

Wealth Matters

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Social Security Payout Choices Can Be Confusing

Social Security may make up only a small part of your expected retirement income, but it can be a crucial part, perhaps covering a significant portion of your basic expenses. Figuring out what you'll actually receive, however, can be complicated, and you'll have to choose from among many variables that could make a big difference in the amount of monthly income for you and your spouse.



Understanding Social Security's complex rules needs to be an essential part of your retirement planning.

Social Security retirement benefits are generally based on your lifetime earnings and your age when you request the benefits. If you opt to start getting a monthly check at age 62, the earliest possibility, you'll receive less than you would if you started receiving benefits at your full retirement age—between ages 65 to 67, depending on the year you were born. Full retirement age for baby boomers born from 1943 through 1955 is 66.

How much you'll lose by beginning benefits at age 62 ranges between 20% and 30%, again depending on when you were born. For example, the reduction for someone born in 1950 is 25%. So if you would be entitled to a \$2,500 monthly benefit at age 66, you would receive only \$1,875 if you retired at age 62. The later you were born, the steeper the reduction, which peaks at 30% for those born after 1959.

There's an additional incentive for

postponing benefits even longer. If you wait until age 70 to begin taking Social Security, you'll receive a significantly higher monthly amount—an extra 8% for each year you delay benefits—than if you had started at full retirement age. For someone born in 1953, for example, waiting those four extra years, from age 66 to age 70, could add more than 34% to the monthly benefit.

Things get really tricky when you try to figure out Social Security retirement benefits for a married couple. Each spouse is entitled to a benefit based on his or her own earning history and the age at which benefits begin. But if a wife, for example, has earned considerably less than her husband has, her benefit at full retirement age will be the greater of her own benefit or a spousal benefit that could be as much as half of her husband's benefit.

Other complications may arise if one spouse continues to work. If the low-earning spouse works past full retirement age while the other spouse has retired, also at full retirement age, the working spouse can begin receiving the 50% spousal benefit. Then, when the working spouse reaches age 70, he or she can claim increased benefits in lieu of the spousal benefit.

Though the Social Security Administration sends you an updated estimate each year of what your future benefits may be, that's unlikely to answer all of your questions. Here are

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Around the Office...

Community Involvement

For the second year in a row, we volunteered to help ease the financial burden on parents sending children back to school by helping Cross-Lines Community Outreach staff backpacks with school supplies for area children. Based on the number of families that pre-register for assistance, the group counts and sorts donations, purchasing any supplies needed after that to ensure every child's need is met. We are so thankful to have been able to partner with Cross-Lines on this project.



We Are Growing

Please join us in welcoming a new employee to Searcy Financial Services. John Fales joined the firm in May of 2011 as a financial planning associate. He is a graduate of the University of Kansas school of liberal arts and holds a bachelor of arts degree with a minor in business administration. During his time at KU, he was a member of Theta Chi fraternity, where he served as a board member for two consecutive years. He was also a four-year participant in Rock Chalk Revue, a student-run philanthropy that on average raises \$50,000 annually to support the United Way of Douglas County.

Biking Around Town

Mike and Marc have been putting their foot to the pedal and biking in events around town this fall. Mike completed 55 miles in the Bike for the Brain ride. Our company also sponsored the Searcy Spinners team in the "MS150: Bike for MS"

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Donor-Advised Funds Gain In Recession

Though a private foundation can be a great, hands-on way to fulfill your philanthropic intentions, it can also be expensive and time-consuming, and the recession has left many foundations with diminished portfolios and burdensome costs. Moreover, if your business is struggling, you may have fewer hours to devote to running foundation operations. Under the pressure of today's financial realities, another charitable giving vehicle—the donor-advised fund—could be an appealing alternative.

With a donor-advised fund, you contribute cash or property to a special account managed by a sponsoring charitable organization or an investment company. Then you make recommendations about how and when to distribute the funds in your account. Although you can't legally require distributions to be made to the charities you designate, the money will normally go to your suggested recipients unless there's a legal reason it can't.

A donor-advised fund may require a minimum contribution to set up an account, and you'll likely pay an annual administrative fee based on a

percentage of the assets in your account. Still, compared with a private foundation, a donor-advised fund may deliver more of your charitable dollars to your intended recipients at a lower cost, as private foundations have higher annual filing and tax preparation expenses. And whereas private foundations must publicly disclose some information about the foundation and its grant recipients, gifts through a donor-advised fund can be made anonymously.



There may also be tax advantages. You get an immediate write-off for contributing to a donor-advised fund, even if your money is distributed to charitable recipients in later tax years,

and the maximum deductible donation may be higher with a donor-advised fund than if it were made through a foundation. Contributed real estate is deductible at its fair market value through a donor-advised fund, whereas you can deduct only the property's cost basis if you donate it through your foundation. Finally, there are no mandatory distributions with a donor-advised fund. A foundation must distribute at least 5% of its net assets every year.

