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Rollover to an IRA: a neat tax trick

Who says you can't teach an old dog new tricks? Even if you are not familiar with the rules for roll-overs to a traditional IRA, you can pull off these timely maneuvers without any tax-adverse consequences.

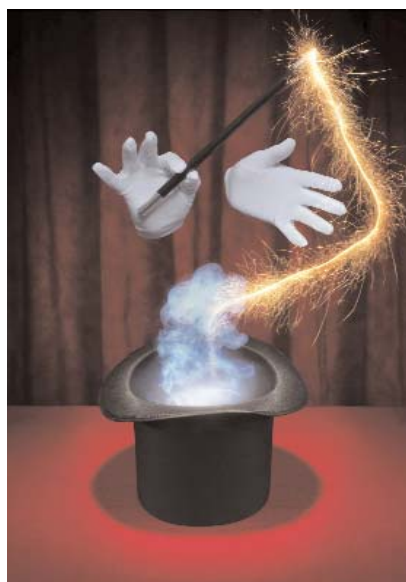
Basic rules: You can avoid current income tax liability on a distribution from a qualified retirement plan if you roll over the funds within 60 days. For example, if you are retiring from your full-time job, you can transfer all of the funds in your 401(k) to an IRA without paying any tax.

In the not-so-distant past, the rollover rules were much more restrictive than they are now. For example, you had to roll over the entire amount of your account balance with a lump-sum distribution. Now you might decide to take advantage of a partial rollover. Any portion of a distribution that is not rolled over is taxed as ordinary income (but you cannot use any special averaging provision).

In addition, rollovers could be used only upon "separation from service" (i.e., quitting or retiring) or upon reaching age 59 1/2. Depending on your company, in-service distributions may be permitted.

Despite these liberalizations, certain qualified plan distributions are not eligible for tax-free rollover treatment. The list includes the following:

- Annuity payouts (e.g., regular type pension payouts geared to your life expectancy or a period of ten years or more);
- Required minimum distributions (RMDs) required to be made upon reaching the age of 70 1/2;
- Payments of non-deductible contributions you have made to the plan;
- Payments to correct excess contributions or excess deferrals;
- Loan amounts treated as distributions by the IRS; and
- Hardship distributions.



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Furthermore, if you receive a qualified retirement plan payout, income tax is automatically withheld at a 20% rate, even if you intend to roll over the funds to an IRA within 60 days. The withholding amount is recouped when you file your income tax return for the year of the distribution.

To make matters worse, you could also get slapped with a 10% penalty for an “early withdrawal” from a retirement plan prior to age 59 1/2 (unless a special exception applies). The penalty is equal to 10% of the taxable portion of the amount withdrawn.

Key tax rule: There is no withholding requirement for a trustee-to-trustee transfer. For instance, say that you are age 55 and you are receiving a \$100,000 distribution from your retirement plan. If you have your plan administrator

directly transfer the \$100,000 to the trustee of the IRA, you pay neither the 20% withholding requirement nor the 10% penalty tax.

If you do not use a trustee-to-trustee transfer, you will only receive \$80,000 and you must obtain \$20,000 from another source for the rollover. Alternatively, you must pay tax on the difference between \$100,000 and the amount actually rolled over.

Of course, there are other factors to consider when you receive retirement plan distributions. For example, you may want to time receipt of a distribution in a year when you expect to be in a low tax bracket.

Words to the wise: If possible, try to avoid unnecessary tax liability. With assistance from a financial professional, you can show that you still have a few tricks up your sleeve.

Three top ways to buy bonds

It is generally accepted that a diverse portfolio should include bonds to offset the ups and downs of the stock market. But that doesn't mean you should buy bonds without giving it a second thought.

Basic premise: The bond market tends to move in the opposite direction from the stock market -- but not always. In particular, the performance of bonds is often reflected by interest rate fluctuations. Because of this correlation, several popular strategies have been designed to protect investors over the course of time. Here are three examples:

1 Ladders: The idea is to try to reduce risk by spreading investment dollars among bonds that mature at selected intervals. For example, you might buy bonds maturing in one, two, three, four and five years to form a five-year ladder. (Ten-year ladders are also common.)



How does a five-year ladder work? When the bonds in the first rung mature after one year, you reinvest the proceeds in five-year bonds. And, each succeeding year, as the bonds in the next rung

mature, you reinvest the proceeds in five year bonds. The result is a stream of interest income and a return of a portion of principal as each group of bonds matures.

Even if yields fall, a bond ladder may smooth out the interest income. **Reason:** Only a portion of your bonds matures each year, so the higher-yielding bonds you have locked will continue to provide higher interest income.

2 Barbells: This strategy requires you to buy both short-term and long-term bonds, but not intermediate-term bonds (or just a few). Thus, your investment looks like a barbell that is heavy on both ends, but thin in the middle.

The long-term end of the barbell allows you to lock into long-term interest rates, while the short-term end ensures you will have funds to reinvest if the bond market takes a turn for the worse.

Furthermore, you can design a barbell to provide different types of benefits. For instance, if you are primarily concerned with safety, you can purchase government or agency securities. Or, if you are aiming for higher income, you might invest in corporate bonds. Finally, if you prefer to receive tax-free income, you can purchase municipal bonds or municipal bond funds.

