

Investology Times...

Wealth Management and Advise

June 2008

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Tapping Retirement Savings for College Expenses

Should you tap your retirement funds to help pay your child's college expenses? Well, you can. But is it a good idea?

The double problem with double dipping



Financial professionals generally recommend using your retirement funds for one purpose only--retirement. Why?

Because frequent dips into your retirement funds will reduce your ultimate nest egg. Plus, there will be less money available to take advantage of the twin benefits of tax deferral and any compounding earnings. Depleting your retirement funds too soon can create a dire situation. Remember, there is financial aid available to help pay for college, but none for retirement.

But, if you must...

If you absolutely must dip into your IRA to pay college costs, there is a bit of good news. Generally, if you withdraw money from a Roth or traditional IRA before age 59½, you'll owe a 10% premature distribution penalty tax on the earnings portion of the withdrawal. However, there is an exception to this penalty if the money is used to pay the qualified education expenses for you, your spouse, your children, or your grandchildren. That's the good news.

The bad news is that you'll owe income tax on the earnings portion of your IRA withdrawal. But fortunately, for Roth IRAs, there is a tax ordering for distributions--contributions come out before earnings. This is important because contributions to a Roth IRA are made with after-tax dollars and can be withdrawn income tax free at any time (even before age 59½) and for any purpose. You'll only owe income tax if you dip into the earnings. (Once you reach age 59½ and have held your Roth IRA for five years, even earnings are income tax free.)

What about your 401(k)?

Generally, tapping your 401(k) is even worse than tapping your IRA, because 401(k) plans don't offer a college exception to the 10% penalty tax. Plus, you'll generally pay income tax on the entire amount of your withdrawal. So all other things being equal, withdrawing from your IRA is the better choice.

However, you might be able to borrow from your 401(k) account--something you can't do with an IRA. Assuming your plan allows plan loans, loans are not taxed or penalized, as long as you repay the funds within a specified period of time. But make sure to compare the cost of borrowing from your 401(k) account with other financing options. Although interest rates on plan loans may be favorable, the amount you can borrow is limited, and you generally must repay the loan within five years (some plans require that you repay the loan immediately if you lose your job).

The financial aid factor

Assets in retirement accounts aren't counted at all by the federal government's financial aid formula. So they don't affect your child's eligibility for federal financial aid. However, distributions are counted; specifically, all withdrawals from retirement accounts--principal and earnings--are counted as parental income and assessed at rates as high as 50%.

Alternatives

Before you dip into your IRA or 401(k) account to pay college expenses, make sure to investigate the cost of private borrowing, as well as any federal, state, or college-based financial aid loan programs that might be available. For example, under the federal PLUS loan program, you can borrow up to the full cost of your child's education (minus any financial aid received) if you have a good credit history. Similarly, your state's higher education authority might have a financing arm that offers favorable loan terms for college.

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Have You Received Your Stimulus Rebate Payment Yet?



In early May, the Treasury Department began the process of issuing rebate payments to over 130 million individuals--the result of provisions included in the Economic Stimulus Act of 2008, which was signed into law in February.

Who qualifies?

If you have a valid Social Security number, filed a 2007 federal income tax return, and had \$3,000 or more of income, you probably qualify for a stimulus rebate. The rebate can be up to \$600 per individual (up to \$1,200 in the case of a married couple filing a joint federal income tax return). You may also be entitled to an additional \$300 for each qualifying child you have under age 17.

If your adjusted gross income (AGI) exceeds \$75,000 (\$150,000 if you file a joint return with your spouse), the amount of your rebate payment will be reduced, or eliminated altogether. If you're not sure how much you're entitled to, or if you've received a rebate that was less than you thought it should be, check out the Economic Stimulus Payment Calculator on the IRS website, www.irs.gov.

When will I get my rebate?

If you're entitled to a rebate, and filed your 2007 federal income tax return on time, the IRS will take it from there. If you had your 2007 federal income tax refund directly deposited into a bank account, your rebate payment will be directly deposited as well. (If you weren't due a refund, but filled out the direct deposit information anyway, your rebate payment will be directly deposited.) Otherwise, a paper check will be mailed to you.

The IRS has released a schedule for rebate payments for returns that were filed and processed by April 15, 2008. When you get your payment depends upon the last two digits of your Social Security number (on a joint return, it's the Social Security number of the primary filer--the individual who is listed first--that counts). Direct deposit rebate payments will be issued before paper checks.

What if I haven't yet filed my 2007 federal income tax return?