If you already have a private foundation, you could convert it to a donor-advised fund. There are strict IRS rules you must follow if you're dismantling a private foundation, however, and you'll also need to comply with state laws. If you're establishing your donor-advised fund through a charity or a financial company, that entity may be able to provide guidance for making the transition. But you'll also

need to consult an experienced attorney. We can work with you and your other advisors to oversee the change, file the necessary paperwork, and handle other issues. ●

Helping Grandchildren Pay For College

If you paid for most or all of your children's higher education, congratulations. You've given them a gift that will benefit them throughout their lives. But as high as college costs were when your kids were in school, they're stratospheric now, with one year at a top private university running well over \$50,000. If you're in a position to help out your grandchildren, too, consider these savings options.

Section 529 plans. This is the fastest-growing vehicle for funding a college education. It lets you contribute generous amounts to a state-sponsored plan established on behalf of your grandkids. Plan investment growth and

withdrawals to pay qualifying college expenses aren't taxed, you or a parent can control the account, and it can be transferred to another beneficiary if the original one doesn't need all of the money for education. There's also an estate planning benefit. Though gifts to 529s are potentially taxable as gifts, you and your spouse can each contribute \$13,000 a year without gift-tax liability, or you could make five years' gifts all at once, putting in \$65,000 (or \$130,000 with your spouse) to jump-start a plan. Every state has a plan and you don't have to be a resident or have your grandchild go to school there.

Custodial accounts. Before there were 529 plans there were custodial accounts, set up in a child's or grandchild's name but not accessible to the child until the age of maturity—18 or 21, depending on your state. In some cases, custodial accounts still make sense, but a recent change in the "kiddie tax" adds to tax costs that could undercut the value of your gift. Now, children up to age 24 are taxed on account earnings above an annual exempt amount—\$1,900 in 2011—at their parents' top income rate.

Minor's trust. If you establish a Section 2503(c) trust (a "minor's trust") for a grandchild, all of the

401(k) Advice Change For Businesses

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) 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 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.

DOL is 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. ●

trust's income will be taxed directly to the trust, thus avoiding kiddie tax complications. And you can keep control of a trust past the state age of majority, as long as the child doesn't exercise a limited right to withdraw the funds. However, downsides of a trust include marginal tax rates that climb quickly and costs of setting up and maintaining, including annual income tax preparation fees.

Coverdell ESAs. The Coverdell Education Savings Account is basically

an IRA for higher education instead of retirement. (It used to be called the “Education IRA.”) But in 2011, annual tax-advantaged contributions to

Coverdells are capped at \$2,500, and there are income limits on eligibility.

Outright gifts.

You and your spouse could also use the annual gift-tax exclusion to give up to \$26,000 a year directly to a

grandchild to help pay for college. Or, if you pay tuition directly to the student's college, your contribution doesn't count as a taxable gift at all. ●



Choices Can Be Confusing

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two hypothetical examples illustrating strategies that might maximize a couple's total benefits. The first involves something known as the 62/70 split. Suppose that a husband's full retirement benefit is \$2,150 a month and the full benefit for his wife, who's the same age, is \$1,080. If she begins taking benefits at age 62, she'll receive a reduced amount—\$720 a month. But if her husband delays his claim until age 70, he'll collect \$3,300. If he dies at 82, his monthly benefit will have grown to \$4,600, and that becomes the wife's survivor benefit—almost 90% more than she would receive if her husband had also begun taking benefits at age 62.

But could this couple do even better? Suppose that the husband applied at age 66 for a spousal benefit based on his wife's earnings record, letting his own benefit continue to grow. Because he has reached his full retirement age, the husband qualifies for the maximum spousal benefit of \$540 a month—half of the wife's \$1,080 benefit. When he reaches age 70, he can drop the spousal benefit and begin collecting his own much larger benefit.

Beyond studying your annual benefits statement from the government, you can visit www.ssa.gov

for a wealth of additional information as well as online calculators that can

help you estimate your benefits under different scenarios. But as you weigh your choices, you may also want to factor in other factors, including your health, your life expectancy, your need for cash during retirement, and the retirement lifestyle you're planning. We can help you

consider the role Social Security may play for you and work with you to make informed decisions about your government benefits. ●



Around the Office...

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event. If you would like to participate in biking events with us, just let us know!

Allos Grand Opening

In order to provide the best service and advice to anyone wishing to make investments, Searcy Financial Services has created an affiliated company that will specialize in investment management services. Allos Investment Advisors, LLC, will serve as a fiduciary and provide actively managed, discretionary investment portfolios with no account minimums. Allos is best suited for anyone beginning to build their wealth, including new investors as well as small business owners who are just beginning to accumulate assets outside of their business.

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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