THE PERSONAL PLANNER

Personal Financial Planning Tips for Today and the Rest of Your Life

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An upcoming waterpark weekend with grandkids has me writing early this month; snapshot reports will be delayed as a result.

Volatility is dampening some as investors taking comfort in Greek debt negotiations and a slow economic recovery keeps chugging along. With portfolios now largely reinvested, these are good things.

Republican presidential candidates keep hammering each other. You'd think some of the things they're saying about one another have to stick even after one is the nominee. Also, watch for continued posturing over tax rates, which go back to pre-Bush-era levels in 2013 if Congress does nothing. Don't expect major reform in an election year though.

With luck, we'll see spring really emerge this month and not realize our common fear of a late winter. Let's all keep our fingers crossed.

Bruce Heling

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Election Year Tax Talk: Deciphering the Terminology

This year's election chatter is sure to include a healthy dose of tax talk. To keep up, here are five terms you should know.

The "Bush tax cuts"

A number of major tax changes were enacted in 2001 and 2003, including lower federal income tax rates, special maximum rates for long-term capital gains and qualifying dividends, and increased standard deduction amounts. While most of the provisions were extended by legislation passed in late 2010, these tax provisions are still commonly referred to as the "Bush tax cuts" or the "Bush-era tax cuts." With these provisions set to expire again at year-end, much of the tax debate will center around whether to extend the provisions again--particularly whether to extend the provisions for all taxpayers, or only to those who make less than a certain amount (e.g., individuals with incomes under $200,000, married couples with incomes under $250,000).

Alternative minimum tax (AMT)

The AMT is essentially a separate federal income tax system with its own rates and rules. If you're subject to the AMT, you have to calculate your taxes twice--once under the regular tax system and again under the AMT system. Bush tax cuts expanding AMT exemption amounts were extended only through the end of 2011. This increases the pressure to address AMT this year--failure to extend AMT relief would result in an estimated 30 million or more individuals being affected by the AMT in 2012. (Source: U.S. Congressional Research Service. The Alternative Minimum Tax for Individuals (RL30149; August 23, 2011), by Steven Maguire.)

The "Buffett rule"

On August 14, 2011, the *New York Times* published an opinion piece written by Warren Buffett, chairman and CEO of Berkshire Hathaway (Warren E. Buffett, "Stop Coddling the Super-Rich," *New York Times,* August 14, 2011). In the piece, Buffett essentially argued that he and his "mega-rich friends" weren't paying their fair share, noting that the rate at which he paid taxes (total tax as a percentage of taxable income) was lower than the other 20 people in his office. As Buffett points out, this is partially attributable to the fact that the ultra-wealthy typically receive a high proportion of their income from long-term capital gains and qualified dividends, which are currently taxed at rates that are generally lower than the rates that apply to wages and other ordinary income. President Obama has articulated the "Buffett rule" as the tenet that people making more than $1 million annually should not pay a smaller share of their income in taxes than middle-class families pay. (Source: www.whitehouse.gov.)

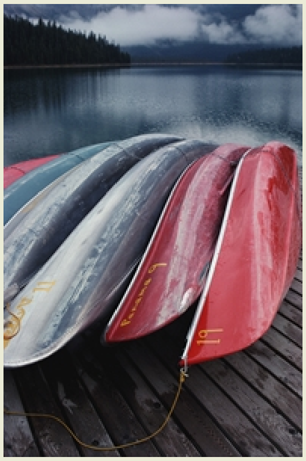
Value added tax (VAT)

A value added tax (VAT) is a consumption tax, like a sales tax. What distinguishes the VAT from a straight national sales tax is the fact that the VAT is assessed and collected at every point in the chain of production, on the "value added" at that step in the chain. Although a VAT can be implemented in different ways, here's one general approach: With a 10% VAT in effect, a supplier who sells $100 of materials to a manufacturer would pay $10 in VAT; the manufacturer who, in turn, sells a finished product to a retailer for $150 pays $5 in VAT ($150 sale price - $100 cost of materials, multiplied by the VAT rate); the retailer sells the product for $200, and pays an additional $5 in VAT ($200 sale price - $150 cost, multiplied by the VAT rate). Total VAT paid on the product is $20, or 10% of the final sale price.

