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MAR APR 2013

An Introduction to **Estate Planning Tools**

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Plus...

The NUA Strategy: How to Reduce Tax on Employer Stock

Rebuilding Your Financial Life after a Natural Disaster

Planning for Long-Term Care

Five Reasons to Contribute to an IRA

1 **You may be able to reduce your current income taxes.** Money you contribute to a Traditional IRA may be tax-deductible if you (and your spouse if married) are not covered by a retirement plan at work or if your income is under a certain amount.

2 **Tax-deferred earnings help your savings grow faster.** The earnings on your investments are not taxed until they are withdrawn from the IRA. This leaves all of your IRA earnings available to potentially generate more earnings, which helps your savings grow faster than in a taxable account.

3 **Roth IRA withdrawals are tax-free in retirement.** Although you cannot deduct the money that you contribute to a Roth IRA, withdrawals are generally tax-free once you reach age 59½ and the account has been open for at least five years.

4 **More investment choices than the typical 401(k).** With an IRA, your investment choices typically include mutual funds, ETFs, stocks, bonds, CDs, and other investments.

5 **Because you will retire someday.** With the shift away from traditional company pensions and the uncertainty about the future of Social Security, it is in your best interest to save as much as possible for retirement. ■

There is still time to contribute for 2012!

You have until April 15, 2013 to make an IRA contribution for 2012.

IRA ANNUAL CONTRIBUTION LIMIT

	2012	2013
Under age 50	$5,000	$5,500
Age 50 or older	$6,000	$6,500

Other limitations may apply to the amount you may contribute.

Please consult your financial advisor.

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THE COLLEGE MAJOR YOU CHOOSE MAY ADD MILLIONS TO YOUR LIFETIME EARNINGS

What you study, how far you go in school, and your occupation greatly influence your earning potential.

WANT TO BOOST your earning potential? Major in engineering. People who major in engineering may expect to earn $3.5 million over a forty-year career, according to a report from the U.S. Census Bureau. In comparison, the average bachelor's degree recipient earns $2.4 million over a forty-year career.

Other majors with the potential for above average lifetime earnings include computers and math, science, business, physical science, and social science. Education majors earn the least of any bachelor's degree recipients, with a lifetime earning potential of $1.8 million.

But your choice of college major by itself does not determine your earning potential. The occupation you choose also greatly influences how much you might earn over your lifetime. For example, an engineering major might earn $4.1 million in management, but only $1.4 million in a service occupation. An education major might earn $2.3 million in management, but only $1.3 million in education.

How far you go in school is also a factor and can mean the difference of about $3.2 million in earnings over your career. People with professional degrees tend to earn the most—$4.2 million—with recipients of doctorate degrees not far behind at $3.5 million. ■

Lifetime Earnings Estimate by Bachelor's Degree

COLLEGE MAJOR	LIFETIME EARNINGS (Millions)
Engineering	$ 3.5
Computers and math	3.1
Science and engineering-related	2.6
Business	2.6
Physical science	2.6
Social science	2.5
Communications	2.3
Biological sciences	2.3
Literature	2.1
Liberal arts	2.1
Psychology	2.0
Arts	2.0
Education	1.8

Source: U.S. Census Bureau *Work-Life Earnings by Field of Degree and Occupation for People with Bachelor's Degree: 2011.*

Lifetime Earnings Estimate by Educational Attainment

EDUCATION	LIFETIME EARNINGS (Millions)
None to 8th grade	$ 0.9
High school graduate	1.4
Some college	1.6
Associate's degree	1.8
Bachelor's degree	2.4
Master's degree	2.8
Professional degree	4.2
Doctorate degree	3.5

These earnings represent expected earnings over a forty-year time period for the population age 25–65 who maintain full-time, year-round employment the entire time.

Please consult your financial advisor about the best way to save and pay for higher education.

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STOCK

Are you better off if your **stock splits?**

WHEN A COMPANY DECLARES A STOCK SPLIT, the number of shares that each shareholder owns will increase and the share price will decrease proportionally. For example, in a 2-for-1 stock split, the shareholder will end up with twice as many shares as she had before the split, but the price of each will be halved. If she had 50 shares valued at $100 each before the split, she'll have 100 shares valued at $50 each after the split. Has the total market value of her shares changed? Not one cent; it remains at $5,000 until the share price moves up or down.

A company chooses a ratio for a stock split based on the number of shares and share price it wants to attain. It might choose a 2-for-1, 3-for-1, or 5-for-1 ratio, or any number of other ratios. The end result for the shareholder is always the same: more shares, a lower share price, and the same total market value as immediately before the split. You may find it helpful to think of a stock split like getting change for a large denomination bill. You start with a $100 bill and end up with two $50 bills after a 2-for-1 stock split or five $20 bills after a 5-for-1 stock split.

Why would a company want to split its stock? Companies generally declare a stock split to reduce the market price of its stock, which in turn makes it more attractive to new investors. Microsoft, for example, has split its stock nine times since it went public in 1986. One original share is now equal to 288 shares. Without the stock splits, the price of a share of Microsoft stock would be huge; well outside the reach of most investors. In contrast, Berkshire Hathaway Inc. has never split its Class A shares, and as a result the price of a single Class A share was about $134,000 in October 2012. ■

FR2012-1205-0078/E

Nine Things to Do with a TAX REFUND

Before you spend it, consider how you might use your tax refund to make a positive impact on your life. Here are a few ideas.

