First Quarter 2013

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This Is Not Granddad's 'Defined Benefit Plan'

One type of retirement plan that was popular in your grandfather's day, or maybe your father's day, is making a comeback. It's a "defined benefit plan" such as a traditional pension plan. Why the revival now? With a defined benefit plan, you can generally build a retirement nest egg faster than you can with a 401(k) or other kind of "defined contribution plan." For this reason, defined benefit plans often appeal to older business owners or managers who are in a position to call the shots. But the plan does come with some potential drawbacks.

Basic premise: A defined contribution plan specifies an annual amount to be contributed on behalf of each participating employee. In contrast, a defined benefit plan specifies the amount of the benefits that will be paid to plan participants when they retire. It allows for large contributions over a relatively short period of time.

How is the amount of benefits determined in a defined benefit plan? Several methods may be used, but the specified benefit is generally predetermined by a formula based on an employee's earnings history, length of service, and age. Commonly, the formula reflects that worker's final salary. Under this formula, benefits are based on a percentage of average earnings during a specified number of years at the end of the employee's career.

As with defined contribution plans, the tax law imposes specific limits on contributions, which are indexed for inflation. With a **defined contribution plan,** the annual deductible additions for 2013 can't exceed 25% of the participant's compensation or $51,000, whichever is less. The annual dollar benefit for a **defined benefit plan** in 2013 can't be more than 100% of the participant's average compensation for that person's three highest consecutive years of earnings, or $205,000, whichever is less.

With either a defined benefit or a defined contribution plan, the maximum amount of compensation that may be taken into account for plan purposes is limited to $255,000 in 2013. Thus, even with a defined benefit plan, the retirement plan benefits of a company's highest earners are likely to be watered down a bit.

In addition, be aware of other special limits on "top-heavy" retirement plans. A plan is treated as being top-heavy if more than 60% of the benefits go to the company's "key employees." That includes anyone who qualifies under one of these classifications for plan years ending in 2013:

- A company officer earning more than $165,000.
- An employee who owns 5% or more of the company.
- An employee who owns 1% or more of the company and has an annual compensation of more than $150,000.

Employees who don't fall

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Retirement Plans: Could You Be Saving More?

The complex world of retirement plans is overwhelming – so overwhelming that many of you likely are missing out on additional savings opportunities.

Whether you are a business owner, a high-level executive or a retirement plan participant, you want the best plan possible – you want to save the most amount of money through tax-advantaged channels that you can. We now are able to offer 401(k) plans to businesses with a significant number of employees.

Recent legislative action changed the requirements for employer sponsors of 401(k) plans. You should ensure that your retirement plan expenses are reasonable for the services offered. We are able to provide a benchmarking analysis for most company 401(k) plans.

Diversified Asset Management Inc. has partnered with some of the industry's leading plan administrators for 401(k) and defined benefit plans. We offer plans that provide expert, conflict-free advice; access to quality investment vehicles; and lower plan costs than many of the current plans offered in the market today.

Our goal is to bring the same quality of investment management that we now provide our high net-worth individual clients to the 401(k) and defined benefit marketplaces.

Take the steps now to invest in your future. We are here to assist and guide you through this complex world of retirement plans.

Robert Pyle & Sarah Heller

Avoid These Investment Mistakes

One thing that can be puzzling about stock market investors who have struggled in the past: They make some of the same mistakes over and over. Here are seven prime examples.

1. You try to "time" the stock market. Typically, timing strategies are based on selling stocks when you believe the market has topped out and buying when you think it has hit rock bottom. The problem is that nobody—and we mean NOBODY—has a crystal ball that's foolproof. It's far better to stick with a well-diversified, balanced portfolio based on your personal circumstances.

2. You have zero patience. If you're looking for instant gratification, the stock market will disappoint you more often than not. Just as for the tortoise and the hare, slow and steady usually wins the race, while those who act too swiftly finish behind. Be content to hold some stocks for a long time before you reap rewards.

3. You refuse to recognize reality. All too often, investors operate with blinders on, but the cold hard facts can't be ignored. If you have a favorite stock you were convinced would turn a profit and it simply hasn't worked out, don't throw good money after bad. Dump the losers and hold on to the winners without allowing emotion to rule the day.

4. You put all of your eggs into one basket. No matter what the projections are for any particular stock, sector or asset type, it's not smart to bet your entire wealth on its performance. Diversification is a key element of a sensible plan for virtually every investor. It's all about balancing the search for reward with the need to reduce risk. Although there's less chance you'll make a killing if you diversify, you reduce your exposure to a catastrophe.

5. You overemphasize past performance. It may be boilerplate language in investment prospectuses and related materials, but it's also true: "Past performance is not necessarily indicative of future results." Don't build your portfolio around particular stocks just because they've been profitable without evaluating their current and future prospects.

6. You ignore the impact of taxes. It only makes sense to consider the tax ramifications of your investment decisions—especially now, with investment and income tax rates set to rise in 2013 and the arrival of a new 3.8% Medicare surtax for high-income investors. But it also can be a mistake to let taxes drive your decisions. Weigh all of the relevant economic factors when you buy or sell stocks.

