SEARCY FINANCIAL SERVICES, INC.
INTEGRATED WEALTH MANAGEMENT SOLUTIONS

Third Quarter 2010

Wealth Matters

www.searcyfinancial.com 913.814.3800

Entrepreneurs May Find New DB(k) Plans Tempting

As the owner of a small business, you can choose from a range of retirement plans. Yet while there are important variations among the many possibilities—401(k)s, simplified employee pensions (SEPs), defined-benefit pension plans, and others—they basically fall into one of two categories depending on who is responsible for funding and using the plan. With old-style pensions, your business promises employees a specific retirement benefit, generally a function of salary and years of service (as a lump sum or a lifetime annuity). In contrast, 401(k)s and other defined-contribution plans put the burden on employees to save and invest a retirement account and then decide how and when to tap it.

Beginning in 2010, a new hybrid—the defined-benefit 401(k) plan, dubbed the DB(k)—combines features of both types. A DB(k), authorized by the Pension Protection Act of 2006 and available to companies with two to 500 employees, provides a small but guaranteed company-paid lifetime monthly retirement benefit while letting workers also fund a 401(k). One major attraction is that DB(k)s are exempt from the strict nondiscrimination rules that normally apply to 401(k)s and other tax-advantaged retirement plans. But the fact that the DB(k) supplements employees' savings with guaranteed cash also has its appeal at a time when the bear market has cut deeply into 401(k) account values.

The 401(k) part of the DB(k) is subject to the same rules as normal 401(k)s. Employees can direct as much as $16,500 of pre-tax salary into the plan in 2010, and those age 50 and older may put away a maximum of $22,000. Participating workers can bolster these dollars with optional employers' matching contributions, with total yearly savings capped at $49,000 and $54,500, respectively, for those under and over the age 50 dividing line. Workers (and business owners) who achieve those maximums should, over a working lifetime, amass a reasonable nest egg. But how much participants save, and how they invest the savings, is left up to them, and there's no guarantee they'll have enough to fund a long, comfortable retirement.

Nondiscrimination rules can be another stumbling block for business owners and other high-income workers enrolled in traditional 401(k)s. Such plans must meet strict requirements to ensure that highly compensated employees (HCEs) don't receive a disproportionate share of retirement plan benefits. If lower-paid employees choose not to participate, those at the top of the compensation ladder may find their own contributions restricted.

The defined-benefit 401(k) uses a waiver of those rules to encourage business owners to adopt this new-style retirement plan, which supplements

(Continued on page 4)

Around the Office...

Pleased to Announce. . .

We are pleased to announce that Searcy Financial Services has made the 2010 Wealth Manager Magazine "Top Wealth Managers" list and Ingram's list of "Top Area Wealth Management Firms." It is a privilege to have been recognized as a leader in providing outstanding service and commitment to our clients.

Continued Improvements

We are continually looking for additional educational and training opportunities to help us better serve our clients. Recently, Brenda Carrico, who has been a Registered Paraplanner with our firm over the last few years, passed the testing and training requirements to receive her Life, Accident and Health Insurance License, adding another strong insurance proficiency to our firm.

Cross-Lines Community Outreach Service Project

To help ease the financial burden on parents sending children back to school,

we helped Cross-Lines Community Outreach stuff backpacks with supplies for area children. Based on the number of families that pre-register for assistance, they count and sort supplies and any supplies needed above those received by donation are purchased by Cross-Lines to ensure every child's need is met. We are so thankful to have been able to partner with Cross-Lines on this project.

(Continued on page 4)

The Right Way To Manage Money

In any relationship between financial advisor and client, trust is crucial. But in the post-Bernard Madoff era, it's not enough to sense that an advisor or a financial firm is reliable. Everyone trusted Madoff. His clients recommended him to their friends, who lined up for the privilege of having him manage their money. Yet all of those trusting clients ended up on the losing end of a $50 billion Ponzi scheme, and several other recent frauds have further shaken investor confidence. These days, trust requires proof, delivered regularly. Keeping your investments in the custody of a major financial firm can help provide that proof.

Madoff didn't use an outside custodian. Client funds were reportedly handled by a custodian at a remote storefront office that had few employees and no independent auditor. That left Madoff with unfettered access to clients' money and little or no accountability. It now appears he claimed to have made trades that never occurred and exaggerated returns from other transactions. But without reports or account statements from an independent custodian, there was no way for clients to know there was a problem.

Although Madoff's firm was a registered investment advisor, that kind of set-up is extremely unusual among RIAs, which are regulated by the Securities and Exchange Commission or the individual states. More than nine out of 10 RIAs serving individual clients work with independent custodial firms that have physical possession of client assets, monitor their value, and provide trade confirmations and account statements directly to clients, who can also check on investments by logging in to their account on the custodian's website.

