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Hello,
As the year is drawing to a close
it's a great time to schedule a
Year-End Investment Review.
Let's talk and make sure that your
investments stay on track in 2015.
Denise

November 2014

- Prepare Now for a Year-End Investment Review
- Leaving Assets to Your Heirs: Income Tax Considerations
- Taking a Career Break? Consider These Helpful Tips
- Do I have to pay an additional tax on investment income?



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Financial Newsletter

Presented By Denise Martz

Prepare Now for a Year-End Investment Review

Getting organized for your year-end investment review with your financial professional may help make the review process more efficient. Here are some suggestions for making your meeting as productive as possible.

Decide what you want to know

One of the benefits of a yearly investment review is that it can help you monitor your investment portfolio. A key component of most discussions is a review of how your investments have performed over the last year. Performance can mean different things to different people, depending on their individual financial goals and needs. For example, an investor who's focused on long-term growth might define "performance" slightly differently than an investor whose primary concern isn't overall growth but trying to maintain a portfolio that has the potential to produce current income needed to pay ordinary living expenses.

Consider in advance what types of information are most important to you and why. You may want to check on not only your portfolio's absolute performance but also on how it fared compared to some sort of benchmark. For example, you might want to know whether any equity investments you held outperformed, matched, or underperformed a relevant index, or how your portfolio fared against a hypothetical benchmark asset allocation. (Remember that the performance of an unmanaged index is not indicative of the performance of any specific security, and indices are not available for direct investment. Also, asset allocation cannot guarantee a profit or eliminate the possibility of loss, including the loss of principal.)

Almost as important as knowing how your portfolio performed is understanding why it performed as it did. Was any overperformance or underperformance concentrated in a single asset class or a specific investment? If so, was that consistent with the asset's typical behavior over time? Or was last year's performance an anomaly that bears watching or taking action? Has any single investment grown so much that it now represents more of your portfolio than it should? If so, should you do a little profit-taking

and redirect that money into something else?

Are any changes needed?

If your goals or concerns have changed over the last year, you'll need to make that clear during your meeting. Your portfolio probably needs to evolve over time as your circumstances change. Making sure you've communicated any life changes will make it easier to adjust your portfolio accordingly and measure its performance appropriately next year.

If a change to your portfolio is suggested based on last year's performance--either positive or negative--don't hesitate to ask why the change is being recommended and what you might reasonably expect in terms of performance and potential risk as a result of a shift. (However, when looking at potential returns, remember that past performance is no guarantee of future results.) Don't be reluctant to ask questions if you don't understand what's being presented to you; a little clarification now might help prevent misunderstandings and unrealistic expectations that could have a negative impact in the future.

Also, before making any change, find out how it might affect your investing costs, both immediate and ongoing. Again, a few questions now may help prevent surprises later.

Think about the coming year

Consider whether you would benefit next April from harvesting any investment losses before the end of the year. Selling a losing position could generate a capital loss that could potentially be used to offset either capital gains or up to \$3,000 of ordinary income on your federal income tax return.

If you've amassed substantial assets, you could explore whether you might benefit from specialized assistance in dealing with issues such as taxes, estate planning, and asset protection. Finally, give feedback on the review process itself; it can help improve next year's session. *Note: All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*

Leaving Assets to Your Heirs: Income Tax Considerations



An inheritance is generally worth only what your heirs get to keep after taxes are paid. Here we have focused primarily on federal income taxes. Depending on your circumstances, you may wish to also consider federal estate tax and state income, estate, and inheritance taxes.

Note: It is generally recommended that you designate IRA and other retirement plan beneficiaries, their shares, and any backup beneficiaries on the plan beneficiary form. This will help assure that retirement plan benefits pass as you wish at your death and that a beneficiary will be able to stretch distributions over his or her remaining life expectancy.

An inheritance is generally worth only what your heirs get to keep after taxes are paid. So when it comes to leaving a legacy, not all property is created equal—at least as far as federal income tax is concerned. When evaluating whom to leave property to and how much to leave to each person, you might want to consider how property will be taxed and the tax rates of your heirs.

Favorable tax treatment for heirs

Roth IRAs

Assets in a Roth IRA will accumulate income tax free and qualified distributions from a Roth IRA to your heirs after your death will be received income tax free. An heir will generally be required to take distributions from the Roth IRA over his or her remaining life expectancy. (Of course, your beneficiaries can always withdraw more than the required minimum amounts.) If your spouse is your beneficiary, your spouse can treat the Roth IRA as his or her own and delay distributions until after his or her death. So your heirs will be able to continue to grow the assets in the Roth IRA income tax free until after the assets are distributed; any growth occurring after funds are distributed may be taxed in the future.