Flat tax

Simple in concept, a flat tax would apply a single tax rate to individual income, or individual wages only (i.e., excluding investment income). A separate single rate might apply to businesses. Depending on the specific proposal, a base exemption may be allowed to exclude low-income families from the tax, and certain deductions may be allowed in determining the amount subject to tax.

Inheriting an IRA--What You Need to Know



The rules governing inherited IRAs can be complicated. If you inherit an IRA from someone who isn't your spouse, your options are fairly limited. If you inherit an IRA from your spouse, you have many more options.

The rules governing inherited IRAs can be complicated. Here are the major issues to consider.

Transferring inherited IRA assets

If you inherit a traditional or Roth IRA from someone who isn't your spouse, your options are fairly limited. You can't roll the proceeds over to your own IRA, treat the IRA as your own, or make any additional contributions to the IRA. What you can do is transfer the assets to a different IRA provider, as long as the registration of the account continues to reflect that the IRA is an inherited IRA, and not your own.

If you inherit an IRA from your spouse, however, you have additional options. You can roll over all or part of the IRA proceeds to your own IRA (or to a qualified plan). If you roll the proceeds over to your own IRA (an existing one, or one you establish just for this purpose) the rules that apply to IRA owners, not beneficiaries, will apply from that point on. If you're the sole beneficiary, you can also generally treat the inherited IRA as your own by simply retitling the IRA in your name.

But you aren't required to assume ownership of an IRA you inherit from your spouse. You can, instead, continue to maintain the inherited IRA as a beneficiary. You might want to do this if, for example, you inherit a traditional IRA and you'll need to use the funds before you turn 59½ (distributions from inherited IRAs aren't subject to the 10% early distribution penalty but distributions from IRAs you own are subject to the penalty, unless an exception applies).

A spouse beneficiary can also convert all or part of an inherited traditional IRA to a Roth IRA (you'll generally have to pay income tax on the amount converted). This option is not available to nonspouse beneficiaries.

Required minimum distributions

Nonspouse beneficiary: Federal law requires that you begin taking distributions (called required minimum distributions, or RMDs) from an inherited IRA (traditional or Roth) after the IRA owner dies.

Spouse beneficiary: If you roll the inherited IRA over to your own IRA, or treat it as your own, then the RMD rules apply to you the same way they apply to any IRA owner--you'll generally need to begin taking RMDs from a traditional IRA after you turn 70½; no lifetime RMDs are required at all from a Roth IRA. If you don't roll the IRA assets over or treat the IRA as your own, then the same rules described above for nonspouse beneficiaries generally apply to you, except that you can defer receiving distributions until your spouse would have turned 70½.

Note: *In both cases, if the IRA owner died after turning 70½ and didn't take a required distribution for the year of death, you'll need to make sure to take that distribution by December 31 of the year of death in order to avoid a 50% penalty.*

Taxation of inherited Roth IRAs

Qualified distributions to a beneficiary from an inherited Roth IRA are free from federal income taxes. To be qualified, the distribution must be made after a five-year holding period. The five-year period begins on January 1 of the year the deceased IRA owner first established *any* Roth IRA, and ends after five full calendar years. If you take a distribution from an inherited Roth IRA before this five-year period ends, any earnings you receive will be nonqualified, and will be subject to federal income taxes (earnings generally come out last).

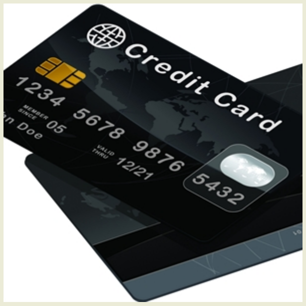
For example, you inherit a Roth IRA from your father on January 1, 2013. Your father established this IRA in June 2012. Your father also established a separate Roth IRA, which you did not inherit, in December 2008. Distributions you receive from the Roth IRA will be qualified, and tax free, because the five-year holding period (January 1, 2008, to December 31, 2012) has been satisfied.

