Keystone Financial Partners

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Fall 2016

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We hope everyone had a great summer. Fall is now almost upon us and we are ready to welcome the cooler temperatures and changing of the leaves to the beautiful fall colors.

New Educational Videos on our Web Site
We recently added a series of short videos to our web site covering important investing topics. Investors' often make emotional, short-sighted decisions. Learn how to take control of those emotions and our reactions to them. Could news headlines be derailing your sound investment strategy? Learn how the brain works during different market cycles and how that can impact our decisions and reasoning. A new video will be added each month covering a different topic.

To view these videos, go to our web site at www.keystonefinancialpartners.com and click on KFP News, Video Library.

Follow Us on Facebook
For many of us, social media has become part of our daily lives. Did you know that Keystone Financial Partners has a Facebook page? On our company page, you'll find regular updates on financial news, my thoughts on what's happening with the markets, as well as social events, thought provoking questions and interesting quotes. Search for Keystone Financial Partners on Facebook and “like” our page for our updates to appear in your news feed.

Be one of the next 20 people to "like" our Facebook page and I'll email you "The Informed Investor" article, highlighting the Five Key Concepts for Financial Success.

November is Long-Term Care Awareness Month
As a result of longer life spans and societal changes, long term care planning is important for both men and women who expect to live into their 80s and beyond. Often, people don't ask for help until *after* they are facing a long-term care need. Unfortunately, these individuals also don't realize the potential burden their loved ones could face in becoming their caregivers, nor the financial consequences. But there is a way to avoid such situations, by creating a long-term care plan. Having a plan in place may help to keep you safe at home while also preserving and protecting the emotional, physical and financial well-being of those you love.

In honor of the upcoming Long-Term Care Awareness Month, I welcome the opportunity to meet with you to discuss the importance of creating and maintaining a long-term care plan. Please feel free to contact me at **919-463-0018** or jtrull@keystonefinancialpartners.com to discuss your situation and needs.

Who Do You Know That May Benefit From Working With Us?
We represent a select group of families whom we can have a major beneficial impact. We enter into new relationships mostly through personal introductions from our clients. To help the people you care about make informed decisions, we offer our free Second Opinion Service of their current financial plan. From our evaluation, we'll assess if there are any gaps where we could provide a significant advantage in helping them reach their goals. Who do you care about the most that would benefit from this service? Let us know! We'd be happy to schedule an informal meeting over lunch with your personal introduction.

See disclaimer on final page

Five Things to Know About Inherited IRAs

You are generally not the "owner" of an inherited IRA. The practical result of this fact is that you can't mix inherited IRA funds with your own IRA funds, and you can't make 60-day rollovers to and from the inherited IRA. Spousal beneficiaries, however, may be able to assume actual ownership of an inherited IRA.

****If the traditional IRA owner died after age 70-1/2 and did not take an RMD for the year of his or her death, you must also withdraw any remaining RMD amount for that year.***

When an IRA owner dies, the IRA proceeds are payable to the named beneficiary--or to the owner's estate if no beneficiary is named. If you've been designated as the beneficiary of a traditional or Roth IRA, it's important that you understand the special rules that apply to "inherited IRAs."

It's not really "your" IRA

As an initial matter, while you do have certain rights, you are generally not the "owner" of an inherited IRA. The practical result of this fact is that you can't mix inherited IRA funds with your own IRA funds, and you can't make 60-day rollovers to and from the inherited IRA. You also need to calculate the taxable portion of any payment from the inherited IRA separately from your own IRAs, and you need to determine the amount of any required minimum distributions (RMDs) from the inherited IRA separately from your own IRAs.

But if you inherited the IRA from your spouse, you have special options. You can take ownership of the IRA funds by rolling them into your own IRA or into an eligible retirement plan account. If you're the sole beneficiary, you can also leave the funds in the inherited IRA and treat it as your own IRA. In either case, the IRA will be yours and no longer treated as an inherited IRA. As the new IRA *owner* (as opposed to *beneficiary*), you won't need to begin taking RMDs from a traditional IRA until you reach age 70½, and you won't need to take RMDs from a Roth IRA during your lifetime at all. And as IRA owner, you can also name new beneficiaries of your choice.

Required minimum distributions

As beneficiary of an inherited IRA--traditional or Roth--you must begin taking RMDs after the owner's death.* In general, you must take payments from the IRA annually, over your life expectancy, starting no later than December 31 of the year following the year the IRA owner died. But if you're a spousal beneficiary, you may be able to delay payments until the year the IRA owner would have reached age 70½.

In some cases you may be able to satisfy the RMD rules by withdrawing the entire balance of the inherited IRA (in one or more payments) by the fifth anniversary of the owner's death. In almost every situation, though, it makes sense to use the life expectancy method instead--to stretch payments out as long as possible and take maximum advantage of the IRA's tax-deferral benefit.

