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FINANCIAL PLANNING & INVESTMENTS

EYE ON MONEY

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Financial Tips for Every Stage of Your Life

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Plus...

When to Begin Social Security Benefits

The American Taxpayer Relief Act of 2012

Should You Convert to a Roth 401(k)?

Financial Reminders

It pays to check up on things from time to time!


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retire

Check your earnings record on your Social Security Statement.

If you worked last year, it is a good idea to check your Social Security Statement to see whether your earnings were recorded properly. A mistake in your record can result in you not receiving all of the Social Security benefits you are entitled to in retirement.

You can access your statement online at **www.socialsecurity.gov/mystatement.**

In addition to checking your earnings record, take a look at the estimate of the retirement benefit you may expect to receive one day. It is a sobering reminder that Social Security was never intended to be your sole means of support in retirement.

credit

Check your credit report.

The information in your credit report may be used to evaluate your application for loans, credit cards, insurance, employment, and renting a home. To help insure that your application is accepted and that you are offered the best rates, it is important to review your credit report for accuracy at least once a year.

You are entitled to a free report from each of the three main credit reporting agencies once every 12 months. You can request your free report online at **www.AnnualCreditReport.com** or by calling **1-877-322-8228**.

estate

Review your beneficiary designations.

Like many people, you may have an assortment of retirement, brokerage, and bank accounts started countless years ago, each with a beneficiary designation on it. It is a good idea to periodically review your beneficiary choices to ensure that they still reflect your current wishes. Remember, the person listed as the beneficiary on your account will receive that account after your death, regardless of any instructions to the contrary in your will. Be sure to review the beneficiary designations on your life insurance policy while you are at it.

inside

SHOULD YOU CONVERT TO A ROTH 401(k)?

A recently enacted law opened the door for more workers to convert their pre-tax 401(k) accounts to Roth 401(k) accounts. Should you do it?

GOOD NEWS for participants in 401(k), 403(b), or 457(b) retirement plans: These plans may now allow all participants to convert amounts in their pre-tax accounts to Roth accounts within the plan. Prior to 2013, only those participants who were eligible for a distribution were allowed to do a Roth conversion. This usually meant that you either had to be at least age 59½ or had to have left the company. The American Taxpayer Relief Act of 2012 lifted that restriction. So if your retirement plan offers a Roth account option and allows in-plan conversions, you have a new choice regarding your pre-tax savings… to Roth or not to Roth.

Before you make a move, though, it is important to understand the differences between traditional and Roth accounts. Here's the deal. Income you contribute to a traditional account is pre-tax, meaning that you have not paid income tax on it yet. Tax is deferred until you withdraw money from the account, at which time your withdrawal will be subject to income tax.

Contributions to a Roth account are after-tax. So if you convert the pre-tax savings in your traditional account to a Roth account, the pre-tax amount you convert will be subject to income tax this year. After that, however, your Roth investment earnings and withdrawals will be tax-free, as long as you follow the rules for withdrawals.

The question is: Are you better off paying tax on your savings now or waiting until later when you withdraw money from your account? Your answer will depend in part on whether you think your marginal income tax rate will be higher or lower in retirement than it is now. Of course, no one can predict for certain what tax rates will be in the future, but you may be able to make some assumptions based on your situation. For example, if you are in the early years of your career and expect your salary and your marginal income tax rate to increase over the years, you may pay less tax if you convert and take the tax hit now while your tax rate is relatively low. On the other hand, if you are in your peak earning years and expect that your marginal income tax rate may decrease in retirement, this may not be the best time to convert to a Roth account.

Another factor to consider is whether you can afford to pay the taxes at this point. If you convert to a Roth account, you will have to add the pre-tax amount of the conversion to your gross income for the year, which will typically drive up your taxes for the year of the conversion. Your tax advisor can help you estimate the tax impact.

All in all, converting to a Roth account is a big decision. Your tax and financial advisors can help you decide if it is the right choice for you. ■

TRADITIONAL 401(K) ACCOUNT

- Your contributions are made from pre-tax income, which helps lower your current income taxes.
- Earnings grow tax-deferred.
- Withdrawals are subject to income tax.

ROTH 401(k) ACCOUNT

- Your contributions are made from after-tax income, meaning that your contributions are subject to income tax in the year you make them.
- Earnings grow tax-free.
- Withdrawals are tax-free, provided you follow the rules.

Early distributions from both types of accounts are generally subject to a 10% tax penalty.

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A Financial To-Do List for Newlyweds

■ If your name or address has changed, notify your banks, financial advisors, brokerages, credit card companies, insurers, and employers. If you have a pension or a retirement plan with a former employer, notify them also.

■ Let the Social Security Administration know if you have changed your name. This can help you avoid problems filing your tax returns and ensure that you receive the right benefits at retirement.

■ Consider updating your legal documents, such as your wills, trusts, and health care proxies, to include your spouse.

■ Consider updating the beneficiary designations on your retirement, brokerage, and bank accounts, as well as your life insurance policies.

■ Review your insurance. You may have more of everything—house, furnishings, vehicles—to protect now. Insuring with a single insurer may lower your premiums.

■ Consider purchasing life insurance if you or your spouse would have a hard time maintaining your standard of living without the other person's income.

■ Meet with your financial advisor to create or update your financial plan. Your advisor can help you and your spouse create a plan designed to help you reach your shared financial goals, such as a new home, college educations for the children, and retirement. ■

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CLAIMING A HOME OFFICE DEDUCTION JUST GOT EASIER

The IRS has introduced a new, easier way to calculate and claim the home office deduction.