1 Bolster your emergency fund. If you do not have enough money set aside to cover several months of living expenses, consider putting part of your tax refund into an emergency fund that you can draw on when emergencies arise.

2 Pay off credit card debt. If you are carrying a balance on a credit card, consider using your tax refund to pay it off. With high interest rates and daily compounding, credit card debt can be very costly. It is generally a good idea to pay it off as quickly as possible.

3 Invest for retirement. Are you saving enough money for retirement each year? Your tax refund is a golden opportunity to boost the amount you save or invest this year. You have until April 15, 2013 to make a contribution for 2012 to an individual retirement account (IRA). You can make a contribution for 2013 at the same time. And, of course, a regular brokerage account is also a good place to put your tax refund to work potentially building your retirement nest egg.

4 Fund an education savings account. If you have young children or grandchildren, consider allocating part of your tax refund to their college funds. Tax-favored accounts that offer potentially tax-free earnings and withdrawals may help your gift stretch further.

5 Invest in yourself. Consider using your tax refund for your own higher education, career training, or other self-improvement program. Whatever makes you healthier or more marketable to prospective employers may benefit you greatly in the long run and prove well worth the investment.

6 Increase your insurance coverage. Do you have enough disability insurance to protect yourself or life insurance to protect your family in case your paycheck suddenly stops due to illness or death? If your answer is no, you may want to use part of your tax refund to increase your insurance coverage.

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Where's my refund?

Most taxpayers will receive their tax refund within 10 to 21 days of filing their federal tax returns, according to the IRS. If you want more specific info, the IRS offers a "Where's My Refund?" tool on its website (www.IRS.gov) that lets you check the status of your refund.

7 Give it away. A gift to charity can provide you with a tremendous sense of satisfaction—and a potential tax deduction if you itemize deductions on your federal tax return.

8 Make energy-saving improvements to your home. Not only will this trim your utility bills for years to come, the federal government still offers a tax credit that will cover part of the cost (usually 30%) of adding certain solar, wind-power, heat-pump, and fuel-cell equipment to your home. Plus, your state or power company may offer rebates and other incentives for replacing your old appliances and heating and cooling systems with more energy-efficient models.

9 Have fun. Although saving and investing for your retirement and other financial goals is critically important, so is enjoying yourself throughout life. If you can afford it, use a reasonable amount of your refund to cut loose and have fun! ■

An Introduction to Estate Planning Tools

Before building an estate plan to protect your loved ones, it is helpful to understand the tools available to you. Several are introduced here. Your tax, financial, and legal advisors can tell you more.

Control how your assets are distributed.

If you die without a will or other legal documents that direct how your assets are to be distributed, a probate court will generally appoint an administrator for your estate who will distribute your assets according to the laws of your state. To avoid this scenario, you need a will and perhaps a few other legal documents, some of which are described here in general terms. Please note that estate planning rules vary by state so it is important to seek advice about your specific situation.

Joint tenants with right of survivorship. This type of ownership arrangement is an easy way to transfer property and avoid probate. When you own property jointly with another person and both of you are titled as joint tenants with right of survivorship, your interest in the property automatically passes to the other owner after your death. For example, if you and your adult son are listed as joint tenants with right of survivorship on a bank account, that account becomes the sole property of your son after your death.

Beneficiary designations. Financial accounts typically allow you to name one or more beneficiaries who will inherit the assets in your account when you die. Until then, your beneficiaries have no right to the assets. Assets transferred by beneficiary designation avoid probate, unless you name your estate as a beneficiary.

Mutual fund and investment companies typically refer to these types of accounts as transfer-on-death (TOD) accounts; banks refer to them as payable-on-death (POD) accounts.

Some states allow vehicle registrations and real estate deeds to include transfer-on-death instructions so that the property can be automatically transferred without going through probate.

Be sure to keep your beneficiary designations up to date. They generally supersede the instructions in your will.

Wills. Most people need a will to transfer property that is held solely in their names and that cannot be transferred by beneficiary designations, transfer-on-death instructions, or other means.

A will is a legal document that enables you to spell out exactly how you want your assets distributed, taking into account any restrictions set by your state. A will is also generally where you name a guardian for your minor children.

After your death, your will must be validated and distributed under the supervision of a probate court. In some circumstances, this can be a lengthy and costly process—but not always. Many states offer a streamlined probate process, enabling smaller estates to pass relatively quickly and inexpensively through probate. Your estate planning advisor can tell you about the probate process in your area.

Revocable living trusts. A revocable living trust is a legal arrangement you create to direct how the assets that you put in the trust are to be managed during your lifetime and distributed after your death.

As trustee, you retain full control of the assets in your trust. You can invest, spend, or sell them, just as you would any of your other possessions. After your death, your successor trustee manages and distributes the trust assets per your directions.

The primary advantage of using a revocable living trust is that the assets in the trust avoid probate. If you live in a state with high probate costs, using a revocable living trust may save your estate a significant sum.

Even when probate costs are not a factor, a revocable living trust may be the right estate planning tool for you. Say you own real estate outside of your home state. Transferring ownership to the trust eliminates the need for probate in multiple states. Or say you want the details of your estate to remain private. A will becomes a matter of public record when it enters probate; a revocable living trust does not enter probate and the assets in the trust can be transferred to your heirs without the details becoming public.

A revocable living trust can also be set up to transfer management of the trust assets to your successor trustee if you become incapacitated and are unable to manage them on your own.

