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Qualified Charitable Distributions Qualify for RMDs

If you're an IRA owner who must take a required minimum distribution (RMD) in 2011, you can avoid some or all of the resulting income tax liability by donating a portion of it to charity. A qualified charitable distribution (QCD), also known as an IRA charitable rollover, can not only save you income taxes, it can help minimize your taxable estate and fulfill your philanthropic desires. Through December 31, you can make tax-free transfers of up to \$100,000 directly from your IRA to qualified charities. Here are the details.

Background

The QCD provision was enacted in 2006, and was scheduled to end in 2009, but last-minute legislation extended it into 2010 and 2011.

Prior to 2006, if a donor withdrew funds from a traditional IRA in order to contribute to charity, the withdrawal had to be reported as ordinary income and was taxed at regular income tax rates. Once the contribution was made, the donor was generally entitled to an income tax deduction for the value of the charitable contribution, calculated and reported on Schedule A of Form 1040 (subject to certain limitations), which could potentially offset some or all of the taxable income generated by the withdrawal.

With a QCD, you can exclude from taxable income any IRA funds directly transferred to a charity as an outright contribution.

Note: There is currently legislation being considered in Congress that would make this provision permanent. It would also get rid of the \$100,000 cap, reduce the minimum age at which taxpayers are able to take advantage of certain giving vehicles (e.g., charitable remainder trusts) from 70½ to 59½, and make it easier for donors to give through supporting organizations, private foundations, and donor-advised funds.

Who might consider this strategy?

You would benefit most from implementing this strategy if you:

- Do not need all of the income from your RMDs

- Make charitable gifts, but don't itemize deductions (generally, only taxpayers who itemize get federal income tax-saving benefits from charitable donations)
- Make large charitable gifts, but are unable to deduct all of them in a given year because of adjusted gross income limitations
- Want to avoid being taxed on your RMDs

Certain limitations apply

Certain limitations apply to these nontaxable charitable distributions from an IRA:

- You must be at least 70½ years of age when the gift is transferred
- Total gifts cannot exceed \$100,000 per year, per IRA owner or beneficiary (married taxpayers with separate IRAs can give up to \$200,000 total per year, but no more than \$100,000 may be distributed from each spouse's IRA)
- Gifts must be made directly from your IRA to a public charity (i.e., they cannot be made to a private foundation, a supporting organization, or a donor-advised fund)
- The gifts must be outright (i.e., they cannot be used to establish a charitable gift annuity or fund a charitable remainder trust)

Note: Transfers must come from the IRAs directly to the charity. If you have retirement assets in a 401(k) or 403(b), for example, you must first roll those assets into an IRA, and then make the transfer from the IRA directly to the charity.

Note: You cannot do a QCD from a SEP-IRA or SIMPLE IRA.

What are the income tax implications?

- Federal--You do not recognize the transfer as income, as long as it goes directly from the IRA to the charity. However, you are not eligible for an income tax charitable deduction.
- State--State laws vary, so check with your financial professional.

How Much Do You Know about Social Security?



For more information, visit the Social Security website at www.socialsecurity.gov or call 800-772-1213.



Social Security is in the news more and more, as the first wave of baby boomers retire and economic pressures on the program increase. More than 90% of Americans are covered by Social Security,* but how much do you know about this important program?

How is Social Security funded?

Unlike many government programs, Social Security is funded primarily through the collection of payroll taxes. In 2010, 81.9% of funding came from this source, with the rest derived from interest earned on government bonds held by Social Security trust funds and income taxes paid on benefits.* That's why Social Security is known as a "pay-as-you-go" system. However, someone working and paying Social Security taxes today is not funding his or her own benefits, but is funding the benefits of someone who is receiving them now or in the near future--one of the reasons why Social Security is facing a potential funding shortfall. According to the Social Security Administration (SSA), the number of retired workers will double in less than 30 years, but there will be fewer workers paying into the system. And with life expectancies increasing, benefits will be paid for a longer period.*

How are earnings reported to the SSA?

If you work for an employer, your employer will send a copy of your W-2 form annually to the SSA. If you're self-employed, the IRS will report your earnings to the SSA annually after your federal income tax return has been processed.

What benefits are available?

Although Social Security is known as a retirement program, benefits are paid to people of all ages, including surviving family members and disabled individuals. In 2010, 5.7 million people were awarded Social Security benefits. Of those, 46% were retired workers, 36% were survivors or spouses/children of retired or disabled workers, and 18% were disabled workers.*

How do you qualify for benefits?

As you work and pay payroll taxes, you earn Social Security credits. Generally, you need to work 10 years to earn enough credits to qualify for retirement benefits--other benefits have different requirements. Contact the SSA if you have any questions about your benefit entitlement.

