

Smart Insights

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Smart Investments Advisory Inc.

Make it Easy on Your Heirs!

We often encourage our clients to make sure they have completed their estate plans. You've heard it before: a will and a trust. Write down your wishes as to how minor children are to be cared for and who gets a specific bequest. Also, Powers of Attorney and medical care wishes. All of these are part of an estate plan. One item that is often missing however is the "Family Meeting."

We have found that a lot of people simply don't discuss their arrangements with their heirs. Perhaps the idea of what happens after your meeting with the Grim Reaper is uncomfortable to discuss. Maybe the specifics of who gets what and possible disagreement are difficult to present. Whatever the reason, your heirs should be at least partly in the loop.

A good estate plan includes an instruction manual for the use of those left behind. Also, it makes sense to have a meeting to familiarize those left in charge with the general plan. There's no need to be specific, but they'll

thank you for a bit of knowledge, such as where the documents are stored and where to find the back-up. The manual should include copies of the wills and trusts and a location of the safety deposit box. Also, photocopies of ownership documents such as grant deeds, stock certificates, and insurance policies are required. A list of bank, brokerage and other financial accounts along with account numbers, names, addresses and contact information will be helpful. Finally, a list of advisors such as attorney, accountant and investment advisor will aid the process.

This manual will need review and update as accounts and people change, and as assets are sold or purchased. We think the time spent to create and maintain this type of program will smooth out a very difficult and emotional process.

Your family will thank you.

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LOOKING FOR INCOME?

In this era of rock bottom interest rates, many people we talk to are looking for a way to make their money work harder.

One income alternative for part of your portfolio is to own quality stocks that pay high dividends. Many companies that pay dividends are considered very stable: some have paid consistent dividends for decades.

If you would like to receive a list of income producing stocks that has been compiled by Standard and Poor's, email or call and we will see that you get one. Of course, stocks are riskier than other forms of investments, so be sure to read the risk statement that accompanies the list.

We think this is an idea worth considering.

As always, thank you for your business!

Barrick Smart, CEO/CIO

Tax Law Changes for 2011

A good mantra, for investing and for the rest of your life, is “Focus on what you can control.” While most people are inclined to put taxes into the “out of my control” bucket, that doesn't have to be the case. Where taxes are concerned, it is always a good idea to consult with a tax professional. This article is intended only as a starting point to help you become informed about tax-law changes; it does not constitute tax advice. Some of these changes have an impact only on those in very high tax brackets, while others affect individuals of all income levels.

Social Security Payroll Tax Holiday: Social Security payroll taxes have dropped from 6.2% to 4.2% for 2011, giving an effective boost in pay to all workers. (As in the past, you won't pay Social Security tax on any earnings over a certain level—currently \$106,800.) This provision is designed to get people out there spending, but a better idea, assuming you can afford it, is to divert that money to another retirement fund: your own. Increase your 401(k) plan contribution as close as you can to the annual limit; in 2011, that limit remains \$16,500 for those under 50 and \$22,000 to those over 50. And if you're already funding your 401(k), 403(b), or 457 plan to the max—or if you would rather save outside the confines of your company plan—you can direct that money to an IRA instead. IRA contribution limits are also unchanged from 2010: \$5,000 for individuals under 50 and \$6,000 for those over 50.

Alternative Minimum Tax: Toward the end of 2010, Congress put in place a so-called patch to keep a new group of taxpayers from having to pay the alternative minimum tax, a parallel tax system that disallows many of the credits and deductions that taxpayers are entitled to under the conventional tax system. That's good news, but if you've fallen into the AMT zone in the past, the latest patch isn't likely to keep you out of it. However, by taking steps to control your AMT-subject income and managing your deductions, you may be able to reduce your AMT tax hit. Some key strategies that you can employ include carefully managing the exercise of stock options (a well-versed tax advisor should be able to help

with this) and watching out for private-activity municipal bond funds, which aren't taxable under the conventional tax system but are for the purposes of AMT.

Dividend Tax: Through 2012, the tax on qualified dividends remains at zero for taxpayers in the 10% and 15% tax brackets, and is 15% for all other taxpayers.

Long-Term Capital Gains Tax: Through 2012, taxpayers in the 10% and 15% brackets will not owe capital gains tax on the sale of assets they've owned for more than one year. Long-term capital gains tax rates remain at 15% for all other taxpayers. Short-term capital gains are taxed as ordinary income.

Estate Tax: Although the federal estate tax was set to jump to 55% for estates of more than \$1 million in 2011, last-minute Congressional maneuvering resulted in a much less onerous rate for people who die with a lot of assets. The top estate tax rate is 35% for 2011 and 2012, and it only affects those who have amassed estates of more than \$5 million. Those who inherit assets will also once again receive a step-up in the cost basis of those assets, meaning that the inherited assets are valued at their fair market value as of the decedent's death.

