CIA Report

Financial Intelligence

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We are happy to both be named 2015 Los Angeles Five Star Wealth Managers*. This is the 2nd straight year for Mitchell and the 3rd straight for Arthur.

*Five Star Professional conducts in-depth, market-specific research in more than 45 markets across the United States and Canada to identify premium service professionals. Wealth manager award candidates are identified through firm nominations, peer nominations and industry qualifications. Award based on 10 objective criteria associated with providing quality services to clients such as credentials, experience, and assets under management among other factors. Wealth managers do not pay a fee to be considered or placed on the final list of 2013/2014/2015 Five Star Wealth Managers

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A New Year

We'd like to start out this newsletter by thanking you for your trust. The two of us have been helping clients pursue their financial goals for over 75 combined years. We know that part of that planning has included planning for the unexpected.

We are proud to announce that both of us have again been named Los Angeles Five Star Wealth Managers*. You can see the announcement in January's Los Angeles Magazine. This is the 3rd consecutive year for Art and the 2nd for Mitchell that we have been so recognized.

To determine the award winners, wealth managers are judged on 10 criteria. Two that the selection committee considers are one-year and five-year client retention rates. When we created Capital Intelligence Associates, with our vision of helping clients through impartial advice, 98% of our clients came with us. We suggested to 1% that they find another advisor. Only 1% left us. According to The Investment News, the industry average of clients who stay with an advisor who moves is 80%. We hope this indicates that we are meeting your needs for service and sound advice.

It has been fulfilling over these years to watch generations of client families travel the path to financial and educational success . (For Art, many of his original client's grandchildren have graduated from college and have begun to create their own families. He likes to think he may have helped.)

Life moves on and we've seen clients who were unaware about various financial consideration at our first meeting, now with a better understanding of the pursuit of a comfortable lifestyle. Some senior clients continue working because their work is their passion. Others have had later-life career changes that they've been able to afford because of proper planning on their part . It is rewarding to observe these positive impacts.

As your needs have changed, so has our practice. We are still at our core a Financial Planning firm. Additionally, we have grown to offer another level of service beyond the financial advice. It took graduate level education which we both embraced.

For those who want Legacy Planning, we help define what legacy means to them. We then help them match their values to their planning. As esoteric as it may sound, the significant legacy that people pass on to their heirs is rooted in values - not just money.. Creating a plan that hands down more than money can be highly rewarding to a family during the parents' lifetime and an important part of the planning process.

Most of us look to pursue personal independence with financial goals. Beyond that, estate owners might want to look more broadly at their financial plan and consider multi-generational planning. It can provide leadership with moral and financial instruction to heirs. Another consideration includes the philanthropic causes for which we care. Planning charitable gifts wisely can include benefits for the donor, their causes, and their family for generations. While not important to everyone, we have found socially responsible investing is gaining traction. Matching personal and investing values can lead to great personal satisfaction.

We would appreciate your thinking of us should you know of anyone who might benefit from our experience and passions. We consider a referral of your direct family members to be among our most valuable. Referrals of friends and associates are also treasured. We will give them the same thoughtful service that has kept our client retention high for decades. Your continuing confidence in us is very much appreciated.

Thank you and all of our best wishes for a healthy and prosperous New Year.

Helping Your Parents Manage Their Finances

Postponing a discussion about helping a parent with his or her finances increases the odds that problems could arise before that discussion takes place.

As the U.S. population gets older, more people, particularly baby boomers, are confronting a dilemma. As parents age, their ability to manage their own finances may decline. That can make it more likely that they may neglect the life savings they've worked so hard to accumulate or make costly mistakes with them. Even worse, they're more likely to fall victim to one of the fraudulent schemes that frequently target seniors. "Financial Fraud and Fraud Susceptibility in the United States," a September 2013 report prepared for the FINRA Investor Education Foundation, found that seniors were 34% more likely to lose money to fraudsters than were those in their 40s.

And yet many seniors, especially those who have always been independent and/or money-savvy, may be reluctant to accept advice or help from their children, or even discuss living expenses, health care plans, investments, or general estate planning. Sadly, postponing that discussion can increase the difficulty of tackling whatever problems may eventually arise.

