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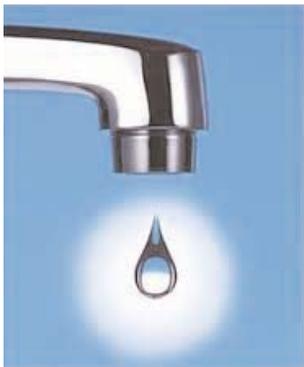
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Changes on tap for 401(k)s

The U.S. Department of Labor (DOL) recently released long-awaited final regulations requiring retirement plan service providers and administrators to provide detailed information about services and fees to plan participants. In addition to minor modifications, the new regulations postponed the effective date of these rules from April 1, 2012 to July 1, 2012, to give plan sponsors more time to comply.



As a result of the new regulations, plan sponsors and participants will have more access to information about plan fees. This can help them better understand plan-related costs and make informed investment decisions.

The new final regulations were issued in conjunction with other initiatives expanding retirement plan payout options and providing greater transparency. Here's a general overview.

Background: The 401(k) plan, a type of defined contribution plan, is the most popular type of qualified plan in the country. According to the DOL, more than 72 million participants currently have invested more than \$3 trillion in 401(k) plans.

Assuming certain requirements are met, participants can contribute amounts up to specific thresholds, adjusted for inflation each year. The limit for 401(k) deferrals in 2012 is \$17,000 (\$22,500 if you are age 55 or older).

In addition, employers may provide "matching" contributions up to a set percentage of compensation. All contributions are eligible to generate earnings on a tax-deferred basis.

In the past, 401(k) participants and plan sponsors for smaller companies often did not know the breakdown of fees for their retirement plans. Under the new rules, retirement plan providers must disclose to employees all fees associated with the retirement plans being offered to employees. Plan participants will then have to be informed about the fees, and quarterly reports must be issued.

The new rules will require an explanation of any administrative expenses and individual expenses charged to an individual's account. This information can currently be unearthed by participants and plan sponsors, but the new regulations require that it be offered regularly by the plan providers. Note that some plan providers already offer the additional information.

Related proposed regulations issued this year also include the following provisions:

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Changes on tap for 401(k)s

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- Currently, employees may have to choose between a lump sum or an annuity upon retirement. The new proposed regulations would change a federal requirement to make it easier for defined benefit pension plans to offer a combination of both.

- The regulations remove obstacles to so-called longevity annuities. These begin late in life (e.g., at age 80 or 85), so the premiums are relatively inexpensive, and retirees don't have to worry about outliving their savings.

- The regulations also clarify the rules for plan rollovers used to buy annuities and rules for spousal protection in 401(k) deferred annuities.

Do you need to know more details about the new 401(k) rules? Don't hesitate to seek professional assistance.

Are you in your investment comfort zone?

Everyone has a different "comfort zone" for investments. This term refers to the level of risk you are willing to assume to meet your investment objectives.

Stage 1: At the earliest stage of adulthood, it is generally easier to take a more aggressive approach than you might in your retirement years. For example, if your time horizon for retirement is 30 to 40 years away, you can better withstand any short-term dips in the market.

Naturally, it's advantageous to "buy low and sell high," but this is easier said than done. Try to avoid being drawn into market-timing temptations. Develop a balanced viewpoint with the help of a financial professional.

Note that inflation risk can be a significant factor in this stage.

This risk is the threat that your money will be worth less in the future because your portfolio hasn't kept pace with inflation. To combat inflation risk, you might diversify your portfolio, typically by spreading out investments among stocks, bonds and cash alternatives. Of course, there are no absolute guarantees.

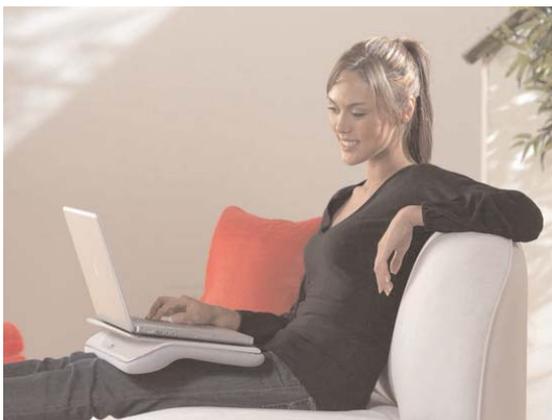
Stage 2: During middle adulthood - generally, your late 30s through your late 50s or early 60s - you are likely to have more investment experience and be less emotional about the ups and downs of the market. At this time many investors will trend toward a more conservative outlook. Financial objectives such as paying for a child's college education, caring for an elderly relative and planning for retirement will come into sharper focus over the course of time.

Interest rate risk may become more of a factor during this stage of life. This is the risk that changes in interest rates will affect your investment portfolio. As interest rates rise, bond prices tend to fall, so you might consider buying bonds with different maturity rates, as well as spreading risk through a mix of long-term and short-term investments.

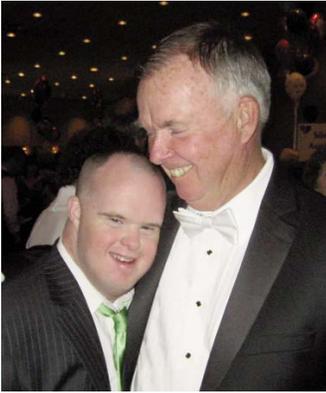
Stage 3: As the end of your work career and the beginning of retirement beckon, you may redefine your investment comfort zone again. Generally, you may be able to invest relatively conservatively, especially if you have been able to build up enough funds while you were working full-time. Nevertheless you will probably still need to invest for growth during retirement.

