objectives, risk tolerance, and other circumstances. Although there's no foolproof method, you should have more leeway to be aggressive now than you would when you're nearing retirement or already retired. Of course, past performance is no guarantee of future results, but you can use historical stock market trends to help shape your investment strategies.

5. Expect the unexpected. Even the best-laid plans of retirement saving can be derailed by an emergency such as a hospital stay or the loss of a job. Try to leave enough wiggle room within your budget to account for some unforeseen financial trouble. Rather than put yourself in a position to have to skip or slash retirement plan contributions, remember to put aside cash in a "rainy day" fund. Most experts recommend building up enough to sustain you for at least half a year during which you may have no other income.

6. Avoid debt like the plague. One of the biggest impediments to retirement saving is a crushing debt load. You're not doing yourself any favor by deferring part of your salary to an employer plan at the same time that you're charging luxury items on a credit card with sky-high interest rates. That's not to say that borrowing isn't warranted at times—perhaps to help buy a home or car—but make sure it fits into your overall plan.

7. Educate yourself. Finally, you can improve the chances for a secure, comfortable retirement by learning all of the rules of the road, including the nuances of investments and the tax differences between various accounts. Knowledge is your friend. Rely on us to give you a solid foundation for going forward. ●

greater than the annual inflation adjustments for the estate tax exemption. (Of course, assets also might decline in value.) This is especially true if the recent trend in low inflation persists. For example, suppose a couple has $7 million in assets and earns an annual average return of 7%. If the inflation rate remains at 2%, it will only take nine years for the couple to face federal estate tax exposure.



For those in the danger zone, tax-sheltered trusts and other techniques could help safeguard assets from estate tax. In addition, making annual tax-exempt gifts for several years can help reduce the eventual size of the estate. ●

ADVISORS

Shannon & Associates, LLP
1851 Central Place S
Suite 225
Kent, WA 98030
253.852.8500

SA-KG Advisors, LP
6500 River Place Blvd.
Building 7, Suite 250
Austin, TX 78730
800.542.4916

info@kgadvisors.com

A Stretch IRA

(Continued from page 1)

- Limit your RMDs to the amount you're required to withdraw. Withdrawing the bare minimum allows you to preserve a larger nest egg.
- When you die, your beneficiaries who inherit what's left of your account can arrange payouts based on their life expectancies. If they're younger than you were, the RMDs will be smaller.
- If you have multiple beneficiaries, each one should establish a separate account for his or her inherited IRA assets. RMDs have to begin in the year following the year of death. Without separate accounts, RMDs will be based on the life expectancy of the oldest beneficiary. Dividing your account will reduce the RMDs for younger beneficiaries.
- Name successor beneficiaries. This ensures that RMDs will be withdrawn over your beneficiaries' entire life expectancies, even if they don't live that long. Otherwise, a beneficiary's estate might have to pay out the entire amount.

Timing can be crucial in establishing a stretch IRA. To qualify for the benefits, your beneficiaries must establish accounts in your name by December 31 of the year after the year of your death. That leaves some time for making decisions about inherited IRA funds, but it's important not to dilly-dally.

It's also essential for your heirs to follow the rules on RMDs. The tax penalty for failing to take one, whether you're the original IRA owner or a beneficiary of an inherited account, is equal to 50% of the required amount (less any amount that actually was withdrawn). Returning to our example of a 75-year-old IRA owner with $500,000 of assets, failing to take the RMD this year could result in a penalty as high as $10,917 (half of $21,834). And that's on top of regular income tax.

Note that lifetime RMDs aren't mandatory for Roth IRA owners. And while beneficiaries who inherit a Roth must take RMDs based on their life expectancies, those distributions generally aren't taxable. ●