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McDaniel-Knutson FINANCIAL PARTNERS

Making the Most of Qualified Charitable Donations

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Did you know individuals over age 70 ½ have the option of directing IRA distributions straight to charities as a Qualified Charitable Distribution (QCD) through the end of this year? This arrangement may have several advantages, but, first, here are the provisions:

- The IRA owner must be at least age 70 ½.
- The distribution must be made directly from the IRA to the qualified charity.
- The maximum amount is $100,000 for the entire year.
- The distribution is not taxable to the IRA owner, lowering his or her Adjusted Gross Income (AGI).
- The owner cannot take an income tax deduction for the contribution (but the income is not taxable).
- The distribution counts towards the Required Minimum Distribution (RMD).
- The distribution must come from an IRA (SEP, SIMPLE, 403(b) and other plans do not qualify).

So, what's the big deal? Can't someone simply donate their RMD or greater distribution to charity and take an income tax deduction? Perhaps, but not always. Let's explore a number of reasons why a direct transfer under the QCD rules may be advantageous, because it lowers one's AGI.

- Since many seniors do not itemize their taxes, the QCD allows them to exclude paying taxes on the distributions.
- Lowering one's AGI could have the effect of lowering the taxation of Social Security income.
- Lowering one's AGI could have the effect of lowering future Medicare Part B payments.
- A QCD does not count towards the 50% AGI contribution limit, which helps anyone making a substantial gift in a given year.
- A reduced AGI may allow a working individual to contribute to a Roth IRA.
- It could have a positive effect on other deductions for those whose deductions are subject to phase-out rules.

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Making the Most of Qualified Charitable Deductions *(continued from page 1)*

Here is a practical example. Say you give $300 a month to your church, and you are also getting $500 per month from your IRA. Direct your IRA custodian to send $300 directly to your church and $200 to you. If you are taking your income from a 401(k), you could roll it to an IRA and then make the distribution. Doing so could lead to a greater discussion of how you are giving and if there are other, more effective ways to give.

Bottom line: almost anyone over 70 ½ who has an IRA and who makes charitable donations would probably benefit from shifting those contributions to direct IRA transfers, especially non-itemizers and large donors. Depending upon one's income, the tax benefit for non-itemizers could 40% or more!

~Wayne McDaniel, CFP®, CLU, ChFC

Accessing your Brokerage Account: What You Need to Know

"Jude?" the client asks. "I need about $15,000 out of my account. Can I come by to pick up a check?"

"I wish it were that easy," I reply.

Having a brokerage account has a lot of advantages over a standard bank account. It can hold all kinds of assets aside from cash – stocks, mutual funds, exchange-traded funds (ETF), certificates of deposit (CD), bonds and money market. Trading these assets can be done with a phone call to your advisor who knows you and your objectives and who can handle all of the transaction details for you. However, accessing the funds is trickier than just going down to the bank and making a withdrawal.

The money in your brokerage account is usually invested in non-cash assets. When you want to make a withdrawal from the account the asset has to be sold (liquidated), and the cash delivered to the brokerage account from the buyer. Generally, the buyer has three days to deliver the cash to your account. Thus, if you call me Monday (before the market closes at 3:00pm) requesting a cash withdrawal, it will be Thursday before the money is available.

Once the cash is in your account there are several ways we can get you your money. The brokerage firm can mail a check to your address of record via snail mail (five to seven days) or overnight (up-charge). If you have bank instructions set up on the account, we can have the money sent electronically to your checking account on file via ACH transfer. We must have the bank instructions on file prior to the distribution to perform this service, though.

Signatures are required for a withdrawal from retirement accounts; no signatures are required for non-retirement accounts. Non-retirement accounts have lots of options: check-writing, debit cards, and margin. You can set price restrictions on when to buy and sell, which gives you more control and can reduce your risk. And, of course, you can participate in one of McDaniel Knutson's actively managed models. However, when the owner of an individual account (as opposed to a joint or business account) dies, all trading comes to an immediate halt and positions are frozen until a new owner is in place.

Are there any options for a quick withdrawal in an emergency? Maybe. If there is cash already sitting in the account, there is no need to wait for an asset to sell and settle. If a margin agreement is on file on the account it may be possible to expedite the services. And we can try to request a one-day settlement on assets sold (although we can't guarantee it will be granted). Best of all, if you have checks on your account and already have enough cash, you can just write one.

Talk to your advisor about your needs and how best to manage your brokerage account. If you find yourself in a financial emergency, give us a call. We're here to help.