WHAT ESTATE PLANNING CAN DO FOR YOU

Transfer your property smoothly to your heirs

Provide for loved ones who need help and guidance

Minimize estate taxes

Plan for the day when you are not capable of managing your affairs

Keep the details of your estate private

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Trusts. There are several types of trusts that can help you meet estate planning goals that may not be met by leaving your assets outright to your heirs. Let's take a look at a few such goals and how a trust may help.

Say you are in a second marriage with children from a prior marriage. You want your assets to provide support to your spouse after your death, but you ultimately want them to pass to your children. If you leave your assets outright to your spouse, your spouse can leave those assets to whoever he or she chooses. By transferring your assets to a qualified terminable interest property (QTIP) trust, your spouse is entitled to the income from the trust, but cannot change the trust's beneficiaries. After your spouse dies, the assets remaining in the trust are transferred to the beneficiaries you chose.

Say you have a special needs child. If you leave assets outright to your child, your gift may make your child ineligible to receive government benefits, such as Supplemental Security Income (SSI) and Medicaid, that are based on financial need. You can preserve your child's eligibility for these programs by leaving your assets to a special needs trust instead. The trustee you name can use the money from the trust to supplement the services provided by the government programs. This might include vacations, entertainment, or computers.

Or say you have concerns about your heirs' ability to manage your assets after you are gone. Leaving them to a trust allows you to name a trustee to manage them for the benefit of your heirs.

The bottom line is that when you want to exert extra control over how your assets are managed or distributed, trusts are typically the way to go.

Minimize estate taxes.

Let's get a few things clear about estate taxes right up front. First, most estates will not have to pay estate taxes, thanks to the estate tax exemption which allows a certain amount of property to pass free of estate taxes. (The federal estate tax exemption amount is $5.25 million in 2013; ask your estate planning advisor for your state's current exemption amount.) Second, if you are married, you can generally leave your spouse an unlimited amount of property without it being subject to estate taxes. Third, if the value of your estate exceeds the amount you can exempt from estate taxes and you are leaving it to someone other than your spouse, a good chunk of your estate may go to paying the estate taxes on it. Certain estate planning tools may help minimize those taxes.

Irrevocable trusts. Several types of irrevocable trusts offer the potential for reduced estate or gift taxes. Let's take a look at one that may help you transfer your home to your children at a reduced gift tax cost.

With a qualified personal residence trust (QPRT), you transfer ownership of your home to the trust for a period of years, during which time you may continue to live in the home. At the end of the period, ownership of the home is transferred to the trust's beneficiaries, who are typically your children. When your home enters the trust, it is removed from your estate and is subject to gift tax. The good news is that the IRS allows the value of your home to be discounted for gift tax purposes because

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Documents that provide direction when you cannot.

- **Durable power of attorney**
  This legal document gives the person you choose the legal authority to manage all or part of your business and personal affairs if you become incapacitated. Please note that some financial institutions use their own power of attorney forms and may not readily honor one created elsewhere. Check with your financial institution.
- **Durable power of attorney for health care**
  A durable power of attorney for health care, also known as a health care proxy, is the legal document where you name someone to make medical decisions on your behalf.
- **Living will**
  A living will is the legal document that you use to convey your choices regarding the type of care (hydration, feeding, and resuscitation) that you want to receive in end-of-life or permanently unconscious situations.

your children will not be able to take possession of the gift for years. If you do not outlive the period of the trust, the home's fair market value is added back into your estate for estate tax purposes. If you do outlive the period and wish to continue living in the home, you can lease it from your children.

Before creating an irrevocable trust, it is important to keep in mind that this type of trust cannot easily be changed or revoked.

Family limited partnerships. A family limited partnership (FLP) may also help you minimize estate and gift taxes.

Here's a simplified version of how an FLP generally works. You set up a limited partnership, with yourself as general partner and your children as limited partners. As the general partner, you control the partnership. You transfer assets to the FLP in exchange for partnership interests, some of which you give to your limited partners. These gifts reduce the value of your estate. Because the limited partners are limited in their ability to manage the FLP assets or sell their interests to outsiders, the interests that you give them are valued less highly for gift tax purposes than if you had given the assets outright to your children. Plus, the income that your children receive from their interests is not subject to the gift tax.

An FLP must have a valid business purpose and not simply be used to minimize estate and gift taxes. Your estate planning advisor can tell you more.

Irrevocable life insurance trusts. The proceeds from life insurance policies are frequently used to pay estate taxes so that assets in the estate do not have to be sold to pay the taxes. However, if you own the policy on your life, the proceeds will be part of your estate and subject to estate taxes—the very thing you are trying to avoid.

If your estate will be subject to estate taxes, it is generally a good idea to have an irrevocable life insurance trust own the policy on your life so that the proceeds are not part of your estate.

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You can either transfer an existing life insurance policy to the trust or have the trust purchase a new policy on your life. If you transfer an existing policy, you must survive the transfer by at least three years for the proceeds to be excluded from your estate.

Strategic giving. If you expect that your estate will be subject to estate taxes, you may want to give some of it away during your lifetime.

You can give up to $14,000 (the annual gift tax exclusion for 2013) to as many people as you choose this year without your gift being subject to the federal gift tax or reducing the amount that can later be exempted from estate taxes. If you are married, you can double that amount if your spouse agrees to split the gifts with you.

Donations that you make to qualified organizations, such as charities, religious organizations, and non-profit schools, reduce your estate and are generally tax-deductible.

Charitable remainder trusts and similar arrangements allow you to make a gift to charity, claim a charitable deduction for part of your gift, reduce your taxable estate, and generate a stream of income for yourself.