OWNERS OF HOME-BASED BUSINESSES now have a simpler way to calculate the home office deduction: Multiply the square footage of your workspace (up to 300 square feet) by $5. Yup, that's all it takes.

Starting with your 2013 return, you can deduct up to $1,500 using this new, optional method. And the IRS form that needs to be filled out is much simpler than Form 8829, which is used to calculate the deduction the traditional way.

The IRS introduced the new option in an effort to reduce the paperwork and record-keeping burden on small businesses. They estimate that it will save 1.6 million hours annually.

It may also encourage home-based businesses who did not claim the deduction in the past due to its complexity to finally begin claiming it. The National Association for the Self-Employed believes that the cumbersome process of calculating the traditional deduction deterred nearly half of home-based businesses from claiming it.

Although there is a new method for calculating and claiming the deduction, the eligibility requirements for claiming the home office deduction have not changed. For example, you can generally only claim a deduction for the part of your home that is used exclusively and regularly for business.

If you choose the new option, you cannot depreciate the portion of your home used in a trade or business. However, you can still claim allowable mortgage interest, real estate taxes, and casualty losses as itemized deductions on Schedule A, without having to allocate them between business and personal use. And you can still deduct business expenses not related to the home, such as wages and supplies.

Keep in mind that the new option is just that: optional. If you prefer, you can use the traditional method of calculating and claiming the deduction, which may be the way to go if it offers you the larger deduction. And you can change methods from year-to-year. For example, if the new option works best for you in 2013, you still have the freedom to use the traditional method in 2014 or future years.

Using the traditional method generally requires tracking expenses, such as mortgage interest, real estate taxes, rent, insurance, utilities, repairs, maintenance, and casualty losses, and allocating some of them between business and personal use. It is not as difficult as it may sound, particularly if your tax advisor prepares the tax forms for you.

Please consult your tax advisor about the best way to claim the home office deduction. ■

To qualify for the home office deduction, you must use part of your home:

- Exclusively and regularly as your principal place of business,
- Exclusively and regularly as a place where you meet or deal with patients, clients, or customers in the normal course of your trade or business,
- In the case of a separate structure which is not attached to your home, in connection with your trade or business,
- On a regular basis for certain storage use,
- For rental use, or
- As a daycare facility.

An employee who uses part of his or her home for business, must meet additional tests in order to claim the deduction.

SOURCE: IRS Publication 587

Financial Tips for Every Stage of Your Life

Every stage of life presents financial opportunities and challenges. These general tips may help you take advantage of the opportunities and meet the challenges. Please see your financial advisor for more focused, detailed advice on your specific situation.

twenties

Put your student loan payments on autopilot. The Federal Direct Loan Program may trim 0.25% off your interest rate if you have your loan payments automatically debited from your bank account.

Switch repayment plans if you cannot afford your federal student loan payments. You can lower your monthly payment by switching from the standard 10-year repayment plan to one of several other plans. Keep in mind that the other plans typically extend the repayment period in order to lower the monthly payment amount and, as a result, you will pay more interest over time than under the standard 10-year plan.

Have your federal student loans forgiven after 10 years. The Public Service Loan Forgiveness Program will forgive the remaining loan balance after 10 years of qualifying payments for qualifying people in government, non-profit, and other public service jobs. For more info, please visit www.studentaid.ed.gov.

Live within your means. If you can't afford it, don't buy it. Racking up high-interest credit card debt for discretionary items can hold you back from saving for retirement or pursuing goals you may want to accomplish in life, such as starting a business or buying a home.

*** Start saving for retirement.** Although your retirement might not start for another forty years, the sooner you begin to save for it, the easier time you may have due to the power of compound earnings. Here's an example.

- Let's say you contribute $1,000 a month to a tax-deferred retirement account beginning at age 25.
- If your investments earn 6% annually, your savings will total about $2 million by age 65.
- Delay one year—by waiting until age 26 to begin investing $1,000 a month, earning 6% annually—and that little delay may cost you more than $100,000 in savings at age 65.

This is a hypothetical example for illustrative purposes only and your actual results will vary, but the point remains that compounding can have a powerful positive impact on your savings over time.


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Participate in your employer's retirement plan. Your retirement plan at work is generally the best place to begin to save for retirement. It is convenient. Your contributions and earnings are typically tax-deferred, meaning that they are not taxed until they are withdrawn from the account, which lowers your current taxes. And last but certainly not least, your employer may match a portion of the money that you contribute to your account.

Pay yourself first. Make saving for your future a priority by having part of each paycheck automatically deposited into your savings and investment accounts. The key is to make saving automatic so that you do not have an opportunity to overspend on discretionary items.

Aim for a great credit score. To help ensure that you are offered the best rates on loans, auto insurance, and homeowners insurance, it is important to maintain a great credit score. You can start by always paying your bills on time. And if there are balances on your credit cards, pay them off quickly.

Check your credit reports annually. Because your credit score is based on the information in these reports, it is important to review them for accuracy every year. You can get a free report from each of the three main credit reporting agencies—Experian, Equifax, and TransUnion—once every 12 months at www.AnnualCreditReport.com or by calling 1-877-322-8228.

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Build an emergency fund.

Stuff happens—cars break down, jobs are lost, furnaces need replacement. Without an emergency fund—a stash of readily available cash in a low-risk, interest-bearing account—it is all too easy to run up costly credit card debt. Make it a priority to save several months of living expenses so that when stuff happens you have a financial cushion to fall back on.

thirties & forties

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Live in your main home for at least two of the five years prior to selling it so that you can potentially shelter up to $250,000 of the gain from taxes ($500,000 if you are married and file a joint return).

