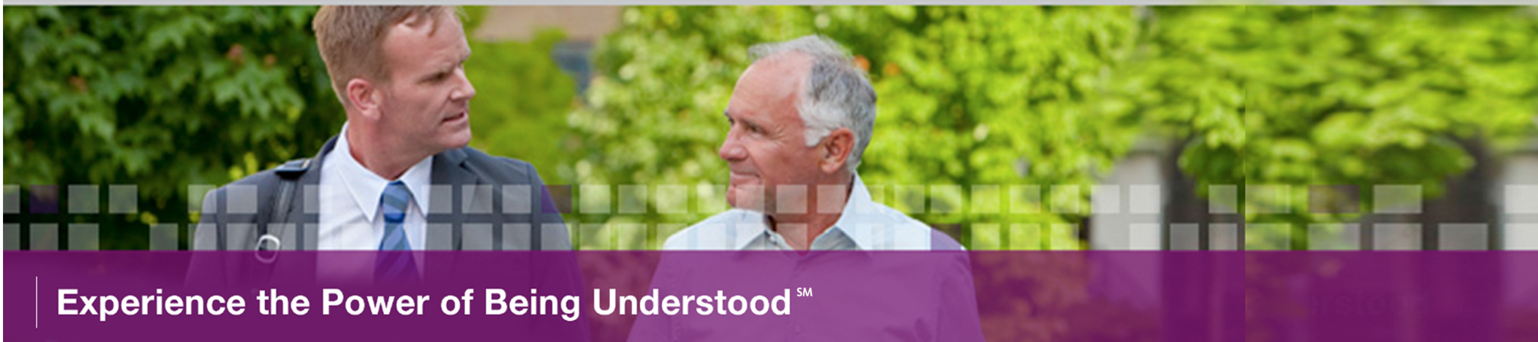

McGladrey Wealth Management LLC
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When establishing your investment policy and asset allocation targets, the overall goal is to construct a portfolio that aligns with your goals and objectives. In thinking about the risk associated with your investment allocation, you must take several main components into consideration. One main component is referred to as "risk capacity" and establishes your ability or need to take on risk. This component looks at the degree to which you must take risk in order to achieve your objectives given your specific assets to invest and timeframe. The other main component is referred to as "risk tolerance" and can be thought of as your willingness to accept the ongoing market fluctuations of your portfolio, some of which could be severe. It is critical that investors think about both aspects of risk throughout their investing lifetime. As living is dynamic, it is important for you to notify your advisor as your situation or views of risk change.

Summer 2015

How Does Divorce Affect Social Security Retirement Benefits?

Planned Charitable Giving

Why Businesses Need a Disaster Preparedness Program

What is the Roth IRA five-year rule?

How Does Divorce Affect Social Security Retirement Benefits?

One of the challenges of planning for retirement is that an unexpected event, like divorce, can dramatically change your retirement income needs. If you were counting on your spouse's Social Security benefits to provide some of your retirement income, what happens now that you're divorced?

What are the rules?

Even if you're divorced, you may still collect benefits on your ex-spouse's Social Security earnings record if:

- Your marriage lasted 10 years or longer
- You are age 62 or older
- Your ex-spouse is entitled to receive Social Security retirement or disability benefits, and
- The benefit you're entitled to receive based on your own earnings record is less than the benefit you would receive based on your ex-spouse's earnings record

If you've been divorced for at least two years, and the other requirements have been met, you can receive benefits on your ex-spouse's record even if he or she has not yet applied for benefits.

How much can you receive?

If you begin receiving benefits at your full retirement age (66 to 67, depending on your year of birth), your spousal benefit is equal to 50% of your ex-spouse's full retirement benefit (or disability benefit). For example, if your ex-spouse's benefit at full retirement age is $1,500, then your spousal benefit is $750. However, there are several factors that may affect how much you ultimately receive.

Are you eligible for benefits based on your own earnings record? If so, then the Social Security Administration (SSA) will pay that amount first. But if you can receive a higher benefit based on your ex-spouse's record, then you'll receive a combination of benefits that equals the higher amount.

