Second Quarter 2015

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Ponder These 4 Reasons For Roth IRA Conversions

The hubbub over Roth IRA conversions continues unabated. Many who haven't taken the plunge are debating whether to use this technique, while others who already have transferred traditional IRA funds to a Roth are looking to feather their growing nest egg. Barring any radical changes in the tax law, a conversion remains a workable option for knowledgeable retirement-savers.

What's the driving force behind the conversion trend? The reasons may vary from one person to the next, but there are essentially four main types of conversions: strategic, tactical, opportunistic, and hedging.

First, let's examine the roots of a Roth conversion. With a traditional IRA, you can build up your account with contributions that may be partially or totally tax-deductible, in addition to amounts that are rolled over tax-free from an employer's retirement plan such as a 401(k). But distributions are taxable at ordinary income tax rates to the extent they represent deductible contributions and earnings. What's more, you must begin taking required minimum distributions (RMDs) from an IRA in the year after you turn age 70½.

In contrast, contributions to a Roth IRA are never tax-deductible, and you have to pay tax on a rollover from an employer plan. But the tax benefits come fast and furious on the back end. "Qualified" distributions—those made after age 59½, on account of death or disability, or used to pay first-time homebuyer expenses, up to a lifetime limit of $10,000—from a Roth that's at least five years old are completely exempt from federal income tax. Other payouts are taxed under special "ordering rules," which treat amounts as coming first from nontaxable contributions.

To top things off, you don't have to take distributions from a Roth IRA during your lifetime. That can help preserve your nest egg for the benefit of your heirs.

The money you convert from a traditional IRA to a Roth is taxable as income, and that negates some of the benefits of transferring those funds.

Why convert? Here's a quick breakdown of the four main types of Roth conversions and the reasons for converting:

1. Strategic: This kind of conversion is motivated by long-term wealth transfer objectives. For instance, if you intend to pass most of your IRA assets to your heirs, the ability to avoid RMDs during your lifetime may figure prominently in your plans. A Roth IRA lets you withdraw funds only as you see fit. In addition, converting to a Roth may be especially helpful from a strategic point of view if you're in a

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The Three Biggest Financial Mistakes That You Can Make

There are many things a young person may be able to do to achieve great financial success despite today's challenging job opportunity and difficult credit markets. Creative planning, hard work, perseverance, the ability to think, and yes, luck, all can help you to make it big. However, there are three mistakes you can make that will doom your future. Here they are:

1. Failure to save all that you can. Starting with your very first job or business opportunity, save every cent that you can. Put yourself on a pinch-penny budget and stay there for years and years. Invest the maximum in any and all retirement plans that are available to you. (At a minimum, use the company match). And – equally important – avoid high-interest debt like the plague. Don't buy new cars every year or so. Don't buy more house than you need.

2. Failure to keep working as long as possible. Do not – repeat, do not – retire at age 62. You may think that Social Security benefits will not play a big role in financing your retirement. Think again. Every dollar is going to count. Plus, by not retiring too soon you will continue to save more, and more.

3. Failure to seek financial advice. Select a trusted financial advisor early in your career and stick with him or her for guidance over your working life.

Robert J. Pyle, CFP, CFA

When To Start Social Security?

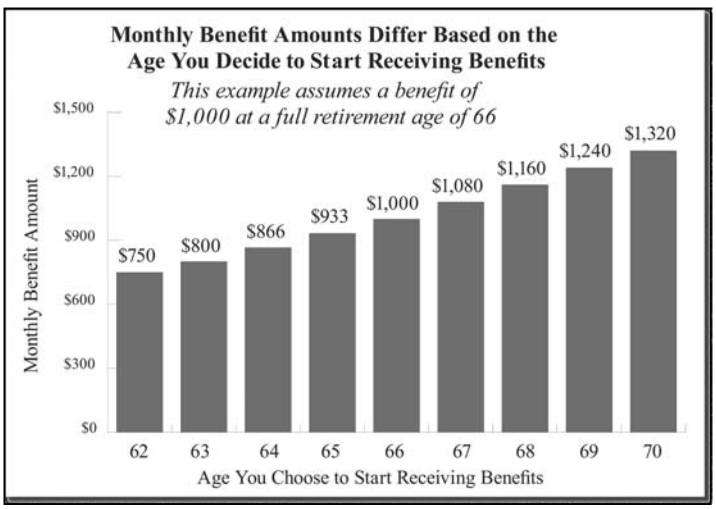
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

Bull Or Bear Market? Plan Both Ways

After another good year on Wall Street in 2014, some stock market prognosticators are predicting a reversal of fortunes for 2015, while others expect another good year for investors. But no one knows what actually will happen next, and the best thing you can do is to plan for all possibilities. You also can learn from stock market history, while recognizing that past performance is not a guarantee of future results.