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3 Bullets: As a variation on the themes of ladders and barbells, the “bullet” strategy involves buying several bonds that will mature at the same time. Theoretically, this reduces the interest rate risk because you are staggering the times when you buy the bonds.

The bullet strategy may be used when you know that you will need the proceeds from the bonds at a certain time, such as the point when a child will be starting college or getting married.

Reminder: Of course, there are no absolute guarantees with any type of investment. Whether you are considering the acquisition of bonds or other securities for your portfolio, you should be fully apprised of the inherent risks. Consult a financial professional regarding the suitability of investments.



Putting estate-planning tools to work

Estate planning remains a prime concern for affluent families. But you can address this concern by using various estate-planning “tools” to develop a plan. Here are a few items you might include in your toolbox.

Will: A will is usually the centerpiece of an estate plan. For one thing, your assets are distributed according to its terms. Secondly, it may contain other key provisions (e.g., naming the guardian for minor children). And you can use a will to establish tax-saving trusts.

Credit shelter trust: This type of trust is used by married couples to maximize the tax benefits of the federal estate-tax exemption in conjunction with the unlimited marital deduction. Currently, the credit can be used to shelter up to \$2 million from estate tax. (This figure will increase to \$3.5 million for 2009 before the estate tax is eliminated in 2010. The tax is scheduled to be revived in 2011 with a less-favorable estate-tax exemption).

Living trust: A living trust allows you to pass assets to beneficiaries without going through probate. In some cases, this can save both time and money for your family. However, a living trust is generally used as a complement to a will - not as an outright replacement. Be sure to get expert advice on state laws.



Charitable remainder trust: If you own property that has appreciated in value, you might set up a charitable remainder trust. Typically, the trust provides you with income during your lifetime. After your death, the proceeds go to a designated charity. **Added incentive:** You are entitled to a current tax deduction based on the value of the property transferred to the trust.

Living will: A living will, if valid under state law, typically provides for someone to not be kept alive by artificial means in the event of a disabling injury or a terminal disease. Be careful about the wording.

Life insurance trust: In brief, an irrevocable trust acquires a life insurance policy on your life (or you may transfer an existing policy to the trust). Each year you put money in the trust to pay the premiums. The life insurance proceeds generally are not subject to federal estate tax upon your death (unless you die within three years of transferring a policy to the trust).

Reminder: Use these tools in conjunction with each other as part of an overall plan. Consult an estate-planning professional for more information on these tools.

QUESTIONS?

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

Giving to charity the “right way”



If you are opening your heart - and your checkbook - to charity, you should take some simple precautions before you give away your hard-earned cash. Simple precautions can help. Consider these practical suggestions:

Use your discretion when responding to pleas designed to invoke sympathy particularly those involving patriotism or heart-wrenching or tragic stories. These appeals are especially prevalent online.

Ask to receive written information about the charity. A legitimate organization will be glad to accommodate inquiries about its mission and how your donation will be used. It will also offer proof that your contribution is tax-deductible.

Request identification. The federal telemarketing rules require for-profit fundraisers to disclose the name of the charity requesting the donation. In addition, many states require paid fundraisers to identify both themselves and the charity for which they are soliciting. If the solicitor refuses to provide this information, hang up and report the incident to law enforcement officials.

Check with local recipients. If giving to local organizations is important to you, make sure funds are being properly disbursed. If a charity indicates that your donation will support a local organization - for example, a hospital, police or fire department - call the organization to verify it.

Watch out for tricky names. Some phony charities use names that resemble other well-known organizations. If something seems wrong - perhaps, you believe that an “s” is missing from the charity’s name - check it out with the organization you know.

Finally, you should recognize the difference between “tax-exempt” and “tax-deductible.” Tax-exempt means the organization is not obligated to pay taxes. Tax-deductible indicates that you can deduct your contribution on your personal tax return.

Even if an organization is tax-exempt, your gift may not be tax-deductible. Request a written receipt or confirmation for proof of tax-deductible donations.

New Limits for Retirement Plans

The government has announced annual cost-of-living adjustments for qualified retirement plans. The news was a mixed bag for retirement-savers: Although certain thresholds increased, the differences were relatively modest, while some retirement plan limits did not change at all. See the comparison below.

	2007 limit	2008 limit
Maximum annual dollar benefit allowed for defined benefit plans	\$180,000	\$185,000
Maximum dollar limit on additions to defined contribution plans	\$45,000	\$46,000
Maximum amount of compensation taken into account for qualified retirement plan purposes	\$225,000	\$230,000
Dollar limit for definition of “key employee” in top-heavy retirement plans	\$145,000	\$150,000
Dollar limit for definition of “highly compensated employee” in qualified plans	\$100,000	\$105,000
Dollar limit for elective deferrals made to a 401(k) plan	\$15,500	\$15,500
Dollar limit for contributions to a SIMPLE plan	\$10,500	\$10,500
Dollar limit for catch-up contributions to qualified plan (other than a 401(k) plan)	\$2,500	\$2,500
Dollar limit for catch-up contributions to a 401(k) plan	\$5,000	\$5,000

SIMPLE: *Savings Incentive Match Plan for Employees.*