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If you plan to install alternative energy equipment, do it before the end of 2016 when the federal tax credit for adding certain solar, wind, fuel cell, and geothermal equipment to your home is set to expire.

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Purchase flood insurance if there is a chance that your home may flood. Damage from flooding is generally not covered by homeowners insurance.

Increase the amount you save. As your income increases, consider increasing the amount you put toward retirement and your other financial goals. If you are already contributing the maximum amount allowed by your workplace retirement plan and your individual retirement account (IRA), use a brokerage account to invest additional amounts.

Start a small business retirement plan if you are self-employed or own a business. Small business retirement plans enable you to sock away much more each year on a tax-deferred basis than a personal IRA. For example, you may be able to contribute up to $51,000 in 2013 to a Simplified Employee Pension (SEP-IRA), while a personal IRA limits you to $5,500 at most.

Spread your investments around. Allocating your investments among different asset classes—stocks, bonds, and cash—can help minimize risk in your portfolio as potential gains in one class help to offset losses in another. And choosing a wide variety of investments within each asset class—a practice known as diversification—can further help minimize risk. If some of your investments lose ground, you may have others gaining ground and helping to minimize losses in your portfolio. Keep in mind that asset allocation and diversification do not ensure a profit or guarantee against loss in declining markets.

Rebalance your portfolio as needed. Over time, your actual asset allocation will stray from your target allocation as some asset classes perform better than others. When this happens, your portfolio either has more risk or less potential for reward than you originally intended. Bringing your portfolio back in line with your chosen allocation can help keep your investment plan on track. This act is known as rebalancing your portfolio. Your financial advisor can help you decide when and how to rebalance.

Protect your income. If you are unable to work for a long period due to an illness or injury, would you or your family suffer financially? If your answer is 'yes', consider purchasing disability insurance, which is designed to replace part of your income if you become too ill or injured to work. This type of insurance may be available through your employer or insurance advisor.

Protect your family's financial security. If others depend on you financially or if you provide child-rearing and homemaking services for your family (services that can be expensive to replace), it is time to consider insuring your life. In the event of your death, the proceeds from a life insurance policy can help your family and loved ones meet the financial challenges that lie ahead.

Choose who will make decisions for you. Who do you want making medical, business, and financial decisions for you if you become incapacitated? Make your choice(s) legal by setting up two documents: a durable power of attorney for health care (also known as a health care proxy) and a durable power of attorney for finances. While you are at it, consider filling out a living will, the document where you make known the types of medical measures you want or don't want in end-of-life circumstances.

Prepare a will. Although more than half of your life is likely still ahead of you, it is never too early to prepare a will. With a will, you can direct who is to receive your assets after your death. Without one, assets that are not distributed through beneficiary designations or other legal means will be distributed according to the laws of your state. Wouldn't you prefer to make these decisions yourself?

Live simply. When your income increases, give some thought as to how that increase may best be put to use—by enhancing your lifestyle now or by saving that money for your future. Many of us are better off living simply now if it improves our financial security during retirement.

Start saving for your children's college education as early as possible. Saving for college is less expensive than borrowing for it—and the earlier you start to save, the better. Why? Because an early start allows more time for your investment earnings to potentially compound.

Consider using a 529 college savings plan to save for college. Money you invest within these state-sponsored plans has the potential to grow tax-free and can be withdrawn tax-free if used for qualified higher education expenses, such as college tuition and generally room and board. 529 college savings plans are offered by nearly every state in the union, with some states offering more than one plan. You can participate in almost any state's plan, regardless of where you or the student lives or where the student will attend college. Only a few states limit participation to state residents.

NOTE: For more complete information about a 529 college savings plan, including investment objectives, risks, fees, and expenses associated with it, please carefully read the issuer's official statement before investing. It can be obtained from your financial advisor. Any state-based benefit offered with respect to a particular 529 college savings plan should be one of many appropriately weighted factors to be considered in making an investment decision. You should consult with your financial, tax, or other advisor to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You also may wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits, and limitations of that state's 529 college savings plan.

When relatives ask for gift ideas, mention your child's 529 account. Many people will welcome the opportunity to contribute to their grandchildren's or other young relative's educations.

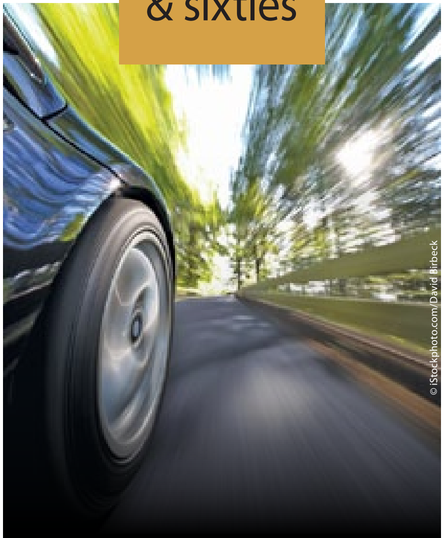
Consider saving for your child's college education in your name. When determining your child's eligibility for federal financial aid, the Expected Family Contribution formula assumes that 20% of the student's assets (savings, investments, etc.) and up to 5.6% of parental assets are available to pay college expenses. Because parental assets have less of a detrimental impact on aid eligibility, you may want to keep college savings in your name rather than the student's name. (Please note that 529 accounts and Coverdell education savings accounts owned by a dependent student are treated as parental assets.)

Don't raid your retirement account when switching jobs. Remember, even small amounts have the potential to grow exponentially over time. If you cash out now, you will lose the potential for decades more of tax-deferred growth and your withdrawal will immediately be subject to income tax and generally a 10% penalty.