The announced schedules apply only to individuals with tax returns filed and processed by April 15, 2008. This is true even if you filed for an extension. In any case, to get a stimulus rebate payment this year, you'll need to file your return no later than October 15. After that

date, the IRS will not commit to issuing rebate payments by the end of the year, and the Treasury Department has announced that no payments will be issued after December 31, 2008. So, if you don't file by October 15, you'll have to wait to claim the stimulus credit on your 2008 federal income tax return.

What if I'm not required to file a federal income tax return?

Many individuals who are not actually required to file a 2007 federal income tax return should do so anyway to claim their rebate payment. If you have at least \$3,000 of qualifying income (qualifying income includes wages, net self-employment income, Social Security benefits, Tier 1 Railroad Retirement benefits, VA disability and survivor benefits, and combat pay), you may be eligible for a rebate payment of \$300 (\$600 for married individuals filing joint returns) even though you would owe no taxes and aren't required to file a federal income tax return. Again, if you're not sure, check the IRS calculator.

How will the rebate affect my 2008 taxes?

Your stimulus rebate payment is actually the prepayment of a 2008 tax credit. When you file your 2008 federal income tax return in 2009, you will reconcile the amount of the credit that you're entitled to--using 2008 figures--with any rebate payment that you've already received. If it turns out that you're actually entitled to a larger credit based on your 2008 tax return, you'll get the difference as a tax credit on your 2008 return. But, if it turns out that you should have received less than the amount that you received as a rebate, you don't have to pay back the difference.

Where can I get more information?

The IRS has consolidated all announcements and has posted an incredible amount of helpful information on a new "stimulus payment" section of its website, www.irs.gov.

Schedules for Stimulus Rebate Payments

Direct Deposit	
Last two SSN digits	Payment scheduled
00 - 20	May 2
21 - 75	May 9
76 - 99	May 16

Paper Check	
Last two SSN digits	Payment scheduled
00 - 09	May 16
10 - 18	May 23
19 - 25	May 30
26 - 38	June 6
39 - 51	June 13
52 - 63	June 20
64 - 75	June 27
76 - 87	July 4
88 - 99	July 11

Internal Revenue Service
United States Department of the Treasury

INDIVIDUALS | BUSINESSES | CHARITIES & NON-PROFITS | GOVERNMENT ENTITIES | TAX PROFESSIONALS | RETIREMENT PLANS

Most Requested Forms and Publications
1. Form 1040
2. Form 1040EZ
3. Form W-4

Rebate Questions?
Find out whether you're eligible for a stimulus payment and how much you'll get. And check out the payment schedule to see when you'll get it.

Of course, a tax or financial professional can also help you with any questions you may have.

Tax-Wise Gifting Strategies for Seniors

You've spent most of your life building your wealth. Now, your concern may have shifted to reducing your estate and saving taxes.

Making gifts is one way to reduce your estate. But because gifting can trigger federal gift tax, as well as federal generation-skipping transfer tax (GSTT) if the gift is to someone who is more than one generation below you (e.g., grandchildren), you'll want to consider making gifts in ways that will minimize tax. Here are some tax-wise gifting strategies to consider.

Take full advantage of the federal annual gift tax exclusion and lifetime exemption

For 2008, you can give tax free up to \$12,000 per recipient (\$24,000 if the gift is from both you and your spouse) under the annual gift tax exclusion. Gifts over that amount are tax free to the extent of your \$1 million lifetime gift tax exemption (\$2 million lifetime GSTT exemption).

Contribute to 529 plans

If you fund a 529 plan for your grandchild's college education, you can contribute up to five years' worth of gifts at once; that's \$60,000 per child, or \$120,000 per child if you and your spouse elect to make the gift.

Pay tuition and medical expenses

You can make unlimited tax-free gifts by paying medical bills or college tuition on behalf of a recipient. Payments must be made directly to the medical care provider or college.

Make charitable donations

Donations to charity are completely free from gift tax and are also generally deductible for income tax purposes, subject to certain limitations.

Make gifts and pay the gift tax

This may seem counterintuitive, but sometimes making gifts and paying the gift tax can be advantageous. The reason is that gift tax paid is removed from your estate. So, gift taxes paid on lifetime gifts can significantly reduce overall federal gift and estate taxes.

Types of property to gift

Selecting the type of property to gift can be very important. Here are some things to consider:

- Gift property that may grow substantially in value over time, such as common

stock, antiques, art, and real estate. This strategy removes any future appreciation of this property from your estate.

