



Robin Wilhelms Saar
Financial Consultant

Investment Services located at:
First State Bank
1 South Linn Street
Shannon, Illinois 61078
(815) 864-2111
robin.saar@lpl.com



Cassandre Wilhelms Mlakar
Financial Consultant

Investment Services located at:
First State Bank
1 South Linn Street
Shannon, Illinois 61078
(815) 864-2111
cassandre.mlakar@lpl.com

Five Strategies for Tax-Efficient Investing

You may be able to use losses within your investment portfolio to help offset realized gains. If your losses exceed your gains, you can offset up to \$3,000 per year of the difference against ordinary income.

After factoring in federal income and capital gains taxes, the alternative minimum tax, and potential state and local taxes, your investments' returns in any given year may be reduced by 40% or more. Here are five ways to potentially lower your tax bill.¹

Invest in Tax-Deferred and Tax-Free Accounts

Tax-deferred accounts include employer-sponsored retirement accounts such as traditional 401(k)s and 403(b) plans, individual retirement accounts (IRAs) and annuities. In some cases, contributions may be made on a pretax basis or may be tax deductible. More important, investment earnings compound tax deferred until withdrawal, typically in retirement, when you may be in a lower tax bracket. Contributions to nonqualified annuities, Roth IRAs and Roth-style employer-sponsored savings plans are not deductible. Earnings that accumulate in Roth accounts can be withdrawn tax free if you have had the account for at least five years and meet the requirements for a qualified distribution.

Withdrawals prior to age 59½ from a qualified retirement plan, IRA, Roth IRA or annuity may be subject to a 10% federal penalty. In addition, early withdrawals from annuities may be subject to additional penalties charged by the issuing insurance company.

Consider Government and Municipal Bonds

Interest on U.S. government issues is subject to federal taxes but is exempt from state taxes. Municipal bond income is generally exempt from federal taxes, and municipal bonds issued in-state may be free of state and local taxes as well. Sold prior to maturity, government and municipal bonds are subject to market fluctuations and may be worth less than the original cost upon redemption.

Look for Tax-Efficient Investments

Tax-managed or tax-efficient investment accounts are managed in ways that can help reduce their taxable distributions. Investment managers can potentially minimize

continued on next page...

¹ This information is general in nature and is not meant as tax advice. Always consult a qualified tax advisor for information as to how taxes may affect your particular situation.



IN THIS ISSUE

.....
Five Strategies for Tax-Efficient Investing
.....

.....
Planning for Retirement? Don't Overlook an IRA
.....

.....
Working Past Your Normal Retirement Age
.....



Not FDIC Insured	Not Bank Guaranteed	May Lose Value
Not Guaranteed by Any Federal Government Agency		Not a Deposit

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Planning for Retirement? Don't Overlook an IRA

Nearly 50 million American households own an individual retirement account (IRA).¹ While the IRA has evolved into a popular retirement savings vehicle—with more than \$4 trillion in total assets—it is often an overlooked component of most investors' financial planning strategies. In fact, over the past two years, only 15% of households that were eligible to contribute to an IRA did so.¹

Have you forgotten your IRA? Should an IRA be part of your overall investment plan?

Appealing IRA Benefits

Whether you are an active accountholder or just considering opening an IRA, there are many appealing benefits to this retirement savings vehicle.

- **Tax deferral:** Traditional IRAs allow your investment earnings to grow tax deferred until withdrawn, typically at retirement. For 2011, the maximum contribution is \$5,000, but for those aged 50 and over, the limit is \$6,000. The limits are the same for a Roth IRA, but to be eligible to fully contribute, an investor must have a 2011 modified adjusted gross income of less than \$107,000 for singles and \$169,000 for married couples filing jointly. Singles earning up to \$122,000 and couples earning up to \$179,000 are eligible for partial contributions.
- **Deductibility:** If you are a single taxpayer who doesn't participate in an employer-sponsored plan and you earn less than \$56,000 in 2011, you can deduct your contributions to a traditional IRA off your income taxes. Couples earning under \$90,000 are also eligible for a full deduction. Partial deduction limits also apply, up to \$66,000 for singles and \$110,000 for couples. Note that Roth IRA contributions are not deductible.
- **Investment flexibility:** IRAs typically give investors access to a wider range of investment options than workplace-sponsored plans such as a 401(k). Depending on the financial institution you use to open your account, you can invest in a broad array of mutual funds, ETFs, individual stocks and bonds, CDs, annuities, even commodities and real estate.
- **Convertibility:** Traditional IRA holders can convert to a Roth IRA to enjoy some of the additional benefits listed below. But before you decide to make a switch, be sure to investigate the tax consequences of such a move.

Additional Roth IRA Benefits

- **Qualified tax-free withdrawals:** Since Roth IRAs are funded with after-tax dollars, your withdrawals are tax free, as long as you have held the account for at least five years and are over age 59½.
- **No RMDs:** Unlike traditional IRAs, Roth IRAs are not subject to required minimum distributions (RMDs) once the accountholder reaches age 70½.

