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Five steps for long-term investing

Face the facts: Even if you are healthy now and in your prime working years, nothing lasts forever. At some point, you will no longer be able to work, or want to work, due to health conditions, age or the economy, or all three. That is why it is critical to “marry” long-term investment strategies to retirement planning.

In addition, you cannot depend on Medicare, Social Security and other government-based programs to comfortably sustain you through retirement. The strain on these programs will only increase as the Baby Boomer generation swells the rolls. Also, no one knows exactly what the future holds. Will you incur substantial medical expenses? Will you face other economic difficulties? Long-term investment planning can provide some peace of mind.

Although every situation is different, here are five practical steps to follow.

1. Set your goals. This requires an analysis of certain aspects such as your intended retirement date, the amount of money you hope to have in retirement, the amount to invest on a regular basis and how you expect to attain your goals. Write down the goals on paper so you can use them as an ongoing guideline.

2. Stick to an investment schedule. Disposable income is hard to come by. When possible, try to invest at regular intervals to keep building up your portfolio. Generally, it is

easier to make small investments over time as opposed to large sums. One idea: Pay yourself before you pay others by taking a set percentage or dollar amount from your paycheck each month. Of course, if you should suddenly come into a windfall, such as an inheritance, it makes sense to invest this amount wisely.

3. Give yourself a raise. Even if you are not in line for a salary increase at work, you may be able to bump up your take-home pay by claiming extra withholding allowances. Try to bring your tax return liability to zero. If you are getting a big refund each year, you are effectively giving the government free use of your money. Consult a professional tax advisor to see how you can best approach the situation.



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4. Use common sense. Making sound investment choices requires a careful balance. On one hand, you want to receive a reasonable return, but you should not expose yourself to inordinate risk. Do your “due diligence” before you invest. Also, remember that past performance is a factor to consider, but it is not a guarantee of future success.

5. Seek professional assistance. These tasks may be daunting, but you do not have to do it all alone. If you decide

to rely on a financial services firm, make sure you choose one that will help you concentrate on your investment goals. The firm should work with you to protect your interests. At the same time, you can remain in complete control of your finances.

Finally, be aware that there are some potential downsides to a plan of long-term investing, especially if you limit your strategies to just a handful of investments. But the pros far outweigh the cons. These five steps can help put you on the right path.

Charitable rollovers: one last chance?

The new tax law passed late last year - the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 - extends a unique planning opportunity for certain retirees. Under the new law, an individual aged 70½ or older can transfer funds directly from an IRA to a qualified charitable organization without paying any tax on the distribution. The “charitable rollover” counts as a required minimum distribution (RMD) for tax purposes.

Technically, the charitable rollover break expired after 2009. Now the new law reinstates the provision retroactive to January 1, 2010, and extends it through 2011. In other words, barring further legislation, you have until the end of this year to take advantage of this provision.

Background: Previously, you could not directly transfer funds tax-free from an IRA to a charitable organization. Instead, you were required to pay tax on the distribution, regardless of your charitable intentions. The tax law also worked against retirees who wanted to use IRA funds for charitable donations but no longer itemized their deductions.

The Pension Protection Act of 2006 (PPA) changed the rules for individuals aged 70½ and older. It allowed these retirees to transfer IRA funds directly to charity, up to an annual limit of \$100,000. Although no tax deduction was allowed, donors were not taxed on the distribution either. The PPA tax break was subsequently extended through 2009 and now through 2011 by the new law.

A qualified distribution is one from either a traditional or Roth IRA that would otherwise be taxable. The distribution must be made directly from the IRA trustee to the charity.

Furthermore, the contribution must otherwise qualify as a charitable donation. If the deductible amount decreases be-

cause of a benefit received in return - for a dinner at a fundraising event, for example - or the deduction would not be allowed due to inadequate substantiation, the exclusion is not available for any part of the IRA distribution.

Under a special rule for charitable donations, the IRS treats distributions from an IRA funded at least partially with non-deductible contributions as coming first from taxable funds and then from non-taxable funds. All of the individual's IRAs are grouped together for this calculation.

Finally, an IRA participant is generally required to begin receiving RMDs in the year after the year in which he or she turns age 70½. A qualified charitable distribution counts toward this requirement.

Be aware the rules also apply to Roth IRAs. Roth IRA distributions to individuals older than age 59½ are usually tax-free. But a portion of a distribution may be taxable for a Roth in existence less than five years. If you have both a traditional IRA and a Roth IRA, it generally makes sense to use the traditional IRA first for charitable distributions.



Check your credit reports



In all likelihood, you probably pay all your monthly bills on a regular and consistent basis. For instance, you may have never been late with a mortgage check. Nevertheless, you might be turned down for a loan because of bad credit rating.

