

2012 FINANCIAL PLANNING: A GUIDE TO THE YEAR AHEAD

HIGHLIGHTS

The intent of this guide is to raise awareness of important non-investment personal financial matters and to provide a framework for your review. Clearly, there are many more topics under the umbrella of financial planning that are not covered in this report. As was the case in 2011, this year's guide summarizes the major points pertaining to the two-year extension of the Bush-era tax cuts. Georgia residents please note the details of the Georgia retirement income exclusion outlined in the *For Georgia Retirees* section.

FEDERAL INCOME AND ESTATE TAXES

Below is a list of the federal tax rates under existing laws and the timeline for the "sunsetting" of these provisions:

Federal Tax Rate on Dividends and Capital Gains

	10% and 15% Tax Brackets	25% or Higher Tax Brackets
Short-Term (one year or less)	Ordinary Rate	Ordinary Rate
Long-Term (longer than one year)	5%	15%
Dividends	Qualified dividends are taxed as long-term net capital gains. Nonqualified dividends are taxed at ordinary income tax rates.	

Sunset Timeline for Current Federal Tax Provisions

	2012
Dividend Tax Rates	X
Capital Gains Tax Rates	X
Income Tax Rates	X
Estate Tax Rates	X

Federal Tax Rate on Ordinary Income Married Taxpayer Filing Jointly / Surviving Spouse

2012 Taxable Income	Tax
\$17,400	10% of taxable income
\$17,401 to \$70,700	\$1,740 plus 15% of the excess over \$17,400
\$70,701 to \$142,700	\$9,735 plus 25% of the excess over \$70,700
\$142,701 to \$217,450	\$27,735 plus 28% of the excess over \$142,700
\$217,451 to \$388,350	\$48,665 plus 33% of the excess over \$217,450
Over \$388,350	\$105,062 plus 35% of the excess over \$388,350

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Federal Lifetime Estate Tax Exemption, Annual Gift Tax Exemption Amounts, and Estate Tax Rates

Calendar Year	Estate Tax Exemption Per Person	Annual Gift Tax Exclusion Per Person	Highest Tax Rate Estate and Gift Tax
2012	\$5.12 million	\$13,000	35%

WILLS AND MEDICAL DIRECTIVES

WILLS AND ESTATES

- ◆ Having a Will – Without a will, the laws of the state will determine what happens to your estate.
- ◆ Spousal Exemptions – For 2012, a deceased spouse’s executor may elect any of the \$5.12 million exemption amount not used by the estate of the first spouse.
- ◆ Credit Shelter Trust (CST) – The CST is an instrument commonly used to support the surviving spouse while maintaining the applicable estate tax exemption. The CST is a trust account funded with the applicable exemption amount at the time of the first spouse’s death that provides the surviving spouse with income for life and access to the principal of the trust in special circumstances relating to “health, maintenance, and support.” Any remaining principal from the CST at the time of the second death will pass to the trust’s beneficiaries free of estate taxes.

MEDICAL DIRECTIVES

- ◆ The Durable Power of Attorney (DPOA) may be thought of as a way to take care of your assets, while the Health Care Durable Power of Attorney (HCDPOA) can be thought of as a way to take care of your person. Typically, the spouse is named the primary attorney-in-fact and a child or children are named as alternates. Many people have what is known as a Springing DPOA, which becomes effective only upon the written certification by an attending physician that a spouse is no longer able to effectively handle their personal affairs.
- ◆ The Living Will is generally considered in estate planning because it deals with certain health-related issues. The Living Will is designed to let a person provide direction for care in the event of a catastrophic illness or injury from which he or she will not recover. Once a physician has certified an event of this type has occurred, the Living Will dictates to the physician and hospital the type of care you authorize. Normally, this instrument is used to prevent life being sustained by medical devices.

RETIREMENT PLANNING

- ◆ Tax Rate – Distributions are considered ordinary income and not capital gains.
- ◆ Beneficiaries – Since IRA beneficiaries were often selected many years ago, you may consider checking the official IRA beneficiary records maintained at the brokerage firm that holds the assets.
- ◆ Age for Distributions – Money typically cannot be withdrawn without penalty before the age of 59½. Money must begin to be withdrawn by the age of 70½. The deadline for the initial withdrawal is April 1 of the year following the year in which the individual turns 70½.

Required Annual Minimum IRA Distributions

<u>Age</u>	<u>Annual Distribution Rate</u>	<u>Age</u>	<u>Annual Distribution Rate</u>
70	3.650%	86	7.092%
71	3.774%	87	7.463%
72	3.906%	88	7.874%
73	4.049%	89	8.333%
74	4.202%	90	8.772%
75	4.367%	91	9.259%
76	4.545%	92	9.804%
77	4.717%	93	10.417%
78	4.926%	94	10.989%
79	5.128%	95	11.628%
80	5.348%	96	12.346%
81	5.587%	97	13.158%
82	5.848%	98	14.085%
83	6.135%	99	14.925%
84	6.452%	100	15.873%
85	6.757%	101	16.949%

Note: The above annual distribution rate percentages are applied to the prior year end account balances. RMDs are normally calculated by your brokerage firm.
Exceptions: This table does not apply to beneficiaries of a deceased IRA owner, or if the sole beneficiary of the IRA is the participant’s spouse who is more than ten years younger than the participant.