Note: The Supreme Court has ruled that inherited IRAs are not retirement funds and do not qualify for a federal exemption under bankruptcy. Some states may provide some protection for inherited IRAs under bankruptcy. You may be able to provide some bankruptcy protection to an inherited IRA by placing the IRA in a trust for your heirs. If this is a concern of yours, you may wish to consult a legal professional.

Appreciated capital assets

When you leave property to your heirs, they generally receive an initial income tax basis in the property equal to the property's fair market value (FMV) on the date of your death. This is often referred to as a "stepped-up basis," because basis is typically stepped up to FMV. However, basis can also be "stepped down" to FMV.

If your heirs sell the property with a stepped-up (or a stepped-down) basis immediately after your death for FMV, there should be no capital gain (or loss) to recognize since the sales price will equal the income tax basis. If they sell the property later for more than FMV, any appreciation after your death will generally be taxed at favorable long-term capital gain tax rates. If the appreciated assets are stocks, qualified dividends received by your heirs will also be taxed at favorable long-term capital

gain tax rates.

Note: If your heirs receive property from you that has depreciated in value, they will receive a basis stepped down to FMV and will not be able to claim any loss with respect to the depreciation before your death. You may want to consider selling depreciated property while you are alive so that you can claim the loss.

Not as favorable tax treatment for heirs

Tax-deferred retirement accounts

Assets in a tax-deferred retirement account (including a traditional IRA or 401(k) plan) will accumulate income tax deferred within the account. However, distributions from the account will be subject to income tax at ordinary income tax rates when distributed to your heirs (if there were nondeductible contributions made to the account, the nondeductible contributions can be received income tax free). An heir will generally be required to take distributions from the tax-deferred retirement account over his or her remaining life expectancy. (Of course, your beneficiaries can always withdraw more than the required minimum amounts.) If your spouse is the beneficiary of the account, the rules may be more favorable. So your heirs will be able to defer taxation of the retirement account until distribution, but distributions will generally be fully subject to income tax at ordinary income tax rates.

Note: Your heirs do not receive a stepped-up (or stepped-down) basis in your retirement accounts at your death.

Even though distributions are taxable, your heirs will nevertheless generally appreciate receiving tax-deferred retirement accounts from you. After all, they do get to keep the amounts remaining after taxes are paid.

Toxic or underwater assets

Your heirs might not appreciate receiving property that is subject to a mortgage, lien, or other liability that exceeds the value of the property. In fact, an heir receiving such property may want to consider disclaiming the property.

Always nice to receive

Life insurance and cash

Life insurance proceeds received by your heirs will generally be received income tax free. Your heirs can generally invest life insurance proceeds and cash they receive in any way that they wish. When doing so, your heirs can factor in how the property will be taxed to them in the future.





Taking a Career Break? Consider These Helpful Tips



According to the U.S. Census Bureau, there were 5 million stay-at-home moms in married-couple family groups in 2013 (Source: U.S. Census Bureau News, U.S. Census Bureau, April 2014).

Balancing the commitments of both work and family can be a struggle for many women. As a result, you may have to take a break from your career to stay home and raise a family or care for an elderly parent or relative.

Whether you are taking a break for just a few months or many years, there are things you can do now to help make it a bit easier to jump back on the career track later.

Stay connected

When taking a career break, it's important to stay connected. Having relationships with former co-workers and colleagues allows you to maintain your networking connections and stay on top of developments in your former workplace or industry.

The following are some simple ways to stay connected while on a career break:

- Make sure that you have a presence on professional social media sites such as LinkedIn
- Enroll or become a member of relevant professional associations
- Attend industry events and trade shows that are open to the general public
- Consider part-time/consultant work within your particular industry or field of expertise

Keep up-to-date on your job skills

If you plan on re-entering the workforce at some point in the future, you'll need to keep up-to-date on skills that are necessary for your particular field or industry.

You can avoid letting your skills fall by the wayside by:

- Reading industry trade journals and publications
- Taking continuing education classes or enrolling in relevant courses at your local college or university
- Keeping abreast of the latest technology developments relevant to your field or industry

Look for alternative resume builders

While you're out of the workforce and staying at home, it's important to find alternative ways to build your resume.

