Korbitz Financial Planning

Newsletter

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Now that tax filing season is behind us, it is time to look forward to "spring" and summer. Many of us experienced near summer like conditions in March, which has made April a bit more challenging. I hope you enjoy the new newletter format that I am using this year. Please let me know how you like it!

Eric

April 2012

A Remembrance..................

I would like to share some thoughts with you about my father-in-law, Audrey J. Kleinschmidt, CPA, who passed away on January 29th. On that day the country lost another of the "greatest generation." Audrey did not serve in World War II, as many of that generation did, but he served others his entire life. When he was a small child Audrey contracted polio. Though he survived the polio it left his legs weakened for the rest of his life. This was the reason he was not in the military service. Audrey went on to become a CPA, and the third partner in a Madison CPA firm named Smith & Gesteland. Audrey married his wife Pat, and they raised four wonderful and successful children, Jim, Ann, Mark and my wife Lucy. I first met Audrey in 1982 and really did not know he had any type of disability until later on. Audrey was a giver. He said yes. As one of the former Executive Directors of the Wisconsin Institute of CPAs (WICPA) said to me at Audrey's funeral, "As an executive director you know who your 'go to guys' are, and I never hesitated to go to Audrey." Audrey served others by leading, among other organizations, the WICPA, the Serra Club of Madison, and the Madison Club.

One of the many things I learned from Audrey was a lesson in life, and indirectly, in financial planning. He did not know he had taught me this lesson, but he did. Audrey knew that his weakened legs could only carry so much, for so long. He took great pains to exercise, as much as he could, and to watch what he ate and how much he ate. He was not a thin man because of his polio, but he kept himself a thin man to avoid as many consequences of polio as he could. Audrey took care of the one body he had.

When Audrey had applied for Long Term Care insurance in the 1990s, he was denied because of his post-polio disability. When, in his final months he took a fall and was admitted to the hospital, we realized that in his nearly 89 years, this was only the second time he had been hospitalized, and the other was when he had his tonsils out as a young boy! Now I realize luck plays a part in all our lives. But I remain convinced that it was the care and attention that Audrey paid to his body that allowed him to live a long life, relatively free of medicine and medical attention. Thus, one of the many lessons I have learned from Audrey is my #1 financial planning tip—take care of the one body that you have.

The consequences of our health are many. Our health impacts our ability to work and earn a living. It impacts our ability to acquire and maintain insurance. Our health impacts our out-of-pocket costs for healthcare itself. But most importantly of all, our health impacts our quality of life. If you have not seen your doctor in a few years, schedule a visit. If you are overweight, talk to your doctor about a plan to lose some weight. If you smoke, see how you can quit. If you don't take your medications when you should, think about the implications of not doing so, and talk to your doctor about it. And if you don't exercise, talk to your doctor about a plan to start.

I miss my father-in-law, and his subtle smile. But I will never forget the many things he has taught me, including my #1 financial planning tip.

Why Women Need Social Security

If you have any questions about the Social Security program or the benefits you may be entitled to, visit www.socialsecurity.gov, or call (800) 772-1213.

Did you know that the first person ever to receive ongoing Social Security benefits was a woman? Ever since Ida May Fuller received the first retirement benefit check in 1940, women have been counting on Social Security to provide much-needed retirement income. Social Security provides other important benefits too, including disability and survivor's benefits, that can help women of all ages and their family members.

Retirement benefits: a steady stream of lifetime income

While Social Security retirement benefits are important for everyone, they are especially important for women. Because women generally live longer and tend to have lower lifetime earnings than men, they may be more dependent on Social Security benefits in retirement.*

Fortunately, you can count on two features of Social Security to help you provide for a long retirement. First, benefits last as long as you live; although you may exhaust other sources of retirement income, it's impossible to outlive your Social Security retirement income. Second, Social Security benefits are subject to automatic cost-of-living adjustments that increase benefits when prices increase, an especially valuable feature when you have to rely on a fixed income for many years.

When you work and pay Social Security taxes, you earn credits that enable you to qualify for Social Security benefits. You can earn up to 4 credits per year, depending on the amount of income that you earn, and you'll generally need 40 credits (10 years of work) to be insured for retirement benefits. Your monthly retirement benefit will be based on your lifetime earnings. However, if you don't work outside the home or haven't worked long enough to qualify for Social Security based on your own record (or have much lower earnings than your spouse), you may still be eligible based on your spouse's record.

Disability benefits: help when you're ill or injured

During your working years, you may suffer a serious illness or injury that prevents you from earning a living, potentially putting yourself and your family at financial risk. But if you're insured under Social Security, you may be able to get disability benefits if you have worked long enough in recent years, your disability is expected to last at least a year or result in death, and you meet other requirements.

More women than ever are now insured for Social Security disability benefits. According to the Social Security Administration (SSA), in 1970, only 41% of women were insured; today, approximately 74% of women are insured.** In general, to be insured for disability benefits, you must have earned at least 20 work credits during the last 40 calendar quarters (10 years). If you qualify for benefits, certain family members (such as your dependent children) may also be able to collect benefits based on your work record.

