

FINANCIAL PLANNING CONSIDERATIONS FOR 2012

The New Year brings changes to a variety of financial planning topics including investing, taxes, and estate planning. The Wealth Office™ at DiMeo Schneider assists clients in addressing these issues to encourage a proactive approach throughout the year. We hope you find this resource useful and request that you contact any of the professionals at DiMeo Schneider for assistance.

TABLE OF CONTENTS:

2012 Figures.....	Page 2
Tax Planning.....	Page 3
Estate Planning.....	Page 5
Insurance/Risk Management.....	Page 7
Saving for College.....	Page 8
Retirement Planning.....	Page 8
Miscellaneous Planning.....	Page 9
Estate Planning Checklist.....	Page 10
Insurance Planning Checklist.....	Page 11

Information in this report has been obtained from a variety of sources which are deemed but not guaranteed to be accurate. This report provides general information and does not represent a specific recommendation. DiMeo Schneider & Associates, L.L.C. does not provide tax or legal advice.



Employee/Retirement Benefits:

Contribution Limits for 401(k), 403(b)	\$17,000
Age 50+ Catch-up for 401(k), 403(b)	\$5,500
Contribution Limits for IRAs	\$5,000
Age 50+ Catch-up for IRAs	\$1,000

Income Phaseout Limits for IRA Contributions:

Traditional IRA	Single	\$58,000	-	\$68,000	(for deductibility)
	Head of Household	\$58,000	-	\$68,000	(for deductibility)
	Married Filing Jointly	\$92,000	-	\$112,000	(for deductibility)
			-		
Roth IRA	Single	\$110,000	-	\$125,000	
	Head of Household	\$110,000	-	\$125,000	
	Married Filing Jointly	\$173,000	-	\$183,000	

Portfolio Taxation:

Qualified Dividends*	15%	(reverts to marginal rate after 2012)
Long-Term Capital Gains*	15%	(reverts to 20% after 2012)

Estate Planning Items:

Estate Exemption	\$5,120,000	(reverts to \$1MM after 2012)
Maximum Estate Tax Rate	35%	(reverts to 55% after 2012)
Lifetime Gifting Exemption**	\$5,120,000	(reverts to \$1MM after 2012)
Maximum Gift Tax Rate	35%	(reverts to 55% after 2012)
Annual Exclusion Gifts	\$13,000	

* *Special Note: Tax Rates on Qualified Dividends & Long-Term Capital Gains are subject to change.*

** *Special Note: The Lifetime Gifting Exemption had previously been \$1,000,000; as such, it remains to be seen what the consequences may be (if any) for individuals gifting within the \$5,000,000 limit for 2011 / \$5,120,000 limit for 2012, should the exemption revert back to \$1,000,000.*

Tax Planning:

- 2012 Tax Rates & Brackets:

Tax Rate	Taxable Income	
	Single Filers	Married Filing Jointly
10%	\$8,700 & Below	\$17,400 & Below
15%	\$8,701 - \$35,350	\$17,401 - \$70,700
25%	\$35,351 - \$85,650	\$70,701 - \$142,700
28%	\$85,651 - \$178,650	\$142,701 - \$217,450
33%	\$178,651 - \$388,350	\$217,451 - \$388,350
35%	Above \$388,350	Above \$388,350

- **Flexible Spending Accounts (FSAs)**...are a great way to set aside pre-tax dollars to pay for your annual medical expenses. If you visit the doctor several times per year or are taking regular medications, consider signing up for your employer's flexible spending plan.
 - *Special Note: Your employer's flexible spending plan must prescribe either a maximum dollar amount or a maximum percentage of compensation that can be contributed to the FSA.*
- **Health Savings Accounts (HSAs)**... are tax-advantaged medical savings accounts available to taxpayers who are enrolled in an HSA-qualified high-deductible health plan (HDHP). Unused amounts in one year can be carried over to following years and added to subsequent contributions.
 - HDHP 2012 Minimum Required Deductibles: Self-only: \$ 1,200; Family: \$ 2,400
 - HDHP 2012 Out-of-Pocket Maximum: Self-only: \$ 6,050; Family: \$12,100
 - 2012 HSA Pre-Tax Contribution Maximum: Self-only: \$ 3,100; Family: \$ 6,250
 - 2012 HSA Pre-Tax Catch-up Contribution: Up to an additional \$1,000 for individuals age 55 or older.
- **Harvesting tax losses**...be aware of the 'wash sale rule' which prohibits claiming a loss on a security in which shares were bought either 30 days before or after the date of sale. Remember, investors are allowed to offset capital gains and losses, with no limit. If losses exceed gains, investors can then deduct another \$3,000 of net losses against ordinary income. Any additional, unused losses can be carried forward into future years (but expire at death).
- **Worthless Stocks**...if a stock you own in a taxable account became completely worthless, you can claim the loss on your tax return. Remember, worthless stocks must be claimed in the year the stock was deemed worthless, otherwise you must file an amended return for the year the stock became worthless in order to take the loss (note: you can only go back 3 years to amend a return).
 - *As a general rule of thumb, if the stock has a ticker and is still listed, the stock is not worthless; therefore, you may consider selling the position and harvesting the loss.*

