CIA Report

Financial Intelligence

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Welcome to the new CIA. A few of the goodies available to our clients. Let us know if you want more info:

Our CIA Access app from the appstore and Google Play.

New and improved website.

Better online investment access.

WealthVision - A comprehensive wealth management system to look at all your accounts and documents in one place.

Better philanthropic planning advice.

Resources for teaching your children financial literacy.

Because It's Your Legacy

The Times They Are a-Changin' - Bob Dylan

Some of you may have noticed our new look in 2014. Along with a new logo we're making some changes at Capital Intelligence to better serve you, our client.

Much of this changed with the realization that while we think we're among the best in the nation in giving financial advice, we didn't fully explain the depth of our services. In a multi-year process we looked at our practice from both the inside out and the outside in. We talked to consultants and our clients and others who knew our business to try to figure the intersection of our clients needs, our passions and what we were truly great at doing for you.

As we finished up the process last year, it came clear that all these intersected under one word: ***Legacy.*** After almost 75 years of combined experience we realized that this little word was both a passion for our clients and for us.

Because It's Your Legacy™ , is the objective of our practice to help you with your financial planning goals and objectives. When making recommendations we want to make sure we look at the big picture and how it effects not only your goals, but also your legacy.

Multi-Generational
The first area of legacy is your family. For decades we have helped you build financial wealth. But for many that is not enough. We want to help you pass on your values and not just your financial assets.

Some of these services include giving help to your children with financial literacy and working with baby boomers on strategies for aging parents. Part of our commitment to you as a client is that we will accept your children and/or parents as clients even should they not qualify for our financial minimums. Servicing generations helps us build financial connections within families and be aware of opportunities to pass on financial and values based wealth in a coordinated fashion. Confidentiality is always respected.

Philanthropic
We realized that like us, most of you are involved in the community and want to give back. We have made it a priority to learn what we can and to give better advice in this area. Both of us are now Chartered Advisors in Philanthropy™ .

Moving forward we hope to help you give smarter and better to the causes you care about. If we haven't given you a copy of Art's Booklet, " *You, Your Family and Your Lasting Legacy* " let us know. We have found that focusing on helping clients give smarter has helped them leverage their assets to do more good while helping their bottom line.

Socially Responsible
We have found many of our clients are concerned about the state of many things, yet have portfolios with stocks of companies that do not share their values. Those values may be environmental, religious, women's rights, governance, or other issues. No matter which, thoughtfulness regarding beliefs and actions might be an important consideration.

20 years ago, most studies on Socially Responsible Investing (SRI) came to the conclusion one gave up return to invest with their conscience. Much of this had to do with the high-flying nature of tobacco stocks in the 80's, but that has changed. According to a GMI Ratings, Inc. review of dozens of studies on SRI "The general consensus is that on average, responsible investment methods perform on par with conventional techniques, neither outperforming nor underperforming them on a regular and reliable basis."

In Conclusion
For some of you, the above are of little concern. We'd like to let you know that we promise to give you the same great service and advice as we have for decades. You are our clients and we hope you remain so for decades to come. As we refine our practice, we are looking to help you and others that want a solid financial plan that can be matched with a great legacy plan, too.

Gift Tax Strategies That Can Benefit Your Family

Now may be a great time to make gifts that take advantage of the current large gift tax applicable exclusion amount, low gift tax rates, depressed property values, and low interest rates.

Be aware, however, that if you make a gift to a person who is two or more generations younger than you, such as a grandchild, generation-skipping transfer (GST) tax may also apply. In general, annual exclusions, qualified transfers, and an exemption equal to the applicable exclusion amount are also available for GST tax purposes and the same 40% tax rate applies.

Today's large gift tax applicable exclusion amount, low gift tax rates, depressed property values, and low interest rates create a favorable environment for making certain gifts.

Federal gift tax basics

Annual exclusion. Each year, you can give a certain amount ($14,000 in 2013 and 2014) to as many individuals as you like gift tax free.

Qualified transfers exclusion. You can give an unlimited amount on behalf of any individuals for tuition or medical expenses gift tax free. You must pay the amount directly to the educational or medical care provider.

Applicable exclusion amount. Gifts can also be sheltered by the applicable exclusion amount, which can protect gifts of up to $5,340,000 (in 2014, $5,250,000 in 2013). The dollar limit applies to all taxable gifts you make during your lifetime and to your estate at your death for federal estate tax purposes.

