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8 Mistakes to Avoid When Saving for Retirement

Plus... Deducting a Vehicle Donation

Tax-Efficient Withdrawals and Asset Location Can Help Your Nest Egg Last Longer

Preparing Financially for When Illness Strikes

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Three Things to Know About the FBAR

1 You may need to file an FBAR by June 30th if your foreign financial accounts totaled more than $10,000 last year. The Report of Foreign Bank and Financial Accounts (FBAR) is an annual disclosure form used to collect information from U.S. citizens, residents, and legal entities (e.g., corporations, partnerships, trusts, and estates) about their foreign financial accounts. You generally must e-file this form with the U.S. Department of the Treasury by June 30, 2014 (no extensions) if you have a financial interest in or signature authority over a foreign financial account and the total value of your foreign financial accounts exceeded $10,000 at any time during 2013.

2 More than just foreign bank accounts need to be reported. The FBAR reporting requirements apply to foreign bank accounts, brokerage accounts, mutual funds, life insurance or annuity contracts with a cash value, and certain other financial accounts located outside of the United States. The requirements do not apply to domestic mutual funds that invest in foreign stocks and securities. Other exceptions also exist.

3 There are significant penalties for failing to file an FBAR. The IRS takes tax evasion seriously, as evidenced by the penalties it imposes on people with foreign financial accounts totaling more than $10,000 who fail to file an FBAR. Unless there is a reasonable cause for failing to file, the penalty may range up to $10,000. And if the failure to file is determined to be willful, the penalty can be up to the greater of $100,000 or 50% of the accounts' balances and criminal penalties may apply. ■

If you have foreign financial accounts or assets, please consult your tax advisor about your reporting requirements.

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HOW TO PREPARE FOR WHEN ILLNESS STRIKES

Steps you take now can help protect you financially when illness strikes.

A MAJOR ILLNESS OR INJURY CAN BE expensive. Even with health insurance, your out-of-pocket health care expenses can build up quickly. Add to them your living expenses—they will still need to be paid even if you are unable to work. And if you require care in a nursing home or even your own home, add in the cost of long-term care. All told, the cost of a major illness may have a huge financial impact on you, your family, and your future.

Fortunately, there are steps you can take to help prevent a health crisis from turning into a financial crisis.

Get coverage for your medical, hospital, and prescription drug costs. A good health insurance plan can go a long way toward protecting your financial security. Perhaps you have access to health insurance from your employer. If not, you can purchase a policy through a health insurance marketplace (www.healthcare.gov) or directly from an insurance company. If you are age 65 or older, you can generally secure coverage through Medicare.

When choosing a health insurance plan, it is important to consider the plan's out-of-pocket expenses, such as deductibles, copayments, and coinsurance, in addition to how much you will pay each month for the policy.

If you have Medicare, you can help minimize your out-of-pocket expenses by supplementing your coverage with a Medigap policy or by switching to a Medicare Advantage Plan with lower out-of-pocket costs.

Build an emergency fund. Money that you set aside in an emergency fund can help you pay for the health care expenses that are not covered by insurance, as well as your living expenses (groceries, housing, transportation, etc.) if you are too ill or injured to work.

Conventional wisdom suggests that you stash enough money in an emergency fund to cover your living expenses for six to twelve months and that you keep the money in a relatively low-risk, liquid account, such as a savings account, money market account, or laddered CDs that mature at regular intervals.

Ensure you continue to receive an income. If your income stops because you are unable to work, even a sizable emergency fund may eventually run dry. Disability insurance can help you meet your financial obligations by providing a stream of income while you are unable to work due to an illness or injury.

Short-term disability insurance, which many employers offer, typically replaces part of your income for three to six months following a disability.

Long-term disability insurance, available from insurance companies and some employers, is designed to kick in a few months after you become disabled and may replace part of your income for up to a specific number of years or until retirement age.

Plan for long-term care. If you are ever disabled to the point where you cannot perform basic skills, such as feeding or dressing yourself, you may need long-term care. This type of care is generally not covered by health insurance or Medicare—and it can be expensive. In 2010, the average annual cost of a private room in a nursing home was $83,580 and care from a home health aide ran $21 per hour on average.[1]

Unless you can comfortably handle costs like these, you should consider purchasing long-term care insurance. Depending on the policy you choose, this type of insurance may cover part of the cost of your care in a nursing home, assisted living facility, or your own home. You may be able to purchase coverage through your employer, union, or trade group. Or you can purchase long-term care insurance from an insurer.

Talk to your financial advisor about how to prepare for when illness strikes. Your advisor can assess your financial situation and suggest ways that may help protect you and your family from the potentially devastating financial impact of a serious illness. ■

[1] Source: U.S. Department of Health and Human Services, www.longtermcare.gov


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Why invest in bonds?

There are several reasons why bonds are a key component of most investment plans.

INCOME

Bonds typically pay a fixed rate of interest on a semi-annual basis, making them a good choice for investors who want a predictable stream of income. Bond funds can also be a good choice. They generally pass along to investors, on a monthly basis, the interest they receive from their bond holdings. Because their holdings change occasionally, the amount of interest from a bond fund will generally fluctuate.

CAPITAL PRESERVATION

If you hold an individual bond until its maturity date, you will be paid the face amount on the bond, barring a default by the bond's issuer. This feature makes individual bonds attractive to investors seeking to preserve their principal. Bond funds, which hold many different bonds, usually do not have a maturity date so when you sell shares, you will generally receive more or less than you originally paid for them.

DIVERSIFICATION

Bonds and bond funds play an important role in diversifying a portfolio. Because bond prices are typically less volatile than stock prices—meaning they generally fluctuate less widely, adding them to a stock portfolio can help reduce the portfolio's overall volatility. It is important to note that asset allocation and diversification do not ensure a profit or protect against loss in declining markets.