Which tools are right for you?

This is a question for your tax, financial, and legal advisors. They can help you select the appropriate tools and craft an estate plan that is right for you. ■

Rebuilding Your Financial Life After a Natural Disaster

Natural disasters touch millions of Americans each year. For many, the natural disaster will translate into a financial disaster, particularly if the damage is not fully covered by insurance. Here are a few tips that may help you rebuild your financial life after a natural disaster.

Take photographs of the damage. It is important to document the damage to your home and personal property as soon as it is safe to do so. Your photos will help substantiate your claims for insurance, assistance, and tax breaks.

Report your loss to your insurer. Contact your insurance company as soon as possible to report how, when, and where the damage occurred. Your insurance company will typically send you the forms necessary to complete your claim.

Keep your receipts if you need to relocate. You may need them to document a claim with your insurance company for additional living expenses that you incur as a result of the disaster.

Apply for federal assistance. Federal aid programs may help cover some of your losses that are not covered by insurance.

Following a federally declared disaster, FEMA may provide grants to individuals for temporary housing and home repairs needed to make your main home safe, sanitary, and functional. Keep in mind that the grants are only intended to help cover critical expenses that cannot be covered in other ways; they are not intended to restore your home and property to its pre-disaster condition.

FEMA may also refer you to the Small Business Administration (SBA) for a low-interest disaster assistance loan. These loans are available to qualified homeowners, renters, businesses, and non-profit organizations to repair or replace property that is damaged or destroyed in a federally declared disaster.

Renters and homeowners may borrow up to $40,000 to repair or replace personal property, such as furniture, appliances, clothing, and vehicles. Homeowners may borrow up to $200,000 to repair or replace their main home to its pre-disaster condition. The loan amount is limited to the amount of your uninsured loss.

Second homes and vacation properties are generally not eligible for SBA loans unless they are qualified rental properties.

Businesses and private non-profit organizations may borrow up to $2 million to rebuild and replace equipment, inventory, and other business assets damaged or destroyed in a federally declared disaster. They may also be eligible for economic injury loans if they are located in the disaster area and suffered economic injury as a result of the disaster.

You can apply for federal assistance online at www.disasterassistance.gov, by web-enabled mobile device at m.fema.gov, or by calling 1-800-621-FEMA(3362). Don't wait too long to contact FEMA. You typically will have just a few months after the disaster to file for federal assistance and loans.

Other programs may also provide assistance. For example, disaster unemployment assistance may be available for people who are out of work due to a natural disaster. The USDA Rural Development may make emergency loans to farmers and ranchers affected by the disaster. Banks that are FDIC members may permit early withdrawal of time deposits, such as CDs, without penalty. The IRS may postpone due dates for taxpayers in disaster areas, providing them with a little extra time to file and pay taxes before penalties begin to kick in.

Deduct unreimbursed losses. If you are not fully reimbursed by insurance or other sources for damages that your property incurs in a natural disaster, you may be able to recoup part of your loss by claiming a casualty loss deduction on your federal income tax return.

You can only deduct the part of your loss that was not covered by insurance or other sources. You must also reduce your loss by $100 and then by 10% of your adjusted gross income to determine the amount of your deduction. Figuring the amount of your deduction can be tricky, so please consult your tax advisor for help in this area.

If your loss was from a federally declared disaster, you can either claim the deduction on the tax return for the year the disaster occurred or the year immediately preceding it. For example, losses for Hurricane Sandy (an October 2012 disaster) may be claimed on your 2012 or 2011 tax return, giving you the ability to choose the year that offers you the greater tax benefit.

Seek professional advice. Natural disasters can have a great impact on your finances. Please consult your tax advisor about how to handle any losses or gains you may have realized as a result of a disaster. Your advisor can fill you in on the details regarding casualty losses and gains and help you develop a strategy for dealing with them. ■

FR2012-1205-0078/E

Reconstructing Your Financial Records

If your records are lost in a disaster, you may need to reconstruct them for tax, insurance, federal assistance, and your own purposes. For example, to claim a casualty loss on your tax return, you must gather proof of your property's adjusted basis (generally the cost of the property plus improvements), as well as its fair market value immediately before and after the disaster. Here are a few ideas of where to start your search for destroyed records.

SOURCE	INFORMATION
IRS	File Form 4506 to request copies of the past four years of federal income tax returns.
Tax advisor	Tax returns
Financial advisor or brokerage	Financial statements
Attorney or estate planner	Estate planning documents
Banks and credit unions	Past checking and credit card statements may help prove what you originally paid for your damaged or destroyed goods.
Mortgage or title company	Companies associated with your home's purchase may be able to provide proof of the original cost of your home.
Appraiser	An appraiser can help you determine the decrease in fair market value of your property that occurred as a result of the disaster.
Contractors	Contractors may be able to provide proof of what you paid for home improvements.
Vehicle valuation services	The fair market value of vehicles can be researched online or at the library using a vehicle valuation service, such as Kelley Blue Book or Edmunds.
Your employer	Your employer may be able to provide the proof of wages and employment needed for Disaster Unemployment Assistance.

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The NUA Strategy: How to Reduce the Tax on Your Employer Stock

Who should consider it?
Individuals with highly appreciated employer stock in a 401(k) plan or other qualified retirement plan.

What is it?
A tax-reduction strategy that enables the appreciation in value of your employer stock to be taxed as a long-term capital gain rather than ordinary income.

What is the benefit?
Potentially lower taxes.