You can always elect to receive more than the required amount in any given year, but if you receive less than the required amount you'll be subject to a federal penalty tax equal to 50% of the difference between the required distribution and the amount actually distributed.

More stretching...

What happens if you elect to take distributions over your life expectancy but you die with funds still in the inherited IRA? This is where your IRA custodial/trustee agreement becomes crucial. If, as is sometimes the case, your IRA language doesn't address what happens when you die, then the IRA balance is typically paid to your estate--ending the IRA tax deferral.

Many IRA providers, though, allow you to name a successor beneficiary. In this case, when you die, your successor beneficiary "steps into your shoes" and can continue to take RMDs over your remaining distribution schedule.

Federal income taxes

Distributions from inherited IRAs are subject to federal income taxes, except for any Roth or nondeductible contributions the owner made. But distributions are never subject to the 10% early distribution penalty, even if you haven't yet reached age 59½. (This is one reason why a surviving spouse may decide to remain as beneficiary rather than taking ownership of an inherited IRA.)

When you take a distribution from an inherited Roth IRA, the owner's nontaxable Roth contributions are deemed to come out first, followed by any earnings. Earnings are also tax-free if made after a five-calendar-year holding period, starting with the year the IRA owner first contributed to any Roth IRA. For example, if the IRA owner first contributed to a Roth IRA in 2014 and died in 2016, any earnings distributed from the IRA after 2018 will be tax-free.

Creditor protection

Traditional and Roth IRAs are protected under federal law if you declare bankruptcy. The IRA bankruptcy exemption was originally an inflation-adjusted $1 million, which has since grown to $1,283,025. Unfortunately, the U.S. Supreme Court has ruled that inherited IRAs are not covered by this exemption. (If you inherit an IRA from your spouse and treat that IRA as your own, it's possible that the IRA won't be considered an inherited IRA for bankruptcy purposes, but this was not specifically addressed by the Court.) This means that your inherited IRA won't receive any protection under federal law if you declare bankruptcy. However, the laws of your particular state may still protect those assets, in full or in part, and may provide protection from creditors outside of bankruptcy as well.

How to Get a Bigger Social Security Retirement Benefit

Many people decide to begin receiving early Social Security retirement benefits. In fact, according to the Social Security Administration, about 72% of retired workers receive benefits prior to their full retirement age.[1] But waiting longer could significantly increase your monthly retirement income, so weigh your options carefully before making a decision.

Timing counts

Your monthly Social Security retirement benefit is based on your lifetime earnings. Your base benefit--the amount you'll receive at full retirement age--is calculated using a formula that takes into account your 35 highest earnings years.

If you file for retirement benefits before reaching full retirement age (66 to 67, depending on your birth year), your benefit will be permanently reduced. For example, at age 62, each benefit check will be 25% to 30% less than it would have been had you waited and claimed your benefit at full retirement age (see table).

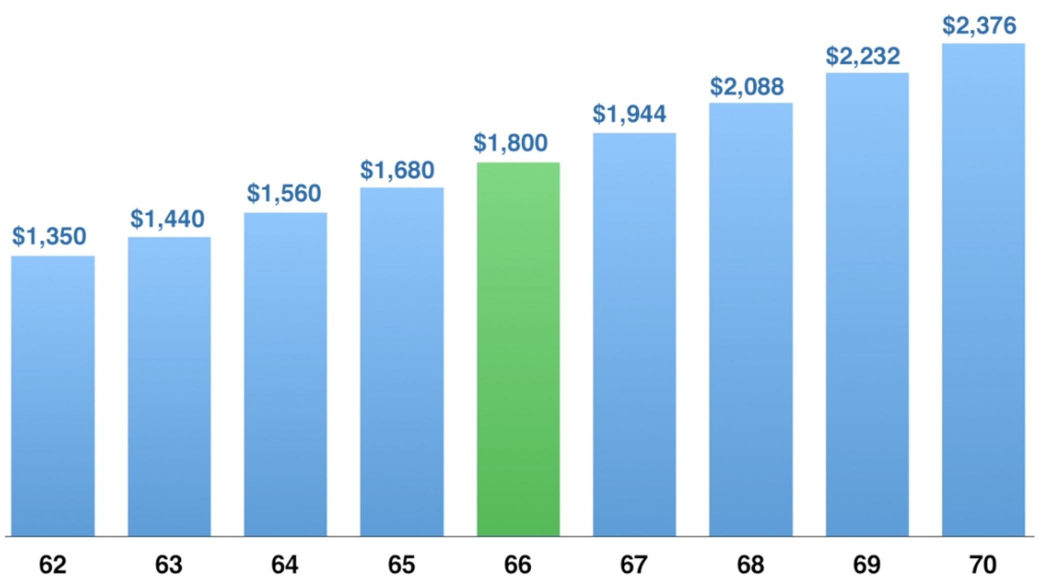
Alternatively, if you postpone filing for benefits past your full retirement age, you'll earn delayed retirement credits for each month you wait, up until age 70. Delayed retirement credits will increase the amount you receive by about 8% per year if you were born in 1943 or later.