TAX SAVINGS

When held in a taxable account, two types of bonds—U.S. Treasury securities and tax-exempt municipal bonds—offer the opportunity to reduce or avoid tax on the interest income. The interest income from U.S. Treasury securities, is subject to federal taxes, but is exempt from state and local taxes, making this type of security especially attractive to investors in high tax states. The interest income from tax-exempt municipal bonds is exempt from federal income tax and may also be exempt from state and local taxes if the bonds were issued in your state. Tax exemption makes municipal bonds especially attractive to high-income investors who stand to benefit the most from it. ■

PLEASE NOTE: Bonds are subject to interest rate risk. When interest rates rise, bond prices usually fall. The effect is usually more pronounced for longer-term securities. Fixed-income securities also carry inflation risk and credit and default risks for both issuers and counterparties. You may have a gain or loss if you sell a bond prior to its maturity date. A portion of a municipal bond's income may be subject to state tax, local tax, and the federal alternative minimum tax.

Please consult your financial advisor for help in developing and implementing an investment plan.

Before investing in mutual funds or ETFs, investors should consider a fund's investment objectives, risks, charges, and expenses. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing.

A NEW TAX WORLD FOR SAME-SEX MARRIED COUPLES

The recognition of same-sex marriages for federal tax purposes affects more than just filing status.

ON AUGUST 29, 2013, THE U.S. DEPARTment of the Treasury ruled that legally married same-sex couples are recognized as married for federal tax purposes—a change that affects much more than just the filing status on the income tax returns of same-sex couples. For example…

Marriage penalty or bonus. You and your spouse may pay more income taxes when you file as a married couple than as two single individuals. Or you may pay less.

Couples with similar incomes tend to pay more tax as a married couple due in part to the fact that most federal tax brackets for married couples are less than twice as wide as the brackets for single individuals. For example, in 2013, the top 39.6% tax bracket applied to income over $400,000 for unmarried individuals and $450,000 for married couples filing jointly. Let's say you and your spouse each had $300,000 in taxable income. Filing as unmarried individuals, none of your income would have been taxed at the top rate, but as a married couple filing jointly, $150,000 would have been taxed at the top rate. This is what is known as a marriage penalty.

Married couples with very dissimilar incomes tend to pay less tax than they would have as single individuals because more of the higher earner's income may be taxed at lower rates. This is what is known as a marriage bonus.

Unlimited marital deduction. Thanks to this deduction, you can transfer an unlimited amount of assets to your spouse at any time, free from federal gift and estate taxes. (Your spouse must be a U.S. citizen.) Prior to same-sex marriages being recognized for federal tax purposes, assets you gave or left to your same-sex spouse in excess of the applicable exclusion amount would have been subject to gift or estate taxes.

Portable estate tax exclusion. This provision gives surviving spouses the option to use the unused portion of their deceased spouse's federal estate tax exclusion, in addition to their own basic exclusion, to shelter their gifts and estate from federal transfer taxes. As a result, married couples can shelter up to $10.68 million (2014) from gift and estate taxes, double the $5.34 million that an unmarried individual can shelter.

Gift splitting. Each of us can give another individual as much as $14,000 in 2014 without the gift being taxable, thanks to the annual gift tax exclusion. Married couples can give twice that amount using a tax strategy known as gift splitting. Let's say you give your niece $28,000 in 2014. As long as you and your spouse agree to "split" the gift—that is you use both annual exclusions to cover the gift—the gift is not taxable. (You will need to file a federal gift tax return.)

Spousal rollovers. If you inherit an IRA or 401(k) plan from your spouse, you can transfer the assets into an IRA in your own name—an option that is only available to spouses. This option can be beneficial if you are younger than your deceased spouse and want to delay taking distributions until you reach age 70½.

Employee benefits. As a legally married couple, you no longer have to pay federal tax on the value of employer-sponsored health benefits for your same-sex spouse. And you may be able to file an amended tax return to recover the tax you paid in recent years.

Beneficiary designations. Certain retirement plans, such as 401(k) plans, require that your spouse be your primary beneficiary unless your spouse waives this right in writing. It is a good idea to check your beneficiary designations to make certain you have followed the rules.

For legally married same-sex couples, it is a whole new tax world. And the changes extend beyond federal taxes to federal programs, such as Social Security. Please consult your tax, financial, and estate planning advisors about how to plan for the changes. Plus, ask your tax advisor if it is worthwhile to amend past tax returns using your married status. You may be eligible for a tax refund. ■

8 Mistakes to Avoid When Saving for Retirement

How much you are able to save for retirement will depend in part on how well you navigate financial challenges, such as taxes, investment risk, and competing financial goals. It is easy to go astray when confronting these challenges. Here are eight potential mistakes, as well as a few suggestions for what may be better courses of action. Of course, what is right for one person may not be right for another, so it is important to seek specific advice from your financial advisor about saving for your retirement.

Not taking advantage of tax-favored retirement accounts.

Workplace retirement plans and IRAs offer advantages that are hard to beat. Here's a quick reminder of what you may be missing out on if you are not using these plans to save for retirement.

First, tax deferral helps your savings accumulate faster. Earnings generated in a traditional IRA, 401(k), or other workplace retirement plan are not taxed until they are withdrawn from the account. Because they are not taxed each year, savings may grow faster in a retirement account than in a regular brokerage account where earnings are subject to taxation each year.

Second, your contributions may reduce your current income taxes. Income that you contribute to a traditional 401(k) or other traditional workplace retirement plan is not subject to income tax until you withdraw it from the account. Say you contribute $15,000 this year—that is $15,000 of income that you will not have to pay income tax on this year. You may be able to afford a larger contribution as a result of your lower taxes! With a traditional IRA, your contributions are tax-deductible if you (and your spouse, if you are married) are not covered by retirement plans at work. If you are covered by a plan at work, your annual income must be under a certain amount for you to deduct your contributions.

Third, Roth earnings are generally tax-free. Although your contributions to a Roth account are made with money that has already been taxed (contributions are not tax-deductible), it is generally tax-free sailing from then on. Earnings grow potentially tax-free and can be withdrawn tax-free as long as certain withdrawal requirements are met. Withdrawals of Roth contributions are always tax-free.

Fourth, many employers will match part of your retirement plan contributions. If your employer offers to contribute a certain amount to your account for every dollar you contribute, it is generally a good idea to take them up on their offer.

