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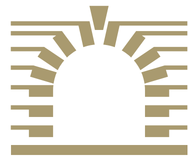
Provenance Wealth Advisor



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Do you have enough coverage?
You might need more disability income insurance than you think

Traditional IRA distributions
Transfer more wealth to your heirs by understanding the rules

4 tips for investing in an economic downturn

Preparing for the worst
How to disaster-proof your financial life

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Do you have enough coverage?

You might need more disability income insurance than you think

Suffering a disability can be physically and emotionally devastating for you and your family. And if you're no longer able to work and not adequately prepared, it can also cause financial turmoil.

Tapping into your savings to cover living expenses along with medical and possibly long-term care costs can quickly drain funds you've set aside for college, retirement or other goals. Evaluate your disability income insurance now to determine if you have adequate coverage. Your financial survival may depend on it.

How much is enough?

Disability insurance protects the income you rely on for financial security. Coverage provides you with a monthly income — typically 60% to 70% of your base salary — should you become unable to work.

Even though expenses such as commuting costs, restaurant lunches and work clothes will decrease, you no longer will receive bonuses, commissions or other additional income you may be accustomed to receiving as an employee.

Don't look for much help from Social Security. It does pay some disability benefits, but in most cases, it doesn't provide adequate coverage. In addition, qualifying for this government benefit can be difficult. So unless you have other substantial sources of income — from an investment portfolio, for example — you should purchase disability insurance and get as much coverage as you can afford.

What to consider before making a purchase

Check with your employer first to determine if you're covered by a group policy. If the policy doesn't cover at least 60% of your income, doesn't pay benefits until you reach age 65 or has a waiting period longer than your savings can last, you need to look into private insurance as well.

An individual disability policy isn't cheap, but you can't afford not to have one if you need it. Also keep in mind that, without your own policy, you may be left with no coverage if you're between jobs.

> A policy's definition of "disability" is what determines whether you're eligible for benefit payments.

What to look for when buying a policy

A policy's definition of "disability" is what determines whether you're eligible for benefit payments. The policies that provide the broadest coverage define disability as your inability to perform the duties required by your own occupation. The policies that provide the narrowest

coverage define disability as your inability to work in any job at all.

When obtaining individual insurance, aim to:

Receive the highest monthly benefits for which you can qualify. You can purchase extra coverage or riders that offer larger payments.

Receive "own occupation" coverage for life. Many insurers now offer only "any occupation" coverage, which could force you into a new, lower-paying line of work.

Receive the longest waiting period you can afford. A policy with a six-month waiting period is much less expensive than one with a two-week waiting period.

You can add various coverage options or riders that, for example, pay if you can return to work only part time or don't qualify for Social Security benefits and provide for cost of living adjustments and automatic benefit increases. You can also add the additional-purchase option, which guarantees you the right to buy additional disability insurance in the future, regardless of your health at that time.

What's the potential tax impact?

Generally, if you pay for disability insurance with after-tax dollars, any benefits you receive will be tax free. Taxability of employer-provided disability coverage is another issue. An employer providing disability income insurance as a fringe benefit has two choices:

1. **Treat your premium expense as taxable compensation to you.** If you become disabled, policy benefits you receive will be tax free, and the company receives a deduction for the premiums as compensation expense.
2. **Not to treat your premium expense as taxable compensation.** You pay no taxes on the premiums now. If you become disabled, any policy benefits you receive will be taxable, and the company doesn't receive a tax deduction.

Because employer-sponsored disability coverage may be at least slightly inadequate, taxing the premiums so the policy benefits are tax free may be better. In fact, you don't need as much coverage if you won't have to pay tax on the benefits received. So if your employer doesn't treat premiums as taxable compensation, taking out your own policy — or a larger policy — may be even more important.

Where should I start?