- **0% Long-Term Capital Gains Rate...**presents a potential opportunity for gifting to your children or others in the 10% and 15% tax brackets (taxable income (2012 limits) up to \$35,350 for single filers and \$70,700 for married filing jointly). Keep in mind that the gain is included in the taxable income calculation. In other words, if, as a single filer, you had a long-term gain of \$18,000 and had other income of \$12,000, you would fall under the \$35,350 income threshold, thus making the long-term gain taxable at 0%.
- **Gifting Appreciated Securities...**consider gifting appreciated securities rather than cash for your charitable contributions. The benefit is the same for the charity but allows you to avoid paying capital gains tax on the appreciated securities. You should only consider gifting appreciated long-term securities (held for over 1 year), as the charitable deduction for gifting securities which were held less than a year is limited to the *lesser of* the cost basis or the fair market value on the date of contribution.
- **All non-cash charitable donations over \$5,000...**per IRS regulations, generally require a qualified appraisal, and you must attach Section B of Form 8283 to your tax return.
 - *Special Note: Gifts of publicly-traded securities (while still reported on Form 8283 (Non-Cash Charitable Contributions)) are excluded from the appraisal requirement.*
- **Watch out for the Alternative Minimum Tax (AMT)...**Discuss your tax return with your tax preparer or investment advisor to determine if there are steps you can take to avoid the AMT. There are things you can do (both from an investment and personal finance perspective) in 2012 and beyond to help avoid this situation in coming years.
- **Phaseout of Personal Exemption, Itemized Deductions...**the 2010 Tax Relief Act (signed in December 2010) extends the repeal of the phaseout of the personal exemption and itemized deductions through 2012. In other words, taxpayers will receive the full benefit of their personal exemption and itemized deductions through 2012 (no phaseout of such items).

Estate Planning:

- **Recent studies have indicated as many as 2 out of every 3 Americans do not have a basic Will in place.** Rich or poor, young or old, the New Year marks a great time to address fundamental estate planning issues such as wills, trusts, Health Care Power of Attorney (HCPOA), and Financial Power of Attorney (FPOA).
- A Will:
 - *Appoints the guardian(s) for minor children*
 - *Appoints the executor for your estate*
 - *Know your duties as an executor (ask The Wealth Office™ for a copy of an ‘executor checklist’)*
 - *Spells out specifically how you want your property split*
 - *Note: Wills do not override beneficiary designations or determine who receives property owned by joint tenants. Also, a will generally cannot be used to disinherit a spouse, unless the spouse consents.*
- A Revocable Trust:
 - *Avoids probate (unlike a will)*
 - *Allows for privacy (whereas a will is a matter of public record)*
 - *Avoids potential will contest*
 - *Allows the grantor (creator) to designate how to divide assets upon death*
- **Health Care Power of Attorney (HCPOA)**...allows you to designate an ‘agent’ to make health care decisions on your behalf in the event you are unconscious, mentally incompetent, or otherwise unable to make decisions for yourself. A Health Care Power of Attorney differs from a Living Will in that the Living Will specifies your wishes regarding life-sustaining procedures.
- **Financial Power of Attorney (FPOA)**...allows you to designate an ‘agent’ to make financial decisions on your behalf in the event you are unconscious, mentally incompetent, or otherwise unable to make decisions for yourself.
- **Portability**...the 2010 Tax Relief Act created a ‘portability’ feature which allows for the transfer of a deceased spouse’s unused estate exclusion to the surviving spouse without the need for specific provisions in estate planning documents.
- **Grantor-Retained Annuity Trusts (GRATs) and Qualified Personal Residence Trusts (QPRTs)**...these advanced estate planning techniques may help you pass assets to beneficiaries in a tax-efficient manner, should your assets exceed the current estate exemption.
 - *Given the current low-interest rate environment, GRATs may be of particular interest. The Section 7520 rate (used for GRATs) was at an historic low of 1.4% as of January 2012.*