2014 Retirement Plan Contribution Limits

401(k), 403(b), and 457(b) plans	
Under age 50	$17,500
Age 50 or older	$23,000
SIMPLE plans	
Under age 50	$12,000
Age 50 or older	$14,500
Traditional and Roth IRAs	
Under age 50	$5,500
Age 50 or older	$6,500

Not all workplace retirement plans permit catch-up contributions for individuals age 50 or older.

Some retirement plans may permit special contributions not listed here.

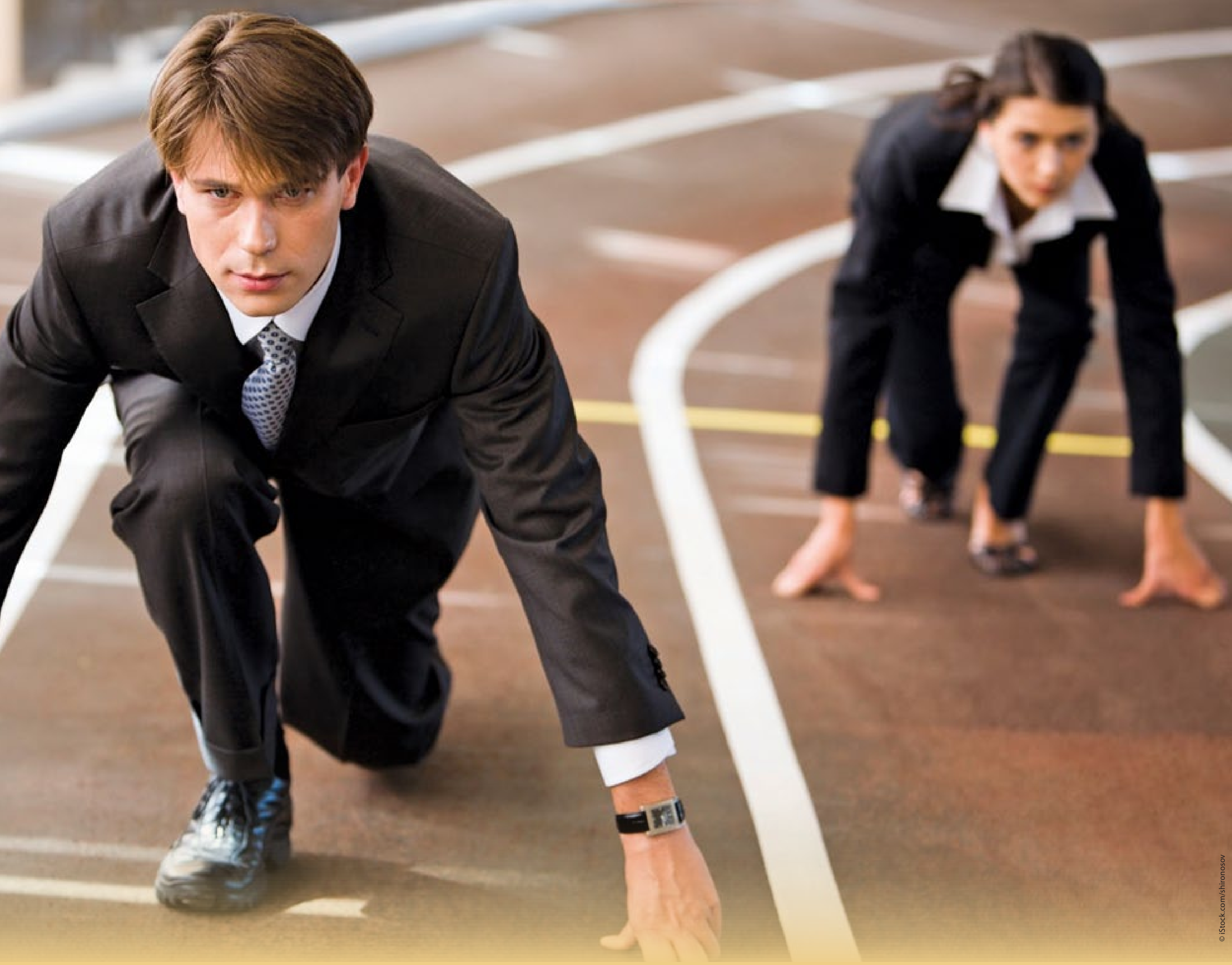
Other limitations may apply to the maximum amount you may contribute.

*

Not creating a plan.

Before heading out on a journey, it is helpful to know where you want to go and how you will get there. One could say the same thing about retirement planning: It is helpful to know how much money you may need for a comfortable retirement and how much money you may need to save each year to get there. Without estimating these numbers in advance, you run the risk of being blind-sided during retirement by the realization that you have not saved enough. It is better to recognize a potential shortfall long before retirement, while there is still time to do something about it.

Your financial advisor can help you estimate how much you may need to save, as well as create a plan that gets you on track for retirement. Your advisor can also help you gauge your progress along the way, suggesting course adjustments as needed.



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* Getting a late start.

While it is never too late to begin saving for retirement (better late than never, after all), you may have a much easier time of it the earlier you start thanks to compound earnings. Why is that? The longer your earnings have to compound—that is to potentially generate earnings themselves—the less income you may need to contribute. To illustrate this point, let's take a look at two hypothetical workers: Adam, who begins saving at age 25, and Olivia, who begins saving at age 45. Despite both contributing the same amount overall ($240,000), the value of Adam's account at age 65 is much higher than Olivia's account because Adam's earnings had an additional twenty years to compound.

	Adam contributes $500 per month from age 25 to 65, a total of 40 years	**Olivia contributes $1,000 per month from age 45 to 65, a total of 20 years**
Total contributions	$240,000	$240,000
Account value at age 65 Assuming a 6% annual return in a tax-deferred account	$1,000,724	$464,351
Earnings	$760,724	$224,351

This hypothetical example is for illustrative purposes only and does not represent the performance of any specific investment. Your results will depend on your investments' actual returns and will be higher or lower than shown here.

Not allocating assets wisely.
Asset allocation mistakes can be painful. Invest only in stock, and your portfolio may have too much volatility, or risk, for your circumstances. Invest only in the most conservative investments, and you may fall far short of your goal. You can help avoid both potential mistakes by spreading your money among different asset classes—stocks, bonds, and cash—using a strategy known as asset allocation.

