



Wealth Management

KANE COMPANY

A FEE-ONLY REGISTERED INVESTMENT ADVISOR

Certified Public Accountants and Financial Advisors

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Summer 2010

Don't Go It Alone—Why Planning Is A Family Affair

Having one spouse handle most family financial matters may feel like an equitable division of labor—with the husband, say, monitoring accounts and making investment decisions while the wife manages other household affairs. But it's an approach that could be damaging in the long run. Divorce or death could plunge the remaining spouse into unfamiliar waters—unable, perhaps, even to find crucial information about life insurance and retirement accounts. And if children have been left out of financial discussions, they may fail to appreciate the family's situation and be ill prepared to take on adult financial responsibilities.



Like it or not, most women will one day handle their own finances. According to the Social Security Administration, women live four years longer during retirement than men do, on average, and they comprise almost 60% of Social Security beneficiaries. At age 65, only 43% of women are married, compared with three out of four men. Divorce plays a major role as well. In 2005, the marriage rate was 7.5 per 1,000 people, according to the U.S. Census Bureau, while the divorce rate was 3.6 per 1,000.

It's not that most women are financial novices. According to a recent survey by Oppenheimer Funds, six in 10 wives balance the family checkbook, while more than half pay

household bills. The same survey found that 43% considered themselves somewhat or very knowledgeable about investing. Yet that still leaves more than half of women facing a steep learning curve if they're suddenly forced to handle investment responsibilities.

And even when both spouses are around, having one of them take responsibility for a family's finances can be perilous. If family members don't understand their economic situation—how much money comes in each month, what gets spent on fixed expenses as well as discretionary purchases, what the

family's short- and long-term saving goals are—it's difficult for them to behave responsibly, and arguments about spending are likely. And if the husband, say, has sole charge of family investments, he may take more risk than if both spouses were responsible for their investments. Taking a flyer on a stock tip is easy when you're sitting alone at your computer; explaining why that sure bet tanked is much harder, as you'll have to do if you and your spouse regularly review account statements.

Failing to bring children into the financial loop could also have unhappy consequences. In many families, money spent on the kids accounts for a large part of the budget, and showering them with extras—from sports camps and music

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2010 Updates

Please note these general updates and tax information for the remainder of 2010.

Standard Mileage Rates for 2010:

Business travel: 50 cents per mile

Charitable travel: 14 cents per mile

Medical & Moving travel: 16.5 cents per mile

Maximum IRA amounts remain unchanged at \$5,000 (\$6,000 if at least age 50 during 2010). Maximum 401(k) contributions have stayed the same at \$16,500 (\$22,000 if age 50). Remember, Roth IRA conversions are available to everyone in 2010. Please contact us if you are interested in converting your IRA.

The maximum Iowa tax deductible contribution to College Savings Iowa for 2010 is \$2,811 per person per child beneficiary. If you are an Iowa taxpayer, this deduction starts your year with up to an immediate 9% rate of return in tax savings!

Energy tax credits are still in place for 2010. You can claim a credit equal to 30% of the cost of making qualified energy-savings improvements to your home (\$1500 max between 2009 & 2010 tax years). To see what qualifies, go to <http://www.energystar.gov/taxcredits>.

Please take note that our office now closes at 4:00pm Monday - Thursday and 3:00pm on Fridays through December.

Please call us at 270-2727 if you have any tax, accounting, or investment questions or would like to proceed with any financial planning. Thank you for your continued patronage!

Steven L. Kane, CPA/PFS, CFP®

Quiz: The Rules Of Roth IRA Conversions

Roth IRA conversions aren't off limits to six-figure earners anymore. Starting in 2010, you can convert a traditional IRA to a Roth regardless of your income. Previously, such conversions were permitted only in a year in which your adjusted gross income (AGI) didn't exceed \$100,000.

Why would you want to convert to a Roth? It's a good idea for many retirement savers. Unlike withdrawals from a traditional IRA, which are taxed as income, "qualified distributions" from a Roth that has been established for at least five years are tax-free. And whereas a traditional IRA forces you to take taxable distributions during retirement, a Roth IRA has no mandatory withdrawals.

Of course, there's no such thing as a free lunch. You must pay tax at ordinary income tax rates on the amount you convert from a traditional IRA to a Roth.