¹ Source: Investment Company Institute, *The Role of IRAs in U.S. Households' Saving for Retirement*, December 2010 (<http://www.ici.org/pdf/fm-v19n8.pdf>).

IRA account owners should consider the tax ramifications and other restrictions in regards to executing a Conversion from a Traditional IRA to a Roth IRA. The converted amount is generally subject to current year income taxation.



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portfolio turnover, invest in stocks that do not pay dividends and selectively sell stocks at a loss to counterbalance taxable gains elsewhere in the portfolio.

Put Losses to Work

You may be able to use losses within your investment portfolio to help offset realized gains. If your losses exceed your gains, you can offset up to \$3,000 per year of the difference against ordinary income. Any remainder can be carried forward to offset capital gains or income in future years.

Keep Good Records

Maintain records of purchases, sales, distributions, and dividend reinvestments so that you can properly calculate how much you paid for the shares you own and choose the most preferential tax treatment for shares you sell.

Keeping an eye on how taxes can affect your investments is one of the easiest ways you can enhance your returns over time.

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Working Past Your Normal Retirement Age

The Great Recession has many older Americans considering the prospects of staying in the workforce past their normal retirement age. But working past your normal retirement age is not a new necessity. According to the Social Security Administration, nearly 31% of individuals between the ages of 70 and 74 reported income from earnings in 2008, the latest year data are available. Among a younger age group, those between 65 and 69, approximately 48% had income from a job.¹

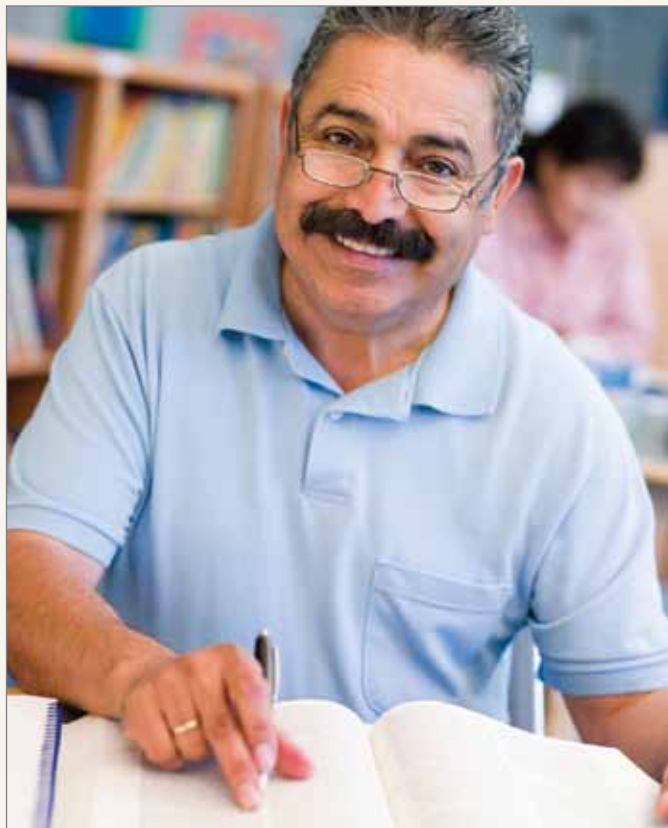
Some remain employed for personal reasons, such as a desire for stimulation and social contact; others still want a regular paycheck. Whatever the reason, the decision to continue working into your senior years could potentially have a positive impact on your financial future.

Working later in life may permit you to continue adding to your retirement savings and delay making withdrawals. For example, if you earn enough to forgo Social Security benefits until after your full retirement age, your eventual benefit will increase by between 5.5% and 8% per year for each year that you wait, depending on the year of your birth. You can determine your full retirement age at the Social Security Web site (www.ssa.gov) or by calling the Social Security Administration at 1-800-772-1213.

Adding to Your Nest Egg

Depending on the circumstances of your career, working could also enable you to continue adding to your retirement nest egg. If you have access to an employer-sponsored retirement plan, you may be able to make contributions and continue building retirement assets. If not, consider whether you can fund an IRA. Just remember that after age 70½, you will be required to make withdrawals, known as required minimum distributions (RMDs), from traditional 401(k)s and traditional IRAs. RMDs are not required from Roth IRAs and Roth 401(k)s.

Even if you do not have access to a retirement account, continuing to earn income may help you to delay tapping your personal assets for living expenses, which could help your portfolio last longer in the years to come. Whatever your decision, be sure to apply for Medicare at age 65. In certain



circumstances, medical insurance might cost more if you delay your application.

Work doesn't have to be a chore. You may find opportunities to work part time, on a seasonal basis, or capitalize on a personal interest that you didn't have time to pursue earlier in life.

¹ Source: *Income of the Population 55 or Older, 2008*, Social Security Administration (most current data available).

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