SEARCY FINANCIAL SERVICES, INC.
INTEGRATED WEALTH MANAGEMENT SOLUTIONS

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Wealth Matters

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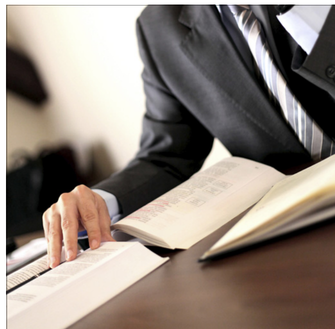
401(k) Rules Change The Way Business Gets Advice

The 401(k) plan is the country's most popular retirement savings vehicle, and if your company has offered one for several years, your employees probably reaped rewards from stock market gains during the middle years of the past decade. Although plan participants were left to make their own investment choices—federal law essentially prohibited employers and other fiduciaries from meddling in their affairs—many workers felt they were doing just fine, thank you.



But, after reaching its high point in 2007, the stock market plummeted. With retirement accounts and prospects for the future both seriously diminished, Employees began to look to their employers for help. Can you or a financial firm you designate give your employees investment advice? The answer is a very qualified "yes."

The new rules governing financial advice to employees are contained in a little-known provision of the Pension Protection Act of 2006 (PPA). But there have been questions about exactly what businesses can or must do to help their workers, and the U.S. Department of Labor (DOL) recently issued proposed regulations intended to clarify the situation. Knowing what is required of your company is crucial, because both employers and financial advisors can be held liable for failing to live up to their fiduciary responsibilities, and could be targeted for lawsuits by disgruntled plan participants saddled with losses in their accounts.

Before the PPA was passed, most rules for employer-sponsored retirement plans were based on the Employee Retirement Income Security Act of 1974 (ERISA). That landmark legislation provided minimum standards to protect participants in most employer-sponsored retirement plans. It also prohibited employers from offering investment advice to people in their plans. But when ERISA was enacted, defined-benefit plans, traditional pension plans in which an employer provides a specified retirement benefit to employees, were still in vogue. Since then, most businesses have come to prefer defined-contribution plans such as the 401(k).

The enactment of the PPA provided the most comprehensive reform of pension laws since ERISA. And under the new rules, a 401(k) plan covered by ERISA may now offer participants investment advice through a registered investment company, a registered broker-dealer, or a bank or an insurance company that acts as a fiduciary. However, this advice can be offered in only two ways.

The first requirement is for "level compensation." Whoever provides guidance to employees must be paid

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Around the Office...

Community Involvement

People in our own community make the choice everyday whether to buy medicine and pay utilities or buy food for themselves and their children. The Searcy team spent time volunteering with Harvesters in their BackSnack program, which provides backpacks of food to low-income children for weekends during the school year, to combat hunger. It only takes $200 to provide a backpack to one child for an entire year. If you would like more information about volunteering with Harvesters, visit www.harvesters.org.

GKCMMA Conference

Mike served as a conference planning committee member for this year's Greater Kansas City Medical Managers Association annual conference. Themed "Strengthen Your Core," topics relevant to medical practices such as Health Care Reform, financial management and billing, getting the right people on the bus and social media usage were presented for attendees. Searcy Financial Services was in attendance as an exhibitor, meeting with medical managers to help them with a turn-key solution to their office's retirement plans.

National Retirement Security Plan® (NRSP®)

Searcy Financial Services has been named as an investment manager to the

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Retiree Relocation: Tax-Friendly States

Are you thinking about pulling up stakes when you retire? You may want to move to a state with warm temperatures and lots of sunshine, but there's also another kind of climate to consider—the tax climate. State taxes as well as federal levies can take a big bite out of retirement income, and some states devour decidedly more than others do. Here are several factors to take into account.

State income taxes. Seven states—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—have no state income tax, and New Hampshire and Tennessee tax only investment dividend income that exceeds specified limits. However, many other states and the District of Columbia provide tax breaks for retirees, so you shouldn't automatically assume a no-tax state will be the best choice.

Retirement income. Most states that normally tax income provide partial exemptions for pensions. Even better, 10 states fully exempt income received from federal, state, or military pensions. And in Pennsylvania and Mississippi, all retirement income, including distributions from 401(k)s and IRAs, is state tax-free. Some other states impose high income tax rates on retirement income, however, with California leading the way at 9.55% on income of less than $1 million.

Social Security benefits. Up to 85% of the Social Security benefits you receive may be subject to federal income tax. However, the seven no-tax states, 27 others, and Washington, D.C. don't tax Social Security, though other special rules may apply. For instance, in Colorado, New Mexico, and Utah, you must add back a portion of Social Security benefits not taxed on a federal level when determining your eligibility for certain state income tax breaks.