Do preserve the tax-deferred status of your retirement savings. Your best move when leaving a job is generally to do one of the following.

- Roll your savings into an IRA.
- Transfer your savings to your new employer's retirement plan.
- Leave your savings in your old employer's retirement plan.

fifties
& sixties



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Determine if your retirement savings are on track. With just a decade or so remaining before you retire, you may have a clearer idea now of how much you may need to afford the retirement you envision. Periodically check your progress toward your goal so that if adjustments to your financial plan are necessary, you have time to make them.

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Accelerate your contributions. Once you reach age 50, IRAs and many workplace retirement plans will permit you to contribute additional amounts, known as catch-up contributions. For example, many 401(k) plans permit employees age 50 or older to contribute up to an additional $5,500 in 2013. Personal IRAs permit catch-up contributions of up to $1,000 in 2013.

Evaluate your investment mix. The closer you get to your retirement age (or any financial goal, for that matter), the less time your investments have to potentially recover from downturns in the market. For this reason, it is generally a good idea to gradually move to more conservative investments, such as bonds, as the time draws near when you will need your money. Your investment advisor can help you select an investment mix that is appropriate for your financial goals, the time remaining until you will need your money, and your tolerance for risk.

Create a retirement income plan. Before the paychecks from your employer stop, decide how your retirement "paychecks" will be created. Decide which sources of retirement income—pensions, 401(k) plans, investment accounts, Social Security, etc.—you will draw on first. Also decide on the percentage of your savings to withdraw each year. Keep in mind that if you withdraw too much, you may eventually run out of money. These are big decisions that will impact the rest of your life. Please seek advice from your financial advisor before making a move.

Avoid penalties on early distributions. If you will be retiring early, listen up. Money withdrawn from an IRA or a workplace retirement plan before you reach age 59½ will generally be subject to an additional 10% tax penalty for an early distribution. However, it is possible to withdraw money early without penalty if you meet an exception. Your tax advisor can help you determine if you qualify for one.

Factor long-term care costs into your retirement planning. There are three main things to remember about long-term care. One, about 70% of people over age 65 will need long-term care, according to the U.S. Department of Health and Human Services (HHS). Two, long-term care can be expensive; nursing home care averaged about $80,000 per year in 2010. Three, your regular health insurance policy and Medicare generally do not cover long-term care costs. Unless you can afford to pay for long-term care without draining your retirement savings, consider purchasing a long-term care insurance policy to help with the potential expenses.

Purchase long-term care insurance sooner rather than later. Age is a factor in determining the premiums you will pay for long-term care insurance. Typically, the younger you are when you purchase the policy, the lower your premiums. And it is a good idea to purchase long-term care insurance while you are still healthy—and this usually means at a younger age. Insurers may not be willing to issue you a policy if you wait until certain health issues, such as Alzheimer's disease, arise.

Update your estate plan. Although a will may have been sufficient when you were younger, it may be a good idea to revisit your estate plan, particularly if the value of your estate has increased significantly or if you have special goals for your estate that cannot be met by a will alone.

Review your life insurance needs. If your mortgage is paid off, your children financially independent, and your spouse financially set for life, you may not need a life insurance policy any longer. Then again, you may need life insurance now more than ever, particularly if you expect that your estate will be subject to estate taxes. Life insurance is frequently used to provide the liquidity necessary to pay estate taxes.

Consolidate your retirement accounts. By the time you retire, you may have several IRAs and retirement accounts from various employers. Consolidating them into fewer accounts may make it easier for you to manage your retirement savings.

seventies & beyond

Roll your Roth 401(k) into a Roth IRA.
Roth 401(k)s require minimum distributions beginning generally at age 70½; Roth IRAs do not require them at any age, provided you are the account owner. So if you have savings in your Roth 401(k) and would prefer to avoid RMDs, roll those savings into a Roth IRA where your investment earnings can continue to potentially grow tax-free and where account owners never have to withdraw a dime (unless they want to).

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Protect your savings. At this stage in life, it is important to protect your retirement savings so that you do not end up outliving your nest egg. Keep an eye on what you spend and how your portfolio is performing. Limit your exposure to riskier investments, such as stocks. Choose conservative investment and savings options, particularly for money you will need soon. Your financial advisor can assess how you are doing financially and suggest adjustments to your financial plan as necessary.

Claim your Social Security benefits. If you delayed the start of your Social Security benefits to allow your monthly benefit amount to increase, delay no longer. Once you reach age 70, your benefit amount will not increase any further even if you continue to postpone starting your benefits.

Don't miss your annual RMD. If you own a traditional IRA, a 401(k) account, or an account in a similar workplace retirement plan, you generally must begin withdrawing at least a specified minimum amount each year beginning at age 70½. That specified amount is known as your required minimum distribution (RMD). If you fail to withdraw your RMD, you will generally owe a 50% tax on the amount that you failed to withdraw.

Consider converting to a Roth IRA. If you will not need the money in your traditional IRA, consider converting it to a Roth IRA. By converting, you avoid having to take required minimum distributions from your IRA each year after age 70½. Plus the income tax you pay on the conversion reduces the size of your taxable estate (generally only an advantage if your estate is larger than $5.25 million, the amount of the 2013 federal estate tax exclusion). And your heirs will eventually inherit an account that is protected from income taxes (but not estate taxes). Before you make a move, however, have your tax or estate-planning advisor run the numbers to make certain that converting to a Roth IRA is a smart move for you. ■

As you travel through life, please call on your financial advisor for more focused, detailed advice on your specific situation.

The American Taxpayer Relief Act of 2012: How Will It Affect Your Taxes?