Custodians, such as Fidelity, Schwab Institutional, TD Ameritrade Institutional, Pershing, and others, provide other kinds of security as well. Insurance from the Securities Investor Protection Corporation covers investors for up to $500,000 of losses of securities and $100,000 of losses of cash if a custodian becomes insolvent, and custodial firms often also purchase additional insurance. A common level of supplemental coverage is for up to $5 million of losses of securities. One company provides coverage for losses in securities accounts of up to $149.5 million and up to $900,000 in cash accounts. Moreover, most firms have automated systems to monitor client accounts.

To deter fraudulent activity, the SEC recently proposed a rule change that would require certain RIAs with custody of client assets to use an independent public accountant to conduct surprise audits of client accounts. But you don't have to wait for a new rule to protect your investments. We work with an independent firm that maintains custody of your assets, and you can easily compare the portfolio performance statements we provide with the custodian's account statements. This relationship is just one way we are working to prove that we deserve your trust. ●

Do You Know Your Health Care Facts?

Reforming the nation's health care system was the biggest single political issue of the past two years, prompting an unprecedented level of interest and debate. Unfortunately, the level of misunderstanding, on both sides, remains nearly as high as the level of passion.

How informed are you when it comes to health care? Take this quiz to find out:

1) Where does the U.S. rank worldwide in terms of health care, according to the World Health Organization?*

a) 1st c) 37th
b) 5th d) 56th

2) What percentage of the U.S. gross domestic product consists of health care expenditures?

a) 8% c) 24%
b) 16% d) 39%

3) Federal spending on Medicare and Medicaid is what percentage of U.S. gross domestic product?

a) 4% c) 12%
b) 8% d) 18%

4) What percentage of Americans under age 65 has health care insurance through their employer?

a) 34% c) 76%
b) 63% d) 88%

5) What percentage of Americans under age 65 purchases health care insurance privately, directly from an insurer?

a) 1% c) 8%
b) 4% d) 16%

6) What percentage of national health expenditures comes directly out of the consumers' pockets, through deductibles, co-payments, and payments for services not covered by insurance?

a) 2% c) 13%
b) 7% d) 18%

Wealth Transfer Ideas For Tough Times

If you happen to die in 2010, your estate planning problems are over—at least they might be. For a year, at most, the federal estate tax is gone. But the tax is scheduled to return in 2011 in a much more punishing form than it took in 2009, and that prospect could motivate a congressional compromise, with new rules that may be applied retroactively to wealth transfers during 2010. That means there's really no holiday for wealthy families looking for tax-efficient ways to move assets to the next generation. And though there is no federal estate tax in 2010, there is a limited step-up in basis which could trigger capital gains for beneficiaries of large estates assuming they sell the assets immediately. Still, with stocks, real estate, and almost every other kind of asset worth less now than before the recession, you may be able to transfer more to your heirs at lower cost, and today's rock-bottom interest rates could also help. Consider these five strategies that attempt to take advantage of the current economic environment.

1. Get the most from the annual gift tax exclusion. This tried-and-true vehicle may be worth more now than ever before. In 2010, you can give up to $13,000 of assets to as many recipients as your choose—or a maximum of $26,000 for each gift if your spouse joins in—without gift-tax liability. But keep in mind you'll have to file a gift tax return for joint gifts, even if the total gifts are $26,000 or less. The trick here is to give away something whose value has dropped but is likely to recover.

2. Take advantage of low interest rates to make a loan or asset sale to family members. Here, too, current economic circumstances can maximize the value of funds you transfer to the next generation. You could lend money to buy a home or start a business, charging interest based on today's low applicable federal rate (AFR)—in June 2010 just 4.30% on loans with a term longer than nine years. Or you might sell assets—whose value may be at a low point—to family members directly, or to an irrevocable trust set up for their benefit, with installment payments also based on the AFR rate.

3. Create a grantor trust with undervalued assets. This can be yet another way to capitalize on the temporarily depressed value of many assets. You can use your annual gift tax exemption—perhaps supplemented by some or all of the $1 million lifetime exclusion that individuals may employ to shield gifts from taxes—to transfer assets into the trust. Then, you'll be responsible for income and capital gains taxes on trust assets. Though those payments further reduce your taxable estate, they aren't considered gifts to the trust's beneficiaries, and they enable trust assets to continue to grow unencumbered by taxes, adding to the potential recovery of beaten-down assets.

