PARTNERS
WEALTH MANAGEMENT

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Steer Clear Of These 7 Traps For IRA Owners

The rules for IRAs offer plenty of opportunities to save a tidy nest egg through contributions directly to the accounts as well as rollovers from 401(k)s or other employer-sponsored retirement plans. Funds in the accounts normally compound tax-deferred while you're working and into the early years of your retirement. You won't owe a penny of federal income tax until you take money out of your IRA.

But if you don't fully understand those rules for IRAs you could run into trouble. Consider these seven common tax traps:

1. You withdraw money from your IRA too early. Because IRAs are meant to be used for retirement saving, the government will penalize you for taking withdrawals prematurely. Generally, a 10% tax penalty applies to distributions made before you reach age 59½, although there are some exceptions—your heirs won't owe the penalty on withdrawals if you die before you reach that age, and you also are allowed to take "substantially equal periodic payments" over several years without penalty. But when you do have to pay the penalty, 10% is added to the regular income tax you owe on the withdrawal.

2. You fail to withdraw money from your IRA. But you're also not allowed to keep money in an IRA indefinitely. The IRS requires you to begin taking required minimum distributions (RMDs) in the year after you reach age 70½. Then you must take an RMD, based on a life expectancy table and the amount in your account at the end of the prior year, for each succeeding year. Failure to take RMDs results in a penalty equal to 50% of the amount that should have been withdrawn.

3. You don't complete a rollover in time. The tax law allows you 60 days from the time you receive a distribution from a tax-deferred retirement plan to redeposit the funds in an IRA. This rollover is exempt from federal income tax. That's generally true whether the rollover comes from an employer plan or from another IRA. However, if you don't redeposit the same amount as you withdrew within 60 days, the transfer is treated as a taxable distribution.

4. You double up on RMDs in the first year. Technically, you don't have to take your first RMD until April 1 of the year following the year in which you turn age 70½. However, if you wait until then to withdraw that first year's RMD, you still must take an RMD for the second year as well. What's more, doubling up on RMDs in one year may increase your overall tax by pushing you into a higher tax bracket. You might end up owing less in taxes if you take the first distribution during the

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Cultivating & Educating

Karl Cloherty is a Financial Advisor with Partners Wealth Management. His clients include individuals and families in every stage of life, as well as small to mid-size businesses. The cornerstone of Karl's philosophy is the recognition that everyone's economic and life situations are different. His years of experience and personalized service allow Karl to assist clients in developing the right financial strategy. He believes in cultivating long term relationships with clients and an educational approach to advising. As he says, "my job is to ensure that my clients understand their unique strategy and how it is going to help them accomplish their goals..."

Karl, a lifelong resident of the Northwest side of Chicago, enjoys spending time with his wife, Amy, and their three children, Sean, Kevin and Vivian. Karl is very active in his parish at St. Tarcissus, where he is a member of the Holy Name Society. He also coaches wrestling, and is the Charter Organization Representative for the Boy Scouts and Cub Scouts at his children's school.

Karl holds his Series 7: FINRA General Securities and Series 66: FINRA Uniform Combined Securities Agent and Investment Advisor State Law Exam licenses as well as life and health insurance licenses.

John

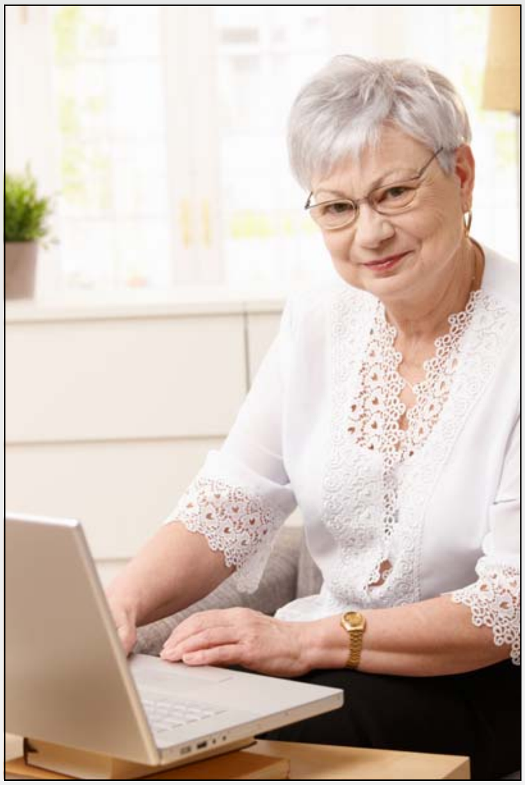
You Know You're Getting Old When You Get RMD Notice

