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Charitable trusts: take the lead



Suppose you would like to make a large donation to your favorite charity, but you are concerned about your family's future well-being. If you do not have ample funds to achieve both objectives, consider the benefits of a charitable lead trust (CLT).

This type of trust - which is the flip side of the better-known charitable remainder trust (CRT) - may be established during your lifetime or through a will (i.e., a "testamentary trust"). There is increased interest in CLTs now due to an anticipated rise in tax rates and the advent of the 3.8% Medicare surtax on certain investment income.

How it works: In a CLT, the charity receives a steady stream of income for a set period of time. At the end of the trust term, the funds come back to the beneficiaries you have designated, such as your spouse, children or grandchildren. In contrast, a CRT provides income to beneficiaries for a specified period of time while the charity receives the trust funds at the end of the term.

No matter what type of trust you use, the family benefits from a gift- or estate-tax deduction. However, unlike CRTs, there generally is no income-tax deduction for donating property to a CLT. **Exception:** In some cases, you may claim a charitable deduction for the present value of the charity's interest if you are willing to be taxed on the trust's income. More details are available upon request.

The gift- or estate-tax deduction makes it possible to transfer the remainder interest to family members at a relatively low tax cost. Taking this and various other factors into account, the children can wind up with an amount close to what they would have received had they been given the property outright.

Key point: The estate- or gift-tax deduction is allowed only if the charity's interest is either an annuity or unitrust interest. An annuity interest requires fixed annual payments. On the other hand, a unitrust requires payment each year of a fixed percentage of the trust assets. The trust term can last for either

- a fixed number of years
- the life of the donor, donor's spouse or a lineal ancestor (or spouse) of all of the remainder beneficiaries.

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Charitable trusts: take the lead

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Which type of trust is preferred? Of course, your choice of trust depends on your situation. However, one possible advantage of an annuity-type trust is that the beneficiaries may ultimately cash in on the appreciation of the trust assets.

Conversely, if the trust does not earn sufficient funds to cover the charity's payments, it will have to dip into principal. With the unitrust arrangement, changes in the value of

the property have no such effect. Also, the deduction for an annuity-type trust is determined by a special IRS table. These figures are adjusted each month to reflect changes in interest rates. The lower the interest rate, the greater the deduction for you or your estate.

As you might imagine, this is not a do-it-yourself proposition. If you are interested in settling up a charitable trust, be sure to obtain expert advice.

Investing around the globe

For years, some investors have been "broadening their financial horizons" with international investments. As economies around the globe continue to intertwine, the trend is becoming more commonplace.

Two of the main reasons for investing in foreign markets are diversification and potential growth. Through diversification, you can spread investment risk. At the same time, you may take advantage of the potential for growth in certain foreign economies, especially in emerging markets.

By including both domestic and foreign stocks in your portfolio, you may be able to smooth out some of the inherent ups and downs of equity investing. That is because foreign market returns may move in a different direction from U.S. market returns. Furthermore, even when international and U.S. investments move in the same direction, the level of change may vary.

Nevertheless, if you are going to add a foreign flavor to your portfolio, you must consider other factors, such as the possibility of higher costs, dramatic changes in value and special risks involved in international investing. Here are several special risks to contemplate:

Currency exchange rates: When the exchange rate between a foreign currency and the U.S. dollar changes, it can increase or reduce your investment return. In times when foreign currency is strong compared with the U.S. dollar, your investment return effectively increases, because foreign earnings translate to more dollars. But the opposite occurs when the U.S. dollar is stronger.

Market value: As with U.S. markets, foreign markets can

have wide swings in value. To reduce the impact, focus on investing for the long term.

Outside events: Political, economic and social events can all have significant impact on your investments in foreign markets. This variable is often difficult to account for and must weigh heavily in your investment decisions.

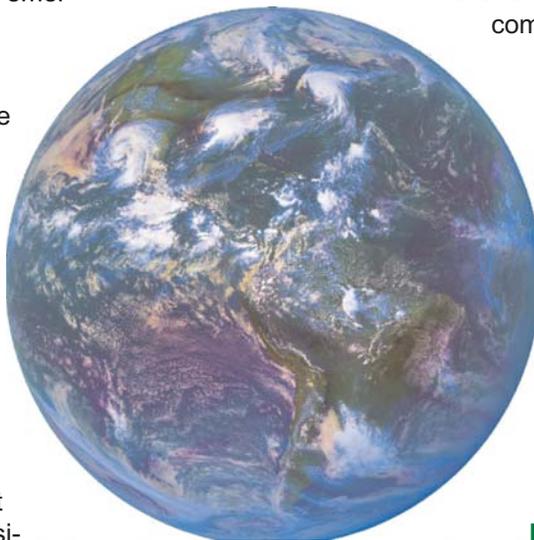
Lack of liquidity: Foreign markets often have lower trading volumes and fewer listed companies than do U.S. markets. Also, you may have to pay higher prices to buy a foreign security or have trouble finding a buyer when you want to sell - or both.

Less information: Foreign companies may not provide investors with the same level of information available to investors in U.S. public companies. Not only can information be harder to obtain but it might only be published in the country's native language.

Legal remedies: If you have trouble with a foreign investment, you may not be able to sue the company in the U.S. And, even if you sue successfully in a U.S. court, collecting can be difficult.

Market operations: Foreign markets often operate differently from the major U.S. trading markets. Consider the rules for clearance and settlement of transactions.

