



GFM Advisory Group
200 N. High Street
Suite 201
West Chester, PA 19380
610-701-6066
smanley@janney.com
www.jmsonlinefc.com/gfmgroup

December, 2011

Qualified Charitable Distributions Qualify for RMDs

How Much Do You Know about Social Security?

Gift Tax Strategies

What is private mortgage insurance?



INVESTING PERSPECTIVES

Qualified Charitable Distributions Qualify for RMDs

If you're an IRA owner who must take a required minimum distribution (RMD) in 2011, you can avoid some or all of the resulting income tax liability by donating a portion of it to charity. A qualified charitable distribution (QCD), also known as an IRA charitable rollover, can not only save you income taxes, it can help minimize your taxable estate and fulfill your philanthropic desires. Through December 31, you can make tax-free transfers of up to \$100,000 directly from your IRA to qualified charities. Here are the details.

Background

The QCD provision was enacted in 2006, and was scheduled to end in 2009, but last-minute legislation extended it into 2010 and 2011.

Prior to 2006, if a donor withdrew funds from a traditional IRA in order to contribute to charity, the withdrawal had to be reported as ordinary income and was taxed at regular income tax rates. Once the contribution was made, the donor was generally entitled to an income tax deduction for the value of the charitable contribution, calculated and reported on Schedule A of Form 1040 (subject to certain limitations), which could potentially offset some or all of the taxable income generated by the withdrawal.

With a QCD, you can exclude from taxable income any IRA funds directly transferred to a charity as an outright contribution.

Note: There is currently legislation being considered in Congress that would make this provision permanent. It would also get rid of the \$100,000 cap, reduce the minimum age at which taxpayers are able to take advantage of certain giving vehicles (e.g., charitable remainder trusts) from 70½ to 59½, and make it easier for donors to give through supporting organizations, private foundations, and donor-advised funds.

Who might consider this strategy?

You would benefit most from implementing this strategy if you:

- Do not need all of the income from your RMDs

- Make charitable gifts, but don't itemize deductions (generally, only taxpayers who itemize get federal income tax-saving benefits from charitable donations)
- Make large charitable gifts, but are unable to deduct all of them in a given year because of adjusted gross income limitations
- Want to avoid being taxed on your RMDs

Certain limitations apply

Certain limitations apply to these nontaxable charitable distributions from an IRA:

- You must be at least 70½ years of age when the gift is transferred
- Total gifts cannot exceed \$100,000 per year, per IRA owner or beneficiary (married taxpayers with separate IRAs can give up to \$200,000 total per year, but no more than \$100,000 may be distributed from each spouse's IRA)
- Gifts must be made directly from your IRA to a public charity (i.e., they cannot be made to a private foundation, a supporting organization, or a donor-advised fund)
- The gifts must be outright (i.e., they cannot be used to establish a charitable gift annuity or fund a charitable remainder trust)

Note: Transfers must come from the IRAs directly to the charity. If you have retirement assets in a 401(k) or 403(b), for example, you must first roll those assets into an IRA, and then make the transfer from the IRA directly to the charity.

Note: You cannot do a QCD from a SEP-IRA or SIMPLE IRA.

What are the income tax implications?

- Federal--You do not recognize the transfer as income, as long as it goes directly from the IRA to the charity. However, you are not eligible for an income tax charitable deduction.
- State--State laws vary, so check with your financial professional.

How Much Do You Know about Social Security?



For more information, visit the Social Security website at www.socialsecurity.gov or call 800-772-1213.



Social Security is in the news more and more, as the first wave of baby boomers retire and economic pressures on the program increase. More than 90% of Americans are covered by Social Security,* but how much do you know about this important program?

How is Social Security funded?

Unlike many government programs, Social Security is funded primarily through the collection of payroll taxes. In 2010, 81.9% of funding came from this source, with the rest derived from interest earned on government bonds held by Social Security trust funds and income taxes paid on benefits.* That's why Social Security is known as a "pay-as-you-go" system. However, someone working and paying Social Security taxes today is not funding his or her own benefits, but is funding the benefits of someone who is receiving them now or in the near future--one of the reasons why Social Security is facing a potential funding shortfall. According to the Social Security Administration (SSA), the number of retired workers will double in less than 30 years, but there will be fewer workers paying into the system. And with life expectancies increasing, benefits will be paid for a longer period.*

How are earnings reported to the SSA?

If you work for an employer, your employer will send a copy of your W-2 form annually to the SSA. If you're self-employed, the IRS will report your earnings to the SSA annually after your federal income tax return has been processed.

What benefits are available?

Although Social Security is known as a retirement program, benefits are paid to people of all ages, including surviving family members and disabled individuals. In 2010, 5.7 million people were awarded Social Security benefits. Of those, 46% were retired workers, 36% were survivors or spouses/children of retired or disabled workers, and 18% were disabled workers.*

How do you qualify for benefits?

As you work and pay payroll taxes, you earn Social Security credits. Generally, you need to work 10 years to earn enough credits to qualify for retirement benefits--other benefits have different requirements. Contact the SSA if you have any questions about your benefit entitlement.

Do most people apply for early retirement benefits?