The thing to remember about asset allocation is that asset classes tend to respond differently to market conditions. For example, bonds may be up while stocks are down. By investing in more than one asset class, stronger returns from one asset class can help offset weaker returns from another. It is important to note that although asset allocation helps manage risk, it does not ensure a profit or guarantee against loss in declining markets.

When deciding how much money to invest in stocks, how much in bonds, and how much in cash investments, it is a good idea to consider three things.

First, consider your investment time frame. How much time remains until you will need your money? Stocks are generally an appropriate choice for long-term goals, such as those goals that are five to ten years out, but their volatility (short-term fluctuations in price) usually makes them inappropriate for short-term goals. As investors move closer to the time when they will need their money, they generally shift more of their portfolio to less volatile assets, such as bonds and cash.

Second, consider your tolerance for risk. With investing, there is always a tradeoff between risk and return. In general, the higher an investment's risk, the higher its potential return. The lower the risk, the lower the potential return. So you must decide how much risk you are willing to accept for potentially greater returns.

Third, consider your financial goals. It is important to estimate how much you may need to save for retirement so that you can choose an allocation with the greatest potential of reaching your goal at a level of risk that is acceptable to you.

How you divide your money among the different asset classes can have a big impact on your returns. Your financial advisor can help you choose an allocation that is appropriate for your time frame, risk tolerance, and financial goals.

But don't just set it and forget it. As the number of years remaining until you need your money changes, so should your asset allocation—generally in a more conservative direction.

Plus, your actual percentages of stocks, bonds, and cash will stray from your target allocation over time due to differences in performance. 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 target allocation, using a process known as rebalancing, can help keep your investment plan on track.

If your asset allocation has strayed significantly from the proportions you originally chose, ask your financial advisor if it is time to rebalance and the best way to go about it.

Not enough diversity.
If you put all of your eggs in one basket and the basket falls, you may be left with little or nothing. The same holds true for investing. If you put all your money into just one or two investments or load up on company stock and those investments

How the Three Main Asset Classes Compare

STOCKS

Offer the potential for capital growth, as well as income in the form of dividends.

Have historically provided the greatest returns over the long run, but carry the most risk.

Generally suitable for long-term goals, say, five or more years away.

BONDS

Offer the potential for steady income, generally at a higher interest rate than cash investments.

Have historically provided lower returns than stocks over the long run, but with less volatility and less risk of losing the amount invested.

Generally suitable for most goals.

CASH

Offers the potential for income.

Has historically provided the lowest returns of the three major asset classes, but with the least degree of risk.

Generally suitable for short-term goals.

Past performance is no guarantee of future results.

Saving for college instead of retirement.

Saving for your children's college educations can jeopardize your retirement security if it prevents you from saving for your own retirement. Remember, your children have options, such as loans and scholarships, to pay for education. You do not have such options for retirement. For this reason, it is generally a good idea to make saving for retirement your priority, contributing to your children's college fund only if you can afford to do it in addition to saving for retirement.

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lose value, the results can devastate your portfolio and your retirement security.

It is a good idea to spread your money around, not just across asset classes, but within the asset classes themselves. Invest in different companies, sectors, market capitalizations, and geographies so that the effect of a downturn in one company, industry, market cap, or region has less of an impact on your portfolio.

Mutual funds and exchange-traded funds (ETFs) make diversification relatively easy to achieve. These types of investments typically own dozens, if not hundreds, of individual stocks and bonds. By investing in just a few well-chosen funds, you can spread your investments among the asset classes that are appropriate for you, as well as among a diversified group of investments within each asset class.

As with asset allocation, diversification does not ensure a profit or guarantee against loss in declining markets.

Counting too heavily on Social Security.
Social Security was only ever intended to be one part of a retirement income plan—one leg of a three-legged stool, if you will, with pensions and personal savings forming the other two legs. By itself, Social Security is unlikely to provide enough financial stability for retirement.

In 2013, the average monthly Social Security benefit for a retired worker was $1,269. To get a better idea of the monthly amount you might receive, visit the Social Security website (www.ssa.gov/myaccount/) to check out an estimate of your future benefits based on your earnings record.

Considering that fewer employers offer traditional pension plans these days, most individuals will need to rely mainly on their own savings to supplement the Social Security benefits they receive. Your financial advisor can help you estimate how much you may need to save for a comfortable retirement.

Cashing out a retirement account when changing employers.
When deciding what to do with the money in your former employer's retirement plan, it is important to remember that even small amounts have the potential to grow exponentially over time. If you cash out before retirement, you will lose the potential for decades more of tax-deferred growth. Plus, your withdrawal will immediately be subject to income tax and generally a 10% penalty unless an exception to the penalty applies.

Unless you absolutely need the money now, a better course of action is generally to transfer your savings to an IRA, transfer them to your new employer's retirement plan, or leave them in your former employer’s plan. Each of these options defers taxation and makes it possible for your savings to continue to grow unfettered by taxes for as long as they remain in the account.

If you decide to transfer your savings to an IRA or your new employer's retirement plan, be sure to use a trustee-to-trustee transfer. Withdrawing the money yourself will create a needless tax hassle. ■

PLEASE NOTE:

Investing involves risk, including the possible loss of principal.

Before investing in mutual funds or ETFs, investors should consider a fund's investment objectives, risks, charges, and expenses. Contact your financial advisor for a prospectus containing this information. Please read it carefully before investing.

Bonds are subject to interest rate risk. When interest rates rise, bond prices usually fall. The effect is usually more pronounced for longer-term securities. Fixed-income securities also carry inflation risk and credit and default risks for both issuers and counterparties.

Talk to your financial advisor about saving for retirement. Your advisor can help you estimate how much you may need to save and create a plan that gets you on track for a financially secure retirement.

DEDUCTING YOUR VEHICLE DONATION

If you donate a motor vehicle, boat, or airplane to a qualified charity and itemize deductions, you can generally claim a tax deduction for your donation. The amount of the deduction will depend in part on what the charity does with the vehicle. Here are a few examples that illustrate how the vehicle's use affects the deduction and the records you will need.