Growing older is something everyone must face, even if it's only one day at a time. But what is old, and how do you know when you get there? One way is when you get a notice that you have reached the year of your 70th birthday and must begin taking required minimum distributions from your 401(k) or other retirement plan or a traditional IRA account. This is a wakeup call, and a shock, for some people.

Here is a typical notice from an IRA custodian. Sent this year, it reads, "Federal tax law requires that you receive taxable payments from your traditional IRA every year once you reach age 70½. These payments are called required minimum distributions (RMDs). If the RMD is not taken, the IRS could assess a 50% excess accumulation penalty tax on the amount of the payment that should have been distributed but was not. According to our records, you have a traditional IRA with us and will attain age 70½ in 2015."

Owners of Roth IRAs do not receive these notices because there's no tax deduction for Roth contributions—that money already has been taxed—and withdrawals therefore are tax-free.

A woman who recently received a RMD notice called her IRA custodian and exclaimed that she was shocked into reality about her age when she received the notice. "Even though I was of course aware of my age at one level, the notice shocked me into reality that indeed I am getting old."



Although still working, she said she plans to retire after she takes her first withdrawal by April of 2016. By law, RMDs may be taken as late as April of the year following the year a person turns 70½.

Now, back to the question of how old is old. According to statistics compiled by the Organization for Economic Cooperation and Development (OECD), whose membership is composed of 36 nations, the average man in the U.S. as of 2011 could expect to live to age 76. Women in the U.S. the same year can expect to live to an average age of 81.

As far as longevity is concerned, the U.S. doesn't fare very well when compared to other nations. This country ranked No. 26 among the 36 OECD member nations, with an overall life expectancy for both genders of 78.7.

That's the bad news. Now, here's the good news: people are living longer as time passes.

Here's proof: according to statistics compiled by Infoplease, overall life expectancy in the U.S. in 2014 had moved up to 79.56 years.

Time is precious. Enjoy the rest of your life on earth. Proper retirement planning will help ensure your life's enjoyment after you reach "old age."

We are more than happy to assist with your planning. ●

A New Direction For Your 401(k)?

Does your company provide a 401(k) plan for its employees? If it does, you may defer part of your salary via payroll deductions, up to annual limits, and have the funds in your account accumulate on a tax-deferred basis. For 2015, the maximum deferral is $18,000 or $24,000 if you're age 50 or over. In addition, your company may kick in matching contributions up to a stated percentage of your compensation. And there's no tax on earnings within your account until you make withdrawals.

How is the money invested? Typically, a plan will offer a variety of choices, usually composed of different mutual funds. Many plans feature "target date funds" geared toward a specific time in the future, such as when you expect to retire. But some experts believe target date funds can be difficult to evaluate and don't take personal needs into account adequately.

One possible alternative is a self-directed brokerage account. Only about one out of five 401(k) plans offers this option. But should the opportunity present itself, it might be right up your alley.

As the name implies, a self-directed brokerage account inside a 401(k) gives the participant a chance to trade investments—including stocks, bonds, and mutual funds—that aren't included on the 401(k)'s normal menu. That way, you have more choices and more of a say about how your 401(k) assets are invested. While this option is not for investing novices, it gives experienced investors a better opportunity to control their own financial destiny.

In most ways, a self-directed account operates just like any other 401(k). You still can benefit from payroll deductions and tax deferral,

To Roll Over Or Not: 7 Decisive Factors

If you're changing jobs and you have accumulated assets in a 401(k) or another tax-favored company plan, there are several things you can do. You might roll over the funds to an IRA or to a retirement plan with your new employer, spend the money, or leave the money where it is. If you meet all of the legal requirements for a rollover, the transfer is completely tax-free.