When to consider it?
Before you move the assets from a former employer's retirement plan into an IRA, such as when you leave a job or retire.

WEIGH YOUR OPTIONS CAREFULLY before you transfer employer stock from your 401(k) plan or other qualified retirement plan to an IRA. If the stock has appreciated greatly in value, you may be able to reduce your taxes considerably by transferring it to a taxable brokerage account instead and using the NUA strategy.

NUA is short for net unrealized appreciation, which is simply the difference between the stock's cost basis (its value when it was originally purchased or contributed) and its market value on the day when the stock is distributed from the retirement plan. For example, if the stock originally cost $100,000 and is valued at $500,000 on the day that it is transferred out of your 401(k), the NUA is $400,000.

Moving employer stock to a taxable account enables you to treat the NUA as a long-term capital gain when the stock is eventually sold. The cost basis is taxed as ordinary income when you transfer the shares to the taxable account. In contrast, transferring the stock or its sales proceeds to a Traditional IRA enables you to postpone all tax until it is withdrawn from the IRA, at which time the entire withdrawal will be taxed as ordinary income.

Because the tax rates on long-term capital gains are typically lower than the rates on ordinary income, individuals may reduce their taxes considerably by moving highly appreciated employer stock to a taxable account where the more favorable long-term capital gains tax rate can be applied to the NUA. Individuals in the highest income tax brackets—where the difference between the rates on long-term capital gains and ordinary income is the greatest—stand to benefit the most from this strategy.

The NUA strategy can be used on several types of securities issued by your employer, including employer stock, bonds, registered debentures, and debentures with interest coupons attached. To use the strategy, though, your retirement plan must permit the transfer of the actual securities; not all plans do.

You must be eligible for a lump-sum distribution from your retirement plan before you can transfer the stock to a taxable account. This generally means that you must have left your job with that employer or reached age 59½. It also generally means that your entire retirement plan balance must be distributed within a single tax year. Assets other than employer stock are typically transferred to an IRA so that they can maintain their tax-deferred status.

If you hold highly appreciated employer stock in your 401(k) plan or other qualified retirement plan, please consult your tax and financial advisors before moving any assets out of the plan. If you move the employer stock to an IRA, you lose the opportunity to use the NUA strategy.

Of course, the NUA strategy is not the best course of action for everyone. Factors, such as your age, tax bracket, the amount the stock has appreciated, the stock's future return potential, and whether too large a percentage of your savings is invested in employer stock, should all be considered before making a decision about how to distribute the assets in your employer's retirement plan. Your tax and financial advisors can help you choose a course that is appropriate for you. ■

The NUA Strategy vs. the IRA Rollover

THE NUA STRATEGY	THE IRA ROLLOVER
If employer stock is transferred to a taxable brokerage account	**If employer stock is transferred to a tax-deferred IRA**

THE NUA STRATEGY

If employer stock is transferred to a taxable brokerage account

- When employer stock is distributed from a qualified retirement plan, such as a 401(k) plan, to a taxable account as part of a lump-sum distribution, the cost basis of the stock is immediately taxed as ordinary income. The cost basis is the original value of the stock when it entered the retirement plan.
- A 10% early withdrawal penalty may also apply to the cost basis unless you meet an exception, such as leaving that employer after age 55 or reaching age 59½.
- The tax on the stock's net unrealized appreciation, or NUA, is generally deferred until it is withdrawn from the taxable account, at which time it is taxed as a long-term capital gain rather than ordinary income. NUA is the difference between the stock's cost basis and its market value when it is distributed from the qualified retirement plan.
- Any appreciation in value that occurs after the employer stock is in the taxable account will be taxed as a short- or long-term capital gain, depending on how long the stock is held after it is distributed from the qualified retirement plan.

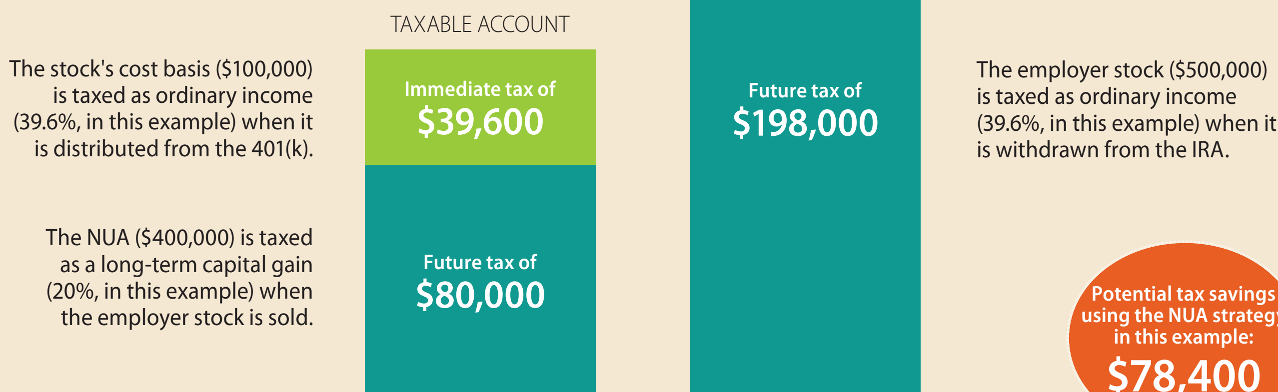
THE IRA ROLLOVER

If employer stock is transferred to a tax-deferred IRA

- No tax or penalty is due on a direct rollover from a qualified retirement plan to a Traditional IRA.
- Tax is deferred for as long as the stock or its sales proceeds remain in the IRA. Withdrawals are taxed as ordinary income.
- A 10% early withdrawal penalty may apply to IRA withdrawals before age 59½, unless you meet an exception.
- Any appreciation in value that occurs after the employer stock is in the IRA will be taxed as ordinary income when withdrawn from the IRA.