RECORDS YOU WILL NEED TO SUPPORT YOUR DEDUCTION.

If your deduction is $250 or more, you will need a written acknowledgement from the charity that includes a detailed description of the vehicle and a statement as to whether the charity provided you with goods or services in return for your donation. If it did, the charity must include an estimate of their value. If the charity only provided intangible religious benefits, a statement to that effect must be included.

Depending on what the charity does with your vehicle, the written acknowledgement may need to include additional information, which is described in the following examples.

The charity may provide you with a copy of Form 1098-C that contains all of the information you'll need.

To deduct your donation, you generally must receive the written acknowledgement or Form 1098-C from the charity within thirty days of the vehicle's donation or sale.

DEDUCT THE GROSS PROCEEDS FROM THE SALE

EXAMPLE 1
THE CHARITY SELLS THE VEHICLE FOR MORE THAN $500.

According to a vehicle pricing guide, your vehicle had a fair market value of $4,500 on the day you donated it to a local charity. A few months later, the vehicle was sold to someone other than a needy person and the charity received gross proceeds of $3,300 for it. Before it was sold, the charity did not significantly use or improve the vehicle. When a charity sells a vehicle for more than $500 to someone other than a needy person, the deduction is generally limited to the gross proceeds that the charity receives, which in this example is $3,300.[1]

Recordkeeping
If your deduction is more than $500, the charity's written acknowledgement must also include your name and taxpayer identification number, the vehicle identification number, the contribution date, the sales date, the gross proceeds from the sale, and statements that the vehicle was sold in an arm's length transaction between unrelated parties and that you cannot deduct more than the gross proceeds.

DEDUCT THE LESSER OF THE $500 OR FAIR MARKET VALUE

EXAMPLE 2
THE CHARITY SELLS THE VEHICLE FOR $500 OR LESS.

Let's change just one of the facts used in Example 1 and say that the charity receives $350 in gross proceeds from the sale of your donated vehicle. Do you deduct the gross proceeds? No. When a charity sells a vehicle for $500 or less to someone other than a needy person without material improvement or significant intervening use, the deduction is generally the smaller of $500 or the vehicle's fair market value on the contribution date. So in this example, you can deduct $500.[1]

Recordkeeping
If your deduction is at least $250, but not more than $500, the written acknowledgement from the charity only needs to include the items listed in the sidebar.

If your deduction is less than $250, you do not need a written acknowledgement from the charity, but you must keep records that include the charity's name and address, the date of the donation, the place where you donated the vehicle, and a description of the vehicle.

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DEDUCT THE FAIR MARKET VALUE

EXAMPLE 3
THE CHARITY USES THE VEHICLE FOR ITS CHARITABLE ACTIVITIES.

Instead of selling your donated vehicle, the charity plans to use it on a regular basis for a period of time. Under this scenario, you can generally deduct the fair market value of your vehicle on the day you donated it, which in this example is $4,500.[1]

Recordkeeping
The written acknowledgement from the charity must also state that the charity plans to make significant intervening use of the donated vehicle, describe the intended use and duration of use, and certify that the vehicle will not be sold until the use is completed. If your deduction is greater than $5,000, you will also need a written appraisal of its value.

EXAMPLE 4
THE CHARITY GIVES THE VEHICLE TO A NEEDY INDIVIDUAL.

The charity plans to sell or give your donated vehicle to a needy individual for significantly less than its fair market value, an action that furthers the organization's charitable purpose. Under this scenario, you can generally deduct the fair market value of your vehicle on the day you donated it, which in this example is $4,500.[1]

Recordkeeping
The written acknowledgement from the charity must also certify that the charity plans to give or sell the vehicle to a needy individual at a price significantly below fair market value and that the gift or sale is in direct furtherance of the charity's charitable purpose. If your deduction is greater than $5,000, you will also need a written appraisal of its value.

EXAMPLE 5
THE CHARITY IMPROVES THE VEHICLE BEFORE SELLING IT.

Before selling your donated vehicle, the charity makes a major repair or improvement that significantly increases its value. (Cleaning, minor repairs, and routine maintenance do not qualify.) Under this scenario, you can generally deduct the fair market value of your vehicle on the day you donated it, which in this example is $4,500.[1]

Recordkeeping
The written acknowledgement from the charity must also certify that the charity intends to make a material improvement to the vehicle, and it must include a detailed description of the intended improvement and a statement that the vehicle will not be sold before the improvement is done. If your deduction is greater than $5,000, you will also need a written appraisal of its value.

Please consult your tax advisor for more information on deducting a donated vehicle.

[1] Your deduction may be reduced if your vehicle's fair market value is more than your cost or other basis. Limits on charitable deductions and itemized deductions may also reduce your tax benefit.

Tax-Efficient Withdrawals and Asset Location Can Help Your Nest Egg Last Longer

BY THE TIME YOU RETIRE, YOUR SAVINGS may be spread among tax-deferred, tax-free, and taxable accounts. Have you considered which type of account you should draw from first and which types of investments you should hold in each? Take the time to consider it; making tax-efficient withdrawals and situating your assets in the most advantageous type of account can help reduce your taxes and sustain your nest egg. Here's the deal.

There are vast differences in the tax treatment of tax-deferred, tax-free, and taxable accounts. Depending on the account and the investment you tap, as well as your taxable income, the federal tax rate on your withdrawals and investment earnings can range from 0 to 43.4%. By making tax-efficient choices about the accounts and investments you tap, you can help reduce your taxes.

The general rule of thumb is to withdraw money from your taxable accounts first. This strategy leaves your tax-favored retirement accounts untouched for as long as possible so that the earnings can continue to compound on a tax-deferred or tax-free basis.

Also, using money from a taxable account may cost you less in taxes than withdrawing money from a tax-deferred account. With a taxable account, your earnings are taxed annually, whether you withdraw them or not. The good news is that the long-term capital gains you realize and the qualified dividends you earn are taxed using the long-term capital gains tax rates, which are lower than the tax rates on ordinary income. Plus, the return of your principal is not considered taxable income. In contrast, your entire withdrawal from a tax-deferred account, such as a traditional IRA or 401(k), will generally be taxed as ordinary income. (If you have any after-tax or non-deductible contributions in a tax-deferred account, they can be withdrawn tax-free.)

