

SA-KG ADVISORS QUARTERLY



Six Hurdles To Overcome In Stretch IRA Planning

The traditional IRA is a proven vehicle for retirement saving. Contributions you make during your working days may be partially or wholly tax-deductible. These amounts are invested and can compound without being eroded by current taxes. Generally, you'll be making withdrawals, taxed as income, during your retirement, when you may be in a lower tax bracket than you were at the peak of your career.

But you may decide to supplement or replace traditional IRAs with Roth IRAs. For those, you can't deduct contributions, but future distributions are likely to be completely tax-free after five years. You can convert funds in a traditional IRA to a Roth by paying current income tax on the amount you convert.

One other big difference between these two kinds of retirement accounts is that with a traditional IRA, you eventually have to take money out—and pay taxes on your withdrawals. Required minimum distributions, or RMDs, must begin after you reach age 70½. In contrast, you can leave the money in a Roth IRA untouched during your lifetime and pass it along to your heirs.

But even with a traditional IRA, “stretch planning” can help you preserve more of your savings for future generations. This approach

enables IRA benefits to be stretched out over the lives of the designated beneficiaries long after you're gone.

Many complex rules apply to IRAs that are inherited. A beneficiary who is a spouse has more flexibility than someone who isn't. Generally, anyone other than a spouse must empty the IRA based on his or her life expectancy or within five years. To further

complicate matters, recent budget proposals, if enacted, could curb IRA stretch planning. You may want to lock in your plans now to protect against future changes in the rules.

These six hurdles often stand in the way of maximizing the benefits of stretch planning:

1. Incorrect titling. Different IRA custodians may have different requirements for how inherited IRAs are titled. But correct titling should include the deceased owner's name as well as language indicating that the account is an inherited IRA. For example: “John Adams, deceased, IRA for the benefit of John Quincy Adams.”

2. Failing to take RMDs. Just as you're required to take these distributions—based on the account balances in the prior year and life expectancy tables—from a traditional IRA once you reach age 70½, your beneficiaries must take RMDs from

Millennials Want To Save More And Resist Impulse Purchases

According to a new survey by the American Institute of Certified Public Accountants (AICPA), more than one-third of millennials—the generation born between 1980 and 2000—say that saving money is their top goal for 2016.

In the survey, more than a third ranked saving money ahead of living a healthy life—cited by one in five—repaying debts (19%), and losing weight (14%). At the same time, two out of three participants said impulse buying was a major impediment to saving.

Older millennials, those born in the 1980s, already are established in careers, and 26% of those in that group say they are earmarking savings for emergencies, 22% are saving for retirement, and 15% are setting aside money to start a family. This group also focused on saving for large purchases, such as vacations (36%), houses (27%), cars (26%), home improvements (20%), and weddings (8%).

Other obstacles to saving cited by all survey participants included low salaries (84%), costly bills (81%), paying down debt (79%), and lacking a personal budget (62%). Also, almost half say they fail to pay credit card bills in full each month or have had to borrow money from friends or family.

It's encouraging that saving has become a top priority, but there's still a long way to go.



(Continued on page 4)

Remember The Lesson Of Rebalancing

Sometimes investors need to be reminded just how unpredictable equity markets can be. Any big, unforeseen event—such as the United Kingdom’s so-called “Brexit” vote to leave the European Union—can result in dramatic market swings. And because such fluctuations are as inevitable as they are unpredictable, it makes sense to be prepared for all possibilities.

The best way for most investors to deal with short-term volatility is to stick to a long-term plan, rather than panicking or making ill-considered market moves. And your plan will need a proper balance between stocks and bonds in your portfolio.

Historically, stocks have outperformed other kinds of investments and have provided a hedge against inflation, while bonds have provided steady income and more protection against market volatility.

Diversification and asset allocation—core principles for attempting to control investment risks—are used to create a portfolio that may have the breadth to reduce volatility when markets get turbulent. Your overall tolerance for risk can help determine how you allocate your

investments to stocks, bonds, and other assets. Diversification and asset allocation are designed to minimize inherent risks, although there are no absolute guarantees.

investments that have been doing well and buy others that have slumped. Your natural inclination may be to keep riding a wave of success, and to stay away from parts of the market that haven’t performed well.

