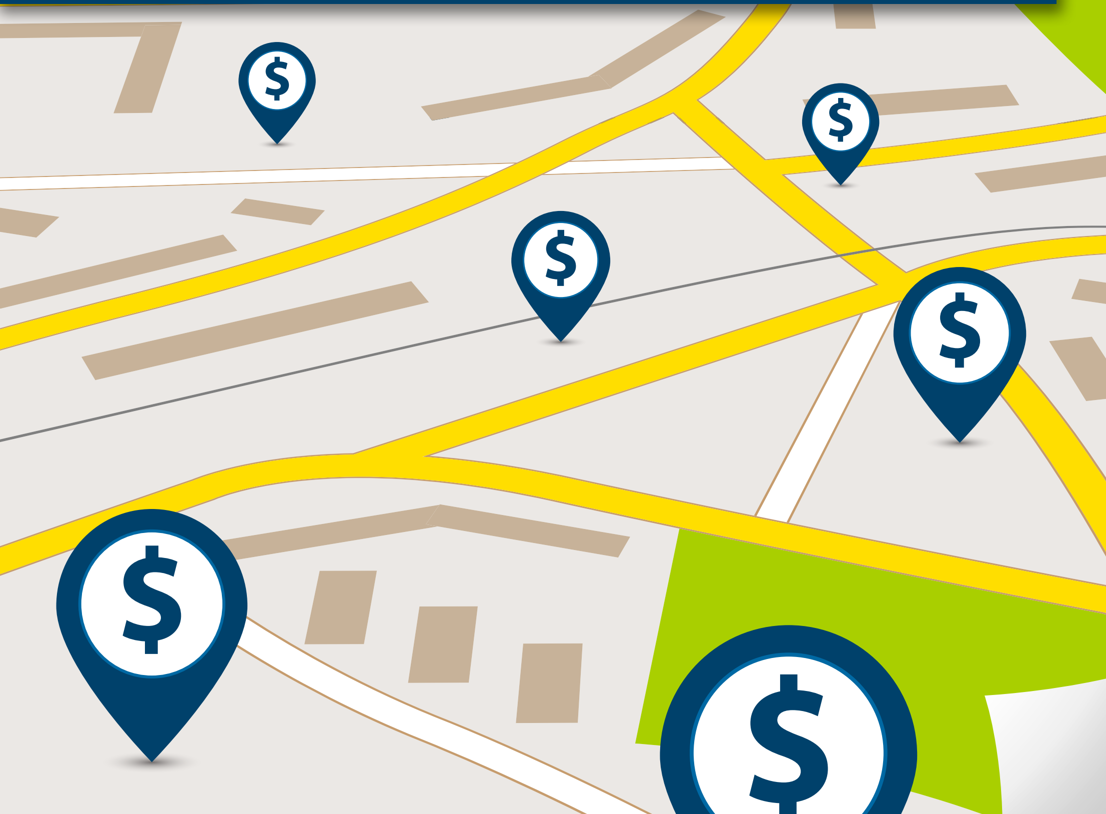
WEALTH
MANAGEMENT
Spring 2016



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01 LOCATION, LOCATION, LOCATION

The three most important words in real estate are also significant for your investments. Where you hold your various investments — in a taxable account, a tax-deferred ccount, or a Roth account — can have an impact on your portfolio's after-tax returns. Strategically placing different kinds of investments in the accounts that may be most suitable from a tax standpoint helps create a more tax-efficient portfolio.

LOCATION: TAXABLE ACCOUNTS

You'll generally pay income taxes each year on the earnings from investments held in taxable accounts (e.g., a brokerage account). Various federal tax rates can apply:

- Bond interest is generally taxed at ordinary rates ranging from 10% to 39.6%.
- A major exception is municipal bond interest, which is generally tax exempt.