Long-term capital gains tax rates are currently 0%, 15%, or 20%, depending on your taxable income. (An additional 3.8% net investment income tax may also apply for high-income taxpayers.) To take advantage of the 0% capital gains tax rate, your taxable income for 2014 must not be over $36,900 for single filers or $73,800 for married couples who file jointly.

According to the general rule of thumb, retirees should tap their tax-deferred accounts second, leaving their tax-free Roth IRAs until last in order to maximize the time the Roth savings have to compound tax-free.

As with all rules of thumb, though, they do not apply to all of the people, all of the time. In certain situations, you may be better off tapping your accounts in a different sequence or multiple types of accounts in the same year. For example, drawing down your tax-deferred accounts before age 70½ (when required minimum distributions must begin from traditional IRAs and generally workplace retirement plans) will lower your eventual required distributions, perhaps enough to keep you from moving into a higher tax bracket at age 70½. And using tax-free income from a Roth account to supplement your taxable income from other sources may be advisable if it prevents you from bumping up into a higher tax bracket.

The bottom line is that having your retirement savings spread among accounts that are taxed differently gives you the flexibility to manage your retirement income in such a way that your overall taxes are minimized and your nest egg is maximized.

It also gives you the opportunity to situate assets in accounts where they are taxed more favorably. For example, it generally makes good tax sense to hold stocks and tax-efficient stock funds in a taxable account so that their long-term gains and qualified dividends are taxed at lower rates and so that losses can be used to offset gains. And it generally makes good tax sense to hold investments that generate interest income and short-term gains, both of which are normally taxed as ordinary income, in your tax-favored retirement accounts so that taxation is deferred or avoided entirely. These investments include taxable bonds and bond funds, real estate investment trusts, and actively-managed stock funds.

If you have retirement assets spread among accounts with different tax treatments, count yourself lucky for the flexibility it offers you. Your tax and financial advisors can help you create a retirement income plan, designed to help manage your tax situation, increase the likelihood of your nest egg lasting, and address other financial goals you may have. ■

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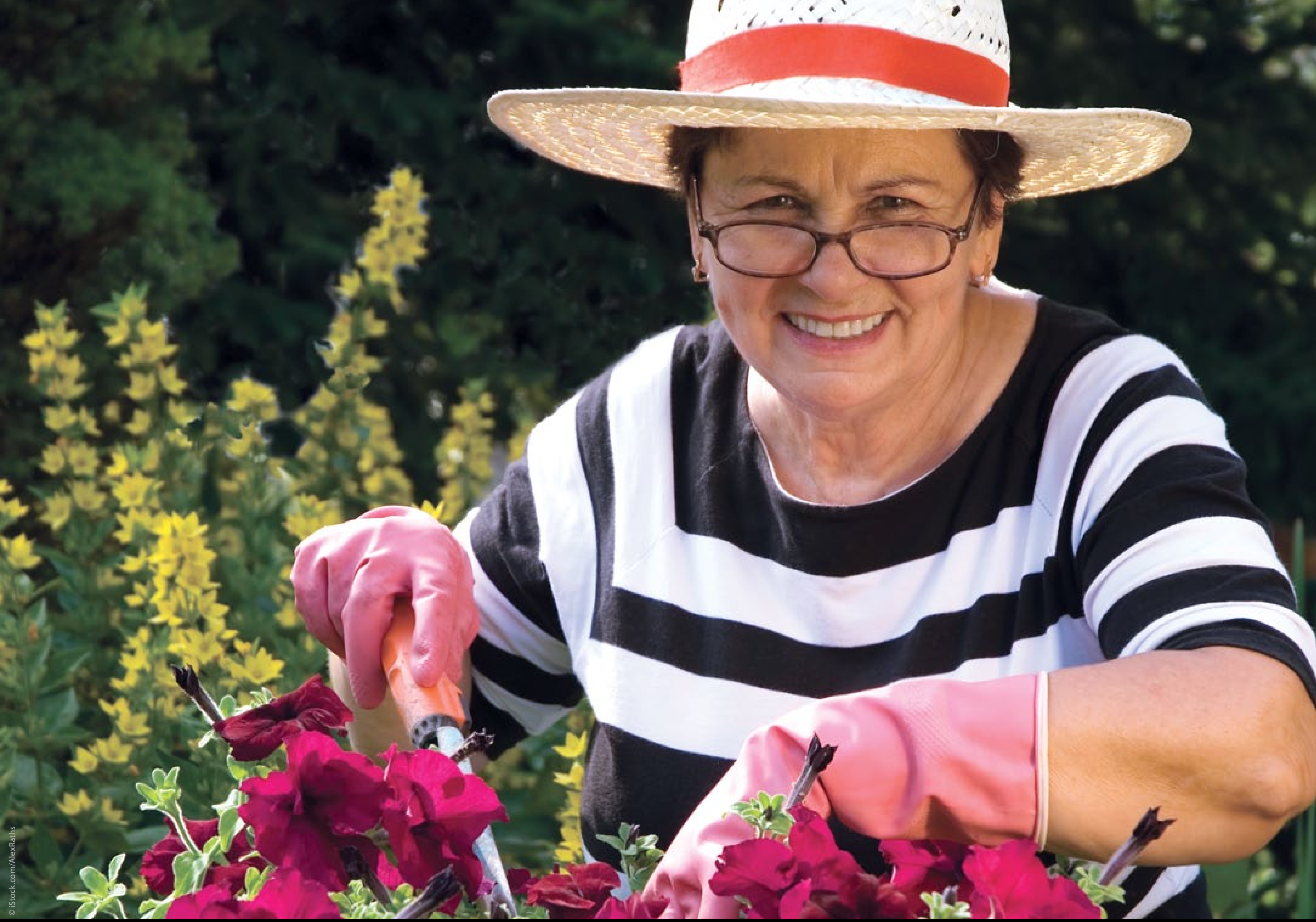

