Wealth Management

KANE COMPANY

A FEE-ONLY REGISTERED INVESTMENT ADVISOR

Certified Public Accountants and Financial Advisors

Kane Company, P.C. 515-270-2727 Summer 2011

4 Reasons To Reexamine Your Traditional IRAs

If you're like most people, you probably set up a traditional IRA (as opposed to a Roth IRA) years ago and you may have continued to make contributions on a regular basis. Depending on your personal situation, the money going into the account may have been fully tax-deductible, only partially deductible, or not deductible at all. But regardless of any tax break you got on your contributions, you haven't had to pay tax on any investment income or capital gains generated inside the account.

You may also have used the same or a different IRA to receive rollovers from a 401(k) or another employer-sponsored retirement plan after you switched jobs. If it's done correctly, such transfers aren't taxable. With a traditional IRA, your only tax obligation comes when you take money out.

Often, IRAs get little scrutiny over the years. You may have left yours alone as you focus on more immediate financial priorities. Yet there are several reasons why it pays to look again at your IRA.

1. Investment allocations may need to be adjusted. Your retirement accounts undoubtedly suffered during the stock market decline of a few years ago, and depending on how the money is invested, the account balance may or may not have since regained lost ground. If you haven't already revisited your investment allocations, now would be a good time. Do the assets in the account—normally mutual funds or individual stocks and bonds—support your long-term financial goals? Does the investment mix feel comfortable in terms of the financial risk it entails? Do you need to rebalance, trimming allocations that have grown too large and adding to those that fall short of the ideal percentage in your portfolio?

2. Beneficiary designations could be out of date. When you set up your IRA, you had to indicate who would receive the account assets if you died. But your financial circumstances may have changed since then. A divorce would have obvious implications, and retirement plan assets are often a part of the financial settlement when a marriage breaks up. Other family changes, however, can be easy to overlook. You and your spouse may decide to divide the account among your children, and if they're minors, the beneficiary designation would be different than if they've already reached the age of adulthood in your state. The important thing to remember is that you're not bound by your original choices, but it's important to know what your beneficiary form says.

3. Additional rollovers or transfers may be in order. Consolidating your retirement accounts in one place has several potential advantages. Getting allocations right in a single account is easier than trying to

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Thinking In Real (Inflation-Adjusted) Terms

Since the onset of the financial crisis in late 2007, the Federal Reserve has used interest-rate cuts and other policy tools in an effort to fuel economic growth.

Consumers, business, and government all benefit from low borrowing costs. But on the flip side, investors earn almost nothing on their cash balances. This has been the case in most months since 2008, when the Fed cut short-term interest rates to near zero to spur a recovery. Coupled with negative real yields on short-term Treasury securities occurring most months since October 2010, investors are losing wealth in real terms by not keeping up with inflation.

It is no surprise that investors have been tempted to flee the capital markets for the perceived safety of cash, with the intent to return to stocks and bonds when the economy shows signs of improvement. The problem is that no one can consistently time markets, and the signs are never clear. Your purchasing power quietly erodes and you may lose wealth even as you try to protect it.

If you have questions regarding your own investment strategy, please contact me.

Note: Standard Mileage Rate Increase. Effective July 1, business rate is 55.5 cents and medical/moving rate is 23.5 cents. Charitable mileage rate remains at 14 cents.

Steven L. Kane, CPA/PFS, CFP®

New Business Reporting Rules Wiped Out

A word of advice to business owners and managers: Relax.

Burdensome new tax reporting rules that were scheduled to take effect next year have been wiped clean off the books by new legislation -- the Comprehensive 1099 Taxpayer Protection and Replacement of Exchange Subsidy Overpayments Act of 2011— signed by the President on April 14, 2011. The new reporting requirements, which had threatened to bury small business owners under a mountain of paperwork, had been roundly criticized.

In addition, the new law reduces Form 1099 reporting requirements for landlords, who have to deal with this responsibility for certain expenses for the first time in 2011.

Here's a recap: For years, businesses have been required to report on Form 1040 payments compensating parties for services rendered if the annual total received by the provider equals $600 or more. This also applies to commissions, rents, royalties, interest and the like.

Both the IRS and the recipient must receive a copy of the Form 1099. It lists the amount, the recipient's taxpayer ID number and the contact information.