Basic planning

Generally, the first gifts you should consider making are annual exclusion and qualified transfer gifts. You can make annual exclusion gifts to anyone for any purpose. The annual exclusion is lost in any year in which you do not use it. While you can make unlimited gifts using the exclusion for qualified transfers, the gifts must be for educational and medical purposes.

You and your spouse can split gifts that either of you make. Doing so allows you and your spouse to effectively use each other's annual exclusions and applicable exclusion amount. For example, if you have 2 children, you and your spouse could make annual exclusion gifts totaling $56,000 to your children (2 spouses x 2 children x $14,000). If you make gifts of $56,000 for 10 years, you will have transferred $560,000 to your children free from gift tax.

Next, consider gifts that are sheltered by the applicable exclusion amount. But, remember that use of the applicable exclusion amount during life reduces the amount available for estate tax purposes at your death.

If you are likely to have a very large taxable estate at your death that could not be sheltered by the applicable exclusion amount, it might even make sense to make gifts that cause you to pay gift tax. For example, let's assume any additional transfer you make would be subject to the current top gift or estate tax rate of 40% and you make a taxable gift of $1 million to your child on which you pay $400,000 of gift tax. If you instead retained the $1,400,000 until death, $560,000 of estate tax would be due ($1,400,000 x 40%), and only $840,000 of the $1,400,000 would remain for your child. By making the taxable gift and paying gift taxes that reduced your taxable estate, you reduced taxes by $160,000 while increasing the amount transferred to your child by the same $160,000.

Gift considerations

If you have property whose value is depressed, now may be a good time to make a gift of it. The gift tax value of a gift is its fair market value, and a lower value means a smaller gift for gift tax purposes. However, you generally should not make gifts of property that would produce an income tax loss if sold (basis in excess of sales price). The person receiving the property would have a carryover basis and would not be able to claim the loss. In these cases, instead consider selling the property, claiming the loss, and making a gift of the sales proceeds.

Future appreciation on gifted property is removed from your gross estate for federal estate tax purposes. However, while property included in your estate generally receives a basis stepped up (or stepped down) to fair market value when you die, lifetime gifts do not. Therefore, you may wish to balance the gift tax advantage of a gift with carryover basis and income tax on gain if the property is sold against the income tax advantage of a stepped-up basis and estate tax (if any) if you retain the property until your death.

In the current low interest rate environment, you may wish to consider a grantor retained annuity trust (GRAT). In a GRAT, you transfer property to a trust, but retain a right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your beneficiaries, such as family members. The value of the gift of a remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. Also, if you survive the trust term, the trust property is not included in your gross estate for estate tax purposes. Any appreciation in the trust property that is greater than the IRS interest rate used to value the gift escapes gift and estate taxation. The lower the IRS interest rate, the more effective this technique generally is.

In the current low interest rate environment, you may also wish to consider a low-interest loan to family members. You are generally required to provide for adequate interest on the loan, or interest will be deemed for gift tax purposes. However, with the current low interest rates, you can provide loans at a very low rate and family members can effectively keep any earnings in excess of the interest they are required to pay you.

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Paying for Long-Term Care Insurance with Tax-Free Funds

Generally, to be considered a tax-free exchange rather than a taxable surrender, you cannot receive the annuity proceeds--the proceeds from the annuity must be paid directly to the LTCI company. Also, Section 1035 applies only if the annuity owner and the LTCI policy owner are the same person.

The high cost of long-term care can quickly drain your savings, absorb most of your income, and affect the quality of life for you and your family. Long-term care insurance (LTCI) allows you to share that cost with an insurance company. If you're concerned about protecting your assets and maintaining your financial independence, (LTCI) may be right for you.

But LTCI premiums can be expensive, and cash or income needed to cover those premiums may not be readily available. The good news is that there are several tax-free options that can help you pay for LTCI.

Using a health savings account

A health savings account, or HSA, is a tax advantaged savings account tied to a high deductible health insurance plan. An HSA is funded with pretax contributions up to certain annual limits set by the IRS. Any growth inside an HSA is tax deferred, and what you don't spend in one year can carry over to subsequent years. Just as importantly, withdrawals made from your HSA for qualified medical expenses are tax free.