7. You don't have a plan. Many investors take a hit-or-miss approach to their portfolio. They buy and sell on whims without coordinating their activities. But you're more likely to be successful if you develop an overall plan that is suitable for your situation. Having a strategy and having the discipline to stick with it is the hallmark of successful investing. We would be glad to provide whatever assistance you need. ●

The Benefits Of Working With An Advisor

People who work with a financial advisor are far more likely to understand the situation they will face after they retire, according to a recent survey by Franklin Templeton Investments.

Two out of three people who work with a financial advisor know the amount of retirement funds they will withdraw each year after they retire. That's almost twice the proportion of those who've never worked with an advisor who have that knowledge, according to the Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey, taken in September 2011.

Volatile world markets and changes in the way people build retirement assets make it more important than ever for pre-retirees to understand their retirement picture, says Michael Doshier, vice president of retirement marketing for Franklin Templeton.

"Sixty-seven percent of respondents were more concerned about investment volatility than they were prior to the recession that began in 2008," Doshier said. "People's worries varied by age, gender, and income level, but from a general standpoint, some of their specific worries related to health expenses, Social Security, and simply running out of money.

"Our survey also showed, however, that working with a financial advisor can make a clear difference in how Americans think about retirement planning. By sitting down with a financial advisor, identifying and prioritizing one's retirement goals and concerns, and writing down a simple plan to address them, people can take meaningful steps toward confident action."

The RISE survey was conducted online among 1,020 men and 1,026 women. Here are other findings:

- 38% of respondents who never have worked with a financial advisor said Social Security will provide the most income during their retirement,

Where Retirees Live, And Why

Do you know where you will live after you retire? You might decide to stay in your current home, move to a smaller place, or relocate to be closer to your children. You could opt for a warmer climate—or for someplace colder. You may settle in another state, or even another country. There are so many possibilities it can seem confusing to sort through them all.

Your first consideration, of course, is what will be best for you. What you can afford, whether you're in good health, what your spouse wants—all of those have to be factored into your decision. If your mortgage is paid off, staying put could be the most economical option. Of course, downsizing could put spending money in your pocket or pad your retirement account. Maybe you need to provide financial help to your children, grandchildren, or even your parents. Other considerations include state income taxes and proximity to family members.

Whatever your situation, retirement is a momentous occasion, and the more you think about how you want it to play out—and the earlier you start planning—the more likely you'll have a satisfying life after work.

Not many years ago, retirement didn't last very long, and most people just lived out their days quietly. But times have changed. According to the U.S. Centers for Disease Control and Prevention, the average 65-year-old in 2009 could expect to live another 19 years—and that's more than one and a half years longer than in 2000. Active retirements have become the rule, not the exception, and many people continue to work at least part time.

Spurred by these trends, retirement communities have sprung up all across the country, even in cold-weather states. You can find retirement communities in the mountains, on the prairie, on lakes—just about anywhere, from sea to shining sea. They may be built for a few dozen residents, or many thousand. At The Villages near Ocala, Florida, more than 51,000 retirees live and scoot around in golf carts.

A retirement community can consist of just one kind of housing—condominiums or single-family homes, for instance—or you may be able to choose from among many different options. And these days, such places frequently call themselves active adult communities, dropping the word retirement to emphasize the physically active nature of today's senior lifestyles.

And life at a retirement community—by any name—can be very active indeed, with recreational choices that may include golf courses, tennis courts, bocce courts, Olympic-size swimming pools, spas, and boats and canoes. There could be walking trails, bike trails, community newspapers, stage shows (with seniors doing the acting), seminars on health and other topics, billiard tables, ceramics classes, photography clubs, computer clubs, and state clubs. You may get a place to store your boat or your recreational vehicle, and just about every retirement community has a clubhouse, complete with card rooms, craft rooms, bingo halls, dance halls, libraries, TV rooms, and, of course, an office staff ready to assist you. And because most communities have a minimum age requirement of 55 or so, you'll be living with people mostly from your own generation—and you won't be disturbed by a lot of noisy children running around. (You can visit your grandchildren for that!)

State clubs are amazingly popular in retirement communities. It seems that many people prefer mixing socially with others from their home states rather than with people from other parts of the country. Another surprising thing about state clubs is that those with the most members often don't represent the most populous Northern states. In Florida, the retirement-haven state, Michigan seems to lead all other states in retirement club membership.

All retirement communities have homeowner associations—and homeowner association fees that can range in cost from low to moderate to very expensive, depending on the types and numbers of amenities and services offered. Before choosing a place, be sure to consider not just the initial cost of buying a house or a condo but also all of the fees and other recurring expenses. You might rent a place first to try it out.

Yet while you may be reluctant to pay a hefty monthly homeowner association fee, it's likely to cover a host of convenient services ranging from basic cable TV and garbage collection to lawn maintenance, pest control, exterior painting and other maintenance, and roof repair. And if you've ever cut grass on a hot, muggy, Florida summer day, you might agree that lawn maintenance alone makes retirement community living worth the price! ●

compared with 19% of people who work with an advisor.