Yes. According to a report by the Government Accounting Office (GAO), 43% of people take

early retirement benefits at age 62, while almost 73% of people apply for benefits before they reach full retirement age.**

How much more will you receive if you delay applying for benefits?

For each year past your full retirement age you delay receiving benefits, your Social Security benefit will increase by a certain percentage (8% for anyone who was born in 1943 or later). For example, if your full retirement age is 66 and you delay receiving benefits until age 70, your annual benefit will be 32% higher.

Can you receive benefits based on an ex-spouse's record?

You may qualify for divorced spousal benefits if you were married for at least 10 years, you haven't remarried, you are age 62 or older, and you don't qualify for a higher benefit based on your own work record.

Do workers with lower earnings receive more from Social Security?

A worker who has lower earnings will receive a lower monthly benefit than someone with higher earnings because benefits are based on average lifetime earnings (the highest 35 years of earnings are used in the calculation). However, the Social Security benefit formula is designed to ensure that workers with lower earnings receive a greater percentage of their preretirement earnings. For example, a worker with relatively low earnings may receive a benefit that is approximately 55% of his or her preretirement earnings, while a worker with relatively high earnings may receive a benefit that is approximately 25% of his or her earnings.***

Do you have to stop working to receive Social Security retirement benefits?

No. As long as you've reached early retirement age and meet eligibility requirements, you can apply for Social Security benefits even if you decide to continue working. However, if you're younger than full retirement age and earn more than a certain amount, your benefits will be temporarily reduced (once you reach full retirement age, your benefits will be increased to account for the money that was withheld).

***Source:** *Fast Facts & Figures About Social Security, 2011*

****Source:** *GAO-11-400, Retirement Income, June 2011, based on data compiled by the SSA Office of the Chief Actuary*

*****Source:** *SSA Publication No. 05-10045, 2011*



Now may be a great time to make gifts that take advantage of the current large gift tax applicable exclusion amount, low gift tax rates, depressed property values, and low interest rates.

Gift Tax Strategies

The current large gift tax applicable exclusion amount, low gift tax rates, depressed property values, and low interest rates create a favorable environment for making certain gifts.

Federal gift tax basics

Annual exclusion. Each year, you can give a certain amount (\$13,000 in 2011 and 2012) to as many individuals as you like gift tax free.

Qualified transfers exclusion. You can give an unlimited amount on behalf of any individuals for tuition or medical expenses gift tax free. You must pay the amount directly to the educational or medical care provider.

Applicable exclusion amount. Gifts can also be sheltered by the applicable exclusion amount, which can protect gifts of up to \$5,120,000 (in 2012; \$5,000,000 in 2011). The dollar limit applies to all taxable gifts you make during life and to your estate at your death for federal estate tax purposes.

Basic planning

The first gifts you consider should generally be annual exclusion and qualified transfer gifts. You can make annual exclusion gifts to anyone for any purpose. The annual exclusion is lost in any year in which you do not use it. You can make unlimited gifts using the exclusion for qualified transfers, but gifts are limited to educational and medical purposes.

You and your spouse can split gifts that either of you make. Doing so allows you and your spouse to effectively use each other's annual exclusions and applicable exclusion amounts. For example, if you have 2 children, you and your spouse could make annual exclusion gifts totaling \$52,000 to your children (2 spouses x 2 children x \$13,000). If you make gifts of \$52,000 for 10 years, you will have transferred \$520,000 to your children gift tax free.

Next, consider gifts that are sheltered by the applicable exclusion amount. But remember that use of the applicable exclusion amount during life reduces the amount available for estate tax purposes at your death.

If you are likely to have a very large taxable estate at your death that could not be sheltered by the applicable exclusion amount, it might even make sense to make gifts that cause you to pay gift tax. For example, let's assume any additional transfer you make would be subject to the current top gift or estate tax rate of 35% and you make a taxable gift of \$1 million to your child on which you pay \$350,000 of gift tax. If instead you retained the \$1,350,000 until death, \$472,500 of estate tax would be due (\$1,350,000 x 35%) and only \$877,500 of the

\$1,350,000 would remain for your child. By making the taxable gift and paying gift taxes that reduced your taxable estate, you reduced taxes by \$122,500 while increasing the amount transferred to your child by the same \$122,500.

Gift considerations

If you have property whose value is depressed, now may be a good time to make a gift of it. The gift tax value of a gift is its fair market value, and a lower value means a smaller gift for gift tax purposes. However, you generally should not make gifts of property that would produce an income tax loss if sold (basis in excess of sales price). The person receiving the property would have a carryover basis and would not be able to claim the loss. In these cases, instead consider selling the property, claiming the loss, and making a gift of the sales proceeds.

Future appreciation on gifted property is removed from your gross estate for federal estate tax purposes. However, while property included in your estate generally receives a basis stepped up (or stepped down) to fair market value when you die, lifetime gifts do not. Therefore, you may wish to balance the gift tax advantage of a gift with carryover basis and income tax on gain if the property is sold against the income tax advantage of a stepped-up basis and estate tax (if any) if you retain the property until your death.