How well do you know the rules? Here are 10 questions to test your knowledge.

1. When are contributions to a Roth IRA tax-deductible?
 - a) Only when your AGI is less than \$100,000
 - b) Only when you don't have a traditional IRA

- c) Only when you itemize deductions on your tax return
 - d) Never
2. The regular annual contribution limit for a Roth IRA is:
 - a) \$2,000
 - b) \$5,000
 - c) \$6,500
 - d) Unlimited

3. A Roth distribution is not a qualified distribution if it's made:
 - a) because of death or disability
 - b) after reaching age 59½
 - c) to pay first-time homebuyer expenses
 - d) to pay higher education expenses

4. When can you contribute to a converted Roth IRA?
 - a) Only when you don't have a traditional IRA
 - b) Only when your AGI doesn't exceed an annual limit
 - c) Only when you're disabled
 - d) Never

5. After 2010, contributions to a traditional IRA:
 - a) will be subject to the old income limits for Roth contributions
 - b) will no longer be subject to mandatory distributions
 - c) will be eligible for conversion to a Roth IRA
 - d) will be taxable

6. The tax on a Roth conversion in 2010:
 - a) must be paid in full in 2010
 - b) must be paid in full in 2011
 - c) can be divided between 2011 and 2012
 - d) can be postponed indefinitely

7. What is the age limit for Roth IRA contributions?
 - a) 21
 - b) 59½
 - c) 70½
 - d) There is none

8. When can you undo a Roth IRA conversion?
 - a) Within one year
 - b) By your tax return due date
 - c) If your AGI is less than \$100,000
 - d) Never

9. A Roth conversion is valued for tax purposes on:
 - a) the date of conversion
 - b) your tax return due date
 - c) the last day of the prior year
 - d) the first day of this year

10. How often are Roth conversions allowed?
 - a) Only one per month
 - b) Only one per year
 - c) Once in a lifetime
 - d) Unlimited

Answers: 1-d, 2-b, 3-d, 4-b, 5-c, 6-c, 7-d, 8-b, 9-a, 10-d

Succession Planning After The Crisis

The recession took its toll on businesses of all sizes, and the impact went beyond dwindling cash flow. Small-business succession plans—and their role in personal estate plans—have also been affected, and you may need to revisit your blueprint for leaving the company and make adjustments to address a changed economic landscape. But you might also find ways to turn the downturn to your advantage.

A succession plan maps out guidelines for when you're ready to call it quits. You may intend to hand over the reins to one or more new leaders gradually, staying on for awhile

as an advisor, or you could plan to get out altogether. The plan may be to have a family member succeed you, or you could promote another company employee or sell to an outside group.

One crucial element of any succession plan is a buy-sell agreement that establishes how the value of the business will be determined when you leave. But in the wake of the economic downturn, your company may well be worth less than it was a few years ago. If you're counting on proceeds from a sale to fund your retirement, you could decide to delay your exit until the company's value rebounds, or you might need to look for other income

sources, perhaps from part-time consulting for other businesses that could supplement the sale proceeds.

If you're transferring all or part of the business to family members, however, a decline in its value could be helpful. Assuming the company profits from the economic rebound, shares you give away now should be worth more later, maximizing the impact of current tax-free gifts.

Suppose you and your spouse have equal interests in a business that was worth \$5 million in 2007 but is now valued at \$3 million. Each of you is entitled to a \$1 million lifetime gift-tax exemption, and you might use the

Benefits Of 401(k)s Far Outweigh Negatives

To paraphrase Mark Twain, the news of the death of the 401(k) plan has been greatly exaggerated. If you halted contributions to your company's retirement plan after the stock market plummeted late in 2008, it may be time to resuscitate your account.

No one could blame you for feeling the heat. The Standard & Poor's 500 stock index declined by a whopping 56% from its peak in October 2007 to its trough in March 2009, resulting in comparable losses for numerous 401(k) plan participants whose portfolios weren't well diversified. About 6% of 401(k) participants had to withdraw funds from retirement accounts in 2008 to meet pressing financial needs, and almost 5% stopped contributing to their 401(k) account altogether. Still, in bad times and good, the benefits of using a 401(k) to save for retirement far outweigh the perceived negatives.