But the reporting requirements didn't extend to payments for goods. What's more, you generally didn't have to report payments made to corporations.

New rules: Under the Patient Protection and Affordable Care Act of 2010 (PPACA), a business was required to provide 1099s for payments to corporations, beginning in 2012. It also imposed the reporting rules on payments for goods. For example, if your business purchased raw materials from several vendors, it would have to report the annual payments of $600 or more made to each of those vendors. Other payments for "gross proceeds" (presumably payments to law firms and similar outlays) were also covered by these rules.

Now the new law provides some much-needed relief by completely repealing this section of the PPACA. Net effect: It's like the tax law change never occurred, so you won't have to worry about the extra reporting requirements for 2012.

A comparable situation involves 1099 reporting by landlords. Under the Small Business Jobs Creation Act of 2010, reporting requirements were imposed for payments for services in conjunction with rental properties, beginning in 2011. Then PPACA extended the reporting rules to payments to corporations and to payments for goods. These changes were scheduled to take effect in 2012. As with the business reporting, the new law repeals the PPACA requirements.

To offset the revenue loss caused by these repeals, the new law increases the tax that must be paid by certain taxpayers who receive an excess credit for purchasing health care insurance. The credit is available in 2014. Caution: This funding provision was controversial and could be changed before then. ●

Creating A Comfortable Financial Independence Plan

Everyone needs a financial blueprint for life after work. Operating without one is a little like closing your eyes as you barrel down the freeway. It's essential to know where you're going and how you expect to get there. But a financial independence plan will help you achieve your goals only if you incorporate it into your financial life, and that won't happen unless the plan feels comfortable. And that comes from understanding its component parts and how they're connected. Consider these elements:

Cash flow analysis. Your plan needs to project where your money will come from and where it will go during the rest of your life (and your spouse's life, too, if you're married). What will come in during retirement, from Social Security, a company pension, annuities, and from drawing down your savings? And how will that match the needs of the lifestyle you want? Several unpredictable variables complicate these calculations. Inflation affects how far your money goes, and investment returns, based in turn on economic and market cycles and your choices, determine how much you have to spend. Taxes will also play a role.

Investment choices. Three factors affect what should be in your investment portfolio. Your goals: What kind of return do you need, both while you're working and during retirement, to support your lifestyle? Your risk tolerance: How much volatility in portfolio returns are you willing to accept to meet your goals? Taking greater risks may provide higher potential long-term returns, but not if you panic and sell when the market takes a turn for the worse. And your time horizon: How long do you have to save for retirement,

Choose Social Security Payout Wisely

Social Security may make up only a small part of your expected retirement income, but it can be a crucial part, perhaps covering a significant portion of your basic expenses. Figuring out what you'll actually receive, however, can be complicated, and you'll have to choose from among many variables that could make a big difference in the amount of monthly income for you and your spouse. Understanding Social Security's complex rules needs to be an essential part of your retirement planning.

Social Security retirement benefits are generally based on your lifetime earnings and your age when you request the benefits. If you opt to start getting a monthly check at age 62, the earliest possibility, you'll receive less than you would if you started receiving benefits at your full retirement age— between ages 65 to 67, depending on the year you were born. Full retirement age for baby boomers born from 1943 through 1955 is 66.

How much you'll lose by beginning benefits at age 62 ranges between 20% and 30%, again depending on when you were born. For example, the reduction for someone born in 1950 is 25%. So if you would be entitled to a $2,500 monthly benefit at age 66, you would receive only $1,875 if you retired at age 62. The later you were born, the steeper the reduction, which peaks at 30% for those born after 1959.

There's an additional incentive for postponing benefits even longer. If you wait until age 70 to begin taking Social Security, you'll receive a significantly higher monthly amount—an extra 8% for each year you delay benefits—than if you had started at full retirement age. For someone born in 1953, for example, waiting those four extra years, from age 66 to age 70, could add more than 34% to the monthly benefit.

Things get really tricky when you try to figure out Social Security retirement benefits for a married couple. Each spouse is entitled to a benefit based on his or her own earning history and the age at which benefits begin. But if a wife, for example, has earned considerably less than her husband has, her benefit at full retirement age will be the greater of her own benefit or a spousal benefit that could be as much as half of her husband's benefit.