Assuming that you do not need the money right away, this decision often boils down to choosing between an IRA rollover and keeping the status quo. Which one is best for you? Every situation is different, but here are seven criteria to help you make up your mind:

1. Investment options. Most IRAs offer a wider range of investments than you'll find in a typical 401(k) or other company plan. However, in some cases, an employer-based plan may provide more flexibility than you will have as an investor in an IRA. The key question is how well your choice matches up with your retirement planning objectives.

2. Fees and expenses. Don't overlook the importance fees can play. Even paying a relatively modest 1 percentage point more can reduce your retirement nest egg by tens of thousands of dollars over time. Frequently, employer plans have lower fees than IRAs because the company has a lot of assets with a provider and is able to negotiate a better price. Or your company may shoulder some of the cost.

3. Services. The flip side of what you pay in fees is what you get for your money. Sometimes, higher fees may be justified if you're receiving good value. That might include access to investment guidance, educational materials, full brokerage services, or financial planning tools.

4. Fiduciary protections. Employer-based plans are covered by ERISA (Employee Retirement Income Security Act). Under ERISA, various protections are afforded to plan participants, among numerous requirements. Notably, plan fiduciaries are required to act in their best interests of participants. These fiduciary responsibilities apply to assets rolled over into an IRA.

5. Distribution rules. Because a 401(k) plan can restrict withdrawals, you may have to satisfy the plan's definition of "financial hardship" to get access to your funds before retirement. But you don't have to jump through any hoops to obtain an IRA distribution. Just be aware that withdrawals from an IRA, as well as from a 401(k) or other plan, are generally taxable as income. In addition, a 10% penalty tax is imposed on withdrawals from IRAs and 401(k)s before you reach age 59½, unless one of a handful of special exceptions applies. With both kinds of plans, you generally have to begin taking withdrawals after age 70½.

6. Borrowing power. If you have a dire need for cash, you generally can borrow from a 401(k) plan within generous limits. Also, when you repay the loan, the interest and principal go back into your account. (But not all 401(k) plans permit loans.) Technically, you cannot borrow from an IRA, although you can get 60 days of interest-free use of funds by taking a withdrawal and then making a timely deposit back into the IRA. That technique can be used only once a year.

7. Estate planning. If you're fortunate enough not to need the money in your 401(k), you might roll over the funds to an IRA, which would enable your heirs to "stretch" out payments over a longer period of time than you're allowed with a 401(k). A 401(k) plan requires a spouse to be the primary beneficiary (unless the spouse agrees to an alternative), but with an IRA you can name your children as beneficiaries if you prefer. Thus, the IRA may offer greater flexibility for estate planning purposes.

Are those the only considerations? Not by a long shot. This brief article covers only a few of the basic factors that may influence your decision. And there's another option that may be available to you—to transfer the funds into a Roth IRA, rather than into a traditional IRA. Although you'll pay income tax on the conversion, future payouts from a Roth IRA are usually tax-free, plus you're not required to take distributions during your lifetime. ●

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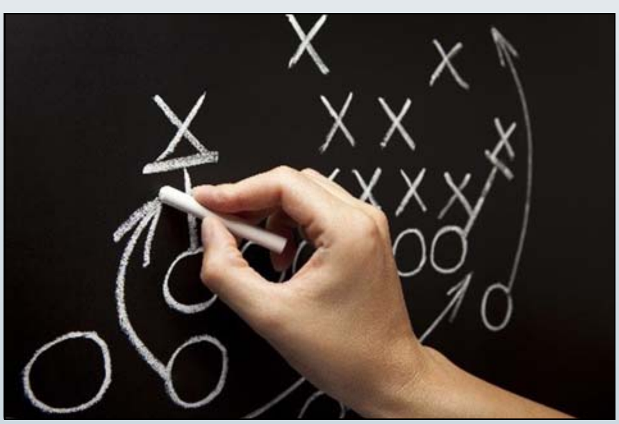
and your assets can compound free of current taxes.

