

Roth IRA

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• *You don't want required minimum distributions at age 70 1/2.* The Roth IRA offers maximum freedom in this regard, though minimum distribution rules do apply to inherited Roth IRAs. If you are already 70 1/2 or older, a conversion will not eliminate the required minimum distribution for the 2010 tax year.

Change of heart

What happens if you convert to a Roth IRA and then decide that it was a mistake? Perhaps the current tax rules will be extended for everyone, so the top rate doesn't rise after all. Or perhaps a precipitous drop in asset values means that the tax will be far larger than if the conversion had been done later.

Whatever the reason, taxpayers are permitted to re-characterize a conversion to a Roth IRA, sending the money back to a traditional IRA. The recharacterization may occur as late as October 15 of the following year and still be effective. The Roth conversion may then be done at a future date, the later of 30 days after the recharacterization or the first day of the next tax year.

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CoreFirst Bank & Trust
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Sound Investments

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Self-Insurance for Long-Term Care

The good news for retirees is that life expectancies are growing longer. In 1955 an American aged 50 could expect to live to be 75. By 2005 that figure had jumped to 81. What's more, a 50-year old now has a 24% chance of surviving to age 90 and beyond. (These figures come from WolframAlpha.com.)

The potentially bad news is that longer retirements require more resources to preserve financial independence. One important aspect of planning for a long retirement is addressing the possibility of an extended stay in a nursing home. Should you buy insurance to cover such costs? Or can you afford to assume the risks, to "self insure" and pay nursing expenses out of your retirement resources?

Many factors will go into that analysis. One rule of thumb, according to a recent article at FinancialPlanning.com, is the "two-household" approach. If a couple has enough cash flow to maintain two households, they have enough to

cover the expenses for one spouse in a nursing home and one still living in the couple's home. This is more likely to be true for those with \$2.5 million and up in investment assets. Those with smaller fortunes should give more serious consideration to long-term-care insurance.

What about singles? When there is no surviving spouse to provide for, fewer assets may suffice, and the threshold for self-insurance perhaps may fall as low as \$1 million, if there is pension and Social Security income. That's because in this situation the home may be sold, and the proceeds paid over time to the nursing home.

The answer on purchasing long-term-care insurance also turns upon whether an inheritance is wanted for children or other heirs. An extended nursing home stay can consume the family fortune quickly. Insurance is a mechanism for protecting that fortune.

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Final Thoughts on 2010 Roth IRA Conversions

Is sooner better than later?

Upper-income taxpayers are not permitted to make contributions to Roth IRAs. The boundary in this case for 2010 is \$120,000 adjusted gross income for singles, \$177,000 AGI for marrieds filing a joint return. If these taxpayers want a Roth IRA, the only route is conversion. For example, a traditional IRA may be converted to a Roth IRA by anyone, regardless of income, beginning this year.

The price of conversion is taxation at ordinary income rates, generally on the entire amount that goes into the Roth IRA. For maximum long-term benefit, the taxes should be paid from other sources, not the Roth IRA. Those under 59 ½ are eligible to convert without paying the 10% penalty on early withdrawals. However, if they dip into the IRA or Roth IRA to fund the tax liability, they could owe a 10% penalty on that amount.

The opportunity to convert to a Roth IRA does not expire at the end of the year, so in a sense, procrastination is permitted. Two advantages may accrue to those who act quickly. First, there's the option of tax deferral, including spreading the load over two years, 2011 and 2012. Second, if Congress does allow the "Bush tax cuts" to lapse for top taxpayers, a conversion this year can be paid for at 2010's relatively low rates.

The economic advantage of conversion has been magnified by the adoption of new taxes, beginning in 2013, to help pay for health care reform. If the tax cuts do expire, the scheduled top tax rate on investment income and dividends will be 43.4% in 2013 and later years. The top rate on wages will be 41.9%, the top rate on long-term capital gains, 23.8%. Accordingly, 2013 begins to look like the real deadline for conversion to a Roth IRA. Although the conversion itself won't be subject to the health-care surtaxes, it would likely push the taxpayer's other income into that range.

Conversion profiles

Is Roth IRA Conversion Right for You?



You are probably a good candidate for conversion to a Roth IRA if:

- *You're already in the top tax bracket, and you still will be in the future.* By converting, you take advantage of this year's 35% top rate.
- *You have tax deduction carryforwards.* For example, a carryforward of a large charitable deduction can be used to offset the tax liability on the conversion.
- *You live in a state without an income tax, but you expect to move to a state that has one.* Even if you are not in the top tax brackets, converting this year keeps more in your account by dodging the state income tax bullet.
- *You expect your estate will have to pay federal estate taxes.* Conversion to a Roth IRA will eliminate the estate tax on the deferred income tax, which will apply to a traditional IRA. Note, however, that the prognosis for the federal estate tax is uncertain at this time. (Continued on page 4)

Jane Hicks



How do you bid goodbye to one of the Trust Department's unsung heroes, whose goal is to make lives a little easier without ever wanting or expecting recognition? Maybe her favorite poem sums it up best:

Courage doesn't always roar. Sometimes courage is the little voice at the end of the day that says, "I'll try again tomorrow."

