

# McDaniel-Knutson

## FINANCIAL PARTNERS

### Year End Planning

**Associates:**

**Wayne L. McDaniel**  
CLU, ChFC, CFP®

**Jude McDaniel**  
CLU, ChFC

**Peter D. Knutson**  
CFP®, CLTC

**Victoria M. Bogner**  
CFP®

**Ed Zeller**  
ChFC, CFP®

**Staff:**  
**Tammy Barnes**

**Karey Chester**

**Brenda Coffman**

**Cindy Folks**

**Keith Gilliland**

**Kara Gourley**

**Heather Zoeller**

**2500 West 31st Street,**  
**Suite B**  
**Lawrence, Kansas 66047**

**Phone (785) 841-4664**  
**Fax (785) 841-7719**  
**www.mcdanielfinancial.com**

My wife & I recently experienced a major change in our lives with the birth of our 4<sup>th</sup> child. This has certainly affected our plans and goals for the future. Most of us experience changes, some small and some significant each year. With this in mind, and being in the last quarter of the year we thought it would be a good reminder for some year planning ideas.

For those of you with a job with company benefits, you will be getting forms to renew or change your benefit elections. It is a good time to think through what you may need for child care and out of pocket medical expenses (co-pays, deductibles, dental expenses, glasses/contacts, prescriptions, etc.) so that you can take full advantage of any flexible spending or health savings accounts that may be available.

Check your tax withholding levels with your advisor or tax professional to see if you should adjust your withholdings so you don't end up over paying (or with an unpleasant surprise) when completing your tax returns. A few things to consider on your taxes: If you have children that turn 17 this year you will be losing the child tax credit. Will this affect you? Will or have you had a change in employment, job change or retirement? Experienced a

death or birth? Can you contribute to a deductible IRA or a Roth IRA? If over age 70, have you taken your IRA required minimum distribution?

If you are getting large refunds each year, that is money that could be invested monthly or be used to reduce debt. Who do you prefer to have your money, you or the government? It is best to review your taxes each year and make adjustments as necessary.

If you are itemizing on your taxes, remember that you can increase your deductions by giving cash or property to charity (clothes, furniture, books, etc.) by December 31, 2011. If you are paying estimated state taxes pay the fourth quarter by

December 31, 2011, instead of in January when it is due. Consider paying the full year of real estate taxes on your home, and paying your January mortgage payment in December.

Review your company savings plan for possible increases to what you are saving and to determine if allocations should be changed.

Review your health, life and disability insurance coverage options from your employer.  
(con't pg.2)



## Charitable IRA Rollover – A Year End Planning Strategy for Seniors

IRA owners over age 70 ½ may make direct, tax free transfers of up to \$100,000 to charity from their IRA before the end of this year. So who should consider this? Below are the profiles of six donors who may benefit from this provision. (Please note, this applies only to IRAs and not 403(b) or 401(k) accounts.)

**Convenience Donor.** The IRA distribution is scheduled to be paid out before the year end; you do not need the money so you request that it be paid directly to a charity you wish to support. There is no charitable deduction, but the distribution is also excluded from taxable income.

**Generous Donor.** You cannot deduct more than 50% of your adjusted gross income in a given year. Yet some generous donors give more than this, especially if it is for a specific purpose, such as a building campaign. Excess contributions can be carried forward for up to five years. Another option is to give directly from the IRA. Since this does not count as income, it is also not subject to the 50% deduction limitation.

**Major Estate Donor.** For many people, their IRA is their largest asset. As a result, it may be the source of future income and estate tax problems. There is a need for “asset balancing,” but not a tax-wise way to accomplish it. One potential solution is to give up to \$100,000 to charity from your IRA, which would “balance” assets away from the IRA.

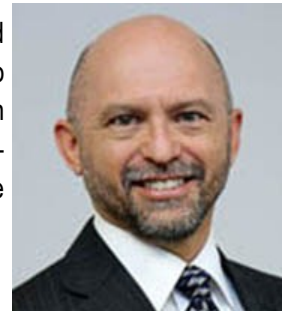
**High Income Donor.** If the distribution is taken personally, you may be subject to phase out rules on contributions, reducing their tax value. Since Charitable IRA Rollover distributions are not includable in income, there is no deduction reduction due to phase out rules.

**Social Security Donor.** Depending upon your income, 0%, 50% or 85% of your Social Security is taxed. Withdrawals from an IRA may cause more of your Social Security to be taxed. By directing your distribution directly to charity, you may not only save up to 35% tax on your distribution, but also substantial taxes on your Social Security.

**Standard Deduction Donor.** Many seniors are unable to itemize their deductions; therefore, there is no tax deduction for contributions. If you withdraw \$1000 from your IRA and give it to charity you have an increase in income, but no offsetting charitable deduction. If you distributed the \$1000 directly to charity you avoid the additional income tax.

In summary, if you are over 70 ½ and give money to charity, you may want to consider directing your IRA distribution directly to charity this year. (This provision is scheduled to expire 12/31/2011.)