Given the more generous estate-tax limits, you may be assuming that a visit to your estate-planning attorney isn't necessary, but even if you don't anticipate that you will ever amass \$5 million in assets, there's more to creating an estate plan than sidestepping taxes. A properly crafted estate plan will detail how you would like your assets distributed after you are gone. **Gift Tax:** The annual gift-tax exclusion stays the same as it was in 2010: \$13,000. That means you can gift \$13,000 apiece to an unlimited number of people this year without having to worry about a gift tax or even fill out the gift-tax paperwork.

How to Handle Beneficiary Designations

Designating beneficiaries for your company retirement plan, life insurance policies, and other assets might seem like a no-brainer. Chances are you would like those near and dear to you to inherit any money you've accumulated during your lifetime, so making sure that happens should be as simple as writing their names on the appropriate forms, right? Well, if only it were that simple. Naming beneficiaries can be more complicated than you might think, and it's a decision that may have significant repercussions for your loved ones.

Know the Basics: You can name almost anyone, or anything, as your beneficiary, including individuals, charities, and trusts. However, it is important to note that children under the age of majority—18 or 21, depending on the state in which you live—cannot be named as beneficiaries of life insurance policies, retirement plans, or annuities. If a beneficiary is not designated, assets will have to go through probate, which can be a lengthy and costly process. Also, be aware that beneficiary designations will override bequests you've made in your will, so please do not rely on your will to sort out these issues. This leads to our second point.

Keep Your Designations up to Date: It would be advisable to review your beneficiary designations on a regular schedule, ideally as part of an annual review of your finances. Major life events, such as a marriage, a divorce, the birth of a child, or the death of a loved one may require that you make changes to your designations. Don't procrastinate on this, as it may end up affecting others' lives. Moreover, you'll also want to review your designations if you or your employer have recently switched retirement-plan or insurance providers. You should not assume that the beneficiaries you specified with your previous provider will automatically carry over to the new one.

Bear in Mind the Tax Consequences: If you decide to designate someone other than your

spouse as the beneficiary of your company retirement-plan assets, he or she may have to take mandatory distributions from that plan and, in turn, pay taxes on the money. Your spouse, on the other hand, will be able to roll over your retirement-plan assets into his or her own individual retirement account (IRA) and won't have to pay taxes until distributions begin. There can also be estate taxes to keep in mind if you name a beneficiary other than your spouse. Needless to say, it would be in your best interest to speak with a tax advisor or someone who specializes in estate planning to go over possible tax ramifications.

Be Specific: It pays to be as specific as possible when designating beneficiaries. Most beneficiary designation forms allow you to name multiple primary and contingent beneficiaries and to specify what percentage of assets you'd like distributed to each upon your death. For example, you can state: "I hereby designate my wife, Jane Smith, as primary beneficiary" or "I hereby designate my two children, John Smith and Allison Smith, as contingent beneficiaries, with the proceeds to be divided equally among them." Of course, it is recommended that you discuss these important matters with your family members beforehand, so that they are prepared and know what to expect.

You Can Use a Legal Trust as a Beneficiary: What if you are in a situation where you can't (or you don't want to) name a person as a beneficiary? You can use what is called a legal trust. A trust means that you don't leave the money directly to the beneficiary, but to an institution (such as a bank) who manages it for the beneficiary. This is especially useful when minor children or disabled relatives are involved. A trust can be revocable (you can change the provisions later), or irrevocable (can't be undone).

Simple Steps for Late Savers

The sooner you start putting aside money for retirement, the more you might have once that highly anticipated day arrives. Saving for college tuition, purchasing a new home, unforeseen medical expenses, or life's other necessities, surprises, or even enjoyments can cause investors to postpone saving. Starting the retirement planning process late in one's life can be daunting, but it is by no means impossible.

Crunch the Numbers: The first step to getting back on track is to put together a budget—this will force you to focus on your financial situation and can serve as a roadmap to success. Once you have outlined all of your expenses, simply subtract the total from your net income. The result will give you a clear indication of how much you can potentially save, and also help you identify areas in which you may be spending too much.

Cut Any Unnecessary Expenses: There are essential expenses that cannot be eliminated: food,

electricity, etc. However, most people can identify some areas, like entertainment, that are not vital to one's existence and can be cut back on. The more areas that you can trim will lead to more money that can be earmarked for retirement.

Take Advantage of Catch-up Contributions: Catch-up contribution limits allow investors age 50 and above to increase their contribution. For example, they can make an extra contribution of \$5,500 to their 401(k) in 2011, equating to a maximum contribution of \$22,000. IRA catch-ups are \$1,000 in 2011, leading to a maximum contribution of \$6,000.

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