4. Boost the benefits of a grantor retained annuity trust. A GRAT can preserve assets from the sale of a business interest or other holdings. Essentially, you transfer assets to an irrevocable trust, but retain the right to receive distributions over the trust term. The annuity is based on the amount transferred and the prevailing interest rate set by the government under Section 7520 of the tax code. (The 7520 rate as of June 2010 is 3.2%.) The lower the rate, the lower the payout, resulting in more asset preservation for your heirs—particularly if the assets rebound in value. It's also possible to "zero out" a GRAT, effectively eliminating any gift tax on the transfer to the GRAT. (Keep in mind that Congress may modify the rules affecting these techniques.)

5**. Use a charitable lead trust (CLT) to help charities and your heirs.** With a CLT, income on trust assets during the term of the trust goes first to the designated charity and then to your heirs, who also ultimately inherit trust assets. Most nonprofits have suffered during the recession, and they'll welcome this annual infusion of cash. And if the CLT earns more than the specified yearly payment—based on a fixed amount or percentage of assets—the excess is added to principal. If an economic recovery increases the value of trust assets, your beneficiaries could benefit.

One or more of these strategies could help you and your heirs benefit from an otherwise dismal economic environment. Yet uncertainty abounds. No one knows what will happen to the estate tax or to tax rates on gifts and income, and there's no guarantee that the economy will improve, or that stock prices or real estate values will soon recover what they lost during the long downturn. We can work with you and your attorney to consider your wealth-transfer goals and to create a plan that makes sense for you in these troubled times.●

7) Which of the following statements about Health Savings Accounts is true?

a) Contributions are made on a pre-tax basis.
b) The funds roll over and accumulate year over year if not spent.
c) The funds can be invested, similar to funds in an individual retirement account.
d) All of the above
e) None of the above

8) The Medicare Trustees recently announced that the Medicare system is likely to start running out of money in what year?

a) 2012 c) 2025
b) 2017 d) 2038

If you have questions about health care insurance, Medicare, or any other health-related issue, please give us a call. We can work with you and your attorney to make sure all of your needs are met.

*The World Health Organization rankings are from 2000, when the group stopped compiling the data, citing the complexity of the task.

Answers: 1-c; 2-b; 3-a; 4-b; 5-b; 6-c; 7-d; 8-b.

New DB(k) Plans Tempting

(Continued from page 1)

savings with a defined retirement benefit that's normally based on "final average pay." The plan must provide a benefit equal to 1% of an employee's final average salary multiplied by years of service, with a maximum annual pension equal to 20% of final pay. Meanwhile, the 401(k) part of the plan requires automatic enrollment of employees (who must opt out if they don't want to participate) and an employer's contribution equal to 4% of compensation. Your business's matching contribution rate for HCEs can't exceed the matching rate for non-HCEs, and you must immediately vest employees in their 401(k) accounts.

A second option for determining benefits is a cash balance approach that specifies annual minimum company commitments based on employees' ages. In this case, your business must set aside at least:

- 2% of compensation for participants age 30 and under
- 4% of compensation for participants between age 30 and 40
- 6% of compensation for participants between age 40 and 50
- 8% of compensation for participants age 50 or over

Plans that meet all of the requirements of a DB(k) need file only one document for the plan and one annual IRS Form 5500—even though this hybrid really consists of two separate plans. And no other testing is required.

Some experts expect the DB(k) to be particularly attractive to small professional groups—physicians, attorneys, accountants, architects. It can build up substantial retirement savings in a short time, and though it mandates a significant employer contribution, that could be an advantage for owners looking to fund their own retirements. Moreover, as the economy rebounds and businesses again compete for the best workers, offering a DB(k) could make your company stand out. The IRS is expected to announce more details about this new plan soon. ●

Around the Office...

(Continued from page 1)

Marc Travels to China

For 17 days in May, Marc travelled to China to speak to local universities regarding the differences between the US and Chinese economic and financial systems. The underlying theme of his presentation was that both countries should begin viewing each other as partners rather than competitors.

The students in China were very receptive to the topic and were interested in careers in financial planning. Surprisingly, financial planning has not made it into the college curriculum in China. One of the highlights of his trip was being able to attend the World's Exposition in Shanghai. Over a half million people attended the World's Expo the day Marc was there, which broke a world record. Marc looks forward to future world travel as this was his first experience out of the country.

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**

Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as receipt of, or as substitute for, personalized investment advice from Searcy Financial Services, Inc.

The content of this letter does not constitute a tax opinion. Always consult with a competent professional service provider for advice on tax matters specific to your situation.

Searcy Financial Services, Inc. is an SEC Registered Investment Advisor.
©2010 API