How Your Retirement Savings Are Taxed

Tax-Deferred Accounts	Tax-Free Accounts	Taxable Accounts
Includes traditional IRAs, 401(k)s, 403(b)s	Includes Roth IRAs, 401(k)s, 403(b)s	Includes savings and investment accounts
Contributions are generally made with pre-tax dollars.	Contributions are made with after-tax dollars.	Contributions are made with after-tax dollars.
Earnings accumulate tax-deferred. Withdrawals of pre-tax contributions and earnings are taxable as ordinary income. Withdrawals of non-deductible and after-tax contributions are tax-free. Early withdrawals before age 59½ are subject to a 10% penalty on the taxable portion of the withdrawal unless an exception to the penalty applies.	Earnings accumulate potentially tax-free. Withdrawals of contributions are always tax-free. Withdrawals of earnings are tax-free as long as the account has been open for at least five years and you are older than age 59½. Early withdrawals are subject to a 10% penalty on the taxable portion of the withdrawal unless an exception to the penalty applies.	Taxation occurs annually on earnings, such as interest, dividends, mutual fund distributions, and any capital gains you realize. Long-term capital gains and qualified dividends are taxable at rates up to 23.8%. Taxable interest income, short-term capital gains, and non-qualified dividends are taxable as ordinary income. Return of principal is not taxable. Losses can be used to offset gains.

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NORTHUMBERLAND | Border Patrol

BY BRIAN JOHNSTON

IF YOU PICTURE THE QUINTESSENTIAL P.G. Wodehouse world of England in days gone by, you might think of bumbling peers, chirpy villagers, and afternoon teas. There would surely be a medieval castle overlooking a river, meadows studded with grazing sheep and, in a fold of the rolling hills, a respectable country town.

Welcome to Alnwick in the northeast of England: quaint town, turreted castle, flocks, and farmland are all about. The name is pronounced *Annick* in the eccentric English way, and this is a place where bookshops have open fires and people talk about 'the duchess' as if she were a personal acquaintance. It's certainly one of the most charming little towns in Northumberland, which itself is one of the most rural and traditional of all English counties. Great swathes of it are still owned by aristocrats with tenant farmers and battlements. The Duke of Northumberland is the most prominent; his family has occupied Alnwick Castle for over 700 years. The Percy family is a powerful one in English history; for centuries they ruled the north like kings and one of its members, Harry Hotspur, was immortalized by Shakespeare.

The first view of Alnwick Castle is magical: set in a beautiful contoured landscape designed by Capability Brown, a lazy English river gurgles beneath the walls and sheep munch the lush green grass. Daffodils really do dance across the hillside, and fresh English clouds scud overhead. The town just beyond the castle walls has cobbled streets and Georgian facades, and has held a weekly market in its town square since the thirteenth century. But the biggest treat is Barter Books, one of the largest second-hand bookshops in Britain. It's housed in the former train station, built in 1887 to impress ducal visitors, and holds over 350,000 books. Sit in front of a crackling fire and help yourself to coffee and cookies as a toy train circles in the rafter's overhead: this is Wodehouse land indeed.

Visitors can take a look around Alnwick Castle, where photos scattered

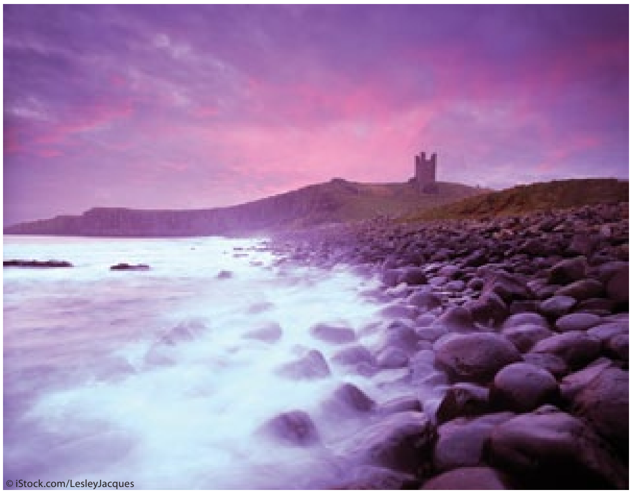
Alnwick Castle (left) has been occupied by the Percy family for more than 700 years. Dunstanburgh Castle (below) perches on a promontory along the Northumberland coast.

across occasional tables remind you that this is still a family home, albeit one where the walls are hung with Canelettos. It's really the adjacent and unapologetically modern gardens, however, that are the drawing card. It shows how a garden can be so much more than just about flowers. Steel and water combine in mesmerizing features, and passageways of hornbeam trees open windows onto splendid vistas. The centerpiece is the Grand Cascade, a synchronized display of fountains and water jets, but the biggest curiosity is a fascinating poison garden that features the world's deadliest plants.

Alnwick is only the first of many delightful surprises that await the visitor to the Northumberland coast of northeast England. The coastline stretches some 60 miles between Newcastle and the Scottish border in a series of beautiful (if often chilly) beaches and low-lying hills. For centuries this region was fought over by the English and Scots, as evoked by an impressive chain of vast castles. Warkworth Castle is the most southerly of these fortifications, partly in ruins but punctuated by a mighty keep. The little town of Warkworth lies below on a loop of a river; follow it for a while and you'll come across a tiny hermitage hewn from the cliff in the fourteenth century, whose simplicity is quite a contrast to the mighty fortress nearby.

Further north, the diminutive fishing village of Craster is a center for the kipper industry; the kipper pâté and crab soup in the Jolly Fisherman pub is renowned. Another fine and blustery thirty-minute walk will bring you to the ruins of Dunstanburgh Castle, standing forlorn on a promontory. Offshore lie the Farne Islands, teeming in summer with seabirds such as puffins, eider ducks, and guillemots, as well as England's only seal colony.

Next stop Bamburgh, a small village adjacent to two rather splendid sandy beaches and overlooked by a mighty castle on a mighty outcrop of rock rising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from the dunes. The castle is massive and brooding, and has curious red-colored stone. Views from its walls and windows are stunning: in one direction the sea and Lindisfarne Island, in the other the village, church, and rolling farmland dotted with piebald cows.

