Your Financial Future

Pursuing Life Goals Together

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Dear Friends and Colleagues,

April is the time of year that we are forced to look at our financial lives. How much did we really earn last year? How much did we put away for retirement years - could we have put away more? What percentage of my accounts and investments are in regular, taxable accounts and in tax-deferred accounts such as IRAs and 401(k)s? Taxes make up one of the largest expenses in retirement!

April will find me in San Diego at the Institute of Divorce Financial Analysts' annual conference. To help my clients who are going through a divorce, I meet with the experts in the Divorce Financial Planning arena, and keep up to date on the best practices for splitting marital assets and liabilities, as well as divorce strategies and survival! If you have any questions that you'd like to have brought up at the conference, please send me an email!

Best,

Pam

April 2013

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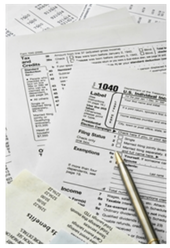
Federal Income Tax Filing Season Is Here



The due date for 2012 federal income tax returns is April 15, 2013. Whether you're preparing your own taxes or paying someone else to do them for you, you'll want to start pulling things together sooner rather than later. That includes gathering a copy of last year's tax return, W-2s, 1099s, and deduction records.

Filing for an extension

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2013) to file your return. Don't make the mistake of assuming that the extension gives you additional time to pay any taxes due, though. If you do not pay any taxes you owe by April 15, 2013, you'll owe interest on the tax due, and you may owe penalties as well. Special rules apply if you're living outside the country or serving in the military outside the country on April 15, 2013.

There's still time to contribute to an IRA

You generally have until the due date of your federal income tax return (April 15) to make contributions to either a Roth IRA or a traditional IRA for the 2012 tax year. That means there's still time to set aside up to $5,000 ($6,000 if you're age 50 or older) in one of these retirement savings vehicles. It's worth considering, in part because contributing to an IRA can have an immediate tax benefit. That benefit comes in the form of a potential tax deduction--with a traditional IRA, if you're not covered by a 401(k) or another employer-sponsored retirement plan (if your spouse is covered by an employer plan, you're considered to be covered as well), you can generally deduct the full amount of your contribution. (If you're covered by an employer-sponsored retirement plan, whether or not you can deduct some or all of your traditional IRA contribution depends on your filing status and income.)

It's a little different with a Roth IRA; if you qualify to make contributions to a Roth IRA (whether you can contribute depends on your filing status and income), the contributions you make aren't deductible, so there's no effect on your 2012 taxes. Nevertheless, a Roth IRA may be worth considering because qualified Roth distributions you take in the future are completely free from federal income tax.

There's also still time to undo a 2012 Roth conversion

Did you convert a traditional IRA to a Roth IRA in 2012, only to see the account drop in value? Wish you could go back in time so that you wouldn't have to pay tax on the value of the IRA assets lost in the downturn? Turns out, you can. If you undo ("recharacterize") the conversion, you're treated for tax purposes as if the conversion never happened--you wind up with a traditional IRA again and no tax bill for the conversion. You generally have until the due date of your 2012 return, including extensions, to recharacterize a 2012 Roth conversion (note that special rules allow individuals who file timely 2012 returns to recharacterize up until October 15, 2013--talk to a tax professional about the details).

If you do recharacterize your 2012 conversion in 2013, you're allowed to convert those dollars (and any earnings) back to a Roth IRA ("reconvert") after waiting 30 days, starting with the day you transferred the Roth dollars back to a traditional IRA. If you reconvert in 2013, then all taxes due as a result of the reconversion will be included on your 2013 federal income tax return.

Review casualty loss deduction rules

If you were one of the many individuals who suffered property damage or loss as a result of late-2012 storms (e.g., October's Hurricane Sandy), be sure to familiarize yourself with the casualty loss rules--you may be entitled to a deduction for storm-related losses that weren't covered by insurance. Review IRS Publication 547, Casualties, Disasters, and Thefts for details.

Understanding the New Medicare Tax on Unearned Income

Health-care reform legislation passed in 2010 included a new additional 0.9% Medicare tax on wages, compensation, and self-employment income over certain thresholds. This new tax also took effect on January 1, 2013. The 0.9% tax does not apply to income subject to the NIIT. So while you may be subject to both taxes, the taxes do not apply to the same types of income.

Health-care reform legislation enacted in 2010 included a new 3.8% Medicare tax on the unearned income of certain high-income individuals. The new tax, known as the unearned income Medicare contribution tax, or the net investment income tax (NIIT), took effect on January 1, 2013.

Who must pay the new tax?

The NIIT applies to individuals who have "net investment income," and who have modified adjusted gross income (MAGI) that exceeds certain levels (see the chart below). (Estates and trusts are also subject to the new law, although slightly different rules apply). In general, nonresident aliens are not subject to the new tax.

Filing Status	MAGI over ...
Single/Head of household	$200,000
Married filing jointly/ Qualifying widow(er)	$250,000
Married filing separately	$125,000

What is MAGI?