In a flurry of last-minute activity, Congress passed the American Taxpayer Relief Act of 2012 on January 1, 2013, averting the large tax increase that had been set to take effect that very day when the Bush-era tax breaks expired. Instead, Congress extended the tax breaks for the most part, and the tax increases for individuals that they included in the Act apply only to high-income taxpayers. Here's a description of a few of the key provisions of the Act and how they may affect your personal taxes.

Income tax rates. The Act extends the 2012 income tax rates (10%, 15%, 25%, 28%, 33%, and 35%), but also reinstates the 39.6% rate on taxable income over $400,000 for individuals or $450,000 for married couples who file jointly. Income above these amounts was taxed at 35% in 2012. As a result of the reinstated 39.6% rate, a single individual with taxable income of $500,000, for example, might expect a $4,600 tax increase in 2013.

Capital gains and qualified dividends rates. The Act also keeps the tax rates on long-term capital gains and qualified dividends at 2012 levels (15% or 0%, depending on your income tax bracket) for individuals with incomes at or below $400,000 and joint filers with incomes at or below $450,000. The tax rate is increased to 20% for taxpayers with incomes above $400,000/$450,000. As an example, a married couple who files jointly with an income above $450,000 and $10,000 in long-term capital gains may expect to pay an extra $500 in capital gains tax as a result of the Act.

Limits on personal exemptions and certain itemized deductions. The Act reinstates the personal exemption phaseout and the limitation on itemized deductions for individuals with incomes over $250,000 and joint filers with incomes over $300,000. This means that if your income exceeds the threshold for your filing status, the value of your personal exemptions and certain itemized deductions (interest you paid, taxes you paid, gifts to charity, job expenses and most miscellaneous itemized deductions) will be reduced beginning in 2013.

The limitation on certain itemized deductions is a bit tricky to calculate so you may be unaware of how significant its impact can be. Here's how it works. Your otherwise allowable itemized deductions are reduced by 3% of the amount by which your adjusted gross income (AGI) exceeds the threshold for your filing status, but not by more than 80%. For example, the itemized deductions of a married couple with an adjusted gross income of $500,000 ($200,000 over the threshold for joint filers) will be reduced by either $6,000 (3% of $200,000) or 80% of their itemized deductions, whichever is less.

Deductions and credits. Enhancements to several tax deductions and credits—among them, the student loan interest deduction, the adoption credit, the child tax credit, and the earned income credit—are extended, many on a permanent basis. Popular deductions and credits, such as the American Opportunity Tax Credit (for higher education expenses), the state and local sales tax deduction, and the educator expense deduction, are temporarily extended. Even the credit for nonbusiness energy property (the credit for adding certain energy-efficient windows, doors, furnaces, and the like to your main home) is back in place through 2013.

Alternative minimum tax (AMT). A permanent "patch" is applied to the AMT, preventing many middle-income Americans from paying higher taxes and eliminating the need for Congress to pass a last-minute patch every year.

Estate, gift, and generation-skipping transfer taxes. The Act permanently extends the exemption amount at the 2012 level ($5 million, indexed for inflation) and increases the top tax rate to 40% (from 35%).

It also makes exemption portability between spouses permanent. Portability enables you to use the unused portion of your deceased spouse's estate tax exemption to reduce or eliminate your own gift or estate taxes (but not the generation-skipping transfer tax). Without exemption portability, married couples would need to take legal steps to ensure that the unused exemption amount of the first spouse to die was not wasted.

Retirement plans. The Act also makes it possible for more employees to transfer the retirement savings from their pre-tax 401(k), 403(b), and 457(b) accounts to Roth accounts within the same plan, provided their employer's retirement plan offers a Roth account option. Prior to the Act, employees generally had to be eligible for a distribution in order to transfer funds to a Roth account.

So what does this provision have to do with taxes? Quite a bit. Washington hopes to reap an additional $12.2 billion in revenue over the next ten years as employees pay income tax on the amounts that they transfer to Roth accounts.

What's not in the Act. The 2% payroll tax cut on the employee's share of the Social Security tax expired at the end of 2012 and was not extended. As a result, workers will pay an additional 2% tax on the first $113,700 of their wages and net self-employment income in 2013.

It is important to recognize that while many provisions in the Act do not have expiration dates and are therefore considered permanent, Congress may change them in the future, perhaps as part of overall tax reform.

To sum it up, the Act keeps the federal tax rates and benefits for most taxpayers pretty much the same as they were in 2012, with the exception of the increased payroll tax. It is a very different story for higher-income taxpayers who face considerable tax changes in 2013. In addition to the tax increases included in the Act, higher-income taxpayers face two new Medicare taxes. A new additional 0.9% Medicare tax applies to wages and self-employment income that exceed $250,000 for married couples who file jointly, $125,000 for married couples who file separately, and $200,000 for all other taxpayers. And a new 3.8% Medicare tax on net investment income applies to taxpayers whose modified adjusted gross incomes exceed $250,000 if married filing jointly, $125,000 if married filing separately, and $200,000 if single.

Please consult your tax advisor if you believe you will be affected by the tax changes. Advanced tax planning may help reduce the impact of some of the changes. Your tax advisor can also review your situation in light of the latest tax laws, which may have changed since this publication was produced. It is also a good idea to touch base with your estate planning advisor to make certain that your estate plan reflects the latest changes in the law. ■

▼ Permanent provisions

Personal income tax

- The 10%, 15%, 25%, 28%, 33%, and 35% income tax rates are made permanent, with the 35% rate applying to a narrower slice of income.
- The 39.6% tax rate is reinstated for ordinary income over $400,000 (single), $450,000 (married filing jointly), $425,000 (head of household), or $225,000 (married filing separately).
- The personal exemption phaseout and the overall limitation on itemized deductions are reinstated for taxpayers with incomes over $250,000 (single), $300,000 (married filing jointly), $275,000 (head of household), or $150,000 (married filing separately).

