



Smith, Mayer & Liddle
a wealth advisory group
2315 N. Susquehanna Trail
York, PA 17404
(717) 779-2769
(800) 999-0503
smithmayer&liddle@janney.com
www.smithmayerliddle.com

Spring has finally arrived, and so too has baseball season! We are pleased to support the local community as a proud sponsor of the 2011 York Revolution season. If you attend an upcoming game, look for the "Smith, Mayer & Liddle Bank Drop" in which we hope to increase awareness of the importance of long term savings. We hope to see you at a game!

In this issue:

401(k) In-Plan Roth Conversions

Charitable Giving

Important Questions to Ask Aging Parents

What health-care changes become effective in 2011?



INVESTING PERSPECTIVES

2nd Quarter 2011

401(k) In-Plan Roth Conversions



You may have heard the buzz ... 401(k) plans can now permit in-plan Roth conversions. But is this an option for you?

What is it?

A 401(k) in-plan Roth conversion (also called an "in-plan Roth rollover") allows you to transfer the non-Roth portion of your 401(k) account into a designated Roth account within the same plan. The amount you convert is subject to federal income tax in the year of the conversion (except for any nontaxable basis you have in the amount transferred), but qualified distributions from the Roth account in the future are entirely income tax free. The 10% early distribution penalty doesn't apply to amounts you convert (but that tax may be reclaimed by the IRS if you take a nonqualified distribution from your Roth account within five years of the conversion).

What part of my account can I convert?

Here's where it gets a bit tricky. Assuming your 401(k) allows in-plan conversions (plans aren't required to), you have to be entitled to a distribution from the plan in order to make a conversion. For example, you're generally entitled to a distribution from your 401(k) plan after you terminate employment. If your account balance is greater than \$5,000, you also have the right to keep your money in the plan until you reach normal retirement age (typically 65). So in this case, your plan may allow you to transfer all or part of your account into a Roth account (except for any required distributions and certain periodic payments).

But what if you're still employed? If you want to transfer your pretax contributions and earnings into a Roth account, you'll generally only be able to do so if you're age 59½ or disabled, or you've received a qualified reservist distribution, because those are the only events that can trigger an eligible distribution (hardship withdrawals aren't eligible for rollover or conversion). In some cases, your vested employer contributions (and earnings) may also be available for distribution while you're still

employed--for example, after the contribution has been in the plan for two years, or after you have 60 months of participation (the terms of your plan, and federal law, control). If your plan allows these distributions, it can also allow them to be converted.

Keep in mind that if you're entitled to an eligible rollover distribution, you can always roll those dollars into a Roth IRA instead of using an in-plan conversion.

Some employers aren't comfortable letting employees withdraw their retirement funds while they're still employed. The IRS has addressed this concern by letting 401(k) plans provide for the in-service distributions described above *only* if the employee intends to convert those funds. For example, a plan that currently doesn't let employees withdraw pretax dollars at age 59½ can be amended to allow those withdrawals, but only if an employee intends to roll those dollars into a Roth account--the employee would not be allowed to actually take a distribution of the funds, or roll the dollars over into an IRA.

What else do I need to know?

If you have the choice of an in-plan conversion or a rollover to a Roth IRA, which should you choose? There are a number of factors to consider:

- You can recharacterize (undo) a Roth IRA conversion if the conversion turns sour (for example, the value of the converted assets declines significantly), but you can't recharacterize in-plan conversions.
- In general, the investments available in an employer 401(k) plan are fairly limited, while virtually any type of investment is available in an IRA (on the other hand, your 401(k) plan may offer investments that you can't replicate in an IRA, or that aren't available at similar cost).
- Finally, 401(k) plans typically enjoy more protection from creditors under federal law than do IRAs (consult a professional if creditor protection is important to you).

Charitable Giving

Today more than ever, charitable institutions stand to benefit as the first wave of the 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 consult an experienced financial professional to see 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 fixed income for one or two persons for life. 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 steady income. There are different 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 interest, and the noncharitable beneficiary receives the remainder interest at the end of the trust term.

Charitable gift annuity--A charitable gift annuity also provides fixed income for one or two persons for life. But 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 within 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.