Will you begin receiving benefits before or after your full retirement age? You can receive benefits as early as age 62, but your monthly benefit will be reduced (reduction applies whether the benefit is based on your own earnings record or on your ex-spouse's). If you decide to receive benefits later than your full retirement age, your benefit will increase by 8% for each year you wait past your full retirement age, up until age 70 (increase applies only if benefit is based on your own earnings record).

Will you work after you begin receiving benefits? If you're under full retirement age, your earnings may reduce your Social Security benefit if they are more than the annual earnings limit that applies.

Are you eligible for a pension based on work not covered by Social Security? If so, your Social Security benefit may be reduced.

Planning tip: *If you decide not to collect retirement benefits until full retirement age, you may be able to maximize your Social Security income by claiming your spousal benefit first. By opting to receive your spousal benefit at full retirement age, you can delay claiming benefits based on your own earnings record (up until age 70) in order to earn delayed retirement credits. This can boost your benefit by as much as 32%. Because deciding when to begin receiving Social Security benefits is a complicated decision and may have tax consequences, consult a professional.*

What happens if one of you remarries?

Benefits for a divorced spouse are calculated independently from those of a current spouse, so your benefit won't be affected if your spouse remarries. However, if you remarry, then you generally can't collect benefits on your ex-spouse's record unless your current marriage ends. Any spousal benefits you receive will instead be based on your current spouse's earnings record.

What if your ex-spouse dies?

If your marriage lasted 10 years or more, you may be eligible for a survivor benefit based on your ex-spouse's earnings record.

For more information on how divorce may affect your Social Security benefits, contact the SSA at (800) 772-1213 or visit socialsecurity.gov.

Planned Charitable Giving

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts.

There may be costs and expenses associated with trusts, private foundations, and donor-advised funds. Income from charitable trusts and charitable gift annuities is not guaranteed.

Today more than ever, charitable institutions stand to benefit as the first wave of baby boomers reach the stage where they're able to make significant charitable gifts. If you're like many Americans, you too may have considered donating to charity. And though writing a check at year-end is one of the most common ways to give to charity, planned giving may be even more effective.

What is planned giving?

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts. For example, you may need to receive income in exchange for the assets you donate, or you may want to be involved in deciding how your gift is spent--things that typically can't be done with standard checkbook giving.

Questions to consider

To help you start thinking about your charitable plan, consider these questions:

- Which charities do you want to benefit?
- What kind of property do you want to donate (e.g., cash, stocks, real estate, life insurance)?
- Do you want the gift to take effect during your life or at your death?
- Do you want to retain an interest in the property you donate?
- Do you want to be involved in deciding how your gift is spent?

Gifting strategies

There are many ways to donate to charity, from a simple outright cash gift to a complex trust arrangement. Each option has strengths and tradeoffs, so it's a good idea to consider which strategy is best for you. Here are some common options:

Outright gift. An outright gift is an immediate gift for the charity's benefit only. It can be made during your life or at your death via your will or other estate planning document. Examples of property you can gift are cash, securities, real estate, life insurance proceeds, art, collectibles, or other property.

Charitable trust. A charitable trust lets you split a gift between a charitable and a noncharitable beneficiary, allowing you to integrate financial needs with philanthropic desires. The two main types are a charitable remainder trust and a charitable lead trust. A typical charitable remainder trust provides an annuity or unitrust interest for one or two persons for life. An annuity interest provides fixed payments, while a unitrust interest provides for payments of a fixed percentage of trust assets (valued annually). At the end of the trust term, assets remaining in the trust pass to the charity. This can be an attractive strategy for older individuals who seek income. There are a few other variations of the charitable remainder trust, depending on how the income stream is calculated. With a charitable lead trust, the order is reversed; the charity gets the first, or lead unitrust or annuity interest, and the noncharitable beneficiary receives the remainder interest at the end of the trust term.

Charitable gift annuity. A charitable gift annuity provides a fixed annuity for one or two persons for life. It's easier to establish than a charitable remainder trust because it doesn't require a formal trust document.