- **Annual gifting exclusion**...the maximum lifetime gifting exemption is currently \$5,120,000 (limit for 2012). However, in 2012, you are allowed to make annual gifts up to \$13,000 per beneficiary (\$26,000 per beneficiary as a couple) which do not count against the lifetime gifting exemption. To the extent you make gifts in excess of the annual gifting exclusion, you should file a gift tax return.
 - *Special Note: 529 College Savings Accounts allow for a 5-year front-loaded contribution (gift), which means that a donor could gift up to \$65,000 (or up to \$130,000 for a married filing jointly couple) to a 529 plan, thereby using the next 5 years worth of annual gifting to the specified beneficiary. Should this election be made, a gift tax return should be filed.*
 - *Special Note: Direct payments to an educational institution or a healthcare provider do not constitute gifts; as a result, such direct payments do not count against the annual gifting exclusion or the lifetime gifting exemption.*
- **Beneficiary designations**...review the beneficiary designations for all employer benefit plans, insurance policies, and investment accounts to make sure the designations reflect your current intentions and align with your current estate planning documents. As noted previously, this is of significant importance if you have had a recent ‘life event’ (marriage, divorce, new children).
- Effectively communicate the names and contact information of trusted advisors (investment advisor, attorney, accountant, etc.) to individuals of your choosing (beneficiaries, executor, etc.), should such information be needed in the event of your incapacitation or death. You may consider storing this list and other important documents in a safety deposit box.
- We encourage you to periodically review your estate planning documents to ensure the provisions in such documents reflect your current wishes. This should certainly be taken into consideration upon ‘life events’ – marriage, divorce, new children, etc.
- Given the current uncertainty of estate tax law, you should be taking the proper steps to ensure your assets are positioned and titled to maximize estate tax efficiency. To the extent your total assets exceed the estate exemption, you should consider consulting with a lawyer to discuss the advantages of more in-depth estate planning documents such as trusts and potential gifting opportunities.
 - *Special Note: In recent years, many states have ‘decoupled’ from the federal estate exemption; as a result, such states have estate exemptions below the federal estate exemption which may result in estate taxes at the first-to-die of a couple depending on how current estate planning documents are structured.*

Insurance/Risk Management:

- **Does your life insurance policy still meet your objectives?** We would recommend reviewing the reasons, necessity, and beneficiaries of life insurance policies as circumstances and objectives may have changed since the original purchase.
 - *Specifically, have you considered whether your current life insurance meets your needs for income replacement, educational funding, etc.?*
 - *Have you had an insurance professional review your policy in the context of the insurance market to determine if there may be a more competitive product?*
 - *If you currently have term insurance, do you know how long the policy will last? Will the coverage period be sufficient for your objectives?*
 - *Are the owner and beneficiaries of your life insurance policies consistent with your estate planning and creditor protection objectives?*

- **Disability insurance policies** are meant to insure the beneficiary's earned income in the event of disability. While the statistics may not sound alarming (roughly 7% to 8% of men and women are affected per year (ages 18-64)), the reality is that several months of lost income could have a significant effect on your financial situation.
 - *If you have a disability policy, are you aware how disability is defined?*
 - *In the event of disability, how much of your compensation is covered?*

- **Umbrella policies** are meant to supplement the liability coverage provided by a homeowners and/or auto policy; however, not all umbrella policies are equal. We encourage everyone to conduct an annual review of their policy(ies) to ensure adequate, updated, and complete coverage. Given the low cost of umbrella insurance, we encourage you to review your current coverage relative to your current net worth and expectations for your future net worth.
 - *Review your umbrella policy to ensure there are no gaps between the beginning limits of the umbrella insurance policy and the underlying coverage provided by your homeowners and auto insurance policies.*

- **Homeowners and Auto Insurance policies** vary across the country. High-end insurance providers generally include contractual clauses to ensure you get the full replacement value of your property if damaged or destroyed. Be careful, however, to address this up-front, as insurance providers generally leave you little negotiating room after any damage has occurred.
 - *What are the contractual limits of your homeowners policy? Are valuable items such as jewelry and artwork adequately insured by your policy?*
 - *Does your homeowners policy provide sufficient coverage to rebuild your home if it was necessary?*
 - *Is your home covered in the event of water damage (such as flooding)?*
 - *Do you know the liability limits of your auto insurance policy? Have you reviewed the coverage provided for uninsured/underinsured motorist (in the event of an accident for which the other driver is at fault)?*



Saving for College:

- **Expenses on the rise**...according to The College Board, over the decade from 2001-02 to 2011-12, published in-state tuition and fees at public 4-year colleges and universities increased at an average rate of 5.6% per year beyond the rate of general inflation. Over that same period of time, tuition and fees in addition to room and board (public 4-year colleges and universities) increased at an average rate of 4.1% per year beyond the rate of general inflation. Assuming an annual increase of 6%, the cost of college would double every 12 years (at 8%, every 9 years). Bottom Line: Consider setting aside money in a 529 plan. The money grows tax-deferred and, if used for qualified expenses, is federally tax-exempt (and may be state tax-exempt depending on the resident state and the 529 plan). Websites such as Savingforcollege.com can be a helpful resource for evaluating the various 529 plans available. (Note: Your resident state may provide a tax deduction for contributions made to the resident state's 529 plan.)
- Average Estimated Undergraduate Budgets (The College Board - Annual Survey of Colleges):
 - Public 4-Year In-State, On-Campus \$ 21,447 / year
 - Public 4-Year Out-of-State, On-Campus \$ 33,973 / year
 - Private Non-Profit 4-Year, On-Campus \$ 42,224 / year