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- Capital gains on securities held one year or less ("short term") are also taxed at ordinary rates.
- Capital gains are subject to lower rates if the gains are considered "long term" (generally, gains on securities held longer than one year). The maximum long-term capital gains rate is currently 20%.
- "Qualified" dividends are taxed at the same rates as long-term capital gains.
- High-income investors may have to pay an additional 3.8% net investment income tax.

Given these rate differences, appropriate investments for taxable accounts might include stocks intended to be held for longer than one year, tax-managed funds, and passively

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AVOIDING SHORT-TERM FOCUS

It is only natural that volatile markets create doubts and concerns in investors' minds. The successful investor understands the long-term nature of investing. One of the traps that some investors fall into is inappropriately focusing on short-term risks versus long-term risks. For most of us, our investment objectives are long term, such as retirement, college funding and legacy planning. Over the long term, for most investors, equity and bond investments are better suited for long-term wealth accumulation than safer investments.

Do you check your investment account balances daily or hourly? If so, then you may be suffering from short-term focus. This short-term focus may result in poor investment decisions, such as selling your stocks during market downturns. Remember that those who sold their stocks at the bottom of the 2008-2009 financial crisis would have been better off if they had remained invested. That is why we highly recommend that you discuss any concerns that you may have about investments or markets with your Financial Advisor or Trust Officer.

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managed assets with low turnover, such as index funds. Tax-exempt municipal bonds also may be appropriate.

LOCATION: TRADITIONAL IRA OR WORKPLACE RETIREMENT ACCOUNT

When the taxes on earnings are deferred from year to year, the taxes saved may be reinvested for purposes of increasing the alternative rate of compounding. Various retirement accounts, such as traditional individual retirement accounts (IRAs) and pretax 401(k) accounts, allow you to defer taxation on investment earnings until distribution, when previously untaxed amounts will be taxed at ordinary income-tax rates. Possible investments to consider for tax deferred retirement accounts include stocks you intend to hold for one year or less, bonds generating taxable interest, and mutual funds that make relatively large distributions each year.

LOCATION: ROTH IRA OR ROTH 401(K) ACCOUNT

Investment earnings in a Roth IRA or a Roth 401(k) account can also compound tax deferred. Even better, after a five-year waiting period, those earnings won't be taxed when distributed from the account once you are age 59 1/2 or older (or in certain other situations). Appropriate investments for Roth accounts generally are those with the greatest long-term growth potential.

YOUR WITHDRAWAL STRATEGY

After you retire, you'll want to have a strategy for taking money from your accounts. To maximize the benefits of tax deferral, consider withdrawing money from taxable investment accounts until you reach age 70 1/2. At that point, you'll be required to take minimum distributions each year from traditional IRAs and from 401(k) and other employer plans. Liquidating unappreciated securities in taxable accounts first would avoid capital gains tax, letting you keep more of your money.

Of course, the effects of taxes should not be the sole determining factor in any of your investment decisions. However, careful planning that takes into account your personal circumstances and goals can help you minimize taxes on your investment income.

02 TRANSFERRING PROPERTY WITH A QPRT

Do you own a valuable home that you'd like to give to your children? A qualified personal residence trust (QPRT) allows you to make the gift but retain the right to live in the house rent free for a fixed period. As long as you outlive that period — the trust's term — the property is removed from your estate for federal estate-tax purposes.

Since you retain the right to live in the home rent free for the trust's term, your gift may be valued for tax purposes at a fraction of its current fair market value. The length of the term, your age, and the applicable IRS discount rate at the time of the QPRT's creation determines the value of the gift.

If you don't outlive the trust's term, the value of the property will generally be included in your estate for federal estate-tax purposes. Essentially, your estate-tax situation will be the same as if you hadn't created the QPRT.

In the right situation, a QPRT can be a valuable planning tool. However, you'll want to explore the potential benefits and downsides in depth before deciding whether a QPRT should play a role in your estate planning.