Private foundation. A private foundation is a separate legal entity you create that makes grants to public charities. You and your family members, with the help of professional advisors, run the foundation--you determine how assets are invested and how grants are made. But in doing so, you're obliged to follow the many rules and regulations governing private foundations.

Donor-advised fund. Similar to but less burdensome than a private foundation, a donor-advised fund is an account held by a charity to which you can transfer assets. You can then advise, but not direct, how your assets will be invested and how grants will be made.

Tax benefits

Charitable giving can provide you with great personal satisfaction. But let's face it, the tax benefits are valuable, too. Your gift can result in a substantial income tax deduction in the year you make the donation, and it may also reduce capital gains and estate taxes. With a charitable remainder trust, you generally receive an up-front income tax deduction equal to the estimated present value of the interest that will eventually go to charity.

Charitable contribution deductions are generally limited to 50% of your adjusted gross income (AGI), or 30% or 20% of AGI depending on the type of charity and the property donated. Disallowed amounts can generally be carried over and deducted in the following five years, subject to the percentage limits in those years. Your overall itemized deductions may also be limited based on the amount of your AGI.

The charity must be a qualified public charity in order for you to enjoy these tax benefits. Not all tax-exempt charities are qualified charities for tax purposes. To verify a charity's status, check IRS Publication 78, or visit www.irs.gov.

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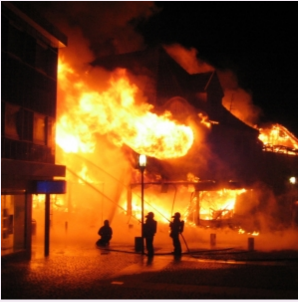
Why Businesses Need a Disaster Preparedness Program



Do you and your employees know what to do following a disaster to minimize business disruption? When it comes to disaster planning, ensuring you have proper insurance coverage may be just the beginning.

According to the Insurance Information Institute, 119 natural disasters occurred in the United States in 2014, totaling $25 billion in losses. But natural disasters represent just a portion of the crises that your business could face. Although you may not be located in an area prone to hurricanes, blizzards, tornadoes, floods, earthquakes, mudslides, and wildfires, you still need to consider the potential for power outages, civil unrest, terrorism (including cyberterrorism), fire, data breaches, and illness epidemics. What risks and hazards might your business face?

Approximately 40% to 60% of small businesses never recover from a disaster, reports preparemybusiness.org, a website created by the Small Business Administration (SBA) and Agility Recovery, an organization that helps businesses prepare for disasters and manage emergencies when they strike. For this reason, it is in the best interest of every business to identify potential risks and develop a plan to address them--before a crisis hits. Fortunately, many resources are available to assist business owners in developing a disaster preparedness program.

Where to start

Following are five steps that will help you create a disaster preparedness program, as outlined by ready.gov, a national public service campaign designed to educate Americans about preparing for and responding to natural and man-made disasters.

Step 1: Program Management. Although there are often minimum regulations that govern how certain businesses manage risk, as a business owner you will need to determine whether the minimums are enough. As ready.gov states, "Many risks cannot be insured, so a preparedness program may be the only means of managing those risks." Management commitment to a preparedness program, as well as a written preparedness policy and oversight committee, may be critical to ensuring your business's longevity.

Step 2: Planning. This step should include the creation of a "risk assessment" that identifies all potential risks and hazards for your business, with ideas for mitigating their impacts. It should highlight threats and hazards that are considered "probable," as well as any that could cause injury, property damage, business disruption, or environmental impact. Another critical document is the "business impact analysis," which details sensitive or critical processes, as well as the financial and operational impacts that would occur due to disruption of those processes.

Step 3: Implementation. In this step, committee members identify and assess resources, draft written plans, develop a system to manage incidents, and train employees as needed. Several key documents contribute to successful program implementation, including crisis communications, emergency response, and business continuity plans.

Step 4: Testing & Exercises. In order to evaluate the program's effectiveness, including the success of employee training, management should run tests and drills to see what works and note opportunities for improvement.

Step 5: Program Improvement. During testing or an actual incident, weaknesses in the program are likely to be revealed. They should be documented, along with lessons learned and strategies for addressing such problems in the future.