Other complications may arise if one spouse continues to work. If the low-earning spouse works past full retirement age while the other spouse has retired, also at full retirement age, the working spouse can begin receiving the 50% spousal benefit. Then, when the working spouse reaches age 70, he or she can claim increased benefits in lieu of the spousal benefit.

Though the Social Security Administration sends you an updated estimate each year of what your future benefits may be, that's unlikely to answer all of your questions. Here are two hypothetical examples illustrating strategies that might maximize a couple's total benefits. The first involves something known as the 62/70 split. Suppose that a husband's full retirement benefit is $2,150 a month and the full benefit for his wife, who's the same age, is $1,080. If she begins taking benefits at age 62, she'll receive a reduced amount—$720 a month. But if her husband delays his claim until age 70, he'll collect $3,300. If he dies at 82, his monthly benefit will have grown to $4,600, and that becomes the wife's survivor benefit—almost 90% more than she would receive if her husband had also begun taking benefits at age 62.

But could this couple do even better? Suppose that the husband applied at age 66 for a spousal benefit based on his wife's earnings record, letting his own benefit continue to grow. Because he has reached his full retirement age, the husband qualifies for the maximum spousal benefit of $540 a month—half of the wife's $1,080 benefit. When he reaches age 70, he can drop the spousal benefit and begin collecting his own much larger benefit.

Beyond studying your annual benefits statement from the government, you can visit www.ssa.gov for a wealth of additional information as well as online calculators that can help you estimate your benefits under different scenarios. But as you weigh your choices, you may also want to factor in other factors, including your health, your life expectancy, your need for cash during retirement, and the retirement lifestyle you're planning. We can help you consider the role Social Security may play for you and work with you to make informed decisions about your government benefits. ●

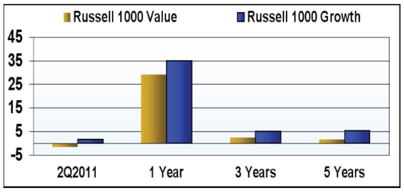
what is your tax bracket, and how many years do you need your savings to last?

Contingency plans. Job losses, expensive illnesses, or the unexpected death of you or your spouse could put your plan off track. There could also be unforeseen expenses involving your children or parents, and the need for nursing home care during retirement could quickly drain your savings. Having a cash cushion along with life, disability, and long-term care insurance can prepare you to handle potential setbacks. Not planning for lifestyle changes is a major mistake and will put your financial future in jeopardy.

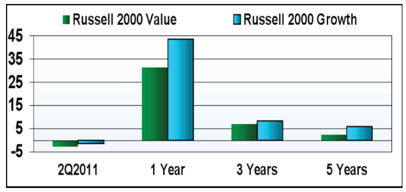
Estate planning. This is crucial even if estate taxes aren't likely to be an issue. You need a will, periodically updated, and a letter of instruction that tells heirs where to find information about financial accounts, life insurance, safe deposit boxes, and the like. It's also important to designate beneficiaries for 401(k)s, IRAs, and other financial accounts that reflect your wishes and take into account potential tax liability.

It can be complicated to weave together all of these elements. But we have the tools, expertise, and experience to help you create a financial plan that feels comfortable. ●

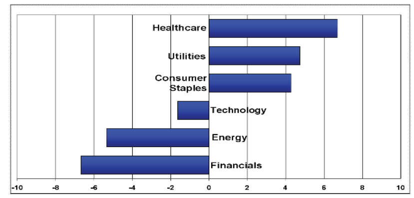
Market Data Bank: 2nd Quarter 2011



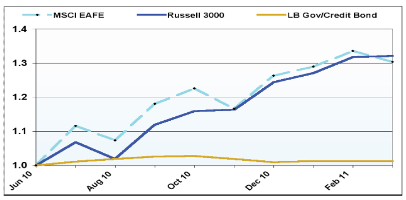
LARGE VALUE VS. LARGE GROWTH
After a two-year rally, only the biggest growth-oriented U.S. companies had much upward momentum left by the end of 2Q2011. Large value shares, led by leading banks, retreated 0.5%.