If you're a spouse beneficiary, and you roll the inherited Roth IRA over to your own Roth IRA or treat the inherited IRA as your own, then you'll be eligible to take tax-free distributions only after *you* reach age 59½, become disabled, or have qualifying first-time homebuyer expenses. You'll also need to satisfy the five-year holding period, but a special rule applies. The five-year period for all of your Roth IRAs--including the inherited IRA--will be deemed to have started on January 1 of the year either you or your spouse first established *any* Roth IRA.

Speak to a financial professional if ...

- You're sharing the inherited IRA with other beneficiaries. This can impact when and how you must begin receiving RMDs from the IRA.
- You don't want or need the IRA funds. You may be able to disclaim the IRA and have it pass to another beneficiary. This must be done in accordance with strict IRA rules.
- Any estate taxes were paid that are attributable to the inherited IRA. You may be entitled to an income tax deduction equal to the estate taxes paid.

Seniors Are Often Targets of Scams



Here are a few things that may help you protect an elderly relative from being victimized by a scam:

- ***Become familiar with your loved one's finances***
- ***Recommend that they have any regular income directly deposited to their bank***
- ***Suggest that they consult you or someone else they trust before buying any service or product over the phone, online, or via the mail***

Anyone can fall victim to a financial scam, but seniors tend to be particularly popular targets. Frequently, fraud perpetrated against seniors is not reported until long after the scam has occurred, usually because victims don't realize they have been scammed or know where to report the scam, or because victims are too embarrassed to admit that they have been taken. Nevertheless, it's important for seniors and their family members to be aware of the signs that may point to a fraudulent scheme, and know what steps can be taken to prevent becoming victims of a scam.

Why seniors?

Seniors are a popular target for scammers for a number of reasons:

- Seniors are more likely to own their own homes, have a nest egg that's liquid and easily accessible, and have excellent credit.
- Today's generation of seniors were raised to be kind, helpful, trusting, and polite--perfect qualities for a scammer to exploit, knowing that it's hard for some seniors to simply say "no."
- Age has a tendency to affect memory, and scammers count on seniors not being able to remember important details when reporting a scam to the authorities.

What to look for

Scams targeting seniors often occur in one of three ways--through the Internet, on the telephone, or in person. And just when you think you've heard of all the possible scams out there, scammers will come up with another scheme intended to victimize seniors. The FBI website (www.fbi.gov) has a section dedicated to fraud targeting seniors. The site describes a number of schemes that have been discovered. It's a good idea to check this site regularly to keep updated on new scams. Here are some of the more popular scams that have victimized seniors.

Scams related to health care

There are a number of scams that focus on the new health-care law, health insurance for seniors, and Medicare. These scams may focus on "Obamacare" benefits, claiming that there is a "limited enrollment period," great insurance coverage including drug benefits for a low monthly cost, free medical equipment, low-cost drugs, or free medical tests given at nonmedical facilities like health clubs or shopping malls. To be on the safe side, don't sign a blank insurance claim form, since your insurance company may be billed for items you never received; generally don't do business over the phone or in person with a door-to-door salesman for medical services or benefits; and call your insurance carrier to be sure that what you're supposed to be getting "free of charge" is actually covered by your insurance.

Telemarketing scams

We've all been subjected to telemarketing, and it isn't always a bad thing. Some products and services are legitimate. However, telemarketing also serves as a way to scam people, especially seniors. Some warning signs that should prompt you to decline the offer include being told you "must act now or the offer won't be good," any offer that seems to be free (except that you have to pay for shipping and handling or administrative fees), the requirement that you provide your credit or debit card information or bank account number, and the suggestion that you "leave a check taped to your front door for a courier to pick up." In any case, if the caller tells you it isn't necessary to check out their company or consult family members or your lawyer, it's probably best just to decline altogether.