For most taxpayers, MAGI is simply adjusted gross income (AGI), increased by the amount of any foreign earned income exclusion.

AGI is your gross income (e.g., wages, salaries, tips, interest, dividends, business income or loss, capital gains or losses, IRA and retirement plan distributions, rental and royalty income, farm income and loss, unemployment compensation, alimony, taxable Social Security benefits), reduced by certain "above-the-line" deductions (see page one of IRS Form 1040 for a complete list of adjustments).

Note that AGI (and therefore MAGI) is determined *before* taking into account any standard or itemized deductions or personal exemptions. Note also that deductible contributions to IRAs and pretax contributions to employer retirement plans will lower your MAGI.

What is investment income?

In general, investment income includes interest, dividends, rental and royalty income, taxable nonqualified annuity income, certain passive business income, and capital gains--for example, gains (to the extent not otherwise offset by losses) from the sale of stocks, bonds, and mutual funds; capital gains distributions from mutual funds; gains from the sale of interests in partnerships and S corporations (to the extent you were a passive owner), and gains from the sale of investment real estate (including gains from the sale of a second home that's not a primary residence).

Gains from the sale of a primary residence may also be subject to the tax, but only to the extent the gain exceeds the amount you can exclude from gross income for regular income tax purposes. For example, the first $250,000 ($500,000 in the case of a married couple) of gain recognized on the sale of a principal residence is generally excluded for regular income tax purposes, and is therefore also excluded from the NIIT.

Investment income does not include wages, unemployment compensation, operating income from a nonpassive business, interest on tax exempt bonds, veterans benefits, or distributions from IRAs and most retirement plans (e.g., 401(k)s, profit-sharing plans, defined benefit plans, ESOPs, 403(b) plans, SIMPLE plans, SEPs, and 457(b) plans).

Net investment income is your investment income reduced by certain expenses properly allocable to the income--for example, investment advisory and brokerage fees, investment interest expenses, expenses related to rental and royalty income, and state and local income taxes.

How is the tax calculated?

The tax is equal to 3.8% of the lesser of (a) your net investment income, or (b) your MAGI in excess of the statutory dollar amount that applies to you based on your tax filing status. So, effectively, you'll be subject to the additional 3.8% tax only if your MAGI exceeds the dollar thresholds listed in the chart above.

Example: *Sybil, who is single, has wages of $180,000 and $15,000 of dividends and capital gains. Sybil's MAGI is $195,000, which is less than the $200,000 statutory threshold. Sybil is not subject to the NIIT.*

Example: *Mary and Matthew have $180,000 of wages. They also received $90,000 from a passive partnership interest, which is considered net investment income. Their MAGI is $270,000, which exceeds the threshold for married taxpayers filing jointly by $20,000. The NIIT is based on the lesser of $20,000 (the amount by which their MAGI exceeds the $250,000 threshold) or $90,000 (their net investment income). Mary and Matthew owe NIIT of $760 ($20,000 x 3.8%).*

Note: *The NIIT is subject to the estimated tax rules. You may need to adjust your income tax withholding or estimated payments to avoid underpayment penalties.*

Real-life Financial Tips for Different Generations

Do you remember The Game of Life®? In Milton Bradley's popular board game, players progress through life stages making decisions that affect their prosperity. Like those players, today's generations face financial decisions with lasting effects. Here are some tips for staying focused despite life's ups and downs.

Generation Z (teens to early 20s):

Accustomed to instant gratification, the "Digital Generation" may need to recognize that financial success takes diligence and patience. Consider sharing the following advice with the Gen Zers in your life:

Live within your means. Your first paycheck provides the chance to learn valuable lessons, such as creating a budget and spending less than you earn.

Build a saving habit. You have one powerful advantage over other generations--time. Why not make saving automatic and direct a part of your paycheck into a savings or investment account?

Understand credit and credit reports. A good credit history helps you get a car loan and a mortgage, but a bad one can ruin your borrowing chances for years. Reviewing your credit report regularly can help you manage your finances and protect your identity.

Generation Y (20s and early 30s):

In this group, you could be juggling your first "real" job, college loans, marriage, a first home, and young children. Three points for you:

Risk management isn't just for companies. Save 6 to 12 months' worth of living expenses in a savings account for unexpected emergencies. Review your insurance, and at a minimum, have health and property coverage. Also consider disability insurance, which helps pay the bills during a health crisis.

Start saving for retirement ... Like Generation Z, time is your strongest ally. Participate in a retirement savings plan at work, if offered, and if your employer offers a match (free money!), contribute enough to get all of it. If you don't have a plan at work, open an individual retirement account (IRA) and invest what you can (up to annual limits).

... And your children's college. In 18 years, a four-year degree could cost as much as several hundred thousand dollars. Give your children a head start by saving now.