-Wayne McDaniel CFP®, CLU, ChFC



## Year End Planning (continued from page 1)

What if your employer doesn't offer any of these? And how do you determine what is the appropriate amount of coverage? You can come visit us and we will see how we can help. It's not a matter of whether something will happen, but when it will happen.

This is also usually a good time to review your overall financial and estate plans. You can make any necessary changes before the end

of the year and prepare to implement them next year.

Edward K. Zeller, ChFC CFP®



**McDaniel·Knutson**  
FINANCIAL PARTNERS

**Our Perspective...**

**For the most up-to-date thoughts of our advisors**

**Check out our blog at  
[www.mcdanielfinancial.com!](http://www.mcdanielfinancial.com)**

## Market Commentary

### Crisis of Confidence

You may have heard the term “crisis of confidence” in the news. It’s the same term that was used in President Carter’s 1974 speech and New York Times’ article on April 14<sup>th</sup>, 2008. What does this term mean, exactly? Carter’s resident “deep thinker,” Patrick Caddell, described it as “when people no longer believed that the future of America was going to be as good as it was now.”<sup>[1]</sup> I agree with his statement, except that the economy of 2011 is a global one, and the pains that our neighboring countries feel, we also feel.

Earlier in October, stocks fell to a new low for the year on fears about the Euro zone and the United States’ continuing problems with debt. Right after that fresh low was put in place, markets have rallied for three weeks on hopes that Europe will be able to save itself from collapse and things aren’t so bad after all. Which view is right? Is this belief that the outlook on the global economy is worsening a valid one? Is it correct to think that the future is going to be worse than the present? This is when it’s important to put feelings aside and look at objective evidence. That is easier said than done, but it’s essential to not become so dedicated to your opinion that you can only see the evidence that supports it while dismissing everything else.

In my opinion, it’s important to distinguish between problems happening in the public sector (government and public policies) and private sector (corporations and private business). After looking at them separately, we can then see how one affects the other.

**Public Sector:** This is where markets are currently focused, and this is what is creating the “crisis of confidence.” While it was the United States that had everyone’s attention at the beginning of the year with our ballooning balance sheet, Europe overshadowed our still sizable problems with a much more acute dilemma starting with Greece’s possible default. Since the end of July, headlines in Europe have moved our markets, and economic reports about the United States have gone unnoticed. The debt crisis in Europe has many layers; for a nice graphic explanation by the NY Times, you can visit the blog at our website, [www.mcdanielfinancial.com](http://www.mcdanielfinancial.com). The bottom line is that Europe has not reacted strongly or quickly enough to stop the contagion of too much debt and shrinking revenue for countries. This spells bad news for banks, which hold a lot of European sovereign debt and could cause a credit crisis of Lehman Brothers proportions if they had to write down their actual losses on all of it. Investors lost confidence that Europe would do what

it takes to keep the Euro zone from falling apart.

In the past two weeks, European leaders have realized that swift, decisive action is needed to recapitalize banks and provide guarantees on sovereign debt to prevent a catastrophe. The road to fixing their problems will be long and hard, but they first need to agree on a strategy before anything can get better. They are very close to doing that very thing and may already have a plan of action agreed upon by the time you read this commentary.

In the United States, we are still grappling with our debt. While the US debt problems aren’t as advanced as Europe, Capitol Hill still needs a solid plan to put our country on a sustainable road to recovery. Our government has vowed to keep interest rates and taxes low through 2012 and, while this won’t help our debt problem right away, it does help the private sector.

**Private Sector:** When consumer confidence is low, it can have repercussions on businesses because people don’t spend the way they normally would. This would translate into low retail sales, which leads to lower manufacturing due to low demand, which may lead to more layoffs and weak earnings. However, during the most volatile time in the market, jobless claims were declining, retail sales and manufacturing were rising, and third quarter earnings are overall good. This means that the chances of the US heading into another recession are growing slimmer. If private companies continue to do well and consumer confidence is restored, the burden will be lifted off of the government to provide continuing stimulus. They can begin to implement measures to lower the nation’s debt that doesn’t jeopardize those companies or the individuals that buy from them.

Both the public and private sector’s problems are difficult and will take years to work through. If the confidence of consumers is restored, companies will hire, more people will have jobs and income to spend, companies will have higher profits, government will have higher tax revenue, and a slow but steady recovery will be underway. But it all begins with confidence.

-Victoria Bogner, CFP®



[1] “Carter’s ‘Crisis of Confidence’ Speech.” Pbs.com.

**November 2011**

**McDaniel·Knutson**  
FINANCIAL PARTNERS

2500 West 31st Street, Suite B  
Lawrence, KS 66047-3051

ADDRESS SERVICE REQUESTED

PRESRT STD

U.S. POSTAGE

**PAID**

Permit No. 229

Lawrence, KS 66044

*Come Celebrate!*  
McDaniel Knutson  
*Christmas Open House*

*Where:*

**Abe & Jake's Landing**  
8 East 6th Street  
on the Riverfront

*When:*

**Friday, December 9th**  
5:00 pm to 8:00 pm

**Christmas Feast. Dueling Pianos. Board Games.**

Wear your favorite Christmas sweater  
and you could win a prize!