~Jude McDaniel, CLU, ChFC.

Market Commentary

The US Debt Ceiling and Quantitative Easing

It seems the month of June is one of decision. The US has hit the end of its credit line, called a "debt ceiling," while quantitative easing ends in June if there is no intervention. These two issues are interrelated, and how the US government decides to handle them will help shape our economy for the next few years.

We have been experiencing the effects of quantitative easing for the past several months: a stronger-than-normal rally in the stock market and low interest rates to fuel mergers and acquisitions. The current plan of spending $600 billion to help drive the recovery ends this month. However, many economists agree that the Fed's goal to maintain stability in our economy will remain, and Federal Chairman Ben Bernanke will make sure it is still involved until the economy shows more signs of improvement.

"Bernanke has said time and time again the Fed will be there to support the economy," says Gary Flam, portfolio manager at Bel Air Investment Advisors in Los Angeles. "They might not call it QE3. It might come under a different form or different disguise. But the government will continue to support the economy as long as they need to."

Conversely, the US has maxed out its current limit, and spending is becoming more costly. Our modern debt ceiling was first put in place in 1939 as a way for the US Treasury to better manage government finances. The Treasury is granted authority by Congress to issue debt as needed as long as the total debt does not exceed a predetermined ceiling. This month, the US government has reached the current limit of $14.3 trillion and is currently spending about $120 billion more each month than it makes in revenue. There is little doubt that Congress will most likely raise the debt ceiling to accommodate mandatory spending, but raising our credit limit doesn't address the underlying issue of our debt. Hitting this limit is a tangible sign of our growing spending, and, with the economy still showing signs of weakness, the Fed is between a rock and a hard place.

Right now, the US government borrows more cheaply than anyone in the world, because financial markets trust the US will repay its debts. If other countries begin to doubt that, the rates at which the US can borrow will rise. In the past, as the US has approached the debt ceiling, the markets have responded by raising rates to account for the increased risk of lending to the United States. If and when that happens, "the government starts to pay more money to borrow. And that gets very expensive for taxpayers very quickly. Even a tiny, incremental increase in the amount that the government needs to pay to borrow money could cost hundreds of millions of dollars to taxpayers," according to the *New York Times*' Binyamin Appelbaum.

Here is where the two issues meet: if the Fed is adamant about keeping loose monetary policy, it could mean higher deficits and more spending. But increasing the budget to account for further easing could create larger problems for our economy down the road.

Because of quantitative easing, our stock market has recovered twice as fast as the previous bull market after the 2002 recession. Without it, it's difficult to predict how the markets will respond. If the Fed implies it will remain vigilant with easing, stocks could experience a minor shock at the end of June but ultimately push higher through the end of 2011. But if spending isn't reigned in, market gains could be tempered by weakening GDP and, eventually, rising interest rates. If Congress then tightens monetary policy in 2012, we could see higher taxes and more major market declines with higher volatility in 2012 and 2013. Whatever actions the government decides upon, these hard choices will most likely result in challenging markets.

~Victoria Bogner, CFP®

1 - "Despite End of Easing, Fed Won't Be Going Away Soon." Cox, Jeff. CNBC.com. 18 May 2011.

2 - "How Does the U.S. Debt Ceiling Work and Why Does it Matter?" PBS.com. 16 May 2011.

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CHICAGO Set for June 24 at Theatre Lawrence

We're all set for the old razzle dazzle from Theatre Lawrence! McDaniel Knutson is hosting a special night at the theatre as a thank you to our clients June 24. If you're attending, we can't wait to see you.

McDaniel Knutson staff will be on-hand at the theatre beginning at 6:30pm to welcome you. The theatre's bar will be open so you can enjoy a beverage or a cookie before the show.

At 7:00pm, we'll begin seating. Remember: the tickets are general admission, so arrive early if you want first choice of seats. The performance begins at 7:30 sharp, so please be at the theatre and in your seat at that time.

We'll send you your tickets in mid-June. If you have any other questions or need to cancel, please call and ask to speak to John Phythyon, our marketing director.

We look forward to seeing you for a pleasant evening at the theatre! Thank you again for your business.

<u>Event Details</u>:

Date: June 24, 2011

Seating Begins: 7:00pm

Show Starts: 7:30pm

Location: Theatre Lawrence, 1501 New Hampshire Street, Lawrence

(**Note:** We've "sold through" our entire block of tickets for this event. We can put you on a waiting list in case of a cancellation. Call us at 785-841-4664 for more information.)