Perhaps the biggest difference with a self-directed account is that you're charged fees for your brokerage transactions. You also might rely on third-party professional money managers who can manage investments on your behalf. Although you're paying for these services, you'll also pay fees for target date mutual funds and other investments in a regular 401(k). You just need to compare costs carefully, because paying excess fees can undercut your long-term results.



We can't emphasize enough that this 401(k) option is not for everyone. However, depending on your circumstances, it might be right for you. ●

Navigating The Tax Straddle Rules

Are you holding stock that could result in a huge loss if you dispose of it? One way to minimize your risk, especially if you're heavily concentrated in a single stock, is to use an investment hedge. Hedging also may be useful if you're looking to offset potential losses in your portfolio without making an outright sale.

This is a proven investment strategy but it could result in tax complications under "tax straddle" rules. Knowing those rules could help guide your decisions.

These extremely complex rules generally come into play when you take an offsetting portfolio position designed to help you reduce your risk in an existing holding. Here are three key points to remember:

1. Your tax loss may be postponed. If you have a capital gain in one position of the straddle and a loss in the other, you can't claim a loss on your return until you dispose of both positions. Suppose you're holding stock with a low cost basis that would cause a significant gain if you sold it. You decide to acquire a protective put option (that gives you the right to sell the stock at a predetermined price for a period of time). If the share price is rising and you allow the put option to expire, you can't realize your loss on the option until you sell your highly appreciated stock.

2. Your capital gains tax may be increased. If you realize a long-term capital gain on a stock sale, the maximum tax rate is 15%, or 20% for upper-income investors—much better than the maximum 39.6% you might pay on short-term gains. However, if you enter a straddle position, your existing holding is frozen for tax purposes. That means you won't qualify for long-term treatment if you had owned that original stock for a year or less when you entered the straddle. Also, the start of the holding period for capital gains purposes begins again when you dispose of the offsetting position.

3. You may not be able to deduct interest charges. During the time that you have offsetting positions, you can't deduct any interest or carrying charges associated with the straddle. Instead, those costs must be capitalized and added to your basis. That could reduce your tax on a later sale.

Another complication in hedging is the "constructive sale rules" enacted in the 1990s. Under those rules, some offsetting transactions may require you to realize a capital gain on your original position as if you had sold it. That severely curtails the effectiveness of a strategy known as "short-against-the-box," in which you sell short an equal amount of a security you own to lock in a gain.

There are ways to navigate around the tax straddle and constructive sale rules. However, this area isn't for investment novices, so make sure you're on firm ground. ●

7 Traps For IRA Owners

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year you turn 70½.

5. You roll over to another IRA more than once a year. Although rollovers aren't taxed as long as they're completed within 60 days, you can make an IRA-to-IRA transfer only once during a 12-month period. Violation of this "once-in-a-year rule" results in a taxable transfer. Previously, the IRS treated this rule as applying separately to each IRA you own. However, because of a recent Tax Court case and a subsequent change in IRS rules, the once-a-year rule now applies to all IRAs. So if you make a transfer between any of your accounts, you won't be able to make another one until a year has passed.

6. You make the wrong choice for a spousal rollover. Spouses who inherit an IRA may elect to treat the IRA as their own, remain as a beneficiary of the deceased spouse's IRA, or "disclaim" the IRA so that it goes to a contingent beneficiary. This complex decision could have unintended tax consequences. For instance, if you inherit an IRA, you are under age 59½, and you need to make a withdrawal, designating the IRA as your own could result in a 10% tax penalty.

7. You ignore estate tax ramifications. IRA owners sometimes forget the estate tax implications of inherited IRAs. Because IRA assets will be included in your taxable estate, the person you designate as beneficiary can make a difference. Spouses normally can inherit an unlimited amount without owing estate taxes, but that money could be taxed when the second spouse dies. It pays to consider all of the possible implications when you work with your advisors to devise an estate plan that fits your situation.

By paying close attention to the rules, and sidestepping these traps, you can derive the maximize benefits from your IRAs. ●