The stock market is known as a leading economic indicator—that is, it tends to rise or fall in advance of economic gains or losses. That's what happened when the most recent bear market bottomed out in March 2009. Finally, several months later, the U.S. economy, too, moved into positive territory, although the recovery has been painfully slow by historical standards. But during most bull markets, the economy is strong and unemployment low. Consumers feel relatively confident, and their outlays help fuel economic growth. And because times are good, people usually are more than willing to take the risk of owning stocks.

Conversely, worries about the economy may make investors sell their stocks, and that drop in demand can lead to a bear market. Usually, prices will begin rising again after a fall of 40% or so. But in a particularly bad bear market, such as during the Great Depression, that percentage can be significantly higher. As the economy sputters and unemployment rises, investors shy away from taking risks in the market.

The best strategy to use in a bull market is to try to gauge sector and broad market trends and invest wisely. Just don't be tempted into thinking you can time the market better than anyone else.

It's a little trickier during a bear market, but there are some options. For instance, you might consider "selling

The Reality Behind 6 Estate Planning Myths

Some people avoid estate planning at all costs. But putting aside the inevitable emotions involved in looking ahead to your own demise, it's crucial to understand the process. A good place to start is by debunking these six common but potentially damaging myths:

Myth #1: My estate is too small to need an estate plan.

Reality: You don't need a small fortune for your heirs to benefit from estate planning. For instance, what if you decide to divide your assets among several beneficiaries, instead of designating just your spouse or another person? That could be very important if you're in a second or third marriage and have children from a previous marriage. In addition, you might want to leave some of your estate to charity. Wanting to help your family avoid the delays of probate, seeking to reduce estate taxes, and choosing who will administer your estate also call for estate planning.

Myth #2: I don't need an estate plan because my spouse will inherit everything.

Reality: This is closely related to the first myth. Just because you have left everything to your spouse under your will—and your spouse has returned the favor—doesn't mean you won't benefit from estate planning. What happens if your spouse dies first at a relatively early age, or if you die together in an accident? What then? There might be complications because of how assets are titled, who are named as beneficiaries of your life insurance policies and your retirement plans, or the estate laws of your state.

Myth #3: If you're wealthy, there's no way to avoid estate taxes.

Reality: That's simply not true. On the federal level, your estate can benefit from a generous $5.43 million exemption for those dying in 2015 (and that amount is indexed for inflation and will rise in future years). What's more, because you or your spouse can use the other's leftover exemption, the effective amount the two of you can shield from estate taxes is almost $11 million. Trusts and other tax-saving vehicles can further reduce estate tax exposure. Although state inheritance tax rules aren't always as generous, professional guidance may help there, too.

Myth #4: Everything is covered in my will so estate planning isn't necessary.

Reality: While a will is a good starting place for an estate plan, it's not likely to be enough on its own. There may be numerous other loose ends to tie up. In addition, depending on your state's laws, your heirs may have to go through a lengthy probate process that can be even more drawn out if you owned property in several states. A revocable living trust can help you pass some assets to your heirs without probate, and your will probably also should be accompanied by a durable power of attorney authorizing a family member or a professional to act on your behalf if you're incapacitated.

Myth #5: I don't have to worry about life insurance and retirement plan designations.

Reality: This is overstating the case. Although the beneficiary designations you've made for life insurance and retirement plans, as well as for your IRAs, are a good start, you still need to coordinate those choices with other aspects of your estate plan. You might want to revise your designations, for example if you get divorced or a spouse dies, or you could need to add secondary or contingent beneficiaries. Also, while the proceeds from life insurance generally are excluded from estate tax, there are exceptions that could direct that money back into your taxable estate.

Myth #6: Once my estate plan is complete, I don't have to do anything else.