What's behind parental reluctance?

Suggesting that parents might benefit from assistance, either from their children or a professional, may remind them of their own mortality. People are living longer; if they're still active and involved, they may have difficulty accepting that their current good health and financial comfort may not always continue.

Also, some seniors may be reluctant to discuss finances because it can reinforce a sense of loss; this could be especially true if they can no longer drive or participate in activities they enjoy. Admitting that they need help with financial issues may make them feel as though one more area is no longer under their control. If this is the case, they might respond to the idea that addressing important issues now--planning for ill health or an incapacity--could give them greater decision-making power over their quality of life later.

Parents also may be uncomfortable discussing finances with only one child, preferring to involve all siblings. In this case, you may need to either try to reach a consensus about which child is best equipped to help, or divide responsibilities among siblings. For example, one child might assist with billpaying and day-to-day expenses while another reviews investments or handles health insurance, Medicare, and Social Security.

In some cases, parents may respond to the idea that taking action sooner rather than later can help prevent the loss of much of their hard-earned savings to taxes or scams. If they're uncomfortable discussing finances with you, you could suggest working with a third party who can review their situation and make recommendations that could then be discussed jointly.

When to offer help

Here are some signs that a parent might need some assistance: confusion about whether direct-mail offers are advertising or bills; failing to pay bills or file documents properly, especially if someone has always been highly organized; complaints about being unable to make ends meet; talking about the merits of certain investments, especially unfamiliar ones and especially if a parent hadn't previously exhibited much interest in investing; unusual behavior, such as making unexpected large purchases or spending a lot of time gambling.

Be sure to rule out other physical problems, such as an infection or difficulties with vision or hearing, before assuming that mental confusion is automatically a sign of dementia.

A start is better than nothing

If parents are reluctant to discuss specific figures, try to make sure that key information, including online account information and passwords, is on paper, and that someone else knows the location of those items and will be able to access them if necessary.

You might start providing assistance in stages. Offer to review checking account statements and/or credit card bills to ensure they're not paying for services they want to cancel or didn't request; this may give you insight into the overall state of their finances. Because seniors may be more willing to discuss issues such as health insurance and preferences regarding long-term care or end-of-life decisions before other topics, building trust in these areas could increase comfort levels on both sides with other matters.

If a trust has been set up, a trustee might be the logical person to handle finances, since he or she may eventually have to deal with trust-related issues anyway. The same is true for someone who has been granted a durable power of attorney, even if he or she doesn't yet have full responsibility for managing finances. And in a worst-case scenario, children can petition a probate court to name a conservator or guardian. Whatever approach you take, one of the key challenges of this process is to respect a parent's dignity while protecting his or her ongoing well-being.

Saving for College: 529 Plans vs. Roth IRAs

529 plans reach the $200 billion mark

As of June 2013, assets in 529 plans totaled $205.7 billion. Virginia has the largest 529 plan, with 19% of the total assets. (Source: The College Board, Trends in Student Aid 2013).

Note

Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.

529 plans are vehicles tailor-made for college savings. But some parents like the flexibility of using Roth IRAs. So how does a favorite of the college savings world stack up against a favorite of the retirement savings world when it comes to putting money aside for college?

Contributions

529 plans: People at all income levels can contribute to a 529 plan. Lifetime contribution limits are high, typically $300,000 and up. And if certain requirements are met, 529 plans let you gift large lump sums gift-tax free--up to five years worth of the $14,000 annual gift tax exclusion, which would be up to $70,000 for single filers and $140,000 for married joint filers (in 2014).

Roth IRAs: Not everyone is eligible to contribute to a Roth IRA. Income must be below $129,000 for single filers or $191,000 for joint filers (in 2014). In addition, Roth IRAs have annual contribution limits--$5,500 per year, or $6,500 if you're age 50 or older (in 2014).

Bottom line: Only 529 plans offer unlimited eligibility and the ability to make large lump-sum gifts in a single year.

Federal tax benefits

529 plans: Earnings accumulate tax deferred and are tax free if account funds are used to pay the beneficiary's qualified education expenses (a broad term that includes tuition, fees, room, board, and books). States generally follow this tax treatment, and some offer an additional tax benefit: a deduction for 529 plan contributions.