INSURANCE

LONG-TERM CARE INSURANCE

The visibility of long-term care insurance has increased significantly in recent years, due in part to greater advertising of the product, and also to rapidly rising healthcare costs.

The appropriateness of long-term care insurance depends upon many factors, including:

- ◆ Cost of the Policy vs. the Benefits – As with life insurance, because of the time value of money, paying in money today for a benefit that may be 30 years away is often less economical than it may seem.
- ◆ Reduction in Lifestyle Expenses – How much you spend on yourself today and how much spending might decline in the event of incapacitation, relative to the cost of the policy is a critical consideration. If lifestyle spending is likely to significantly decline, the cost of long-term care may indeed be a substitute cost rather than an additional economic burden.
- ◆ The “Fine Print” – What are the actual benefits, qualifications, and limitations? Does the insurer have the right to choose the provider? Are the benefits limited in duration or dollar coverage?

HOMEOWNER’S INSURANCE

- ◆ Structures Coverage – Construction costs have increased a great deal over the last ten years, which means that the replacement cost also has risen. Therefore, insurance coverage on your structures should increase commensurately.
- ◆ Contents Coverage – Antique, rare item, and collectable values have appreciated over the last ten years. Therefore, contents coverage should also be updated, perhaps to include a “fine arts policy.”

*“Consider cost,
lifestyle expenses,
content value, and
“the fine print.”*

LIFE INSURANCE

For individuals/families working and with dependents, life insurance is critical. Alternatively, for those who are independently wealthy, the benefit of life insurance is typically limited to reducing the estate tax burden on beneficiaries.

Some considerations to determine the suitability of life insurance for estate tax considerations:

- ◆ Cost of the Policy vs. the Benefits – Because of the time value of money, paying in money today for a benefit that may be 30 years away is often less economical than it may seem.
- ◆ Estimated Estate Value.
- ◆ Liquidity of the Estate.
- ◆ Please note that existing policies have different considerations from new ones, as an existing policy might have significant equity value built-up in them, and/or different costs and payout structures. Also, whole life policies versus term life policies have decidedly different cost and benefit structures.

OTHER PLANNING

EDUCATION PLANNING

Features	529 Plans	Education Saving Accounts	Custodial Accounts (UGMA)
Income limitations for participation	None	Joint filers: \$190K-\$220K	None
Control of the account	Account owner	Custodian controls until beneficiary turns 30	Custodial controls until age of termination (21 in GA)
Annual contribution limits	\$120K for joint filers with no additional contributions for the next four years	\$2K per beneficiary under age 18	\$26K per year for joint filers without being subject to federal gift tax
Current taxation of earnings	Earnings are tax-deferred until withdrawn	Earnings are tax-deferred until withdrawn	Income under \$950 no tax Income \$950-\$1,900 taxed at child's rate Income over \$1,900 taxed at the parents' top marginal rate
Qualified distributions are federal tax-free	Yes	Yes	N/A
May have state tax benefits	Yes	Yes	No
Taxation/penalty for withdrawals for nonqualified expenses	Yes	Yes	N/A
Investment alternatives	Choice of mutual funds	Owner chooses investments	Owner chooses investments
Can be used for college expenses	Yes	Yes	Yes
Can be used for primary and secondary school expenses	No	Yes	Yes
Can change beneficiaries	Yes	Yes	No

Note: In 2012 for custodial accounts, investment income above \$1,900 for a child 19-years-old or younger, or full-time student over 19 but under the age of 24, typically is subject to tax at the parents' rate, assuming it's higher than the child's.

FOR GEORGIA RETIREES

GEORGIA RETIREMENT INCOME EXCLUSION

“This bill’s intent was to keep retirees from leaving Georgia....”

- ◆ Georgia Governor Sonny Perdue signed House Bill 1055 into law on May 12, 2010.
- ◆ This bill gradually increases the exclusion amount of retirement income for state income tax purposes for retirees.
- ◆ Retirement income includes interest, dividends, rent and royalty income, capital gains, pensions/IRA distributions, annuities, and up to \$4,000 of earned income.
- ◆ This bill’s intent was to keep retirees from leaving Georgia and moving to Florida or other states where there was no income tax.

Year	Exclusion Amount
2011	\$35,000
2012	\$65,000
2013	\$100,000
2014	\$150,000
2015	\$200,000
2016	Unlimited