There are risks, of course. The value of your investments will fall from time to time, and the performance of your retirement portfolio depends not only on the investment choices you make but also on market movements beyond your control. There are no guarantees you'll make money or even escape with your principal intact. And, unlike defined-benefit pension plans, 401(k)s aren't insured by the Pension Benefit Guaranty Corporation. Furthermore,

while your employer may contribute to your account, you could lose that money if you change jobs or retire before you're "vested." But since employer contributions are essentially free money for your account, that's hardly a negative.

Finally, distributions from your plan during retirement will be taxed at ordinary income rates—and if you take withdrawals early, before age 59½, you'll probably owe a 10% penalty as well.

However, the list of 401(k) pros is much longer than the list of cons.

1. Over long periods of investing for retirement, your account is likely—though not certain—to gain value. Even when markets fall, it can be a blessing if you have a long-term time horizon because your continued regular investments let you accumulate shares at low prices, setting yourself up for big profits when the market rebounds.

2. Your 401(k) offers several investment options, and you're usually the one calling the shots, not your employer. Many plans include prepackaged portfolios with broadly diversified investments, and professional advice about investments is often available.

3. Contribution limits are generous. For 2010, you can put as much as \$16,500 in your account, or \$22,000 if you're age 50 or over. In contrast,

the annual limit for IRA contributions is only \$5,000 (\$6,000 if you're age 50 or over).

4. Contributions to a traditional 401(k) may be made as pre-tax salary deferrals, which reduce your taxable income and the amount you owe the IRS. Nor are you taxed on investment earnings until you withdraw funds from your account.

5. Employers often match a portion of employee contributions with company-paid contributions based on a percentage of your salary. And once you meet the 401(k)'s vesting requirements, that money is yours to keep.

6. The impact of long-term, tax-deferred compounding can magnify annual contributions into a sizeable nest egg. For example, if you put \$20,000 in your account each year and average a 7% return, your account will be worth about \$1.3 million after 25 years.

7. When you retire or change jobs, you can roll over the assets in your 401(k) tax-free to an IRA or the qualified plan of your new employer. That preserves the tax advantages of your retirement plan. For some, it will also make sense to roll over the assets to a Roth IRA.

8. Because you pay into Social Security only until you reach a specified income ceiling—\$106,800 in 2010—once you've crossed that threshold, you could use payroll savings to increase your 401(k) contribution without reducing your paycheck.

9. Because your company's 401(k) plan is protected by the Employee Retirement Income Security Act (ERISA), it cannot be garnished by creditors or assigned to others (except in domestic court cases involving a divorce decree or a child support order).

A 401(k) plan continues to be one of the easiest ways to save for retirement, and its advantages far outstrip its drawbacks. If you bailed out during the financial crisis, you may have already missed substantial gains during the market recovery. But getting back in now and sticking with your financial plan going forward could help you resume building for a comfortable life after work. ●

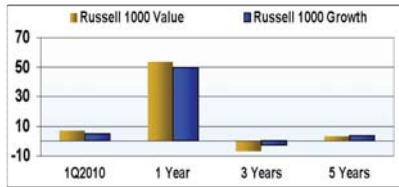
combined amount now to transfer two-thirds of the business to your heirs. Before the recession, a \$2 million transfer would have left \$3 million that could be subject to estate tax. Each spouse can also transfer an additional \$13,000 annually to each heir, so this can add up if there are multiple beneficiaries.

Other estate planning techniques can capitalize on a business's temporarily reduced value. For example, an intentionally defective grantor trust (IDGT) can effectively freeze the value

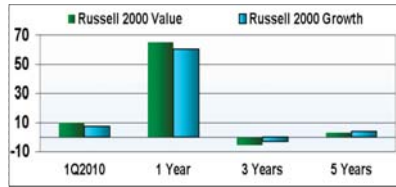


of shares at current levels. Or, with a grantor retained annuity trust (GRAT), the assumed value of a future gift to your heirs will be reduced not only by the low current value of the business but also by today's rock-bottom interest rates. That could limit or eliminate your gift-tax liability. We can work with you and your attorney to evaluate your succession plan and consider whether these or other techniques and strategies could be financially advantageous. ●