Sales tax. These levies are often overlooked when retirees contemplate a move. On the plus side, five states—Alaska, Delaware, Montana, New Hampshire, and Oregon—currently have no sales tax, and other states may exempt food, medicine, and other necessities. But California has an 8.25% rate, and many cities and counties pile on additional sales tax charges. In Chicago and Los Angeles, you'll pay a combined rate of 9.75%—the nation's highest. And things could get worse. In 2009, 649 U.S. cities imposed new sales taxes or increased existing rates, while only 192 reduced sales tax rates (Source: Vertex Inc.).

Property taxes. The property tax burden varies widely throughout the country and even within states. The five states with the lowest median property taxes are Louisiana, Alabama, West Virginia, Mississippi, and Arkansas, while New Jersey, New Hampshire, Connecticut, New York, and Rhode Island have the highest.

Of course, tax rates aren't likely to be your only reason for choosing a particular retirement location. But it can't hurt to factor in these very real costs when planning your move. ●

IRS Releases Its Dirty Dozen Tax Scams

The IRS annually publishes a list of "Dirty Dozen" tax scams that have tripped up consumers, who may be the victims of the frauds or, as participants, could be subject to fines and imprisonment. Here's the 2010 roster.

1. Tax return preparer fraud. Unscrupulous preparers may charge inflated fees, skim refunds, or promise unreasonable results. To combat this trend, the IRS will impose new requirements on paid preparers in 2011, including registration and competency tests, that will apply to all but some professional accountants.

2. Offshore accounts. In this ruse, taxpayers attempt to hide income in offshore banks, brokerage accounts, or shell corporations. Promoters may also encourage tax evasion through offshore debit and credit cards, wire transfers, and various other schemes. If you've been roped into one of these, voluntary disclosure could reduce your risk of criminal prosecution.

3. Phishing. You may be tricked into revealing financial information online by someone luring you with e-mails, tweets, or phony websites, or scammers may claim they need your data to get you a fat refund.

4. False forms. Here, taxpayers file false or misleading forms to claim illegitimate tax refunds. This may involve creating a bogus information return and claiming that a corresponding amount has been withheld from earnings.

5. Social Security benefits. Taxpayers often report nontaxable Social Security benefits with excessive withholding. This incorrectly results in zero income being reported to the IRS—and could incur a $5,000 penalty.

6. Charitable deductions. Abuses include arrangements to shield assets from tax and attempts by donors to maintain control over property they've given to a charity or to use inaccurate appraisals to increase deductions.

A System To Always Earn Your Trust

It seems that new revelations about unscrupulous financial planners are practically a daily occurrence. And problems aren't limited to the Bernie Madoffs of the world bilking celebrities and billionaire CEOs. Regular folks, too, have fallen prey to Ponzi schemes and investment scams perpetrated by lower-profile advisors, and it's only natural for you to be apprehensive about your personal investment holdings. Yet while the system for ensuring your safety isn't perfect, it isn't broken either. There are safeguards in place to protect well-informed investors from dire circumstances.

Naturally, you'll have to do some research on your own, but it will be time well spent. Consider these three key areas.

1. Professional background. It's easy enough to do an online background check on a financial advisor. Start with the Financial Industry Regulatory Agency (FINRA) at finra.org. As the largest independent regulator of securities firms in the United States, FINRA oversees almost 5,000 brokerage firms, 173,000 branch offices, and 656,000 registered securities representatives. FINRA's "BrokerCheck" tool will tell you everything you need to know about a particular broker (state registrations, licenses, employment history, etc.) plus any disciplinary actions he or she has faced and the outcome.

For registered investment advisors (RIAs), overseen by the Securities & Exchange Commission (SEC)—generally, these are advisors managing more than $25 million in assets—visit www.adviserinfo.sec.gov to use the "Investment Adviser Search." It profiles the RIA's activities during the past 10 years. Or you can find out more about financial advisors from professional organizations such as the Certified Financial Planner (CFP) Board of Standards at www.cfp.net or the Financial Planning Association (FPA) at www.fpanet.org.

2. Checks and balances. Victims of Bernie Madoff should have been tipped off by a few red flags. Significantly, instead of using a third-party custodian, Madoff's firm held clients' money itself, and investors wrote checks directly to the firm. With a custodian, there's an independent party responsible for accounting for investments, you always know where your assets are, and you can check their status online. A custodian also mails out regular account statements. Of the 11,000 investment advisors registered with the SEC, only 1,000 don't use a custodian.

In addition, Madoff's auditor, on whom investors relied on to verify the authenticity of trades, had only one licensed accountant and was operating out of a storefront. Every state has a database where you can check the credentials of auditors. Also, if you find a firm has switched auditors recently or several times in the past, it could be a signal that something is amiss.

All SEC-registered advisors are required to maintain true, accurate, and current records. Strict supervisory controls also help ensure the integrity of an operation, and an RIA firm should provide you with a service agreement clearly stating how your accounts will be managed.