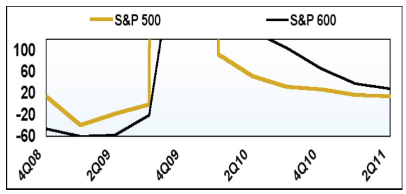
SMALL VALUE VS. SMALL GROWTH
Shifting economic sentiment turned investors cautious about expanding their exposure to traditionally more sensitive small-cap shares. Both small growth and small value ended with slight losses.



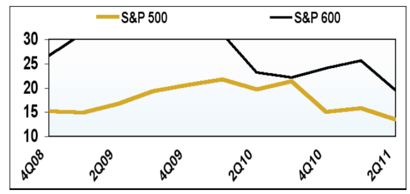
THREE BEST AND WORST SECTORS
As investors grew more cautious, market leadership shifted to healthcare and utility stocks, seen as more defensive in any economic climate. Once-high-flying energy and financial shares declined.



FOREIGN, US STOCKS & US BONDS
Global markets fared only slightly better than their U.S. peers. Between April and June, foreign stocks edged up 2%, putting their full-quarter performance on par with that offered by Treasury securities.



LARGE VS. SMALL STOCK EARNINGS
The biggest U.S. companies found new sources of growth harder to come by in 2Q2011. Still, large- and small-cap corporations alike managed to expand their profits at a double-digit pace.



PRICE-TO-EARNINGS RATIO
Flat markets and expanding corporate profits made U.S. stocks cheaper on a fundamental basis. By the end of 2Q2011, large- and small-cap shares traded at P/E ratios of 13.5 and 19.5, respectively.

Small-cap stocks represented by Russell 2000 index, large-cap stocks represented by Russell 1000 index. Foreign stocks represented by the Morgan Stanley Capital/ International's Europe, Australia, Far East Index, and US bonds by the Lehman Bros. Government/Corporate Bond Index. P/E ratios exclude negative earnings. Small-cap stocks tend to be more volatile than large-caps. Bonds offer a fixed rate of return while stocks will fluctuate. Indices are unmanaged and do nott represent any specific investment. Foreign investing involves special risks, including political unrest, economic instability, and currency fluctuation. Past performance does not indicate future results.

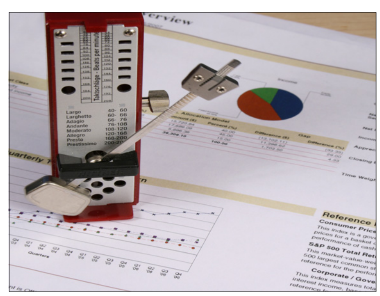
Source: Russell/Mellon

4 Reasons To Reexamine

(Continued from page 1)

mix and match investments in several, and you can hold all of your money in an account that meets your priorities regarding investment choices, fees, service, and other factors. Just keep in mind that rollovers must be completed within 60 days to avoid current taxes, and in order to avoid having taxes withheld in a transfer from an account at work, you need to arrange for a "trustee-to-trustee" transfer in which you never touch the money. (Otherwise, you'll have to wait until you file your taxes to recoup the withheld amount.) The same rules apply whether you're moving from a 401(k) to an IRA or moving money between two IRAs. But if you rollover funds from one IRA to another, you can't do another rollover involving those accounts for at least a year.

4. A Roth IRA might be a better fit. If you established an IRA before 1998, a Roth IRA wasn't an option, and before 2010, converting a traditional IRA to a Roth may not have been possible because of a $100,000 ceiling for modified adjusted gross income in the year of conversion. But now, anyone can convert an IRA to a Roth IRA, which provides tax-free distributions during retirement. To get that advantage, you'll have to pay income tax on the previously untaxed funds you move from a traditional IRA. Whether a conversion makes sense for you depends on several factors, including whether you expect to be taxed at a higher or lower rate during retirement, and whether you intend to leave all or part of your retirement account to your heirs. You can also decide to make only a partial conversion, or to move the money gradually over several years.



Your retirement accounts are an essential part of your overall financial picture, and we'll work with you to make sure your money is deployed in a way that makes the most sense for your situation. ●

Steven L. Kane, CPA/PFS, CFP® Kane Company, P.C. 5526 N.W. 86th Street, Suite A, Johnston, Iowa 50131
phone: (515) 270-2727 fax: (515) 270-1509 email: KaneCompany@kanecompanypc.com www.kanecompanypc.com