Why is that? Maybe your credit history report is at fault. This is the record compiled by credit bureaus and sent to creditors who want to check on a prospective customer's payment history. The system isn't foolproof, so your report may contain inaccuracies. **Find out:** The three major nation-wide reporting companies - Equifax, Experian and TransUnion - provide the information free to consumers.

If you think you have been wrongly denied credit, contact the creditor and promptly resolve the matter. Your professional advisers can provide assistance.

Can you opt for early retirement?

Are you dreaming of the day when you can retire to a life of leisure? For some, that day is still a long way off. However, for others, it may be closer than it initially appeared.

Whether or not you will be able to "pull the plug" on working depends on several variables. To get a better handle on the situation, answer the following questions:

Q. Can you afford to retire?

A. Some people begin planning when they are young, intending to call it quits at age 55. In that case, early retirement could be attainable. However, if you have not focused on retirement planning in your forties, you may not be financially prepared to stop working right now.

Q. Will your money hold out?

A. If you plan to retire at age 55, it's very possible you may have to depend on a fixed income for the next 25-30 years or more. Consequently, you will have to consider how much income you will need during that time period and where it's going to come from. If you feel that you currently have enough money to live on, ask yourself how it will hold up over time.

With the help of an experienced financial advisor, you can develop an investment program that, at the very least, keeps pace with inflation.

On the other hand, if it seems likely that you may be forced to tap into your retirement plans and IRAs before age 59½, you may want to postpone the idea of retirement. In general, assets in 401(k) plans and other employer-sponsored retirement plans should be allowed to grow without interruption for as long as possible. Furthermore, tapping into a qualified plan or IRA before age 59½ generally results in a

10% penalty tax for early withdrawals (unless a special exception applies).

Q. What about your future?

A. Take time to imagine the kind of lifestyle you intend to live as an early retiree. Will the loss of a regular paycheck force you to cut back on certain activities you have enjoyed, such as elaborate vacations? Does it mean possibly having to relocate to an area where

the cost of living is less expensive? Will retirement bring you relief or a sure ticket to boredom? These issues deserve serious consideration when making plans for your retirement.

Final point: If early retirement will lower your lifestyle expectations, it may not be worthwhile. You might keep working for a few extra years. Discuss your situation with your financial advisor.



Get a quick estate plan check-up

It is taking years for Congress to resolve the uncertainty over estate taxes. (The latest federal estate-tax law revision will expire after 2012.) But you can move faster.

Take five minutes out of your busy day for the quick review below. The answers to these questions should help point you in the right direction.

➔ Have you recently married, divorced or separated? If so, you may want to update your estate plan to include a new spouse or limit the assets available to your ex-spouse.

➔ Does your plan cover all your children? As a general rule, you should amend your plan if there is a new addition to the family. Whenever it is appropriate, don't forget to address the issue of adopted children.

➔ Do you also want to include grandchildren as beneficiaries? Make sure the list is completely up-to-date.

➔ Are you moving or have you moved? State law can have a significant impact on your estate plan. For example, a trust that is valid in one state may be void in a neighboring one.

➔ Has your financial worth increased or decreased? Maybe you own shares of a certain stock that have gone up dramatically or a piece of real estate that has appreciated faster than you expected. If so, your good fortune should be factored into the division of assets among your beneficiaries. Also, take recent reversals of fortune into account.

➔ Are you covering all of your family's needs? It's not enough to anticipate your family's future well-being. You should also take care of those expenses that need to be paid while the estate is being settled.

➔ Have you chosen the executor of your estate? If you have not made this fundamental decision, don't put it off any longer.

➔ Is the person you named as your executor still able and



willing to administer your estate? If not, you may need to name a replacement. Or you may want to change your executor for a variety of other reasons (e.g., the person has moved out of state).

➔ Does your estate plan take recent tax law changes into account? Don't forget about any changes in state law as well as federal law. **Note:** Certain states have enacted changes linked to the federal estate-tax law, while others have not.

➔ Have you bought or sold a business? The repercussions should be reflected in your estate plan.

➔ Do you need a power of attorney? This document can authorize an attorney-in-fact to act on your behalf if you become unable to handle your financial affairs.

➔ Will your family be able to locate your will when you die? If not, spell out the location in a letter of instructions. The letter may include other details of your estate plan (but it is not legally binding).

➔ Have you met with your attorney recently? If you schedule a meeting, be sure to bring along your key financial documents, including at least three years' worth of income tax returns and a list of all your sizeable assets.

At the very least, have your estate plan reviewed every few years - even sooner if there have been major changes in your personal circumstances.

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