But rebalancing can help impose needed discipline for your plan. It can enable you to sell high and buy low and to maintain the broad balance that may cushion your holdings against volatility. And though it sometimes may result in a lower rate of return than you would have gotten if you’d let your winning positions continue to grow, that may be a small price to pay for feeling more comfortable

about your investments.

Rebalancing also can help you resist the impulse to try to “time” the market—attempting to jump in when prices are rising and to get out before they fall. That is rarely a recipe for success and could lead to significant losses.

How often should you rebalance? Expert opinions vary, but you probably should review your portfolio and rebalance at least once a year. The end of the year could be a good time to get your ducks in a row. ●



But as important as it is to choose a mix of investments that makes sense for you, you’ll also need to revisit your portfolio periodically to help restore the balance you’ve established. If stock prices rise, for example, that part of your portfolio may grow larger than you intended—and this could make you vulnerable if equity prices fall. “Rebalancing” helps you get back to the target percentages you started with.

Yet as simple as that may sound, rebalancing can seem counterintuitive in practice. It requires you to sell

4 Year-End Strategies For Investors

The end of the year is a great time to assess your current investments from both a tax, and a financial perspective. Depending on your situation, you might rely on four key strategies to improve your tax picture for 2016:

1. Capital loss harvesting:

Capital losses can offset taxable capital gains, and if your losses for the year exceed your gains, you can use the excess to offset up to \$3,000 of highly taxed ordinary income, such as the salary from your job. If you still have an excess loss, you can carry it over to next year and then perhaps even longer.

This presents some tax planning

opportunities at the end of the year. For instance, if you’ve already realized a short-term capital gain that will be taxed at ordinary income rates, you could sell a holding at a loss to offset all or part of that gain.

2. Capital gain harvesting: On the flip side, you might use an existing loss on a securities sale to absorb the potential tax from a capital gain. For example, if you’ve taken a loss, you might harvest a short-term capital gain that otherwise would be taxed at ordinary income rates.

If you have a long-term capital gain (from selling an investment you’ve held longer than a year), you

benefit from a maximum tax rate of 15%, even if you’re in the regular 25%, 28%, 33% or 35% bracket. Those in the top 39.6% bracket pay a maximum 20% rate on long-term capital gains. And investors in the two lowest brackets of 10% and 15% pay 0% on long-term gains.

3. Wash sales: Under the wash sale rule, you aren’t allowed to deduct a capital loss on the sale of securities if you acquire substantially identical securities within 30 days of the sale. For instance, if you sell mutual fund shares at a loss and buy back shares of the same fund two weeks later, you can’t claim the loss.

Meeting With The Family For Elder Care Planning

Business managers would never chart a course of action for the future without gathering all of the necessary information, analyzing the pros and cons of different approaches, and meeting with the main people who have a stake in the outcome. Yet many families approach eldercare issues with a similar lack of foresight.

If there is an aging member of your family who soon may need help at home or perhaps will move into an eldercare facility of some kind, it's essential for everyone to talk about what's ahead. Consider trying to call the appropriate relatives together for a family meeting—and be prepared to answer some of these questions:

Can you meet? Frequently, inertia will take over or some family members won't see the need for a family discussion. It's difficult to find the time with our busy schedules and other commitments. What's more, many families today are dispersed around the country and beyond. Nevertheless, it's important to bring everyone together to work out a plan.

Why should you meet? Whether or not specific problems need to be addressed immediately, a meeting gives family members a chance to share information and air their concerns. One or more siblings may feel that too much of the caretaking is falling to them, while

others may express their intention to do more. Encourage family members to get such feelings out on the table. Keep in mind that there is no right or wrong approach. The needs of each family and the best solutions for everyone will vary.

Who should you invite? This depends on the size of your family, who takes an active family role, and other factors. Certainly, the children of an elderly parent should be involved, and perhaps the grandchildren, too, if they're old enough to be meaningful participants. Depending on the situation, close family friends and professional advisers also might be included. There could be value to bringing in a third-party caretaker, perhaps a nursing aide or someone else paid to help the parent, who might contribute insight to the discussion. Finally, consider whether or not to include the loved one whose future is being discussed.