Alternative minimum tax (AMT)

- The AMT is permanently "patched".

Long-term capital gains and qualified dividends

- The 15% and 0% tax rates are made permanent for low- and moderate-income taxpayers.
- The tax rate is increased to 20% for higher-income taxpayers, namely those with incomes over $400,000 (single), $450,000 (married filing jointly), $425,000 (head of household), or $225,000 (married filing separately).

Extended permanently

- Marriage penalty relief
- Enhancements to the Coverdell Education Savings Accounts
- Enhancements to the child and dependent care credit
- Enhancements to the adoption credit
- Enhancements to the student loan interest deduction
- Some enhancements to the child tax credit
- Some enhancements to the earned income credit

Estate, gift, and generation-skipping transfer taxes

- The $5 million exemption amount (indexed annually for inflation; $5.25 million in 2013) is made permanent.
- The top tax rate is increased to 40% (from 35%).
- Exemption portability between spouses is made permanent.

▼ Tax breaks extended through 2013

- The $250 deduction for educator expenses.
- The state and local sales tax deduction.
- The special rule regarding contributions of capital gain real property for conservation purposes.
- The qualified tuition and related expenses deduction.
- Tax-free distributions from IRAs to charities by individuals age 70½ or older.
- The credit for nonbusiness energy property.
- The ability to exclude from income up to $2 million of cancelled mortgage debt on a principal residence.

▼ Tax breaks extended through 2017

- The American Opportunity Tax Credit (higher education expenses).
- Reduced earnings threshold for the refundable portion of the child tax credit.
- The earned income credit for larger families.

Social Security:
What Is the Best Age to Begin Your Benefits?

BY THE TIME YOU REACH AGE 62, you may be eager to claim your Social Security retirement benefits. But before you do, it is a good idea to evaluate whether this is the best age for you to start. Although most people become eligible for benefits at age 62, you may be shortchanging yourself, and your spouse if you are married, by starting so early. Here are a few things to consider before you start your benefits. Your financial advisor can tell you more.

The age that you begin Social Security benefits has a large impact on the size of your monthly benefit payments. If you start retirement benefits at your full retirement age (shown on the next page), you are eligible for 100% of your retirement benefit. Your monthly benefit amount will be permanently reduced, however, if you start any earlier. And the earlier you start, the greater the reduction. For example, if your full retirement age is 66 and you begin retirement benefits at age 62, your monthly benefit payment will be reduced by 25%.

On the other hand, if you wait until after your full retirement age to begin, your monthly retirement benefit will be permanently increased. And the more months you delay (up until age 70), the greater the increase. Returning to the earlier example, if you begin your retirement benefits at age 70, your monthly benefit will be 32% larger than if you began at full retirement age.

So what is the best age to start? The answer will depend on several factors, including your financial situation, whether you are still working, your lifespan, and your marital status.

Many people begin retirement benefits at age 62 for the simple reason that they can't afford not to start, even if it means that their monthly benefit payments are permanently reduced. Perhaps health reasons or layoffs have resulted in the loss of a paycheck earlier than expected. So the first question you need to ask yourself is whether you can afford to wait past age 62, either by continuing to work for a few more years or by drawing on other retirement resources to fund the early years of your retirement.

Your next consideration: Are you still working? You can start benefits while you are working, but your benefit amount will be reduced if you have not yet reached full retirement age and earn more than the annual limit. If you are under full retirement age for the entire year, your benefit amount will be reduced if you earn more than $15,120 (the 2013 annual limit) from wages or self-employment income while receiving benefits. A higher annual limit, $40,080, applies to the year you reach full retirement age, but only to those months leading up to the month you reach full retirement age. (If your benefits are reduced due to excess earnings, your benefit amount will be recalculated at your full retirement age to give you credit for the months in which your benefits were reduced or withheld.) Once you reach full retirement age, your earnings from work will no longer affect your benefits.

When deciding between starting your benefits early, on time, or later, it is also important to consider how long you may live. If you expect to live longer than average—and many of us will live well into our nineties—it can be a smart move to delay the start of benefits, up to age 70 if possible, so that you receive a larger monthly benefit for the rest of your life. You may need that extra money in your later years, particularly if your other retirement resources are running low after twenty or thirty years in retirement.

Be sure to also consider the impact of your start date on your spouse's benefits, particularly if you earned more than your spouse over your lifetime. If you are the higher earner and die before your spouse, the survivor benefits that your spouse will generally receive will be based on the benefit amount you were receiving. So if you start early, not only will your monthly benefits be lower, so will the survivor benefits that your spouse may eventually receive.

Once you reach full retirement age, you have the option to start and then suspend your benefits. This can be a beneficial strategy if you are the higher-earning spouse. Starting your benefits allows your spouse to begin collecting a spouse's benefit based on your record, which may result in a higher benefit amount for your spouse. And suspending your benefits until age 70 allows your benefit amount to continue to grow.

Deciding when to start your Social Security benefits can be complex. There are many factors to consider, and we've only scratched the surface of some of them here. Please consult your financial advisor and the folks at Social Security before making your decision. ■

The later you start receiving Social Security, the larger your monthly benefit.