The last stop along the Northumberland coast—you can see Scotland from here—is Lindisfarne or Holy Island. The island can sometimes get crowded with day-trippers, but out of season it still retains a feel of mystery and isolation. The only way of getting there is to walk or drive across a causeway over the tidal flats of the island. It's a three-mile march and, as the causeway is under water for five hours each day, it's essential that you consult the tide timetables before setting out.

This isolated spot gained its reputation as a religious outpost from 634 AD, when the king of Northumbria established a monastery here under the guidance of Saint Aidan of Iona. From here the monks not only spread Christianity throughout northeast England, but gained a reputation for their scholarship and skills at creating illuminated manuscripts, including the Lindisfarne Gospels, considered the height of Celtic art. It was also a place of pilgrimage to the burial place of St Cuthbert, though his body was later removed to the mainland for fear of Viking marauders, and now lies in Durham Cathedral.

There's very little left of ancient Christian times on the island, though the local museum gives an excellent account, as well as an e-version of the Lindisfarne Gospels. The Church of Saint Mary dates from the thirteen century where, rather curiously, you can find an apology from the modern Norwegians for the Viking raids. Few ruins of the earlier monastic buildings remain, bar some evocative tombstones. Further along the shore stands the sixteenth-century Lindisfarne Castle, which in 1901 was converted into a Lutyens-designed holiday home. It speaks once more of a bygone age of genteel indolence before the First World War—perhaps more Agatha Christie murder mystery than P.G. Wodehouse farce in this dramatic setting.

In high summer you might want to avoid the interior of the castle—which is on a miniature scale, and rather cramped—and stride out around the island on seldom-used tracks. You'll only come across sand dunes and seabirds in what is, without doubt, one of the most beautiful spots in England. Views stretch to Berwick and Scotland in the north and Bamburgh Castle in the south, surrounded by glinting sea and rolling countryside. ■

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TREASURE HUNT

Where to Find Art, Crafts, and Antiques in 2014

Ann Arbor, MI
Ann Arbor Art Fair *July 16–19, 2014*

The Ann Arbor Art Fair is actually four simultaneous art fairs that transform the streets of Ann Arbor into open-air galleries for a few days each July. Showcasing fine art and fine crafts, this event also offers artist demonstrations for visitors who want to learn more about the techniques used to create the works on display.

Baltimore, MD
Baltimore Summer Antiques Show *August 21–24, 2014*

The largest indoor antiques show in the country occurs each August in Baltimore. Attracting more than 575 international exhibitors, this show is a great source for antique furniture, silver, porcelain, Asian antiquities, Americana, jewelry, glass, textiles, and rare manuscripts and books.

Bridgehampton, NY
ArtHamptons *July 10–13, 2014*

The seventh edition of ArtHamptons will return this July to Bridgehampton. Last year's event featured works from 78 galleries and an average price per work in the $10,000 to $50,000 range. In addition to art, the 2014 event will feature several fundraising events.

Houston, TX
Houston Fine Art Fair *September 18–21, 2014*

The Houston Fine Art Fair showcases the finest in contemporary art from all corners of the globe. At 2013's fair, works from 85 galleries and 14 countries were presented for viewing and sale.

London, England
Frieze London and **Frieze Masters** *October 16–19, 2014*

This October, London will be the site of two art fairs, each held on the same dates and within walking distance of the other. Frieze London will present contemporary art while Frieze Masters will present art from all ages. Last year, 152 galleries from 30 territories were represented at the fairs, which were attended by 70,000 visitors.

Miami Beach, FL
Art Basel *December 4–7, 2014*

Over 250 art galleries from around the world gather in Miami Beach every December to exhibit and sell modern and contemporary works of art, including paintings, sculptures, drawings, and photographs by established artists and newly emerging artists. In addition to the art work, lectures and panel discussions by members of the international art world shed light on producing, collecting, and exhibiting art.

Philadelphia, PA
38th Annual Philadelphia Museum of Art Craft Show *November 6–9, 2014*

This show is the Museum's largest yearly fundraising event, attracting about 18,000 visitors each year to view and purchase craft art, such as baskets, ceramics, furniture, and jewelry. Typically, about 200 artists exhibit at this juried event. ■

QUIZ

Hit Singles from the '70s

1. *American Woman* was a hit by the:

A. The Who
B. The Guess Who

2. *Y.M.C.A.* was immortalized by the:

A. Pointer Sisters
B. Village People

3. *Killing Me Softly with His Song* was a hit in 1973 by:

A. Roberta Flack
B. Diana Ross

4. *American Pie* was made popular by:

A. Don McLean
B. Bob Dylan

5. This artist sang *Thank God I'm a Country Boy*:

A. John Denver
B. Harry Chapin

6. BuhBuhBuh *Bennie and the Jets* was sung by:

A. Jim Croce
B. Elton John

7. *Bad Girls* was a 1979 hit by this disco queen:

A. Donna Summer
B. Gloria Gaynor

8. *Bridge Over Troubled Water* was this duos' 1970 hit:

A. Jan and Dean
B. Simon & Garfunkel

9. This group sang *Tie a Yellow Ribbon Round the Ole Oak Tree*:

A. Three Dog Night
B. Tony Orlando & Dawn

10. *Rhinestone Cowboy* was a 1975 hit by:

A. The Carpenters
B. Glen Campbell

11. *Shining Star* made this group a star:

A. Eagles
B. Earth, Wind & Fire

12. *Night Fever* was a 1978 hit by the:

A. Bee Gees
B. Grass Roots

13. This husband-and-wife duo made *Love Will Keep Us Together* a hit:

A. Sonny & Cher
B. Captain & Tennille

14. *Just My Imagination (Running Away with Me)* was a hit in 1971 by:

A. Al Green
B. The Temptations

15. *Let It Be* was a 1970 hit by:

A. The Beatles
B. B.J. Thomas

ANSWERS: 1–B, 2–B, 3–A, 4–A, 5–A, 6–B, 7–A, 8–B, 9–B, 10–B, 11–B, 12–A, 13–B, 14–B, 15–A.

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Barbara Shapiro, CFP, CDFA, CFS & Herb Shapiro

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.

She is an active lecturer to diverse groups and educational institutions, and has written and teaches a course on financial planning, investments, and long-term care insurance.

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