[VINTAGE] FINANCIAL SERVICES, LLC

On the [MONEY]

Registered Investment Advisor | www.VintageFS.com | Winter 2013/14 Vol. XXIX No. IV

From the Grapevine...

We're excited to announce that Vintage was named a Top Performer in the inaugural *Investment News* Best Practices Awards. The award ceremony was held in Chicago in September and Frank Moore attended to receive the award. Vintage, along with five other firms, were recognized as the Top Performing firms in the country for their human capital management. The selection was made from the annual *Investment News*/Moss Adams benchmarking study in which hundreds of firms participated.

We recently passed another milestone as our assets under management exceeded $300 million for the first time. It was just last year that we passed the $200 million mark. Thanks again to our clients that have referred their friends, family and co-workers.

Congratulations to Todd Perry and his wife, Kristen, who had their first child, Charlotte Marie, on November 20!

BENEFICIARY FORMS UP TO DATE?

Many people think that their will determines where their assets go upon their death but many assets pass through other forms. The beneficiary designation form for your IRA, 401(k), life insurance and other accounts will determine who receives those funds.

A recent U.S. Supreme Court case, Hillman v. Maretta, further emphasized the importance of updating your beneficiary forms. In that case the decedent had left his ex-spouse listed as beneficiary of some life insurance benefits. After his divorce he remarried and was married to the second spouse for six years before his death. As you would imagine his wife was distraught to learn that the life insurance benefit would go to his ex and she sued. Despite a state law that supported her claim the federal court made clear that federal law prevailed and the ex was able to keep the insurance proceeds.

While this particular ruling didn't apply to IRA or 401(k) benefits the law may be the same. If you have an IRA, 401(k), 403(b), annuity or life insurance policy you should have completed a beneficiary form when you set it up. If you haven't checked recently, it's a good idea to ensure that your wishes remain the same today. Once you are gone that form will determine where the funds go and even a lawsuit may not be able to change it. And, if your beneficiary designations are unusual, it helps to tell your family your wishes to minimize the chance of lawsuits when you're gone.

ITEMIZED DEDUCTION PHASE OUT AND CHARITABLE CONTRIBUTIONS

One of the tax increases that was included in the American Taxpayer Relief Act of 2012 (which *raised* taxes and became a law in *2013*) is through the phase out of itemized deductions for high income earners. With many of these high earners considering year-end charitable gifts it's important to understand the tax implications of these donations.

The phase out of itemized deductions (often called the "Pease" phase out, for the legislator who sponsored the rule) will raise tax bills for higher income earners by reducing the tax benefit of the mortgage interest, state income and sales tax, home office, and certain other itemized deductions. The Pease limitation reduces the value of itemized deductions by 3% of the AGI above $300,000 for couples, and $250,000 for single filers—to a maximum reduction of 80% in value. Itemized deductions for certain medical expenses, investment interest, and for casualty, theft, or gambling losses are exempt from the phase out.

As an example let's look at a couple with Adjusted Gross Income (AGI) of $500,000. They have mortgage interest, property taxes, and state income taxes that total $50,000 and that would be itemized on their Schedule A. Their AGI exceeds the phase out threshold by $200,000 ($500,000 minus $300,000). The 3% reduction applies to the $200,000 in income which would be a reduction in their itemized deductions of $6,000 (3% times $200,000). Thus their itemized deductions would be reduced from $50,000 to $44,000.

If they opt to make charitable contributions these would increase their itemized deductions. Since the phase out formula is based on income, not deductions, **any charitable contributions would be fully tax deductible.** Assuming a 35% federal income tax bracket their $10,000 donation would result in $3,500 in tax savings and an after-tax cost of just $6,500.

For the vast majority of high income earners subject to the phase out, their typical itemized deductions will be higher than the phase out amount. Thus most all charitable contributions will continue to be tax deductible.

And with the new 39.6% top federal income tax bracket, the deductions may be worth even more this year.

2013 TAXES & FILING

In addition to the phase out of itemized deductions there were a number of new tax hikes that take effect this year. Most of the new taxes affect higher income earners--joint filers over $250,000 and singles over $200,000. If you are among this group and haven't reviewed the impact on your 2013 taxes, time is running short to avoid underpayment penalties on top of the higher tax bill.

At Vintage, we're one of only a few firms in the Ann Arbor area to offer tax planning and preparation along with investment management and financial planning services. With the new and complex tax laws and higher rates it is increasingly important to incorporate the tax impact into your investments and overall financial planning.

If you are one of our clients and would like us to prepare your taxes for the first time this year please contact us right away. We're also happy to work with your current tax person and can do a better job by communicating with them now instead of after the tax year is over and the opportunity to make advantageous tax moves is gone. We do proactively make tax moves and will let you know an estimated amount of taxable gains but the more we know about your taxes the better job we can do.

SHOULD YOU BUY LONG TERM CARE INSURANCE?

Long term care (LTC) insurance provides benefits to help pay for a long nursing home stay and sometimes covers other necessary care options. With annual nursing home costs that can top $70,000 the insurance agents are good at scaring people into covering this potential risk. Unfortunately LTC insurance is different than most other types of insurance and you may not end up getting what you thought you bought.

A number of insurance companies have entered and exited the LTC market over the past thirty years. At one time MetLife, Prudential and Unum had large shares of the market but all three have left. Today Genworth and John Hancock together represent nearly 40% of the LTC market and both have recently petitioned to hike their premiums on policies they sold in the past with Hancock requesting hikes averaging 25%.

The idea behind the policies is to pay a flat premium for many years until you are older and may need the benefits. Unfortunately the companies that have remained in the business have routinely hiked premiums so you really don't know what the cost may be for a benefit you may never need.

In working with our clients over the years we've found that most couples will have one spouse care for the other and keep them at home as long as possible before putting them into a nursing home. If that time finally comes the stay is usually only months before death so the costs may be manageable.

Most nursing home residents are widows in their 80's or older and all of the couple's finances, including pensions, Social Security and the proceeds from selling their home, may be available to cover the costs. The real risk with nursing home costs comes if one spouse needs care for a long time while the other spouse is still living. In that case insurance may be necessary but the policies typically aren't written for this unusual risk and the premium costs are both high and unpredictable.

At Vintage we can assist you in determining your exposure to these risks. Our analysis takes into account your income sources and assets along with statistics of nursing home costs and stays. And, if you determine that you need coverage, we're happy to refer you to qualified insurance agents that can offer you options.

NEW NUMBERS FOR 2014

As we start the New Year we'll see some changes in figures that are indexed with inflation. With very low inflation, many remain the same.

Item	2013	2014
IRA contributions	$5,500	$5,500
Age 50 Catch-up	$1,000	$1,000
401(k) contributions	$17,500	$17,500
Age 50 Catch-up	$5,500	$5,500
SEP Limit	$51,000	$52,000
Annual Gift Exclusion	$14,000	$14,000
Estate Tax Exclusion	$5,250,000	$5,340,000
Social Security Max (monthly benefit at full retirement age)	$2,533	$2,642
Social Security Tax Base	$113,700	$117,000

Social Security Benefits rise 1.5% for 2014

No increase in Medicare Part B premiums, though Part D premiums may rise and there are higher deductibles and co-pays in Part A

VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management and financial planning services.
Minimum portfolio $250,000
(401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office at (734) 668-4040 or (800) 666-9237 or e-mail:

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Plan to succeed.

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