Do most people apply for early retirement benefits?

Yes. According to a report by the Government Accounting Office (GAO), 43% of people take

early retirement benefits at age 62, while almost 73% of people apply for benefits before they reach full retirement age.**

How much more will you receive if you delay applying for benefits?

For each year past your full retirement age you delay receiving benefits, your Social Security benefit will increase by a certain percentage (8% for anyone who was born in 1943 or later). For example, if your full retirement age is 66 and you delay receiving benefits until age 70, your annual benefit will be 32% higher.

Can you receive benefits based on an ex-spouse's record?

You may qualify for divorced spousal benefits if you were married for at least 10 years, you haven't remarried, you are age 62 or older, and you don't qualify for a higher benefit based on your own work record.

Do workers with lower earnings receive more from Social Security?

A worker who has lower earnings will receive a lower monthly benefit than someone with higher earnings because benefits are based on average lifetime earnings (the highest 35 years of earnings are used in the calculation). However, the Social Security benefit formula is designed to ensure that workers with lower earnings receive a greater percentage of their preretirement earnings. For example, a worker with relatively low earnings may receive a benefit that is approximately 55% of his or her preretirement earnings, while a worker with relatively high earnings may receive a benefit that is approximately 25% of his or her earnings.***

Do you have to stop working to receive Social Security retirement benefits?

No. As long as you've reached early retirement age and meet eligibility requirements, you can apply for Social Security benefits even if you decide to continue working. However, if you're younger than full retirement age and earn more than a certain amount, your benefits will be temporarily reduced (once you reach full retirement age, your benefits will be increased to account for the money that was withheld).

**Source: Fast Facts & Figures About Social Security, 2011*

***Source: GAO-11-400, Retirement Income, June 2011, based on data compiled by the SSA Office of the Chief Actuary*

****Source: SSA Publication No. 05-10045, 2011*



Tax-Advantaged College Savings Strategies



The right savings vehicle

There are many college savings options, but you should generally opt for tax-advantaged strategies whenever possible. Why? Because taxes can eat away at the money you might earn.



You're ready to start saving for college, but where should you put your money? There are many college savings options, but you should generally opt for tax-advantaged strategies whenever possible.

Why is it so important to consider strategies that offer tax benefits? Because taxes can eat away at any money you might earn.

Following are some tax-advantaged savings options to consider.

529 plans

A 529 plan, sometimes called a qualified tuition program, offers federal, and often state, tax advantages if used to save for college. There are two types of 529 plans--a college savings plan, which is an individual investment-type account, and a prepaid tuition plan, which is a pooled account that typically promises it will cover a certain percentage of college costs in the future.

With either type of 529 plan, contributions accumulate tax deferred at the federal level and earnings are completely tax free if used to pay the beneficiary's qualified education expenses. In addition, many states offer their own tax benefits, such as income tax deductions for contributions and tax-free withdrawals. If a withdrawal is used for a noneducational expense, the earnings portion of the withdrawal will be subject to federal income tax and a 10% federal penalty.

Note: Investors should consider the investment objectives, risks, charges, expenses, and prerequisites for state tax benefits associated with each 529 plan before investing. More information is available in each 529 plan issuer's official statement, which should be read carefully before investing.

Coverdell education savings accounts

A Coverdell education savings account (ESA) lets you contribute up to \$2,000 per year per child for a child's elementary, secondary, and/or college expenses. Like a 529 plan, contributions accumulate tax deferred at the federal level and earnings are tax free when used to pay the beneficiary's qualified education expenses. Similar to a 529 plan, if a withdrawal is for a noneducational expense, the earnings portion of the withdrawal will be subject to federal income tax and a 10% federal penalty.

However, only married couples with a modified adjusted gross income of \$190,000 or less and individuals with an income of \$95,000 or less can contribute the full \$2,000 per year.

Note: The Economic Growth and Tax Relief Reconciliation Act of 2001 increased the annual contribution limit for Coverdell ESAs to \$2,000 from \$500 and expanded the use of funds to K-12. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended these provisions through 2012.

U.S. savings bonds

Series EE and Series I savings bonds offer a special tax benefit for college savers--the interest earned by the bonds is exempt from federal income tax if the bonds are used to pay college expenses. However, this benefit is restricted by income level. For 2011, to exclude all of the bond interest, married couples must have a modified adjusted gross income of \$106,650 or less (\$109,250 or less in 2012) at the time the bonds are redeemed (cashed in) and individuals must have an income of \$71,100 or less (\$72,850 or less in 2012). A partial exemption of interest is allowed for people with incomes slightly above these levels. Income levels are indexed for inflation each year.