But if 529 plan funds are used for any other purpose, the earnings portion of the withdrawal is subject to income tax *and* a 10% federal tax penalty. Essentially, Uncle Sam is telling you to use the money for college.

Roth IRAs: Earnings in a Roth IRA also accumulate tax deferred and are tax free if a distribution is qualified. A distribution is qualified if a five-year holding period is met *and* the distribution is made: (1) after age 59½, (2) due to a qualifying disability, (3) to pay certain first-time homebuyer expenses, or (4) by your beneficiary after your death.

If your distribution is not qualified, the earnings portion is subject to income tax and, if you're younger than 59½, a 10% early-withdrawal penalty (unless an exception to the penalty applies). Again, Uncle Sam is encouraging you to wait and use the money for retirement. One exception to the early-withdrawal penalty is when a withdrawal is used to pay college expenses.

So it comes down to your age. Once you've met both the age 59½ and five-year holding requirements, money you withdraw from your Roth IRA to pay your child's college expenses is tax free. But if you withdraw funds before age 59½ to pay college expenses--the likely scenario for most parents--you might owe income tax on the earnings but not an early-withdrawal penalty. (Nonqualified distributions draw out contributions first and earnings last, so you could withdraw up to the amount of your contributions and not owe income tax.)

Bottom line: 529 plans offer more potential tax benefits *if* the funds are used for college. But Roth IRAs offer greater flexibility for parents over age 59½ who are paying college bills.

Investment choices

529 plans: With a 529 plan, you're limited to the investment options offered by the plan. Most plans offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with different levels of risk, fees, and management goals. If you're unhappy with the market performance of the option(s) you've chosen, you can generally change the investment options for your future contributions at any time. But you can change the options for your *existing* contributions only once per year (per federal law).

Roth IRAs: With a Roth IRA, you can generally choose from a wide range of investments, and you can typically buy and sell investments whenever you like.

Bottom line: The 529 plan rule of "one investment change per year" on existing contributions may restrict your ability to respond to changing market conditions.

Financial aid

529 plans: Under federal aid rules, 529 accounts are counted as parental assets (assuming the parent is the account owner), and 5.6% of parental assets are deemed available for college expenses each year. Colleges also consider the value of 529 plans when distributing their own institutional aid.

Roth IRAs: Under federal aid rules, retirement assets are not counted at all, so Roth IRAs don't impact federal aid in any way. However, colleges may consider retirement plan balances when distributing their own aid.

Bottom line: Only 529 plans count in both federal and college financial aid calculations.

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How can college students save and spend money wisely?

College is a pivotal time in a young adult's life. Students gain a sense of independence that is accompanied by responsibility--especially when it comes to finances. If you're a new college student, it can be overwhelming to figure out how to save and spend money wisely. However, if you take time to plan, you won't have to worry about spending money carelessly. And your parents will be glad to avoid desperate pleas for cash over the phone.

It may be helpful to review campus resources ahead of time so you can eliminate items that you don't necessarily need to bring with you to school. Why bring your car and pay for an expensive parking pass if you can use free public transportation? Similarly, it might make more sense to borrow textbooks from your university's library or rent them rather than fork over the dough to buy pricey books you'll use for a single semester.

Next, establish a monthly budget. Track your expenses for a month to determine where most of your money is going, then look for the areas where you need to reevaluate your spending. For example, you may be spending too much on take-out when you already have a prepaid meal plan at your school. Take advantage of your plan and put that money toward something else in your budget like clothing or entertainment.

What if you have excess cash? Set aside a few dollars each week to create an emergency fund. Over time, that money could accumulate, and you never know when it might come in handy.

But if you still find yourself strapped for cash, most college campuses offer a variety of part-time jobs that are designed to fit into a student's busy schedule. Ask about a job the next time you go to the gym for a workout or the dining hall for a meal. Or you can use your school's career service website to browse work-study options available on campus. As long as you're aware of what's available to you, you'll be better informed to make wise money decisions, which enables you to focus on making the most of this chapter in your academic career.