- Just 4% of people who never have worked with a financial advisor said IRA funds will provide the most income during their retirement, compared with 13% of people who work with an advisor.

- 35% of people who never have worked with an advisor said they do not think about how they will approach different sources of retirement income.
- Running out of money in retirement is the top concern of 35% of people who never have worked with an advisor, while 24% of those who work with an advisor cited it as their top concern.
- Of those respondents who never have worked with an advisor, 41% said they don't think they have enough money to need one, and 30% said they prefer to handle their finances on their own.
- 79% of Americans currently do not work with a financial advisor, but 47% of respondents said they would consider going to a financial advisor or switching their current advisor if the advisor prepared a written retirement income plan. ●

"Ghost Story" Can Haunt Your IRA

The rules for contributing to an IRA are relatively simple. You put in the money for each tax year by the required deadline—the tax return due date for the year of the contribution—and tell the account custodian how you want the funds invested. In addition, you might roll over funds to an IRA from a 401(k) or another kind of "qualified plan" at work when you change jobs or retire. That way, your money can continue to grow without being eroded by taxes until you make a withdrawal.

The rules for *distributions*, in contrast, are extremely complex. In particular, complications may arise as you approach the time for taking "required minimum distributions" (RMDs) from your IRA. Make the wrong moves and your heirs might be forced to receive payouts based on your "ghost life expectancy."

For IRA owners, the "required beginning date" (RBD) for RMDs is April 1st of the year after the year in which they turn age 70½. For instance, if someone reaches that age on June 1, 2013, the RBD is April 15, 2014. The amount of the RMD is based on the value of your accounts on December 31st of the tax year of the RMD—in this example, 2013—and is calculated according to an IRS-approved life expectancy table. And here's where things get complicated.

If you die *before* the RBD and have designated a "qualified beneficiary" such as a child or spouse, the RMDs are generally based on the beneficiary's life expectancy. (Surviving spouses also have the option of rolling over the funds into their own IRAs.) However, if you haven't designated a beneficiary or you named a "non-qualified beneficiary" such as your estate, the IRA must be emptied out in five years. Conversely, if an IRA owner dies *after* the RBD, payments to a beneficiary are still based on the beneficiary's life expectancy, but payments to a non-qualified beneficiary must use the owner's ghost life expectancy.

A ghost life expectancy isn't as scary as it sounds. It's how long the IRA owner would be expected to live—if he or she hadn't already died. But using an older owner's life expectancy table will still drain the IRA faster than usual.

Suppose that Walter Mason, age 80 and single, has $750,000 in his IRA. Walter named his estate as the beneficiary of his IRA. He dies on July 1, 2013 without taking an RMD for the 2013 tax year.

Because Walter designated a non-qualified beneficiary, RMDs for 2013 and future years will be based on his ghost life expectancy. The payment for 2013 under the single-life expectancy table is $40,107. Under this method, payments will be greater than the amounts that would have been required if Walter had designated a qualified beneficiary.

Good planning can minimize the impact of RMDs and help preserve your retirement nest egg. ●

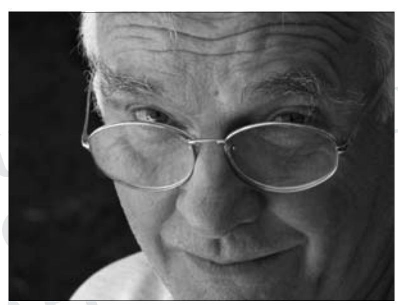
'Defined Benefit Plan'

(Continued from page 1)

under these definitions are treated as non-key employees.

Among other technical requirements, a defined contribution plan that is top-heavy generally must provide contributions of at least 3% of compensation for each plan participant who is not a key employee. In the case of a defined benefit plan, the minimum contribution generally must represent at least 2% of a non-key employee's compensation.

Caution: Of course, there's no such thing as a free lunch—at least not where tax laws are concerned. The main disadvantage for older business owners is that a defined benefit plan must cover all eligible employees as well the top brass. That's why many companies have steered away from traditional pensions plans towards 401(k) plans, for which employees make most or all of the contributions on their own. Also, it may be more costly for a company to operate a defined benefit plan than to have a defined contribution plan. The plan is legally required to ensure that it is properly funded. One plus, though, is that benefits are insured by the Pension Benefit Guaranty Corporation (PBGC). The PBGC doesn't insure defined contribution plans.



Last but not least, know that today's defined benefit plan isn't your grandfather's plan. You don't have to settle for the traditional pension plan format. Instead, you can choose from several variations or hybrid plans combining some of the elements of defined contribution and defined benefit plans. Hybrid alternatives include plans that are referred to as age-weighted plans, new comparability plans, target benefit plans, and cash balance plans.

Is a defined benefit plan right for you and your company? Please let us know if you want to investigate your options. ●

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