Internet and e-mail scams

Seniors' use of the Internet and e-mail is increasing daily, and so are Internet scams targeting seniors. Many such scams are based on getting credit or debit card information for services or merchandise that is never delivered. If you're going to give out this information online, try to ensure that the site is secure and reputable. Depending on the Web browser you use, you may see a padlock icon or some other indication to symbolize that there's a higher level of security to send important personal information, but it's not a guarantee that the site is secure. Also, check out the source of the merchandise or service before buying. It should have a physical address and phone number(s) that actually work.

In another type of Internet scam, people send you an e-mail claiming to be in possession of large sums of money and need you to help them open a U.S. bank account. Often, they ask that you "seed" the account with your own money, and in return, they'll pay you handsomely. Don't believe this promise and don't respond to the e-mail.

Bottom line

In short, as we've all heard before, if it sounds too good to be true, it probably is. If you fall victim to a scam, in addition to reporting it to your local police, you can report it to the FBI through their electronic tip line found at www.fbi.gov.

Ask the Experts

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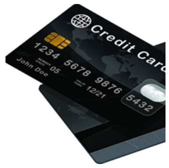

Can reducing my credit card debt actually lower my credit score?

Most lenders use an automated credit scoring system to help determine your creditworthiness. The higher your credit score, the more creditworthy you appear.

One of the factors built into credit scoring systems is your credit card balance-to-limit ratio (the amount of debt you owe compared to your total credit limit for all cards). Lenders like to see ratios indicating you're indebted for balances approximating no more than 30% of your total limit. Generally, if your balance-to-limit ratio is higher than that, then reducing your debt will improve your credit score. But how you reduce your debt can make a difference.

You may have heard that you should consolidate several credit card balances on one card with a low interest rate, then close the paid (usually higher-rate) accounts. Doing so, the claim goes, not only minimizes the risk that you'll "dig the hole" of indebtedness even deeper, it also reduces your exposure to identity theft through the fraudulent use of inactive open lines of credit.

But if you do this, you could:

- Lower your total credit limit available without lowering your total debt, thus raising your balance-to-limit ratio--and potentially lowering your credit score in the process
- Make your credit history appear shorter by canceling accounts you have had open longest--and a shorter credit history also may lower your credit score

While it makes sense to transfer balances subject to high interest rates to accounts with lower rates (and then concentrate on paying down what you owe), consider waiting to close the paid accounts. Keeping them open may actually improve your credit score by lowering your balance-to-limit ratio (since you'll have the same amount of debt, but a higher total credit limit) while maintaining the longevity of your credit history.

How can I tell if I have too much debt?

It may sound like a bad joke to say that you have too much debt when you find you're unable to borrow more, but there is more truth than humor in the flippancy.

In determining your ability to repay debt, lenders will examine your debt-to-income ratio. Calculating this ratio can involve a couple of different variations. Your "debt service ratio" compares your total monthly debt payments (including your mortgage payment) to your gross monthly income. Your "debt safety ratio" compares your monthly consumer debt payments (not including your mortgage) to your take-home income.

You will generally qualify for a conventional mortgage if your debt-to-income ratio (including the potential mortgage payment) is 36% or less. Federally guaranteed mortgage programs may allow debt-to-income ratios of up to 41%. And unsecured lenders (like credit card companies) allow even higher debt-to-income ratios--and then charge you higher interest rates to compensate themselves for the potential risk you represent to them.

To be on the safe side, however, your debt service ratio should ideally be 25% or less and should be no greater than 35%, while your debt safety ratio shouldn't exceed 20% and should preferably be 15% or less.

While it can be difficult to live in today's society without incurring debt, it also can be difficult to live with too much debt. Here are some warning signs indicating that you may be too close to the edge:

- You can't maintain an emergency fund to cover 3 to 6 months of normal expenses
- You make only minimum monthly payments on your consumer debt
- You're at or near your credit card limits
- You use credit cards to pay for things you used to buy with cash (this may not be a concern if you're paying off your credit cards every month)
- You take cash advances against your credit cards to pay other bills