Generation X (30s and 40s):

Home ownership, older children, a career in full swing--if you're in this group, your finances may take a back seat to life's daily demands. To help stay focused, consider the following:

Retirement savings trump college savings. Don't risk your future to pay for your children's entire education. There's no financial aid office in retirement.

Don't neglect your health. Are you experiencing new aches and pains? At this age, medical issues can begin to surface, demanding time, energy, and financial resources. Take care of yourself, and before an emergency arises, review your health and disability coverage.

Create a will, if you don't already have one. This important document can help ensure your children are cared for and your assets are distributed according to your wishes. Medical directives should also be established now.

Baby boomers (50s and 60s):

If you're in this age group, you may have both adult children and elderly parents who need assistance, as well as an impending or current retirement. Pointers for you include:

Shift your retirement savings into high gear. People over 50 benefit from higher savings limits on 401(k)s and IRAs. Strive for the maximum.

Visit a financial professional. When should you tap Social Security and your retirement savings? How should you invest your assets to potentially provide a lifetime of income? A financial professional can be a critical coach at this time of your life.

Investigate long-term care insurance. These policies help protect your family's assets from the potentially devastating effects of long-term care. The older you get, the more expensive these policies can be.

Retirees:

The Game of Life ends when players reach retirement, but not so in real life--you still have years ahead of you. Consider the following:

Review the basics. Whether you plan to travel to exotic locales or play board games with your grandchildren, a key to happiness is living within your means. Develop a realistic budget and don't exceed your spending limits.

Manage your income stream. A financial professional can help you choose vehicles and determine an investment strategy to help ensure you don't outlive your assets.

Plan for your family's well-being. A properly crafted estate plan can help you ensure that your wishes are carried out--for both your and your family's peace of mind.

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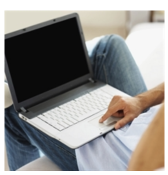
I'm going on a cruise--do I need to purchase travel insurance?

It depends. The decision to purchase travel insurance really comes down to whether the financial benefit outweighs the cost of the policy premium. For example, if you had to cancel your trip, could you afford to lose the money you paid for the trip? If not, a travel insurance policy might be right for you. You can purchase travel insurance from a travel agency, tour operator, cruise line, car rental company, or directly from an insurance company. There are a number of different types of travel insurance, and the type of coverage offered, policy terms, and cost will vary.

The most common type of travel insurance policies are those that offer trip cancellation/trip interruption coverage. This type of coverage will reimburse you if you have to cancel your travel plans before you leave or cut your trip short due to an unforeseen event. Covered contingencies can include anything from a hurricane to your cruise line operator going out of business. Other types of coverage that are marketed to travelers include baggage protection, which provides 24-hour protection for your belongings, and accidental death and dismemberment insurance (AD&D), which compensates you if you lose a limb or eye or compensates your beneficiary(ies) if you die in an accident. Keep in mind that before you purchase travel insurance, you'll want to make sure that you don't already have other types of insurance that offer duplicate forms of coverage. For example, your homeowners policy may cover your belongings if they are lost or stolen while you are traveling, or your life insurance policy may provide coverage for accidental death and dismemberment.

Finally, whenever you travel, you should make sure that you'll be adequately covered by your health insurance policy. If you aren't covered or if the coverage provided is limited, you should consider purchasing a temporary health insurance policy. These policies pick up where your current health insurance coverage leaves off and provide coverage if you are hurt, injured in an accident, or get sick while you are traveling. They can even provide coverage for medical evacuations--something that is especially important if you are traveling outside of the United States.



My laptop was stolen and my personal financial information was stored on it. How can I protect myself against identity theft?

You are right to be concerned about identity theft since identity thieves can use your personal financial information to access bank accounts and credit cards, and make unauthorized transactions in your name. As a result, it's important to act fast in order to protect yourself from any potential attempts at misusing your financial information.

Your first step should be to contact one of the three major credit reporting agencies, i.e., Equifax, Experian, or Transunion, and place a fraud alert on your credit report to prevent someone from opening a new account in your name. The agency you contact will then forward your information to the other two agencies. You can also find out if your state allows you to "freeze" your credit report, which will prevent any unauthorized access to your credit information. Once you place a fraud alert on your credit report, you are entitled to a free copy of your report from each of the credit reporting agencies. Review each of your credit reports and notify the agencies of any fraudulent or suspicious activity. You should also contact any financial institutions or credit card companies with which you have accounts. Ask to have your current accounts closed and open new ones with new account numbers. If possible, you should also request that your new accounts include additional safeguards such as password protection.

Finally, if you suspect that your financial information has already been misused, you'll want to consider taking the following steps:

- Contact the appropriate financial institution and dispute any unauthorized charges or transactions as soon as possible. Generally, your liability will depend on how quickly you notify them.
- Consider filing a complaint with the Federal Trade Commission (FTC), which will entitle you to certain identity theft protections. You can go to www.ftc.gov for more information.
- File a police report with your local law enforcement agency. A police report can be helpful when filing an extended fraud alert or disputing unauthorized transactions.

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