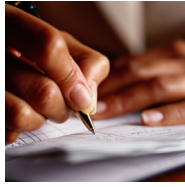
- Be careful when gifting appreciated property. Because a property's basis (generally its cost) is carried over to the recipient, gifts of appreciated property can be good in some circumstances but not in others. You may not want to give highly appreciated property if the recipient will recognize a substantial capital gain when the property is sold. On the other hand, you may want to make that gift if the sale of the property is imminent anyway and the recipient would owe less tax than you upon the sale.
- You should avoid giving property that is likely to lose value after the gift has been made. Also, it's not generally a good idea to give away depreciated property. The recipient's basis for recognizing a loss is the lower of your basis (carryover basis) or the current fair market value. The recipient may be unable to recognize the loss on the property. Both you and the recipient may lose the loss deduction.
- Gift assets that yield higher amounts of income instead of those that yield lower amounts. This will prevent the buildup of income in your estate. Similarly, gift assets that produce taxable income instead of those that produce less taxable income, such as municipal bonds.
- It may be possible to reduce your ownership interest in a closely held business (or an interest in real estate) so that it may be valued at a discount. For example, if you have a minority interest (49% or less) in the stock of a closely held business, you may qualify for a discount. Also, a fractional interest in real property may be valued at a discount. It may be beneficial to make a gift of stock or an interest in real estate to qualify for the discount.
- Be careful when giving S corp stock to a trust, as the business may lose S corp status.



When giving to charity:

- Only give to "qualified" charities. See IRS Publication 78.
- Avoid giving cash, unless you get a receipt.
- You must obtain a "qualified appraisal" for donations of property worth over \$5,000 (other than cash and publicly traded securities), and you must attach an appraisal summary (IRS Form 8283) to your tax return.

Ask the Experts



Can I enroll in Medicare at age 65, even if I'm not yet eligible for full Social Security benefits?

Yes. Although full retirement age for Social Security is increasing, 65 remains the age at which most Americans become eligible for Medicare. You don't have to be retired to enroll in Medicare, so you should still consider signing up for Medicare Part A (hospital insurance) and Medicare Part B (medical insurance) at age 65, even if you plan on working longer. Make sure to contact the Social Security Administration approximately 3 months before your 65th birthday to discuss your options, because enrollment rules are relatively complicated, and there may be consequences if you wait until later to sign up.

For example, when you become eligible for Medicare Part A at age 65, you have a certain period, called your initial enrollment period, in which to sign up for Medicare Part B. Most people won't pay a premium for Part A, but you'll always pay a premium for Part B. Your initial enrollment period is a seven-month

period that begins three months before your 65th birthday, includes the month you turn age 65, and ends three months after your 65th birthday. If you don't sign up for Part B during your initial enrollment period, you can't sign up until the next general enrollment period that runs from January 1 through March 31 of each year, and you'll generally pay a higher premium for Part B coverage. Your monthly premium will increase by 10% for each 12-month period you were eligible for, but did not enroll in, Medicare Part B, unless you were covered by group health insurance through your employer or your spouse's employer. In that case, you may qualify for a special enrollment period, and you may not have to pay a premium penalty.

For more information about enrollment requirements and other factors you should consider when deciding when to sign up for Medicare, contact the Social Security Administration at (800) 772-1213 or visit the Medicare website at www.medicare.gov.

What are Medicare Advantage plans?

Most people who are covered by Medicare are enrolled in original Medicare. Original Medicare includes Part A, which helps cover inpatient hospital care, skilled nursing care, hospice care, and some home health care, and Part B, which covers medically necessary services, including doctor's visits, outpatient care, and some preventative services.

As an alternative to original Medicare, you may opt to enroll in a Medicare Advantage (MA) plan when you first become eligible for Medicare (and have already enrolled in Parts A and B), or during certain enrollment periods. MA plans are also called Part C plans, and although they are part of the Medicare program, they are managed by private companies. MA plans provide all the benefits and cover all of the services that original Medicare provides. However, they may also offer benefits and services that are not covered under original Medicare (but which may be covered under an optional supplemental policy), including prescription drug coverage, vision care, dental services, and hearing aids, although coverages vary.

But while original Medicare allows you to visit any health-care provider or facility that accepts Medicare, most MA plans are managed care plans—either HMOs or PPOs—that have provider networks. This means that you'll usually need to see a health-care provider who belongs to the plan or receive health-care services through a facility included in the network. This may limit your choice of health-care providers. Other MA plan types may be available, including private fee-for-service plans, but these are less common.

You can generally join an MA plan if you live in the service area covered by the plan, and you have Medicare Parts A and B. But before choosing an MA plan, make sure it suits your needs. Review the benefits provided and coverage limits, and the provider network (if any). You should also make sure you understand what out-of-pocket costs may apply. These may include premiums, deductibles, and copayments that are different than those in original Medicare or a supplemental policy.

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