Example:

A comparison of how employer stock with a $500,000 market value and a $100,000 cost basis may be taxed depending on whether it is distributed to a taxable account or an IRA.



Assumptions:

The market value of the stock when it is distributed from the 401(k):	$500,000
The cost basis of the stock (its original value when it was acquired):	$100,000
The net unrealized appreciation, or NUA (market value – cost basis):	$400,000
The account owner's marginal income tax rate:	39.6%
The long-term capital gains tax rate:	20%

The account owner is old enough to avoid an early withdrawal penalty.
The value of the stock does not change after it is distributed from the 401(k).

This is a hypothetical example for illustrative purposes only. Your results will vary.

Be Ready for the Possibility that You May Need Long-Term Care

ABOUT 70% OF PEOPLE OVER AGE 65 will need long-term care (LTC), according to the U.S. Department of Health and Human Services (HHS). Have you planned for the possibility that you may be one of them?

LTC is the type of care you may need if you ever need help with the basic activities of daily living, such as eating, bathing, or dressing, due to an illness, disability, or cognitive impairment, such as Alzheimer's disease. These personal care services are generally not covered by Medicare or regular health insurance. And they can be expensive, especially if you need LTC services for a long time.

How expensive? Good question! Your cost will depend on the level of care you need and the length of time you need it. To give you some perspective, a month in a nursing home averaged about $7,000 in 2010; a month in an assisted living facility averaged about $3,300.

Keep in mind that these costs are national averages; the actual costs in your area may differ dramatically from the national averages. For example, the cost of a month of nursing home care in New York, NY averaged about $12,000 in 2010—nearly double the national average of $7,000.

It is a good idea to determine the cost of LTC in your area so that you can plan ahead for it. HHS's website, www.longtermcare.gov, is a good place to start. At this website, you will find the average LTC costs for each state, as well as statistics about how long people typically need LTC. For example, people age 65 today will typically need LTC services for an average of three years at some point in their lives; 20% will need care for longer than five years. A few major insurance companies also track the cost of LTC services and provide information on their websites about the average cost of care in various areas.

Once you estimate what your potential LTC expenses may be, it is time to plan how you will pay for them. In general, there are three ways to pay: 1) through government programs, such as Medicaid; 2) from your personal income and savings; and 3) from a combination of LTC insurance and your personal income and savings.

If your income and assets are extremely limited, you may be eligible for Medicaid, a government program that pays for some LTC services, but only for the very poor. If you are a veteran, the U.S. Department of Veterans Affairs may provide LTC services in certain situations.

At the opposite end of the spectrum, if you have significant retirement income, savings, and assets, you may be able to comfortably pay LTC expenses from your own resources without undermining your financial stability and that of your family.

If you fall somewhere in the middle and have concerns that LTC expenses may prematurely drain your savings, buying LTC insurance to supplement the amount you can afford to pay on your own may be the way to go.

LTC insurance policies can be purchased through financial advisors, insurance agents, and some employers. Policies can vary widely so it is important to shop around for the policy and features that suit you.

Most LTC insurance policies offered today provide coverage in a variety of settings, including your home, nursing homes, assisted living facilities, and adult day care centers.

They also generally allow you to choose the maximum amount that the policy will pay per day, the period that benefits will last, how long you must pay for LTC services before benefits begin, and whether the benefits are adjusted for inflation every year. The choices you make will influence your level of benefits, as well as the amount of the premiums that you will pay.

Your age is also a factor in determining your premiums. Typically, the younger you are when you purchase LTC insurance, the lower your premiums. The average age that people buy LTC insurance is about age 60, according to HHS.

Another benefit of purchasing LTC insurance at a relatively young age is that you may be healthier now than you will be later on. If you wait until your health deteriorates, insurance companies may not be willing to sell you a LTC policy.

Being ready for the possibility that you may need LTC is an important part of retirement planning. Please talk to your financial advisor about how to prepare financially for this possibility. ■

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Long-Term Care

What are the odds you will need it?

About 70% of people over age 65 will need long-term care at some point, according to the U.S. Department of Health and Human Services (HHS).

More than 40% of people over age 65 will need care in a nursing home at some point, according to HHS.

Women are much more likely than men to need care in a nursing home, according to the Centers for Disease Control and Prevention. Why? Women live longer, and they often act as caregivers for their husbands, so fewer men need nursing home care.

How much does it cost?

The cost of long-term care varies widely throughout the country. According to HHS's website, www.longtermcare.gov, the average costs in 2010 were:

$229 per day for a private room in a nursing home

$3,293 per month for care in an assisted living facility

$21 per hour for a home health aide

$19 per hour for homemaker services

$67 per day for care in an adult day care center

How can I pay for it?

Personal savings. You can pay for care from your personal income, savings, and assets.

Long-term care insurance. This type of insurance is designed to help you pay for the long-term care services you may need if you are ever unable to care for yourself.

Medicaid. Medicaid may help pay for your care, but only if your income and assets are extremely limited.