Reality: Nothing could be further from the truth. Your family and financial circumstances almost certainly will continue to evolve, and your estate plan needs to reflect significant changes. Marriage, divorce, or the birth of children or grandchildren all could have an impact. And the best-laid plans could be affected by a disability or unexpected death of a spouse. Finally, your plan may have to be fine-tuned to take other events into account, especially if the estate tax laws are revised again. So be sure to review your plan periodically and revise it when necessary. ●

short"— borrowing stock you don't own, selling it, and waiting for the price to drop. Then if you're able to buy back the stock at a lower price, you'll profit. U.S. Treasury Bonds also may be a sound investment when stock prices fall, in part because of demand by U.S. and foreign investors looking for a safer place to put their money. You also may decide to invest in defensive stocks, such as those of utilities, which usually don't fluctuate much in times of uncertainty.

But the main thing to learn from stock market history is that you have a better chance of succeeding by maintaining a long-term approach. Over time, the stock market bounces back from bear markets, and it's advisable to not buy or sell stock just because the market is bullish or bearish. Being informed and methodical will serve you better than selling stocks in a panic or trying to jump on a bandwagon. ●

Keeping A 529 Plan Rolling Along

If you were thinking ahead, you may have set up a tax-advantaged Section 529 plan for your first child at an early age. Once your kid is ready for college, you'll reap the rewards of your foresight.

But what happens when your son or daughter graduates? If there's still money in the plan, your tax savings don't have to stop there. If you have other children, you could designate one of them to be next in line as the 529 plan beneficiary, and then choose another and another . . . possibly even extending the plan's benefits to your grandchildren!

Section 529 plans, sponsored and operated by individual states, encourage families to set aside funds for future education expenses of the younger generation. As long as certain requirements are met, the money invested in the plan can grow without any erosion by taxes; and distributions that go to pay qualified college expenses—including tuition, fees, books, supplies, equipment, and room and board for full-time students—are completely tax-free.

There are two main types of plans: prepaid tuition plans and college savings plans. A prepaid tuition plan enables you to lock in rates at an in-state public college, whereas a college savings plan gives you more flexibility—the money can be used at a public or private college of your choice—but doesn't offer guarantees.

Keep in mind that it doesn't matter which state's college savings plan you choose, because no matter where it's set up, you can choose where to spend money from the account. But there could be an advantage to using your home state's plan. More than half of the 50 states offer a state tax deduction or credit for Section 529 plan deposits made by residents.

Now suppose your daughter is finishing college and your son is poised to attend next fall. Assuming some funds are left in the account, you can simply switch the beneficiary designation for the 529 plan to the younger child. Typically, a plan will allow one such change each year. If a younger child will enter college before the older one graduates, you might want to set up a separate account.

Although a plan can continue indefinitely, with your grandchildren eventually becoming beneficiaries, it terminates when the latest beneficiary reaches age 30. Of course, if there's a gap—say, your youngest child turns 30 and you have no grandchildren— you still can set up a new plan for a grandchild in the future.

A final bonus: There's a special gift tax break for 529 plans. Not only are transfers to 529s considered gifts that qualify for the annual gift tax exclusion ($14,000 in 2015), you can make up to five years worth of contributions in one year. And your spouse can do the same. Together, you could transfer up to $140,000 into a child's or grandchild's 529 entirely exempt from gift tax. ●

Ponder These 4 Reasons

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lower tax bracket now than you expect to be later in retirement (and thus might pay a lower rate on the conversion than you otherwise would pay on future distributions).

2. Tactical: These are based on shorter-term incentives that may expire—relatively low tax rates, tax credits, charitable contribution carryovers, and net operating loss (NOL) carryovers. Suppose you've carried over a large charitable deduction from a few years earlier. (Charitable carryovers last only five years while NOLs may be carried over for up to 20 years.) By converting to a Roth this year, you can use the carryover to offset much or even all of the conversion tax.

3. Opportunistic: With this type of conversion, you may be trying to benefit from short-term stock market volatility or the ups and downs of particular sectors or kinds of assets. If stocks, say, have declined in value, thus bringing down the value of your traditional IRA, you could end up paying a lower conversion tax. To take advantage of such opportunities you might create multiple Roth IRAs, using a different kind of asset class for each one.

4. Hedging: This is the least common motivation for a Roth conversion. In this case, you're banking on rising tax rates or other legislative or political changes that would discourage future conversions.

Regardless of the type of conversion, deciding whether to convert needs to be based on relevant economic variables and a thorough analysis of your particular situation. Typically, you'll need to take into account factors such as your current and projected tax rates; whether you'll need account assets to pay living expenses during retirement; current age, investing timetable, and health status; and whether you'll need to tap your IRA funds to pay for part or all of the conversion tax. We can help you make a sound decision. ●

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