In the current low interest rate environment, you may wish to consider a grantor retained annuity trust (GRAT). In a GRAT, you transfer property to a trust, but retain a right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your beneficiaries, such as family members. The value of the gift of a remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. Also, if you survive the trust term, the trust property is not included in your gross estate for estate tax purposes. Any appreciation in the trust property that is greater than the IRS interest rate used to value the gift escapes gift and estate taxation. The lower the IRS interest rate, the more effective this technique generally is.

In the current low interest rate environment, you may also wish to consider a low-interest loan to family members. You are generally required to provide for adequate interest on the loan, or interest will be deemed for gift tax purposes. However, with the current low interest rates, you can provide loans at a very low rate and family members can effectively keep any earnings in excess of the interest they are required to pay you.

Ask the Experts

GFM Advisory Group

200 N. High Street
Suite 201
West Chester, PA 19380
610-701-6066
smanley@janney.com
www.jmsonlinefc.com/gfmgroup

Janney Montgomery Scott LLC Financial Advisors are available to discuss the suitability and risks involved with various products and strategies presented. We will be happy to provide a prospectus, when available, and other information upon request. Please note that the information provided includes reference to concepts that have legal, accounting and tax implications. It is not to be construed as legal, accounting or tax advice, and is provided as general information to you to assist in understanding the issues discussed. Neither Janney Montgomery Scott LLC nor its Financial Advisors (in their capacity as Financial Advisors) give tax, legal, or accounting advice. We would urge you to consult with your own attorney and/or accountant regarding the application of the information contained in this letter to the facts and circumstances of your particular situation.

Janney Montgomery Scott LLC, is a full-service investment firm that is a member of the NYSE, the FINRA and SIPC.



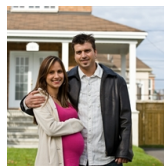
What is private mortgage insurance?

Private mortgage insurance (PMI) protects the lender against the risk of the borrower defaulting on the mortgage. Lenders generally require you to purchase PMI if your loan is more than 80% of the value of your home. Without PMI, you may be unable to qualify for a mortgage. Typically, once you reach 20% or more in home equity and you have a good payment history, your lender should remove the requirement for PMI. And lenders must automatically cancel PMI when your loan-to-value reaches 78%, although certain exceptions may apply.

Caution: *PMI does not protect you against losing your house in the event you're unable to pay your mortgage. Moreover, the insurance company may be able to seek recourse against you for any claims it pays to the lender as a result of your default.*

Typically, PMI premiums are paid monthly, usually as part of your mortgage payment, although the premium may be annualized and paid in a lump sum at closing. The cost of PMI varies depending on the insurer, and is based on several factors, including the amount of your down payment, the type of mortgage, and

whether you pay premiums on a monthly basis or in a lump sum. Also, for 2007 through 2012, you may be able to treat certain mortgage insurance premiums you pay as deductible mortgage interest. However, the amount of the deduction is phased out if your AGI exceeds \$100,000 (\$50,000 if married filing separately). If you don't have at least 20% for a down payment, you still have a couple of ways to avoid paying PMI premiums. Certain types of mortgages, such as FHA loans and VA loans for qualified veterans, do not require PMI. Your lender may waive the requirement for PMI in exchange for increasing your mortgage interest rate by roughly the same amount as your PMI premium. Another alternative is using the 80-10-10 loan, where your first mortgage is equal to 80% of the property value, and you take a second mortgage for 10% of the balance, while you come up with the remaining 10% out-of-pocket. You may save a few dollars each month with this approach if the combined mortgage payments are less than a single mortgage payment plus the PMI premium.



What is title insurance and do I need it?

Title insurance protects the policyholder (typically the property owner and/or the mortgage lender) against losses that arise from title defects that affect the right to use or own the property. Generally, the title insurer will defend the policyholder and pay monetary damages according to the provisions of the policy. The premium is typically paid in a lump sum, often after title to the property has been examined. But most title insurance policies contain coverage exceptions and exclusions, so it's important to understand exactly what is covered by the policy.

Title is the measure of your rights in property. You can acquire property many different ways, such as through gift, inheritance, or purchase, but you generally obtain only the rights or title the conveyor had in the property. That's why, before acquiring property, it's wise to have the title examined by an attorney or title company. Typically you'll receive a written report from the title examiner describing the property, the breadth of the examination, and any title defects or liens discovered.

Most mortgage lenders require you to take out lenders title insurance, which protects the lender's interest in the property. Lenders coverage is limited to the amount of the loan and gradually decreases as the loan is paid off, so it doesn't protect your equity interest in the property. As a result, you should consider purchasing a separate owner's policy. However, you are not required to use the title insurance carrier offered by the lender. The Real Estate Settlement Procedures Act entitles a homeowner to use the title insurance company of his or her choice.

There are several different situations that can affect a property's title, from unpaid liens and mortgages to violation of zoning laws, to defective or improperly drafted deeds. Recently, with the proliferation of mortgage foreclosures, some lenders have faced legal challenges to foreclosure proceedings. Imagine if title to the home you bought from the bank was not properly foreclosed on and the prior owners claim they still own the property? Title insurance may help protect you in this nightmarish situation.