Retirement Planning:

- **Savings Plans (401(k), 403(b))**...to the extent possible, consider maximizing the annual saving plan contribution. At a minimum, you should consider contributing up to your employer match (for example, if the employer matches up to 6% of contributions, try to defer at least 6% of your salary to get the full match).
- **Consider converting to a Roth IRA**...many assumptions must be made to determine if converting from a Traditional IRA to a Roth IRA makes sense. While a conversion requires paying taxes upfront, qualified withdrawals from a Roth IRA are tax-free. The converted amount can be withdrawn tax-free and penalty-free following a 5-year holding period, regardless of the taxpayer's age. The Roth IRA may make sense for individuals with assets above the federal estate exemption, as it allows the taxpayer 1) to get additional assets out of his/her estate (the tax attributable to the conversion) and 2) to ultimately pass along an asset to beneficiaries with tax-free withdrawals.
 - *Special Note: The considerations outlined above assume the current income tax system; such considerations could change upon a revision to the income tax system.*
- **Consider recharacterizing a prior Roth IRA conversion**...if the value of the converted amount declines below the taxable value of the conversion, it may make sense to recharacterize (undo) the conversion. The election to recharacterize must be made by the tax return due date plus the maximum 6-month extension period (regardless of whether or not the tax return is actually extended). In other words, taxpayers have until October 15th of the following tax year to elect for recharacterization.
 - *Should you later wish to do a 'reconversion' to a Roth IRA (following completion of a recharacterization), you must wait until the later of 1) the beginning of the tax year following the year of the first Roth conversion, or 2) 30 days after the recharacterization to a non-Roth IRA.*



- **Establish a SEP-IRA plan...** self-employed individuals can save taxes by contributing to the plan if established before the tax return due date. Once established, the taxpayer has until the due date of his/her tax return (including extensions) to make the plan contributions. In 2012, a self-employed individual can contribute the *lesser of* \$50,000 or 25% of compensation.

Miscellaneous Planning:

- **Review your credit report every year...** by law, you can obtain a free credit report every 12 months from www.annualcreditreport.com; according to the Federal Trade Commission, this is the only authorized source for the free annual credit report (though it will not include your FICO score). You should review your credit report for any discrepancies (unauthorized accounts, etc.).
 - *Additionally, you can pay for a credit report from one of the three nationwide credit reporting companies (Equifax, Transunion, Experian). Generally speaking, these companies offer a 3-in-1 report (typically between \$40 and \$80) which details your credit report from each company and may also include your FICO score.*
- **Protect yourself against identity theft...** use these helpful tips to lower your risk of identity theft:
 - Use caution when giving out your personal information. Scam artists "phish" for victims by pretending to be banks, stores, or government agencies. They do this over the phone, in emails, and in postal mail.
 - With the increase of 'phishing' emails, use caution in opening emails from unfamiliar sources. Do not click on links or attachments in spam email or in pop-up windows.
 - Treat your trash carefully. Shred or destroy papers containing your personal information including credit card offers and "convenience checks" that you don't use.
 - Check your bills and bank statements. Open your credit card bills and bank statements right away. Check carefully for any unauthorized charges or withdrawals and report them immediately.
 - Stop pre-approved credit card offers. Pre-approved credit card offers are a target for identity thieves who steal your mail. Have your name removed from credit bureau marketing lists. Call toll-free 888-5OPTOUT (888-567-8688).
 - Protect your computer. Protect personal information on your computer by following good security practices.
 - Use strong, non-easily guessed passwords.
 - Use firewall, anti-virus, and anti-spyware software that you update regularly.
 - Download software only from sites you know and trust and only after reading all of the terms and conditions.



Estate Planning Checklist

	Date Executed	Date Amended	Last Reviewed	Drafting Attorney	Law Firm
Wills					
Trusts					
HCPOA [1]					
FPOA [2]					

Notes:

[1] HCPOA = Health Care Power of Attorney

[2] FPOA = Financial Power of Attorney



Insurance Checklist

	Insurance Carrier	Policy Number	Policy Coverage	Annual Premium	Policy Expiration
Life Insurance					
Disability Insurance					
Long-Term Care					
Homeowners					
Auto Insurance					

Life Insurance Beneficiary Review

	Policy Number	Primary Beneficiary	Contingent Beneficiary
Life Insurance			