Proceed with caution: If international investing appeals to you, rely on a financial professional advisor for guidance.



Put it in writing!

If you are concerned about your family's future, you should have a valid will executed. But that won't do much good if it cannot be found or if the terms are not clear. So you may want to draft a letter of instructions to accompany the will.

This is an informal letter giving your heirs information concerning estate matters. It does not carry the same legal weight as a will, but it is important nonetheless. For instance, the letter may specify requests that should be carried out upon death. Copies of the letter should be attached to the original will and another copy placed in an accessible location known to family members.

A letter of instructions may cover a variety of issues, but here are several areas likely to be included:

Explanation of assets: The letter may provide a detailed inventory of assets, especially those possibly overlooked when the estate is settled. This can include checking accounts (with records of passbooks and their locations); safe deposit boxes and their contents; business insurance and accident insurance; retirement plans; Social Security and VA benefits; stocks, bonds and other investments (including the names of brokers and account numbers); information on real estate holdings; and mortgage insurance and life insurance policies. Include the insurance company's name, your policy number, the name of the agent handling the policy and any relevant papers.

Location of documents: Besides those assets already accounted for, you should also list all your important personal and financial papers. This may prove helpful in settling your affairs. For example, you should disclose the whereabouts of your past federal and state tax returns and the records required for this year's returns. Don't forget to list all debts, credit cards and other accounts that may need to be paid off, canceled or transferred to your spouse's name.

Miscellaneous instructions: Other items of a personal nature may be included in a letter of instructions. Some of these items are: funeral, burial or cremation arrangements; fees that have been paid and cemetery plots selected; names, addresses and telephone numbers of people or organizations to be notified upon death; and other specific instructions for handling personal affairs.

Other information: You might want to state personal preferences and desires in the the letter (e.g., your wishes concerning the education of your children). Finally you may explain the amounts that the heirs can expect to receive as their inheritances and the reasons for the distributions.



Is it still a good time to convert?



Much has been written about Roth IRA conversions in recent years. **And with good reason:** A conversion can provide the potential for future tax-free payments and a way to preserve a nest egg for your heirs. For 2010 only, you could even elect a two-year deferral on the resulting tax. But can a conversion still make sense in 2013?

The short answer is "yes," but it depends mainly on your personal circumstances. Furthermore, you should take other extenuating factors into account.

Let's start with a brief comparison. Distributions from a traditional IRA are generally taxed at ordinary income rates currently reaching as high as 35%. (Future tax rates are expected to rise.)

The taxable portion includes earnings within the tax-deferred account and amounts attributable to deductible contributions.

In contrast, "qualified distributions" from a Roth IRA are completely tax-free. A qualified distribution is one from a Roth in existence at least five years that is made after you've reached age 59½; upon death or disability; or to pay for first-time home-buyer expenses (up to a life-time limit of \$10,000). Other distributions are treated as coming first from Roth IRA contributions, second from amounts transferred to the Roth and third from earnings.

In effect a conversion of assets from a traditional IRA to a

Is it still a good time to convert?

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Roth is treated as a withdrawal for tax purposes. So you are generally required to pay the usual amount of tax when you convert.

Yet the current tax cost may be worth it in exchange for future tax-free distributions. (For a conversion occurring in 2010, you could choose to have the taxable income from the conversion split evenly over the following two years.) Also, unlike a traditional IRA, you don't have to take minimum distributions from a Roth after age 70½.

But there are potential drawbacks to a conversion. For instance, if you have to use funds from your IRA to pay the resulting tax, it will likely dilute future benefits. Some of the other key factors to consider are

- your age, your spouse's age (if married) and the ages of the beneficiaries
- the value of the assets in your IRA

- the need to receive Roth IRA distributions in the future
- the projected investment rate of return
- any state and local tax implications

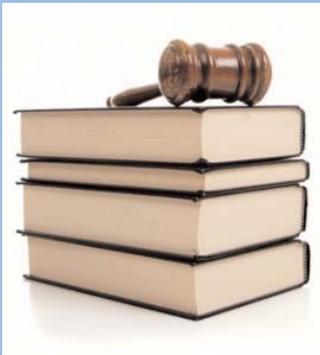
- if nondeductible amounts were contributed to the traditional IRAs

These factors will have a substantial impact on your decision and require a careful analysis of your situation. Beware of online calculators that leave out critical factors.

Finally, note that a conversion is not necessarily an all-or-nothing proposition. If it suits your purposes, you might opt for a partial conversion or a series of conversions over several years. By structuring things carefully to keep your income below certain levels, you may be able to reduce the impact of higher tax rates and the 3.8% Medicare surtax in 2013 and beyond.

Everyone's situation is different. Obtain more details concerning these tax-related aspects.

New Law Includes Pension Law Changes



Congress was able to agree on one significant "retirement planning" law prior to the November election.

The "Moving Ahead for Progress in the 21st Century Act" (MAP-21), which addresses funding for highway construction, contains provisions designed to improve funding of "defined benefit" retirement plans like traditional pension plans. But it also bumps up the premiums that sponsors must pay to the Pension Benefit Guaranty Corporation (PBGC). The PBGC generally protects defined benefit plan participants.

Furthermore, MAP-21 extends the interest rate of 3.4% on college student loans for one year, through July 1, 2013. Without the new law, the rate would have doubled to 6.8%

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