The chart below shows how a monthly benefit of $1,800 at full retirement age (66) would be affected if claimed as early as age 62 or as late as age 70. This is a hypothetical example used for illustrative purposes only; your benefits and results will vary.

Birth year	Full retirement age	Percentage reduction at age 62
1943-1954	66	25%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 or later	67	30%

Early or late?

Should you begin receiving Social Security benefits early, or wait until full retirement age or even longer? If you absolutely need the money right away, your decision is clear-cut; otherwise, there's no "right" answer. But take time to make an informed, well-reasoned decision. Consider factors such as how much retirement income you'll need, your life expectancy, how your spouse or survivors might be affected, whether you plan to work after you start receiving benefits, and how your income taxes might be affected.



Sign up for a my Social Security account at [ssa.gov](https://www.ssa.gov) to view your online Social Security Statement. It contains a detailed record of your earnings, as well as benefit estimates and other information about Social Security.

[1] Social Security Administration, Annual Statistical Supplement, 2015

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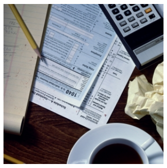

Can I make charitable contributions from my IRA in 2016?

Yes, if you qualify. The law authorizing qualified charitable distributions, or QCDs, has recently been made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015.

You simply instruct your IRA trustee to make a distribution directly from your IRA (other than a SEP or SIMPLE) to a qualified charity. You must be 70½ or older, and the distribution must be one that would otherwise be taxable to you. You can exclude up to $100,000 of QCDs from your gross income in 2016. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional $100,000 of QCDs. But you can't also deduct these QCDs as a charitable contribution on your federal income tax return--that would be double dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to take from your IRA in 2016, just as if you had received an actual distribution from the plan. However, distributions (including RMDs) that you actually receive from your IRA and subsequently transfer to a charity cannot qualify as QCDs.

For example, assume that your RMD for 2016 is $25,000. In June 2016, you make a $15,000 QCD to Qualified Charity A. You exclude the $15,000 QCD from your 2016 gross income. Your $15,000 QCD satisfies $15,000 of your $25,000 RMD. You'll need to withdraw another $10,000 (or make an additional QCD) by December 31, 2016, to avoid a penalty.

You could instead take a distribution from your IRA and then donate the proceeds to a charity yourself, but this would be a bit more cumbersome and possibly more expensive. You'd include the distribution in gross income and then take a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction due to IRS limits. QCDs avoid all this by providing an exclusion from income for the amount paid directly from your IRA to the charity--you don't report the IRA distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

Can I name a charity as beneficiary of my IRA?

Yes, you can name a charity as beneficiary of your IRA, but be sure to understand the advantages and disadvantages.

Generally, a spouse, child, or other individual you designate as beneficiary of a traditional IRA must pay federal income tax on any distribution received from the IRA after your death. By contrast, if you name a charity as beneficiary, the charity will not have to pay any income tax on distributions from the IRA after your death (provided that the charity qualifies as a tax-exempt charitable organization under federal law), a significant tax advantage.

After your death, distributions of your assets to a charity generally qualify for an estate tax charitable deduction. In other words, if a charity is your sole IRA beneficiary, the full value of your IRA will be deducted from your taxable estate for purposes of determining the federal estate tax (if any) that may be due. This can also be a significant advantage if you expect the value of your taxable estate to be at or above the federal estate tax exclusion amount ($5,450,000 for 2016).

Of course, there are also nontax implications. If you name a charity as sole beneficiary of your IRA, your family members and other loved ones will obviously not receive any benefit from those IRA assets when you die . If you would like to leave some of your assets to your loved ones and some assets to charity, consider leaving your taxable retirement funds to charity and other assets to your loved ones. This may offer the most tax-efficient solution, because the charity will not have to pay any tax on the retirement funds.

If retirement funds are a major portion of your assets, another option to consider is a charitable remainder trust (CRT). A CRT can be structured to receive the funds free of income tax at your death, and then pay a (taxable) lifetime income to individuals of your choice. When those individuals die, the remaining trust assets pass to the charity. Finally, another option is to name the charity and one or more individuals as co-beneficiaries. (Note: There are fees and expenses associated with the creation of trusts.)

The legal and tax issues discussed here can be quite complex. Be sure to consult an estate planning attorney for further guidance.

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