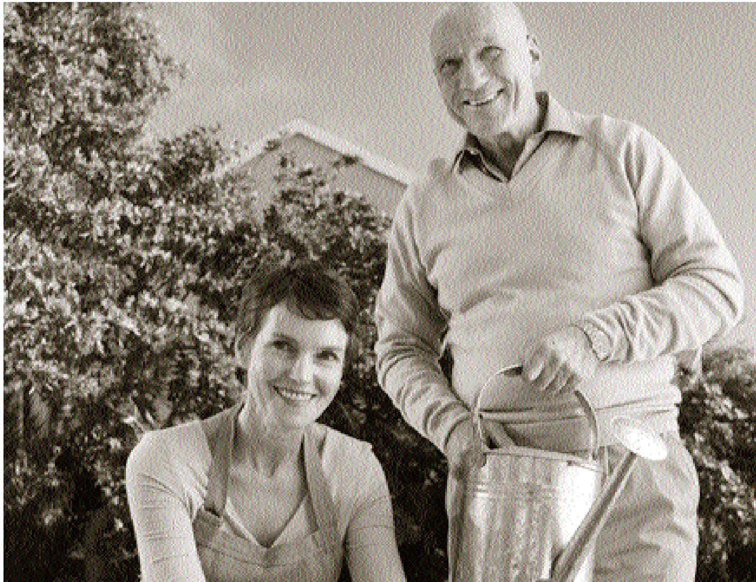
Just as you insure your home and personal property, automobiles, and your life, it's equally important to protect your ability to earn income. Consider all of your monthly expenses, such as mortgage and insurance payments, food, property taxes, home maintenance, and utilities; then ensure you have adequate disability income coverage to meet them — no matter what. ■

Traditional IRA distributions

Transfer more wealth to your heirs by understanding the rules

The Smiths are 65-year-old retirees living off the dividends and gains from their stock portfolio. They want to allow Mr. Smith's traditional IRA to continue to grow tax-deferred and, ultimately, provide a tax-advantaged inheritance for their 35-year-old daughter, Sarah.

But traditional IRAs are governed by mandatory distribution rules. Understanding these rules can help the Smiths devise the most tax-efficient way to use their retirement savings to provide financially for their daughter.



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All about distributions

Account holders pay tax on distributions at their ordinary federal income tax rates, rather than at the lower long-term capital gains rate they may be eligible for on gains and qualified dividends from investments held *outside* retirement accounts. State taxes vary, and some states don't tax retirement plan distributions at all. Distributions from nondeductible traditional IRA contributions, however, are partially tax free to the extent of the original contribution.

Distributions can be in the form of cash or securities. But if it's the latter, the account holder is required to pay tax based on the current fair market value of the distributed securities — which becomes his or her tax basis in those securities.

Because the Smiths don't need to tap the funds in Mr. Smith's plan for retirement living expenses, they can stretch out distributions as long as possible — during their lifetimes and beyond — and thereby transfer more wealth to their daughter. Required minimum distribution (RMD) rules allow them to prolong the tax deferral by taking only small distributions.

The first RMD equals only 1/27.4 of the account's balance as of Dec. 31 prior to the year in which Mr. Smith turns age 70½. By age 80 there may be nearly as much in the account after earnings and taking the minimum distributions as there was at 70.

The stretch effect

The rules for inherited IRAs vary depending on whether the recipient is the spouse of the deceased or another beneficiary. For example, on Mr. Smith's death, his traditional IRA can be shifted into a rollover IRA for Mrs. Smith.

If Mrs. Smith is under age 70½, she can defer distributions until she reaches that age. After she dies, Sarah, as the beneficiary, will have to decide how to make withdrawals. As the beneficiary of an inherited IRA, she can take everything all at once or at any time during the five-year period after her mother's death.

Alternatively, Sarah can begin taking distributions in the year following her mother's death and can spread those distributions over her own

life expectancy, based on the government's single life tables. This typically will result in small required distributions that will allow the account to build value for years to come. A 48-year-old person, for example, would be required to withdraw 1/36 of the total in the account. This fraction slowly increases as the person gets older.

Because it's an inherited IRA, Sarah isn't allowed to wait until she reaches the age of 70½ to begin taking distributions. But if she decides to cash out the IRA at her mother's death and pay the tax, she loses its long-term tax-deferral benefits.

Other considerations

The Smiths also must be mindful of the estate tax consequences of leaving an IRA to their daughter. IRA assets are included in the owner's taxable estate. So if the IRA and other assets in the estate exceed the available estate tax exemption, much of its value could be lost to estate taxes.

And if Sarah cashes out the IRA upon inheriting it, the combination of federal income and estate tax may ultimately reduce the amount she receives by nearly 70%.

Plan distributions carefully

Retirement account funds can last a lifetime, and, with careful planning, may even outlive you to benefit your heirs. If you want to ensure they do, devise a strategy that details when you will take distributions and in what amounts. ■

4 tips for investing in an economic downturn

When the general economy is suffering and the stock market is falling on a daily basis, it can try the patience of any investor. But take heart: Difficult market conditions sometimes provide smart investors with potentially rewarding investment opportunities. When financial markets are sluggish, keep in mind these four basic investing tips.