Tax-qualified LTCI premiums are a qualified medical expense eligible to be paid from HSA funds. The maximum annual premium you can pay tax free is subject to long-term care premium deduction limits.

Convert taxable annuity to tax-free long-term care insurance

Generally, withdrawals from a nonqualified deferred annuity (premiums paid with after-tax dollars) are considered to come first from earnings, then from your investment (premiums paid) in the contract. The earnings portion of the withdrawal is treated as income to the annuity owner, subject to ordinary income taxes. IRC Section 1035 allows you to exchange one annuity for another without any immediate tax consequences, as long as certain requirements are met. But, what you may not know is that the Pension Protection Act (PPA) extends the tax-free exchange of annuities for qualified stand-alone LTCI or combination annuity/LTCI policies. This effectively allows you to purchase LTCI with annuity cash values that would otherwise have been taxable to you if withdrawn.

However, there are some potential drawbacks:

- You may incur annuity surrender charges when transferring your annuity.
- Transferring your annuity means you won't have the potential income the annuity could provide.
- While premiums for qualified LTCI are tax deductible as qualified medical expenses, annuity payments used to pay for long-term care are not tax deductible.
- Not all long-term care policies allow you to pay premiums in a lump sum, so you may have to make partial 1035 exchanges from the annuity to the LTCI company, but not all annuities allow partial 1035 exchanges.

HELPS may help

Another opportunity to pay for LTCI on a tax-free basis may be available to qualifying retired public safety officers. Part of the Pension Protection Act of 2006, the Healthcare Enhancement for Local Public Safety (HELPS) Retirees Act, allows certain retired public safety officers to make tax-free withdrawals from their retirement plans to help pay for LTCI for themselves and their respective spouses and dependents.

Eligible retired public safety officers include law enforcement officers, firefighters, chaplains, and members of a rescue squad or ambulance crew. Public safety officers must have attained normal retirement age or they must be separated from service due to a disability. HELPS does not extend to 911 operators, dispatchers, and administrative personnel. In addition, if an eligible participant dies, the exclusion from tax for withdrawals does not extend to surviving spouses or other beneficiaries of the participant's retirement plan.

Eligible government retirement plans include qualified trusts, Section 403(a) plans, Section 403(b) annuities, and Section 457(b) plans. Up to $3,000 per year may be withdrawn on a pretax basis, and the money must be paid directly from the retirement plan to the LTCI company. However, not all retirement plans may allow for these withdrawals, and some state laws may not allow the tax-free treatment of distributions.

HSAs, the PPA, and the HELPS Act have opened the door to long-term care coverage for people who might otherwise have a hard time affording it. Your financial professional may be able to provide more information on these and other ways to help you plan for the potentially high cost of long-term care.

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This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

What unique challenges do women face in achieving a financially secure retirement?

Women can face special challenges when saving for retirement. Generally speaking, women tend to spend less time in the workforce, and when they do work, they typically earn less than men in comparable jobs. As a result, women's retirement plan balances, Social Security benefits, and pension benefits are often lower than their male counterparts. In addition, women generally live longer than men, so they typically have to stretch their retirement savings and benefits over a longer period of time.

What can you do to maximize your chances of achieving a financially secure retirement? Start saving as soon as possible. The best time to start saving for retirement is in your 20s; the second best time is right now. At every stage of your life, there will always be other financial needs competing with the need to save for retirement. Don't make the mistake of assuming it will be easier to save for retirement in 5, 10, or 15 years. It won't. Start small, with whatever amount you can afford, and contribute regularly, adding to your contribution when you can.

If you're in the workforce, an employer retirement plan like a 401(k) plan can be a convenient, no hassle way to get started and build your retirement nest egg--contributions are deducted automatically from your paycheck and may qualify you for employer matching funds. If you're out of the workforce and married, you can contribute to an IRA (traditional or Roth), provided your spouse earns enough to cover the contributions.

In many cases, your job is your lifeline to being able to save for retirement. Before leaving the workforce for family obligations, consider exploring with your employer the possibility of flexible work arrangements, including telecommuting and part-time work, that might enable you to continue to earn a paycheck as you balance your family obligations.

Start planning now by taking the following steps: (1) set a retirement savings goal; (2) start saving as much as you can on a regular basis, and track your progress at least twice per year; and (3) find out how much you can expect to receive from Social Security at www.socialsecurity.gov.