To enjoy these tax benefits, the charity must be a qualified public charity. Be careful--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.

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



Important Questions to Ask Aging Parents

Remember "the talk" your parents initiated (maybe) with you many years ago? Well, now it's your turn to sit on the opposite side of the table. If you're the adult child of aging parents, it's important to open up a conversation about their future needs and wishes. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.

The reality, though, is that many adult children would rather avoid such a discussion, because it can create feelings of fear and loss on both sides, and adult children want to avoid getting too personal by asking about financial or other matters. Here are some questions in the areas of finances, health, living situation, and memorial wishes that can help you start a conversation.

Finances

- What institutions hold your assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers and online user names and passwords, if applicable. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you currently work with any financial, legal, or tax advisors? If so, get a list of names with contact information.
- How often do you meet with your financial advisor? Do you think it would be helpful to do so soon? Would you like me to come?
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills?
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if he or she becomes disabled or incompetent.
- Do you have a will? If so, find out where it's located and who is named as executor. If it's more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now (e.g., Aunt Agnes should get the china set).

- Are your beneficiary designations up-to-date? Designated beneficiaries on insurance policies, pensions, IRAs, and investments trump any instructions in your parents' wills.
- Do you have an overall estate plan? A trust? A living trust can help manage an estate while your parents are still living.

Health

- What doctors do you currently see? Do they have experience treating seniors? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking?
- What health insurance do you have? In addition to Medicare, which kicks in at age 65, find out if your parents have or should consider Medigap insurance--a private policy that covers many costs and services not covered by Medicare--and long-term care insurance, which covers the need for extended medical care.
- Do you have an advanced medical directive? This document includes your parents' wishes regarding life-support measures and the name of the person who will communicate on their behalf with health-care professionals. If your parents do not want heroic life-saving measures to be taken on their behalf, this document is a must.

Living situation

- Do you plan to stay in your current home, or have you thought about downsizing to a condominium or townhouse?
- Is there anything I can do now to make your home more comfortable? This might include smaller projects like installing hand rails and night lights in the bathroom to bigger projects like moving the washing machine out of the basement, installing a stair climber, or moving a bedroom to the first floor.
- Do you employ certain people or companies for home maintenance projects (i.e., heating contractor, plumber, electrician, fall cleanup)?

Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific music or reading requests, or other wishes for your memorial service?



The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.





Trusted Advisors for Generations

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.

Prepared by Forefield Inc,
Copyright 2011

Ask the Experts



What health-care changes become effective in 2011?

The Patient Protection and Affordable Care Act (PPACA), signed into law in 2010, makes significant changes to our health-care delivery system. Here are some of the most important changes scheduled to take effect in 2011.

The cost of over-the-counter drugs not prescribed by a doctor can no longer be reimbursed through a health reimbursement account or a health flexible spending account, nor can these costs be reimbursed on a tax-free basis through a health savings account (HSA) or Archer medical savings account. Also, the tax on distributions from HSAs and Archer MSAs that are not used for qualified medical expenses increases to 20% (up from 10% and 15% for HSAs and Archer MSAs respectively).

Medicare Part D participants will receive a 50% discount on brand-name prescriptions filled in the coverage gap (i.e., the "donut hole") from pharmaceutical manufacturers, and federal subsidies for generic prescriptions filled in the coverage gap will start to be phased in.

Also, certain preventive services covered by Medicare are no longer subject to cost-sharing (co-payments), the deductible is waived for Medicare-covered colorectal cancer screening tests, and Medicare now covers personalized prevention plans including a comprehensive health risk assessment.

Medicare Advantage (MA) plans can no longer impose higher cost-sharing for some Medicare-covered benefits than would be imposed by traditional Medicare insurance. Also, MA plans cannot exceed a mandatory maximum out-of-pocket amount for most Medicare services. The maximum amount in 2011 is \$6,700, but MA plans can voluntarily offer lower out-of-pocket amounts. Also, the annual enrollment period for MA plans is changed to October 15 through December 7.

The requirement that employers report the total value of employer-sponsored health benefits on employees' W-2s was to begin in 2011. However, the IRS has deferred this requirement until 2012.