Nontraditional work environments that demonstrate your skills and draw upon your previous work experiences can be used to fill in any significant gaps in your resume. They can also provide you with a source of contacts when you want to re-enter the workforce.

Some examples of alternative resume builders include:

- Teaching a class at a local community college on a subject in your field of expertise
- Joining a nonprofit board (e.g., library or charitable foundation)
- Staying active in local volunteer organizations (e.g., parent/teacher groups and sport associations)

Consider easing back into the workforce with an internship

Today, employers recognize the value of hiring women who want to work after taking a career break. These women often have family obligations behind them, along with prior professional experience.

As a result, some companies are offering internship or "returnship" opportunities that provide women with an opportunity to ease back into the workforce. These internships allow employers to test the waters before determining whether someone would be a good fit for a permanent position.

If you are interested in an internship opportunity, many options are available, from informal arrangements with an employer to high-structured returning professional programs that are part of a company's larger recruiting efforts.

Seek out others in your situation

If you are on a career break, it's important to remember that you are not alone in choosing to stay at home to focus on family obligations. Consider seeking out support and guidance from other women who have chosen to veer off the traditional career path for family reasons.

Whether you have just made the decision to take a career break or are looking to reenter the workforce, there are numerous resources available to assist you, ranging from local stay-at-home mom networks to nationwide career relaunching services.



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Do I have to pay an additional tax on investment income?

You might, depending on a few important factors.

A 3.8% net investment income tax is imposed on the

unearned income of high-income individuals. The tax is applied to an amount equal to the lesser of:

- Your net investment income
- The amount of your modified adjusted gross income (basically, your adjusted gross income increased by an amount associated with any foreign earned income exclusion) that exceeds \$200,000 (\$250,000 if married filing a joint federal income tax return, and \$125,000 if married filing a separate return)

So if you're single and have a MAGI of \$250,000, consisting of \$150,000 in earned income and \$100,000 in net investment income, the 3.8% tax will only apply to \$50,000 of your investment income.

The 3.8% tax also applies to estates and trusts. The tax is imposed on the lesser of undistributed net investment income or the excess of MAGI that exceeds the top income tax bracket threshold for estates and trusts

(\$12,150 in 2014). This relatively low tax threshold potentially could affect estates and trusts with undistributed income. Consult a tax professional.

What is net investment income?

Net investment income generally includes all net income (income less any allowable associated deductions) from interest, dividends, capital gains, annuities, royalties, and rents. It also includes income from any business that's considered a passive activity, or any business that trades financial instruments or commodities.

Net investment income does not include interest on tax-exempt bonds, or any gain from the sale of a principal residence that is excluded from income. Distributions you take from a qualified retirement plan, IRA, 457(b) deferred compensation plan, or 403(b) retirement plan are also not included in the definition of net investment income.



Should I co-sign my daughter's private student loan?

Today, many students turn to private lenders to help cover the cost of college.

Unfortunately, private student loans don't carry many of the same protections as federal student loans. As a result, you should be aware of the risks associated with acting as a co-signer for these types of loans.

According to the Consumer Financial Protection Bureau, approximately 90% of all private student loans were co-signed in 2011 (Source: Consumer Financial Protection Bureau, Mid Year Update on Student Loan Complaints, April 2014). Private lenders often require a co-signer if a borrower has little or no credit history. In addition, having a co-signer often allows a borrower to obtain a lower interest rate for a loan.

When co-signing any loan, you need to be aware that as co-signer, you are being asked to guarantee the loan. In other words, if your daughter doesn't make her loan payments, the lender can go after you for payment of the loan. Depending on the loan terms, a lender can even demand full payment of a loan from a co-signer if the borrower misses just one

payment. In addition, a lender can attempt to collect a loan that is due by using traditional debt collection methods, including wage garnishment.

Before you co-sign your daughter's loan, you'll want to consider whether you will be able to afford to pay her loan if she is unable to make her loan payments. In addition, you should find out how co-signing the loan will impact your current creditworthiness.

Finally, if you do end up co-signing your daughter's loan, you should also find out whether the loan document contains a provision regarding automatic defaults or "auto defaults." An "auto default" situation arises when the co-signer for a loan dies or declares bankruptcy and the lender demands the full amount of the loan to be paid back immediately by the borrower. If the loan does have an "auto default" clause, your daughter should be fully aware of the possible consequences and take steps once she has graduated and is in repayment to pursue a co-signer release for the loan.