What should you cover? The older family member's health care may be at the top of the agenda. You may decide to move the person to a nursing or assisted living facility or to upgrade accommodations at a current location. Another option is to keep the person at

home and use live-in care. It's also important to determine whether the parent has a living will or other health care directives that express what kind of care he or she wants to receive. Finances also will be an important part of the equation. Establishing a durable power of attorney for a designated



person to handle financial matters could be helpful, and you might decide that one or more trusts could help protect family assets. Federal and state rules covering such documents are

complex, so be sure to consult with professionals experienced in this area of the law.

How should you conduct the meeting? Just as for a business meeting, an agenda that you develop beforehand could help keep the discussion on track. One of you may want to take the lead in creating an agenda and distributing it by email to everyone who will be there, then revising it to include other family members' concerns.

What should you do next? Trying to maintain good communication with everyone is very important, and even in families that have not always been harmonious, this is one time when everyone needs to try to come together for the benefit of the loved one. Of course, conflicting viewpoints are likely to be expressed at the meeting, so you all will need to be prepared to compromise. Have someone take detailed notes and circulate them to everyone, and then ask everyone to agree to honor the agreements you've reached.

You all will have to remain flexible in case the situation changes. Develop a "plan B" if, for example, you choose a particular facility that doesn't work out or the elderly person's condition suddenly worsens. Finally, don't expect miracle solutions, but do involve your financial and other advisers in this crucial effort to help this family member. ●

In this case, all you have to do is wait at least 31 days before buying comparable securities. Alternatively, if it makes financial sense, you could buy the new shares right away and wait at least 31 days before selling the original shares.

4. NII tax:

You could owe an additional 3.8% surtax that's applied to the smaller of your net investment income (NII) or the amount by which your modified adjusted gross

income (MAGI) exceeds \$200,000 for single filers and \$250,000 for joint filers. The definition of NII includes most taxable income such as capital gains from securities sales.

To reduce your NII tax exposure, you might defer realizing capital gains until next year.

And investments producing tax-free income, such as municipal bonds, are exempt from the NII calculation. ●





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Six Hurdles To Overcome

(Continued from page 1)

both traditional and Roth IRAs. The penalty for failing to do so is 50% of the amount that should have been withdrawn (in addition to the regular tax).

3. Missing the deadline for a qualified disclaimer. If family members such as your adult children don't want or need the money in an inherited IRA, they can "disclaim" all or part of the inheritance. If a qualified disclaimer is made within nine months of your death, the IRA assets will pass to the secondary beneficiaries you've named—perhaps your grandchildren. That can keep the IRA going for a longer period of time as long as the disclaimer is made before the deadline.

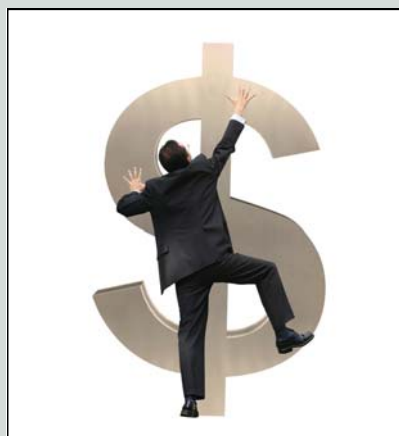
4. Failing to consider all of the implications of a disclaimer. As useful as disclaimers can be, they also can have unintended consequences, perhaps shortchanging an heir who later needs the money. And once a disclaimer is made, it can't be rescinded.

5. Taking a lump-sum distribution. This is an option for beneficiaries of an inherited IRA, but it can create a spike in income tax, which could include a shift to a higher tax bracket, and could have other unwanted consequences. This decision, too, can't

be undone.

6. Failing to analyze account rollovers for spouses.

A spouse who inherits an IRA has added flexibility and can choose to roll over funds to his or her own IRA, a move that may delay when RMDs must begin. And if an inherited IRA is payable to a spouse, that person won't be subject to the usual 10% penalty for early withdrawals before age 59½. But



leaving an IRA to someone other than a spouse may help the family accumulate more wealth over time. ●