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Copenhagen: A Capital Experience

BY BRIAN JOHNSTON

THERE IS A LOT TO LIKE about Copenhagen. The trendy, youthful city has an enviable living standard and is big enough to be lively. Yet the Danish capital is also agreeably small, managing to avoid big-city stress and supply plenty of charm and coziness.

Founded on a harbor, Copenhagen grew rich on Baltic trade and has delightful old houses and cobbled streets. Its main shopping drag, Strøget, is both the longest and oldest pedestrian thoroughfare in Europe. But despite its history, Copenhagen feels like an experimental, modern city. It has spruced up museums, an ultra-modern opera house, a noted underground music scene, and lively summer festivals. The simple and efficient chic of Danish design is seen in everything from architecture to fashion and housewares. Even the local bicycles are stylish: look out for the ones made by noted cycle artist Rasmus Gjesing.

There's no better way to get about this city than by bicycle. Copenhagen is completely flat and has an impressive network of cycle paths either completely separated from the road or divided from it by a curb. There are even dedicated bicycle traffic lights. Ninety percent of Danish adults own a bike and forty percent of all trips in Copenhagen are made by bicycle, so it's a great way to join the locals. No need to wear Lycra here. People ride in their everyday clothes, whether high heels or winter boots, and everyone from the postman to commuters and the Copenhagen mayor cycles.

Your hotel will probably be able to supply you with a bike, or you can rent one from the many bicycle stands. An alternative, though not quite as convenient, is to use one of the 1,300 free bicycles located at 125 or so racks around the city between May and December. All you need is a two-kroner coin to release a bicycle, refunded when you return it. Helmets are not compulsory, and few people wear them.

There are several companies offering guided tours around the city by bike that can be very informative. However, getting around by yourself is very easy as long as you have a decent map. Many people want to start their two-wheeled tour at the Little Mermaid, which is a bit out of the center of town along a relatively insignificant stretch of harbor. The statue seems a bit small and lonely and you may wonder what the hype

Copenhagen's Nyhavn, or New Harbor (left), is a gentrified stretch of restaurants, hotels, and bars, carefully restored to their eighteenth-century appearance. Forty percent of all trips in Copenhagen are made by bicycle on designated paths like the one shown below.

is about, but the symbol of the city attracts plenty of camera-wielding admirers.

Pedal along the waterfront towards the city center and you're rewarded with views across the harbor to the Danish Opera House, a startling modern building. Don't let it distract you too long, since you should turn away from the water and cross the road to find Amalienborg, winter residence of the Danish royal family. Four identical baroque palaces face each other across a cobblestone square. You can visit one to discover more about Danish royal history and see some treasure-packed rooms.

A short cycle further along the waterfront brings you to Nyhavn, where there are often so many people strolling about that you might have to dismount. The New Harbor is actually 300 years old and, until the 1970s, was a rough-and-ready sailors' haunt. Now it's a gentrified stretch of restaurants, hotels, and bars, carefully restored to their eighteenth-century appearance. Old fishing boats and yachts still add a raffish nautical air.

Nyhavn is touristy, but locals come here too for coffee, a meal outdoors, or takeout eaten by the edge of the canal. It's a good place for a break on any cycle tour. The top end of Nyhavn opens into a square overlooked by the city's largest department store and the Royal Theatre. On the other side of the square, Copenhagen's old town unfolds, cut through by the famous Strøget pedestrian shopping street, where you'll have to dismount.

Veer off into the side streets, though, and you'll discover many pleasures, such as lovely Pistolstræde with its restored buildings and galleries, and elegant Fiolstræde near the university, full of bookshops and antique stores.

Among the old town's hidden treasures are Copenhagen's oldest church, the sales room of the Royal Porcelain Factory, and a house on Lavendelstræde where Mozart's widow Constanze, who married a Danish diplomat, lived between 1812 and 1820. There are lovely squares, such as the tranquil, multi-colored Gråbrødretorv and the grand, lively Højbro Plads, from which you can see across to the Christiansborg Palace, home to Denmark's parliament.

It's easy to get lost in the warren of old town streets, but keep cycling roughly parallel with Strøget and you'll eventually emerge at Rådhuspladsen. This huge square is centered on a gigantic town hall in red brick and boasts a statue of Hans Christian Andersen. Just on the other side lies the famous pleasure gardens of Tivoli.

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If you want to get a little off the beaten path, try the adjoining neighborhoods of Vesterbro and Nørrebro not far from Tivoli Gardens. You won't find any particular sights, but this formerly rundown area of the city has become newly trendy. An interesting blend of immigrant communities runs street markets, barbershops, and little stores that are good places to browse for second-hand clothing and antiques.

You'll also find great restaurants, bars, and live-music venues and a fine concentration of nightlife along Sankt Hans Torv and Blågårdsgade. But beware: a few drinks and cobblestones make for a challenging late-night cycle back to your hotel. Just slow down and soak up the softly lit facades of this beautiful city as you go. ■

CYCLE FREE ZONES

There are three other sights in Copenhagen well worth exploring, but you'll have to get off your bike to do so.

TIVOLI is Copenhagen's famous amusement park, dating from 1843. Old-fashioned amusements, lakes, and gardens blend with modern rollercoasters and thrill-seeking rides. Come on summer evenings to listen to live music acts and enjoy beer halls and stylish restaurants under the glow of thousands of lights.

STRØGET is a famous pedestrian-only street that runs right through the center of the old town (it's actually five interconnecting streets, all with different names). You'll have to get off and wheel your bicycle along most of its length. Better yet, leave it propped against a wall in order to explore the street's shops, bars, and two main squares.