-Mary Anne Radmacher

Jane Hicks, retiring from CoreFirst Bank & Trust after 20

years, lives this philosophy and starts each day with a fresh outlook, "trying again tomorrow" to improve other's lives. And with our crew, that takes some courage indeed!

Although Jane recently moved to our Trust Operations department, most of you remember her best as the smiling-faced trust receptionist who made you feel as though she has known you all her life. Known by various names – Miss Jane, Janey, Jane Ann, Mama Jane – Jane made each of us feel special in her own unassuming way and always has an ear and a shoulder for those in need.

Jane married her husband Ed 47 years ago and has six children. The combination of having a child who is working in Singapore for a limited time and Ed's retirement earlier this year hastened her decision to retire at the end of 2010. She is looking forward to their Singapore trip as well as visiting family in California, Illinois, St. Louis and Arkansas, and is considering an Alaskan trip as well.

Jane has varied hobbies and interests. She is an avid collector of Precious Moments figurines since 1979 ("too many to count"), and loves sewing, crochet and cross stitch. Her favorite creation is a bookmark she made with her 94-year-old mother's favorite saying, "If you can't change things, change the way you think about them." Jane lives by that adage.

You might not know that Jane is a bit of a daredevil. She has parasailed not once, but twice, and has ridden in a hot air balloon despite being afraid of heights.

According to her husband, Jane is the world's best cook. She is a turkey-making whiz, and Ed swears she has never made a bad bird. Jane thinks of her cooking more as "regular" cuisine, as evidenced by her own culinary favorite – ice cream.

Jane considers her years with the trust department a gift. Well Jane, the gift is ours. You will be missed – visit often. We love you, Miss Jane!

Ask A Trust Officer

DEAR TRUST OFFICER: We are a group of close-knit friends. Although some of us have family to rely on, others, like myself, aren't so lucky. Recently, one of us was suddenly taken ill. Her recovery is slow, so we are trying to do all that we can to help out. A court appointed someone to handle her finances because, we gather, she hadn't made any formal arrangements. From our conversations, we knew that the person chosen wasn't particularly well liked—or trusted—by our friend.

We have been talking about our own situations, and what would happen if we became incapacitated. I'm particularly worried about who would manage my investments. This kind of help goes beyond the capability of anyone in our circle. As a first step, I volunteered to look into our options. We are open to your ideas.

-Doing the Legwork

DEAR DOING: A durable power of attorney is a good tool when you have someone whom you trust to act on your behalf and who has the right credentials. When you don't, you need a different solution: a revocable living trust.

By naming a corporate fiduciary, such as our institution, to serve as the trustee of your trust, your assets will be managed by experienced and knowledgeable professionals who are held to the highest standards when making decisions on your behalf.

You can set out exactly what you want us to do in the trust agreement. You're not "locked in" either. You can make changes or even cancel the trust at any time. Plus, there are other benefits of a living trust that are worth discussing. I would be glad to talk to you and any of your friends who are interested in finding out more about this kind of trust arrangement.

Do you have a question concerning wealth management or trusts? Call (785) 267-8402 with your inquiry.

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Ask A Trust Officer

DEAR TRUST OFFICER: How much of my portfolio should be in bonds? A lot more than a couple years ago?

-Averse to Volatility

DEAR AVERSE: Given the wrenching losses in global equity markets of the last few years, a flight by investors to the lower volatility and higher predictability of bonds is to be expected. Perhaps "stampede" would be a better description than "flight." According to *Morningstar Advisor*, open-ended bond funds in the U.S. took in \$357 billion in 2009, more than all other asset classes combined and more than the previous five years combined.

Strong demand for bonds, coupled with the Federal Reserve's policy of keeping interest rates low to stimulate the economy, have pushed yields to very low levels. It takes a lot of capital to get much income if aggregate yield is hovering at 3.5%.

Beyond the difficulty of generating income, bond investors have to worry about how the economy will affect the value of their holdings.

Should the economy falter, state and local tax revenues won't be growing—and could be falling—at a time of increasing demand for state services. Unfunded public employee pension obligations are another storm cloud in this area. These factors could increase the default risk of muni bonds, depressing prices. On the other hand, rising tax rates in the future could increase the demand for tax-free income. Coupled with a supply shortage resulting from the advent of taxable Build America Bonds for state and local governments to issue, there is some built-in future price support.

Strong economic growth won't be unalloyed good news for bond investors either. Once growth becomes robust, the Fed is certain to let interest rates rise back to normal levels. That would push bond prices down, with the biggest declines expected for the longest maturities.

If you are concerned about the role bonds are playing in your portfolio, we invite you to come in to speak with our investment professionals.

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