Other resources

The Small Business Adminstration (sba.gov) offers a number of resources designed to help small businesses shore up their emergency preparedness, including links to templates and worksheets that will help you gather the data you need to put together the various written documents. At this website, you can also find links to information about the SBA's own "Disaster Preparedness and Recovery Plan," which provides details on assistance the SBA offers after a disaster strikes.

American Red Cross Ready Rating™ (readyrating.org) is a self-guided online program designed to help member businesses, organizations, and schools assess their level of emergency preparedness. The core of the program is a 123-point self-assessment that is used to gauge one's level of preparedness. Members also have access to a variety of online tools and resources to help create and refine a disaster preparedness plan.

At preparemybusiness.org, the site mentioned above, business owners will find downloadable educational information, an archive of helpful webinars, and links to many of the other resources mentioned here.

Finally, the Insurance Institute for Business & Home Safety (disastersafety.org) offers a variety of resources, including research reports and an online tool that allows you to enter your Zip code and receive information about specific risks in your area.

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What is the Roth IRA five-year rule?

Actually, there are *two* five-year rules you need to know about. The first five-year rule determines when you can begin receiving tax-free qualified distributions from your Roth IRA. Withdrawals from your Roth IRA--including both your contributions and any investment earnings--are completely tax and penalty free if you satisfy a five-year holding period *and* one of the following also applies:

- You've reached age 59½ by the time of the withdrawal
- The withdrawal is made due to a qualifying disability
- The withdrawal is made for first-time homebuyer expenses ($10,000 lifetime limit)
- The withdrawal is made by your beneficiary or estate after your death

This five-year holding period begins on January 1 of the tax year for which you made your first contribution (regular or rollover) to any Roth IRA you own. For example, if you make your first Roth IRA contribution in March 2015 and designate it as a 2014 contribution, your five-year holding period begins on January 1, 2014 (and ends on December 31, 2018). You have only one five-year holding period for determining whether distributions from any Roth IRA you own are tax-free qualified distributions. (Roth IRAs you *inherit* are subject to different rules.)

The second five-year rule is a little more complicated. When you convert a traditional IRA to a Roth IRA, the amount you convert (except for any after-tax contributions you've made) is subject to income tax at the time of conversion. However, your conversion isn't subject to the 10% early distribution penalty, even if you haven't yet reached age 59½.

But what the IRS giveth it can also taketh away. If you withdraw any portion of your taxable conversion within five years, you'll have to pay the 10% early distribution penalty on those funds that you previously avoided--unless you've reached age 59½ or qualify for another exemption from the penalty tax. This five-year holding period starts on January 1 of the year you convert your traditional IRA to a Roth IRA. And if you have more than one conversion, each will have its own separate five-year holding period for this purpose.

How important are dividends in the S&P 500's total returns?

In a word, very. Dividend income has represented roughly one-third of the total return on the Standard & Poor's 500 index since 1926.*

According to S&P, the portion of total return attributable to dividends has ranged from a high of 53% during the 1940s--in other words, more than half that decade's return resulted from dividends--to a low of 14% during the 1990s, when the development and rapid expansion of the Internet meant that investors tended to focus on growth.*

And in individual years, the contribution of dividends can be even more dramatic. In 2011, the index's 2.11% average dividend component represented 100% of its total return, since the index's value actually fell by three-hundredths of a point.** And according to S&P, the dividend component of the total return on the S&P 500 has been far more stable than price changes, which can be affected by speculation and fickle market sentiment.

Dividends also represent a growing percentage of Americans' personal incomes. That's been especially true in recent years as low interest rates have made fixed-income investments less useful as a way to help pay the bills. In 2012, dividends represented 5.64% of per capita personal income; 20 years earlier, that figure was only 3.51%.*

Note: *All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. Investing in dividends is a long-term commitment. Investors should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. A company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.*

*Source: "Dividend Investing and a Look Inside the S&P Dow Jones Dividend Indices," Standard & Poor's, September 2013

**Source: www.spindices.com, "S&P 500 Annual Returns" as of 3/13/2015

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