		YOU'LL RECEIVE THIS PERCENTAGE OF YOUR MONTHLY RETIREMENT BENEFIT[1] IF YOU BEGIN AT...		
Year of Birth	Full Retirement Age	Age 62	Your Full Retirement Age	Age 70
1937	65	80.00%	100%	132.50%
1938	65 and 2 months	79.17%	100%	131.40%
1939	65 and 4 months	78.33%	100%	132.70%
1940	65 and 6 months	77.50%	100%	131.50%
1941	65 and 8 months	76.67%	100%	132.50%
1942	65 and 10 months	75.83%	100%	131.30%
1943-54	66	75.00%	100%	132.00%
1955	66 and 2 months	74.17%	100%	130.70%
1956	66 and 4 months	73.33%	100%	129.30%
1957	66 and 6 months	72.50%	100%	128.00%
1958	66 and 8 months	71.67%	100%	126.70%
1959	66 and 10 months	70.83%	100%	125.30%
1960 or later	67	70.00%	100%	124.00%

EXAMPLE

Let's say you were born in 1951 and your monthly retirement benefit at your full retirement age of 66 is $1,000. If you begin receiving benefits at age 62, your monthly benefit will only be $750; if you wait until age 70 to begin, your monthly benefit will be $1,320.

Source: Social Security Administration

[1] The percentages apply only to the retirement benefit; different percentages apply to the spouse's benefit.

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On a Mountain High: The Alpine Road, Germany

BY BRIAN JOHNSTON

THE SCENIC DRIVE known as the Alpine Road runs for 290 miles along Germany's southern border, from Königsee in the east to Lindau on Lake Constance in the west, and takes in the best of Bavaria. Formerly an ancient kingdom that was independent until 1918 and now Germany's largest state, Bavaria retains a strong sense of nationhood and rich local traditions. In village squares you're likely to find knee-slapping men in Lederhosen rollicking to the oom-pa-pa of brass bands, perhaps in celebration of the glory of the surrounding onion-dome churches, baroque palaces, and flower-decked houses. Throw in the snow-covered alpine peaks that string out along the border with Austria, and you can see why this region might fill your heart with the sound of music.

If you want to start at the very beginning, then Berchtesgaden at the eastern end of the Alpine Road is a very good place to start. The fine old town, cluttered with the painted houses that are so typical of southern Bavaria, is squeezed in between dazzling mountain scenery, but rather than lifting your eyes to the peaks (there'll be plenty more opportunities for that) you'd best cast them down. Berchtesgaden was founded on salt centuries ago, and the old salt mine offers an eccentric tour that will entertain children and anyone who still believes in adventure. Visitors careen in a small train down chutes and tunnels like something from an Indiana Jones movie, then clamber aboard a wooden boat to cross an eerie underground lake of black water.

Back above ground, head west and alpine panoramas assault you on every side, alternating between sunny pastures and sinister gorges. In the distance, the snowy Alps are a confectionery of whipped cream and crumbled meringue, sugary against a blue sky. (The landscape will bring out the ersatz poet in you.) Just as you're thinking the perfection would be complete if only there was a blue lake, the Tegernsee appears. Monks and noblemen once retreated to the shores of this little lake; these days you're more likely to encounter windsurfing industrialists from Munich.

Drive on (singing as you go) and you'll find Bad Tölz, a town almost as saccharine as Julie Andrews. This is the heartland of Bavarian tradition, full of slatted wooden

The castle of Hohenschwangau (page 16) was the childhood home of 'mad' King Ludwig II (1845–1886). The town of Lindau (below) on the shores of Lake Constance is located at the western end of the Alpine Road.

houses with wide overhanging eaves and balconies cascading with geraniums. Local men aren't shy about wearing Lederhosen and jaunty hats stuck with feathers, while many of the women still favor the Dirndl, the traditional brocaded skirt of the region. Dawdle in Bad Tölz and other villages and you'll probably end up involved in some raucous beer drinking to the accompaniment of feverish accordions and hooting trumpets.

For a bit of solitude, pass on to Benediktbeuern. You'll see twin onion domes rising in the distance long before you arrive at this massive abbey standing in the middle of nowhere. It was founded more than a millennium ago and its seventeenth-century church and chapel have superb frescoes. Sit in the sun with a loaf of fresh bread, a hunk of cheese, and some German sausage and soak up the medieval atmosphere and scent of flowers and pine resin. Then trundle into Mittenwald, another ridiculously picturesque place that stands out from the rest only because of its reputation for violin making. The Violin Museum demonstrates the special skills involved in this trade, which was brought to the town in the early eighteenth century by Matthias Klotz, a pupil of the famous Italian Stradivari. The town's souvenir shops are full of violin-shaped marzipan sweets and bottles of potent liqueur that will soon have you breaking out in a rendition of Edelweiss.

The main town along the Alpine Road is Garmisch-Partenkirchen, which first became famous as a host of the Winter Olympics back in 1936. Take advantage of the surrounding landscape of mountains and waterfalls to spend a few days hiking. You can also take the easy option and ride the early morning rack railway up the Zugspitze, Germany's highest peak (9,700 feet). The teeth on the train's cogwheels click and grind as you're pulled around dizzying loops and across viaducts. Already the sun is catching the mountain peaks, tingeing the rocks and snow with gold—enough to inspire you to climb every mountain, ford every stream, and probably end up late back at your nunnery.

Speaking of nunneries, nearby Oberammergau owes its fame to the religious performances it hosts once every ten years. The next are in 2020, but even at other times Oberammergau is worth a brief stop for the colorful frescoes on the houses and for the woodcarvings on sale in the shops.