Consider whether your portfolio will be able to sustain your desired lifestyle in retirement. There is a potential risk that you could outlive your savings. Evaluate this risk and consider what your options are in light of your analysis. For example, you might adjust your portfolio or decide to shorten or lengthen your working career (or maybe you will just semi-retire).

Make sure you are comfortable with your risk exposure. Don't try to go it alone: Obtain professional guidance to help find the "comfort zone" that is right for your situation.



Benefits of a special-needs trust



Estate planning is important for virtually every adult, but it is particularly critical for the parent of a disabled child. If you are in this situation, your natural first inclination is to ensure that the disabled child's needs are met throughout his or her life. Nevertheless, if

there are other children in the family, you might also try to preserve a portion of your wealth for those children without special needs.

Possible solution: The family may use a "special needs trust" to supplement public assistance available to the disabled child. (It is also referred to as a "supplemental trust" in some financial circles.) In essence this is an irrevocable trust designed to provide additional funds for the use of the disabled child. The trust assets and income of this irrevocable trust can be used for items such as travel, education, recreation, rehabilitation and medical expenses that are not covered by public assistance.

The trust must be drawn up to ensure that the trustee is directed to use the assets only to supplement benefits available to the disabled child. If the trust funds can be used as a primary means of support, the individual may be ineligible for public assistance, including Medicaid.

For example, typical trust language that directs a trustee to use trust funds for support, maintenance, welfare and education of the disabled child should not be used. If trust funds can be used for basic support items, the funds may be considered assets that are "available" to the disabled child in determining his or her eligibility for benefits.

Be aware that some states have enacted laws that exclude the assets in a special-needs trust when determining eligibility for benefits. In certain states, assets remaining in the trust when the disabled child dies must be used to pay back benefits provided during the child's life. Nonetheless, the trust assets will be available to meet the child's special needs throughout life.

Care should be taken to coordinate the special-needs trust with the parents' entire estate plan. A special-needs trust can be set up by a will or during the parents' lifetime.

In this case, money can be set aside periodically during the parents' lives. However, funds placed in a special-needs trust will not qualify for the \$13,000 annual gift-tax exclusion.

Due to the restrictions on the use of the trust funds, the tax law considers this type of trust to be a gift of a future interest, which is not eligible for the exclusion. To shelter the trust contributions from the gift tax, the parents will have to use the lifetime gift-tax exemption available for other transfers. For 2012, the exemption can shelter \$5.12 million from tax.

Caution: This article only discusses some of the issues concerning a special-needs trust. Seek professional assistance with respect to your personal situation.

Any Questions?

Please contact us.
We would be glad to serve you
in any way that we can.

If There's a Living Will, There's a Way

In brief, a living will is a legal document that specifies your intentions concerning medical treatment in the event you become mentally or physically impaired or are terminally ill. The document can be as short as a paragraph or two, or as long as several pages.

The primary purpose of a living will is to address health care concerns that might arise should you ever become incapable of making those decisions. For instance, a living will typically could state that you do not wish to be kept alive on life support systems if you fall into a coma that appears to medical experts to be irreversible. It enables you to make decisions about medical treatment in advance of a debilitating illness or injury.

Key point: A living will removes a huge emotional burden from other family members. Instead of having to agonize over what level of treatment you would have preferred, the guidelines are spelled out for them.

New “cost-basis” rules in play



New cost-basis reporting rules being phased in over a two-year period could have a major tax impact. The changes present both potential opportunities and pitfalls for investors.

Background: Under prior law, you were responsible for providing the cost basis of all securities transactions, although financial institutions often helped out. This was often difficult to do if you held multiple shares of the same securities and some or all of the shares were acquired a long time ago. Conversely, you had some flexibility in designating which block of shares you were selling at a particular time. Depending on your situation, you might be able to identify shares that would provide a favorable tax loss or a low-taxed gain.

But the IRS amended the rules in 2008. Financial institutions are required to report the relevant cost-basis information to investors and to the IRS for “covered securities” acquired after a specific date. Under the law, the new cost-basis reporting rules apply to securities acquired after

➤ January 1, 2011, for stocks, American Depository Receipts (ADRs), real estate investment trusts (REITs) and exchange-traded funds (ETFs) taxed as corporations

➤ January 1, 2012, for mutual funds, dividend reinvestment plans (DRPs) and other ETFs

➤ January 1, 2013, for all other types of securities (e.g., options, fixed income instruments and debt instruments). **Update:** This effective date has just been postponed to January 1, 2014.

However, the new reporting rules do not apply to “uncovered securities” acquired prior to these dates. Thus, the new and old rules will co-exist for the foreseeable future.

Another significant change is that the financial institution will use a “default method” if you do not choose one of the other allowable accounting methods at the time of the transaction. Previously, you did not have to make the choice until tax-return time. The default method for stocks acquired after 2010 is the first-in, first-out (FIFO) method.

For example, say that Mary Smith bought 100 shares of Major Corp. stock on March 1, 2011, at \$10 a share. Then she acquired 50 more shares of Major Corp. stock on October 1, 2011 at \$15 a share. Finally, she sold 50 shares of the stock on December 1, 2011, at \$16 a share.

Under the FIFO method, Mary has a taxable gain of \$300 (\$16 a share - \$10 a share x 50 shares). In contrast, under the LIFO (last-in, first-out) method, her taxable gain would have been only \$50 (\$16 a share - \$15 a share x 50 shares).

Final words: Consult your professional tax and investment advisers concerning the available cost-basis accounting methods and the implications for your situation.



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