3. Method of compensation. Financial advisors get paid in a variety of ways. Some receive commissions on securities sales, others charge fees (either a flat rate or based on a percentage of assets they manage), still others have hourly rates, and some use a combination of methods. Make sure you know how you'll compensate an advisor, and be wary if there's any reluctance to provide details. Law requires explicit disclosure of compensation and, if it is based on assets under management, you must be informed of the amount and the calculation prior to it being deducted from your account. RIAs are required by law to disclose all conflicts of interest. However, that rule often doesn't apply to other advisors, and if they work on a commission basis, their firm could reward them for recommending particular products or services. Among advisors charging fees based on a percentage of assets, manipulation may be subtler, but very high rates—more than 2% of assets—should set off alarms.

Our commitment. It is understandable that many investors remain fearful about the security of their investments. Our firm embraces a transparent system of doing business, and we want to do everything we can to reassure you. If you don't understand something on your statement or have any concerns about your investments, please do not hesitate to call.

In our fiduciary capacity, we are legally bound to put clients first, and sharing this information with you is just one of the ways we meet that obligation. You can remain confident that we will represent you to the best of our abilities and with your best interests in mind. ●

7. Frivolous arguments. The IRS also lists tax claims to avoid. Although you can contest tax matters in court, you could be penalized for ignoring the law or IRS guidance.

8. Abusive retirement plans. Abuses include disregarding contribution limits and distorting rules on mandatory distributions. Beware tax advisors who encourage you to shift appreciated assets into IRAs at less than fair market value.

9. Disguised corporate ownership. Corporations may be formed in certain states to disguise ownership and to use for money laundering or other illegal purposes.

10. Zero wages. This may involve filing a phony Form 4852 (substitute Form W-2) or a "corrected" Form 1099 to zero out income, or falsely rebutting amounts and taxes that an employer reports to the IRS.

11. Misuse of trusts. Unscrupulous promoters may promise illegitimate trust tax benefits, or a trust may be used improperly to hide assets from creditors.

12. Fuel tax credits. The IRS often receives excessive or unfounded claims for the fuel tax credit. ●

401(k) Rules Change

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exactly the same amount regardless of what is recommended or the size of a participant's investment. The second possibility is for advice to be based on a computer model that has been independently reviewed and certified as unbiased in determining investment choices. Advisors working with plan participants also must disclose how they're compensated, their potential conflicts, the services they offer, their fiduciary relationships, and how information about participants may be used. Employers must tell participants they're free to receive advice from an advisor not affiliated with the plan. The bottom line is that advisors aren't allowed to make decisions about where a participant's money goes, when investments are made, and how much is invested.

Still, there have been questions about these rules, and the proposed regulations are an attempt to spell out more precisely what employers and financial advisors must do. But financial companies have strongly criticized the proposals, which prohibit financial advisors from receiving extra compensation if a plan sponsor acquires a financial product the advisors recommended. The proposals also address the use of computer models, which may take into account factors such as fees and expenses but can't factor in historical performance when generating advice. While such issues may seem to have more of an impact on financial advisors than on employers, businesses, too, must know the rules and could be held liable for prohibited transactions.

In 2010, DOL was still taking comments about the proposed regulations, and objections by the financial services industry could result in changes before final rules are issued. We can help you stay on top of the situation and make sure your company's plan is in compliance. ●

Around the Office...

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NRSP®, a national multiple employer plan. This plan allows plan sponsors to 'rent' rather than own their own company plan; still receiving all of the benefits of a company sponsored plan without the risks and administrative burdens. It is an honor to be named as an investment manager for the plan, and we are happy to share the details of joining this plan with our clients.

We Appreciate the Support

Johnson County Lifestyle magazine took an interest last month in our service strategy by profiling Searcy Financial Services and our affiliate company, Allos Investment Advisors. They explained our desire to help our friends and family with current profiles below traditional minimum investable asset requirements. Allos allows us to provide conflict-free, fee-only, proactive institutional-class discretionary investment management – with no minimum account size requirements—but with the same expert knowledge and advice that Searcy clients receive.

About Searcy Financial Services, Inc.

Searcy Financial Services, Inc. offers comprehensive wealth management to individuals, small businesses and corporations. We can help you design and implement your perfect plan to help you achieve your dreams and vision for your life. Because we have over 30 years of experience, we know that we need other specialists to assist us in order to achieve optimum results for our clients. We have experience in coordinating the efforts of those specialists and monitoring the implementation of your master plan, even as the plan evolves. Some of the services we provide, include:

- **Business Planning, Personal Strategic Planning, and Personal Financial Planning**
- **Consulting Services, Situational Tax Planning, and Educational Seminars**
- **Portfolio Management, Asset Allocation Analysis, Investment Research and Selection**
- **Retirement Planning, Estate Planning, and College Funding Planning**
- **Liability Management, Insurance Analysis, and Life & Disability Insurance**
- **IRA, 401(k), 403(b), Pension and Profit Sharing Plan Establishment**

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