The western end of the Alpine Road runs through the romantic corner of Bavaria associated with 'mad' King Ludwig II. Ludwig was born in 1845 and spent the better part of his childhood in the castle of Hohenschwangau near Füssen. The castle is set on a forested hill above a lake, against the magnificent background of the Tyrolean Alps, and it was here that Ludwig developed his love of solitude and the mountains. The interior has the homey feel of a comfortable country retreat rather than a royal palace. The Music Room provides the first clue to Ludwig's future love for music, while the ceiling of his childhood bedroom, decorated to resemble the night sky, provided one of the romantic influences that he was later to incorporate into his own architecture.

Ludwig's most famous creation is the improbable castle of Neuschwanstein, which perches on a crag high above Hohenschwangau, against a backdrop of snow-capped mountains and forest. (Much later, Disney would make Neuschwanstein world famous by using it as a model for Sleeping Beauty's castle.) The castle seems small from down below, but as you approach, the vast white building with its red keep looms above you, bristling with Romanesque windows, turrets, and battlements. The interior is decorated with a few of Ludwig's favorite things, including endless swans and other symbols from Germanic legend and Wagner operas. In the Singers' Hall, the walls are covered with pictures and patterns relating to episodes of the Grail story, carved angels and dragons hold up the roof beams, and the ceiling is decorated in gold and red. There's also a distinct oriental theme to some of the rooms, such as the ornate Byzantine-style Throne Room.

Neuschwanstein is surely the highlight of the Alpine Road, but technically the road winds on its scenic way westwards and doesn't end until it reaches Lindau on the shores of the vast Lake Constance, which separates Germany from Switzerland. This is another well-preserved old town full of beautiful houses, and has a quaint little yachting harbor guarded by stone Bavarian lions on pillars. Admire the changing scenery by rambling through the meadows and fruit orchards of the lakeshore. Most of the time in the summer the sun is strong and clear and the scenery bold, the rugged mountains crisp in the distance, the lake glinting with a metallic sheen. Just make sure you've allocated a few days to enjoy the landscape's moods—it may be that long before you want to wave the Alpine Road so long, farewell, auf Wiedersehn, goodbye. ■

AT A GALAXY NEAR YOU

Los Angeles, CA—California Science Center
New York, NY—Intrepid Sea, Air & Space Museum
Kennedy Space Center, FL—Kennedy Space Center Visitor Complex
Washington D.C. area—Smithsonian's National Air and Space Museum Steven F. Udvar-Hazy Center

Space Shuttle Orbiters and Related Exhibits

The journeys were not always simple—involving 747s, a barge, and specialized vehicles—but the four space shuttle orbiters have all arrived at their permanent homes. Three are already on display to the public, and the fourth, at the Kennedy Space Center in Florida, can be seen beginning in July 2013 when a new $100-million, 90,000-square-foot exhibit featuring the Space Shuttle Atlantis is expected to open. The new exhibit will tell the story of the 30-year Space Shuttle Program and what lies ahead in space exploration.

Earth

Comet ISON *November 28, 2013 unless it fizzles out in the interim*

On November 28, 2013, keep your eyes on the sky for a comet named ISON. "Comet ISON is a sungrazer," says Karl Battams of the Naval Research Lab. "The orbit of the comet will bring it very close to the sun, which we know can be a spectacular thing." If the comet survives its trip near the sun (a big IF), it could emerge glowing as brightly as the Moon, briefly visible near the sun in broad daylight, according to Science@NASA. The comet's dusty tail stretching into the night sky may be visible for months after it swings by the sun. And then again, Comet ISON may just fizzle out. In the words of Don Yeomans of NASA Near-Earth Object Program, "Comets are notoriously unpredictable."

The Island of Hawaii, HI—Mauna Kea Visitor Information Station

Stargazing

Set at an elevation of 9,300 feet, the Mauna Kea Visitor Information Station offers a free stargazing program every night of the year, from 6 p.m. to 10 p.m. After a short documentary film about Mauna Kea, the action moves outside where several telescopes are set up to allow the public to view various objects in the night sky. The world's largest telescopes for optical, infrared, and submillimeter astronomy are located on the summit of Mauna Kea, at an elevation to 14,000 feet. The observatories on the summit are private and not generally open to the public.

Tucson, AZ area—Kitt Peak National Observatory

Stargazing

56 miles southwest of Tucson, Kitt Peak rises high above the Sonoran Desert, offering spectacular views of the night sky and the largest collection of optical research telescopes in the world. The public can sign up (two to four weeks in advance) for an introductory stargazing program, presented nightly at the Kitt Peak Visitor Center. (The program is not available from July 15 to September 1.) The program begins as the sun sets over the desert. After sunset and a little instruction, program participants have an opportunity to use planispheres and binoculars to find stars and constellations. Finally, they gather in one of the Visitor Center's domes to view the heavens through a reflecting telescope. There is also an advanced program (reserve at least two months in advance), offering visitors a more hands-on experience. ■

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Green thumb

1. This type of plant lives for several years:

A. Perennial
B. Annual

2. The showy flower of this plant sometimes sports a beard:

A. Daisy
B. Iris

3. Which plant flowers in the winter?

A. Petunia
B. Hellebore

4. This yellow-flowered shrub is among the first to bloom in the spring:

A. Forsythia
B. Rose of Sharon

5. What is a biennial?

A. A plant that blooms in its second year
B. A plant that blooms twice a year

6. David Austin is renowned for breeding:

A. Orchids
B. Roses

7. You buy a blue hydrangea and next year it blooms pink—what's happened?

A. The plant is diseased
B. Your soil's PH has risen

8. Barbra Streisand, Julia Child, and John F. Kennedy each have this type of flower named after them:

A. Rose
B. Daffodil

9. The plant shown at left is a:

A. Pansy
B. Tulip

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