Tip: The interest earned on U.S. savings bonds is always exempt from state income tax, no matter what your income level, even if the bonds aren't used to pay for college.

UTMA/UGMA custodial accounts

A custodial account allows you to hold assets in your child's name without having to set up a trust; these assets must then be used for the benefit of the child. A custodial account doesn't offer federal tax-deferred and tax-free earnings like a 529 plan or a Coverdell account, but it does provide some opportunity for tax savings due to the way earnings generated by the account are taxed.

Specifically, earnings are taxed to the child each year pursuant to the "kiddie tax" rules, and under these rules the first \$950 of earnings is tax exempt and the next \$950 is taxed at the child's rate (any earnings over \$1,900 are taxed at the parent's rate). So, you'll have an opportunity for tax savings if the earnings in the account are \$1,900 or less for the year.

A word about IRAs

Money you withdraw from a traditional IRA or Roth IRA to pay your child's qualified education expenses is not subject to the 10% premature distribution penalty tax that normally applies to taxable IRA distributions made before age 59½. However, some or all of the IRA money you withdraw may still be subject to regular federal and possibly state income tax.

Ask the Experts

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What is private mortgage insurance?

Private mortgage insurance (PMI) protects the lender against the risk of the borrower defaulting on the mortgage.

Lenders generally require you to purchase PMI if your loan is more than 80% of the value of your home. Without PMI, you may be unable to qualify for a mortgage.

Typically, once you reach 20% or more in home equity and you have a good payment history, your lender should remove the requirement for PMI. And lenders must automatically cancel PMI when your loan-to-value reaches 78%, although certain exceptions may apply.

Caution: *PMI does not protect you against losing your house in the event you're unable to pay your mortgage. Moreover, the insurance company may be able to seek recourse against you for any claims it pays to the lender as a result of your default.*

Typically, PMI premiums are paid monthly, usually as part of your mortgage payment, although the premium may be annualized and paid in a lump sum at closing. The cost of PMI varies depending on the insurer, and is based on several factors, including the amount of your down payment, the type of mortgage, and

whether you pay premiums on a monthly basis or in a lump sum. Also, for 2007 through 2012, you may be able to treat certain mortgage insurance premiums you pay as deductible mortgage interest. However, the amount of the deduction is phased out if your AGI exceeds \$100,000 (\$50,000 if married filing separately). If you don't have at least 20% for a down payment, you still have a couple of ways to avoid paying PMI premiums. Certain types of mortgages, such as FHA loans and VA loans for qualified veterans, do not require PMI. Your lender may waive the requirement for PMI in exchange for increasing your mortgage interest rate by roughly the same amount as your PMI premium. Another alternative is using the 80-10-10 loan, where your first mortgage is equal to 80% of the property value, and you take a second mortgage for 10% of the balance, while you come up with the remaining 10% out-of-pocket. You may save a few dollars each month with this approach if the combined mortgage payments are less than a single mortgage payment plus the PMI premium.



What is title insurance and do I need it?

Title insurance protects the policyholder (typically the property owner and/or the mortgage lender) against losses that arise from title

defects that affect the right to use or own the property. Generally, the title insurer will defend the policyholder and pay monetary damages according to the provisions of the policy. The premium is typically paid in a lump sum, often after title to the property has been examined. But most title insurance policies contain coverage exceptions and exclusions, so it's important to understand exactly what is covered by the policy.

Title is the measure of your rights in property. You can acquire property many different ways, such as through gift, inheritance, or purchase, but you generally obtain only the rights or title the conveyor had in the property. That's why, before acquiring property, it's wise to have the title examined by an attorney or title company. Typically you'll receive a written report from the title examiner describing the property, the breadth of the examination, and any title defects or liens discovered.

Most mortgage lenders require you to take out lenders title insurance, which protects the lender's interest in the property. Lenders coverage is limited to the amount of the loan and gradually decreases as the loan is paid off, so it doesn't protect your equity interest in the property. As a result, you should consider purchasing a separate owner's policy. However, you are not required to use the title insurance carrier offered by the lender. The Real Estate Settlement Procedures Act entitles a homeowner to use the title insurance company of his or her choice.

There are several different situations that can affect a property's title, from unpaid liens and mortgages to violation of zoning laws, to defective or improperly drafted deeds. Recently, with the proliferation of mortgage foreclosures, some lenders have faced legal challenges to foreclosure proceedings. Imagine if title to the home you bought from the bank was not properly foreclosed on and the prior owners claim they still own the property? Title insurance may help protect you in this nightmarish situation.