Because eligibility requirements are strict, Social Security is not a substitute for other types of disability insurance, but it can provide basic income protection for working women and their family members.

Survivor's benefits: financial protection for your family

You probably know the value of having life insurance to protect your family, but did you know that Social Security offers valuable income protection as well? If you are insured under Social Security at your death, your surviving spouse (or ex-spouse), your children, or dependent parents may be eligible for benefits based on your earnings record.

You also have survivor protection if you're married and your insured spouse dies. If you're caring for a child who is younger than age 16 or disabled and who is entitled to benefits, you may be entitled to widow's benefits. You may also be entitled to benefits if you are age 60 or older (age 50 or older if you're disabled).

Three tips

- Use the benefit calculators available on the Social Security website to estimate your future retirement, disability, and survivor's benefits. Social Security was never intended to cover all of your financial needs, but understanding what benefits you might be entitled to can help you plan for the future.
- Consider the impact on your Social Security benefits if you plan on taking time out of the workforce. Having years of no or low earnings may mean lower benefits, and can also affect your eligibility for disability coverage.
- Check your earnings history regularly, and report any name changes right away to the SSA so that your earnings are recorded properly. If your name doesn't match SSA records, any income tax refund can also be delayed.

Sources: **Fact Sheet: Social Security Is Important to Women, SSA Press Office; **Fast Facts & Figures About Social Security, 2011, SSA*

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.

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What is personal liability insurance and do I have it?

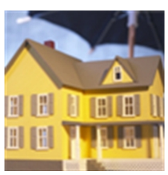
Personal liability insurance protects your assets if you injure another person or damage someone else's property. It's also known as third-party insurance because it protects you if a third party files a claim against you. Personal liability insurance can be purchased as part of a package policy (such as a homeowners or automobile insurance policy) or as a separate policy (such as a personal umbrella liability policy).

Today, lawsuits are everywhere. What if your dog bites a neighbor? What would happen if someone slips and falls on your front walk? While you may not be able to avoid all accidents, you can transfer some of the financial risk of the resulting loss to an insurance company by buying personal liability insurance.

How much liability coverage do you need? Probably more than you think you do. Because there's no optimum amount that applies to everyone, how much personal liability coverage you need depends partly on your tolerance for risk. Can you afford to pay the cost of a claim out of pocket or would even a small claim threaten your finances? If you already have liability coverage, take a look at your current policy. Determine whether your liability limits are high enough, or if there are any coverage gaps you'd like to fill.

If you own a homeowners or automobile insurance policy or another type of property insurance (e.g., mobile home insurance or renters insurance), you have basic personal liability coverage. These policies will protect you against many liability claims. Your insurance company will defend or settle claims and lawsuits brought against you and pay the sum owed for covered damages (bodily injury or property damage), up to the liability limits of the policy. If you want greater liability coverage limits or if you want broader coverage that includes more types of claims, consider buying a personal umbrella liability policy.

No personal liability insurance policy will protect you against every loss you might face. Generally, personal liability policies don't cover claims stemming from your business or profession, claims resulting from an act intended to cause injury or damage, and damage to property owned by you.



What is umbrella insurance and why do I need it?

Umbrella liability insurance (ULI) provides additional liability coverage in excess of the liability coverage provided by other insurance policies, such as homeowners, renters, and auto insurance. By providing liability protection above and beyond these basic coverages, ULI can protect you against the catastrophic losses that can occur if you are sued. Although ULI can be purchased as a separate policy, your insurer will require that you have basic liability coverage (i.e., homeowners/renters insurance, auto insurance, or both) before you can purchase an umbrella liability policy.

A typical umbrella liability policy provides protection, up to the coverage limits specified in the policy, for vehicle-related liabilities above your basic auto policy; for claims of bodily injuries or property damage caused by you or members of your household; for incidents that occur on or off your property; for non-business-related personal injury claims, such as slander, libel, wrongful eviction, and false arrest; and for legal defense costs for a covered loss, including lawyers' fees and associated court costs.

Policy exclusions vary from one insurer to another, but typically, basic umbrella liability insurance doesn't cover intentional damage caused by you or a member of your family or household; damages arising out of business or professional pursuits; liability that you accept under the terms of a contract or agreement; liability related to the ownership, maintenance, and use of aircraft, nontraditional watercraft (e.g., jet skis), and most recreational vehicles; damage to property owned, used, or maintained by you; damage covered under a workers' compensation policy; and liability arising as a result of war or insurrection.

How much liability insurance do you need? A large judgment against you could easily wipe out your assets and put your future earnings in jeopardy. That's why you should also consider factors such as how often you have guests in your home, whether you operate a home-based business, how much you drive, whether you have teenage drivers in your home, and whether your lifestyle gives the impression that you have "deep pockets." Your insurance professional can help you determine how much coverage you need.