WHEN A TRUST ENDS

What happens if you create a QPRT to transfer a residence to your children but want to continue living in the home after the trust ends? You can avoid having the home pulled back into your estate by leasing the home from your children and paying them fair market rent. In this situation, it's wise to:

- Hire an experienced appraiser or realtor to determine the rental amount
- Have a real estate attorney draw up a lease agreement
- Revisit the rental amount at the end of each lease term to ensure that it reflects current market value

03 INVESTING IN REAL ESTATE WITH REITS

If you're looking to own a portfolio of real estate properties or mortgages, a real estate investment trust, or REIT,* is a possibility to consider. A REIT is a company that owns or finances a portfolio of real estate properties or mortgage loans. Properties can consist of apartments, shopping malls, hotels, offices, and other types of real estate. Owning shares of a REIT allows you a portion of the income generated by the REIT's investments.

BENEFITS OF REITS

REITs trade on major U.S. exchanges, so they offer you more liquidity than owning physical real estate. They can potentially provide a steady source of income for shareholders because they must pay out at least 90% of their taxable income to shareholders annually.

Additionally, REITs tend to perform differently from other asset classes and may add another layer of diversification** to your investment portfolio.

DIFFERENT TYPES

There are generally three types of REITs. Equity REITs are the largest category. They invest directly in property and derive their income primarily from rents. Mortgage REITs make loans secured by real estate or purchase existing mortgages or mortgage backed securities. They earn income from the interest on these investments. Hybrid REITs invest in both properties and mortgages.

* REITs involve risks such as refinancing, economic conditions in the real estate industry, changes in property values, dependency on real estate management, and other risks associated with a portfolio that concentrates its investments in one sector or geographic region.

** Diversification does not ensure a profit or protect against loss in a declining market.

04 USE CARE WHEN CHOOSING A TRUSTEE

If you include a trust in your estate plan, you'll have to choose a suitable trustee to carry out the terms of your trust. The trustee you select must have the skills, perspective, and knowledge, as well as the time, to adequately perform a wide range of duties.

You can choose a family member, a friend, your attorney, or an institution to serve as trustee. The trustee you name will be legally responsible for managing and distributing the trust assets to beneficiaries according to the trust's terms. If you choose an individual, you should also consider naming a successor trustee to take over these duties if the original trustee cannot serve.

RESPONSIBILITIES OF A TRUSTEE

You should familiarize yourself with the trustee's duties and be sure the trustee you choose can manage those responsibilities. Trustees may be required to do some of the following tasks:

- Follow the instructions provided in the trust document
- Plan an appropriate strategy to protect beneficiaries' interests and make investment decisions within the parameters of that strategy
- Collect income from the trust's assets
- Pay bills and perform other accounting tasks
- Compile detailed financial records and provide account statements to beneficiaries
- Distribute principal and income according to the terms of the trust agreement
- Attend to tax issues, including filing the trust's income-tax returns
- Coordinate the transfer of assets, including real estate, which may require obtaining titles, deeds, and appraisals

WHO CAN DO ALL THIS?

A corporate trustee can offer expertise that a family member or friend may not be able to offer. If you have doubts about an individual's capacity to manage the complex obligations involved, consider having the individual serve as co-trustee with a professional or corporate fiduciary.

05 CHARITABLE CONTRIBUTIONS FROM YOUR IRA

The Protecting Americans from Tax Hikes (PATH) Act of 2015 permanently extended a provision that allows individuals age 70 $^{1/2}$ and older to give to their favorite charity and simultaneously give themselves a tax break.

Eligible taxpayers may exclude from gross income up to $100,000 annually for direct transfers from their individual retirement accounts (IRAs) to qualifying charities. For married couples filing a joint return, the limit is $100,000 per individual IRA owner. If all requirements are met, the transfer will count toward your required minimum distribution for the year.

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The advantage of this rule is that it allows you to exclude the qualifying charitable distribution for purposes of calculating adjusted gross income, which may benefit you elsewhere on your income-tax return.

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