CHRISTIANIA is a controversial, offbeat community founded by illegal squatters in 1971 and spreading over 20 acres of the inner city. This enclave of lingering hippy counter-culture can be somewhat intimidating, so many prefer to take a guided walking tour, a good way to learn more about this infamous place.

OPENING ON BROADWAY

Cinderella Broadway Theatre Opening February 21, 2013

Children of all ages are in for a treat when *Rodgers and Hammerstein's Cinderella* makes its Broadway debut in 2013. This production of the beloved fairytale, complete with pumpkin, glass slippers, and royal ball, offers up new plot twists, as imagined by writer Douglas Carter Beane. Plus, it features several Rodgers and Hammerstein classics, including "Ten Minutes Ago", "In My Own Little Corner", and "Impossible/It's Possible."

Kinky Boots Al Hirschfeld Theatre Opening April 4, 2013

With music and lyrics by pop star Cyndi Lauper and a book by four-time Tony Award winner Harvey Fierstein, *Kinky Boots* begins previews in New York on March 5, with opening night scheduled for April 4. The musical is based on a 2005 comedy film of the same name and tells the tale of an unlikely alliance between a shoe factory heir and an entertainer who join forces to save the struggling shoe factory.

Matilda Shubert Theatre Opening April 11, 2013

The award-winning British musical *Matilda* lands on Broadway this March and opens on April 11. Based on Roald Dahl's children's book, *Matilda* is about a girl genius who uses her psychokinetic powers for revenge on her unloving parents and cruel headmistress.

Motown: The Musical Lunt-Fontanne Theatre Opening April 14, 2013

Legendary music producer Berry Gordy brings the story of his life to Broadway in the musical *Motown*. Featuring many Motown songs, the musical follows Berry Gordy's career and tells the story behind the hits of such artists as Smokey Robinson and Diana Ross. Previews begin in New York on March 11.

The Assembled Parties Samuel J. Friedman Theatre Opening April 17, 2013

Richard Greenberg's new play, *The Assembled Parties,* drops in on the Bascovs, an Upper West Side Jewish family, in 1980 and again twenty years later. Jessica Hecht stars as former movie star Julie Bascov with Judith Light playing the role of her sister-in-law Faye. Previews begin on March 19.

Orphans Schoenfeld Theatre Opening April 7, 2013

30 Rock's Alec Baldwin returns to Broadway this spring as a wealthy, but shady businessman who is kidnapped by two brothers in Lyle Kessler's play *Orphans.* ■

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Movin' On Up

1. Originally built by William the Conqueror, this British castle (above right) was damaged by fire in 1992:

A. Edinburgh Castle
B. Windsor Castle

2. The Hall of Mirrors is perhaps the most famous room in this French palace-turned-museum:

A. Château de Versailles
B. Luxembourg Palace

3. The castle used in the filming of the British television series *Downton Abbey* is:

A. Highclere Castle
B. Warwick Castle

4. This 1,441-room Viennese palace was once the residence of the Habsburgs and is now Austria's most visited site:

A. Daun-Kinsky Palace
B. Schönbrunn Palace

5. Built for King Ludwig II, this Bavarian castle (below) is said to have inspired Disney's Sleeping Beauty Castle:

A. Hohenschwangau Castle
B. Neuschwanstein Castle

6. Nestled in the mountains of Asheville, NC, this 250-room château is the largest home in America:

A. The Breakers
B. Biltmore House

7. Now part of the Hermitage Museum complex, this palace in St. Petersburg was stormed during the Russian Revolution:

A. The Winter Palace
B. The Grand Kremlin Palace

8. On a hill overlooking Granada, this palace/citadel is perhaps the finest example of Moorish architecture in Spain:

A. The Alhambra
B. Castillo de los Templarios

9. This palace in Honolulu was once home to Hawaiian royalty:

A. Topkapi Palace
B. Iolani Palace

10. Straddling the Cher River in France, this château (above) was a gift from Henry II to his mistress, Diane de Poitiers:

A. Château de Chenonceau
B. Château de Cheverny

ANSWERS: 1–B, 2–A, 3–A, 4–B, 5–B, 6–B, 7–A, 8–A, 9–B, 10–A.

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Founded in 1988 as an independent firm, HMS Financial Group is committed to ethical and personal financial planning. Operating as an Office of Supervisory Jurisdiction (OSJ) for one of the largest, independent investment broker/dealers* in the United States, HMS does not have proprietary products, and has no vested interest other than the success of its clients.

Herb Shapiro, President and founder, brings more than 33 years industry experience to the HMS team. He began his career in 1970, and worked for several firms until 1988, when he founded HMS Financial Group. His core values of providing personal service, maintaining market objectivity, and high standards of integrity and honesty with the clients he serves, are deeply imbued in the HMS philosophy.

Barbara Shapiro, Vice-President, is a Registered Investment Advisor with the Commonwealth of Massachusetts, is a Certified Financial Planner™ and one of the first Certified Divorce Financial Analysts in Massachusetts. She holds a Master of Science in Finance from Suffolk University and is a Graduate of the Securities Industry Association Institute at the Wharton School. Additionally, she holds a Master of Education in Counseling from Boston University and a Master of Education in Moderate Special Needs from Northeastern University.

Among her many recognitions, Barbara has served as a National Board Member of the Securities Industry Foundation for Economic Education, is a member of the Boston Jewish Community Women's Fund, and the Treasurer of the Massachusetts Council of Economic Education.

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