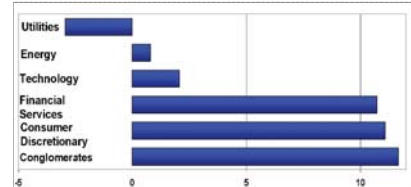
Market Data Bank: 1st Quarter 2010



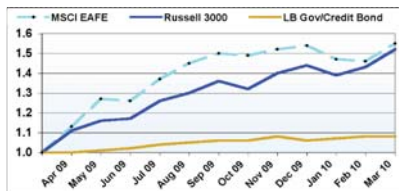
LARGE VALUE VS. LARGE GROWTH
The recent rally entered its second year with value-oriented stocks back in the lead. Large value gained another 6.78% in 1Q10 while shares in large but still fast-growing companies added 4.65%.



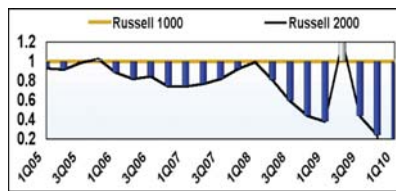
SMALL VALUE VS. SMALL GROWTH
Hints that "green shoots" are maturing into a full-fledged economic expansion translated into outperformance for small-cap stocks. Small value jumped 10.02% in 1Q10; small growth gained 7.61%.



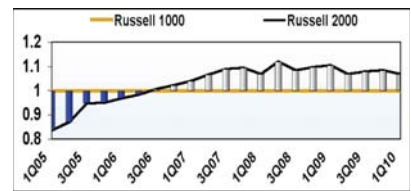
THREE BEST AND WORST SECTORS
Anticipation of a new growth cycle ahead boosted both industrial and consumer shares, while the battered financial sector extended its rebound. Utilities and other traditionally "defensive" sectors lagged.



FOREIGN, US STOCKS & US BONDS
A year into the bull market, US and foreign shares both closed the quarter up roughly 50% on a year-over-year basis. Treasury markets drifted, leaving bond investors where they were in November.



LARGE VS. SMALL STOCK EARNINGS
For the first time since the end of the 2000-2 bear market, small- and large-cap earnings growth diverged. Small companies boosted their profits while their larger peers continued to struggle.



PRICE-TO-EARNINGS RATIO
Profitability throughout the market expanded faster than large- and small-cap equity prices, creating some relative bargains for investors on an earnings-per-share basis.

Small-cap stocks represented by Russell 2000 index, large-cap stocks represented by Russell 1000 index. Foreign stocks represented by the Morgan Stanley Capital International's Europe, Australia, Far East Index, and US bonds by the Lehman Bros. Government/Corporate Bond Index. P/E ratios exclude negative earnings. Small-cap stocks tend to be more volatile than large-caps. Bonds offer a fixed rate of return while stocks will fluctuate. Indices are unmanaged and do not represent any specific investment. Foreign investing involves special risks, including political unrest, economic instability, and currency fluctuation. Past performance does not indicate future results.

Source: Russell/Mellon

Planning Is A Family Affair

(Continued from page 1)

Lessons to private school tuition and vacations abroad—may give them unrealistic views about money. Lack of financial grounding at home may be one reason so many kids have problems with credit cards when they head off to college. According to a 2009 study by student lender Sallie Mae, the average student now has four credit cards and debt of more than \$3,000. Six in 10 students in the study said they were surprised at how high their account balances had grown, and 40% said they'd charged things knowing they didn't have enough money to pay the bills.

Transparency and a willingness to talk about family finances can go a

long way toward minimizing such problems. If family members understand that setting aside a certain amount each month is crucial to pay for the kids' college and the parents' retirement, they may be more inclined to stick to the budget. Having spouses agree on an investment strategy and then reviewing progress and making needed adjustments can also help.

Regardless of each spouse's role in the family finances, maintaining an up-to-date list of accounts, insurance policies, and other financial essentials—and making sure everyone

in the family knows where to find the list—can be crucial if the financial decision-maker suddenly dies or becomes incapacitated.



Yet as important as it is for families to work together, many don't. According to a recent study of couples by Fidelity Investments, just four in 10 said they collaborated with spouses on decisions about retirement saving and investing,

and only 15% thought that if they died, their spouses would be prepared to take over the family finances. If you need help getting on the same page, we may be able to help. ●