1. Hang on

If falling stock prices are causing you to think about selling some of your underperforming stocks, think twice. There are, of course, good reasons why you might want to sell certain positions — if, for example, you've identified better investment potential elsewhere or you want to realize capital losses to offset future capital gains.

But if you're selling only because you're worried about stock prices falling even further, it's usually a bad move. When you liquidate otherwise good stocks in decline, you lock in losses with no hope of recovery.

Assuming your investment time horizon is long enough to wait out a downturn, take comfort in the fact that, despite considerable short-term volatility, the market has historically risen over the long term. If your time horizon is relatively short, however, make sure you work closely with your financial advisor to determine the best portfolio mix for your age and risk tolerance.

2. Buy low

When the overall market drops, it takes many different kinds of stocks with it. Sometimes the reasons behind an individual stock's price drop are rational, such as weaker earnings, management troubles, or a worsened outlook for the

future. But at other times, a stock may fall even when its underlying business remains solid.

This can be an opportunity for attentive investors to buy shares of quality companies at a significant discount. If you're right about a firm's long-term prospect and its stock begins to rise, you have the opportunity to buy in at lower prices, thereby magnifying your potential for future gains.

3. Diversify

One way to reduce your portfolio's vulnerability in a weak market is to make sure it's diversified across a variety of asset classes. This means not only being diversified *among* stocks, bonds and money market funds, but also *within* each of these groups.

For example, on the equity side, a combination of growth and value stocks, domestic and international companies, and large- and small-cap companies can reduce your risk. On the fixed-income side, a well-balanced portfolio should include both lower-risk/return and higher-risk/return securities and bonds spread over a variety of maturities.

The goal of diversification is to own some investments that can be expected to outperform while others are underperforming. This can reduce your portfolio's overall volatility and minimize the negative impact of a market downturn on its value.

4. Be consistent

Even the most surefooted investors can find it tough to motivate themselves to invest when markets are declining. One way to overcome this challenge is to invest a set amount of money at regular intervals to take advantage of dollar-cost averaging.

Dollar-cost averaging, by investing the same dollar amount at regular intervals, allows you to acquire more shares when market values are lower and fewer when prices are higher. By investing regularly in a market downturn, you can lower your average cost per share, thus enhancing your gains if your investments rebound.

But for dollar-cost averaging to be effective, you must commit to investing in both good and bad markets. So before enrolling in an automatic investment program, be sure to consider your ability and your commitment to continue to make regular investments. Bear in mind that dollar-cost averaging doesn't assure a profit, nor does it protect against loss in declining markets.

Get a portfolio checkup

Here's a final tip that applies to all types of market environments: Work closely with your financial professional to assess your portfolio's health and make any needed changes to your investment mix. Ask how you can best position your portfolio to perform steadily in both favorable and unfavorable market conditions. ■

Preparing for the worst

How to disaster-proof your financial life

You can't predict a hurricane, flood, fire or any other natural disaster. But, fortunately, you can plan ahead to minimize the impact one can have on your family's financial health. Here are some guidelines to help you prepare for whatever comes your way.

Check your insurance

The time to determine whether you have the right type of insurance protection is before disaster strikes. Good coverage can be expensive, but not as potentially expensive as lacking it when you face an actual emergency.

Check with your insurance professional to find out if your existing coverage is comprehensive enough. For example, some homeowners' policies will not automatically protect you against floods.

Besides making sure you have the right type of insurance protection, also confirm that you have enough of it. If you haven't recently updated your homeowners' coverage, ensure the amount reflects recent appreciation in your home's value — following a new addition or major remodeling, or just to cover inflation — or any costly new possessions in the home that you would need to replace.

Keep cash in reserve

It's always a good idea to keep a small amount of cash — enough for several days' worth of gas, food and lodging — in a safe place in your home, in case you need to get away in a hurry or if ATMs are down due to power failures.

Also, having three to six months' worth of living expenses in a money market, savings or other highly liquid account can give you great peace of mind if you're unable to return to work right away, or if you're waiting on an insurance claim.

Keep records up-to-date

The less information-gathering you need to do following a disaster, the better. By preparing copies of important records now, you can save yourself significant headaches later on.

In a weatherproof box, store copies of irreplaceable files, many of which you may need immediately after an emergency. Start with the title to your home and your vehicles; any marriage, birth and death certificates; and copies of your last few years of tax returns.

Also, maintain copies of the phone numbers you'll need in an emergency. Keep a paper copy offsite in case of a power outage that might leave you unable to access any numbers stored on your computer's hard drive or your cell phone.

Store this information in a location that's easily accessible to you. It's also a good idea to leave copies with friends or family in another part of the country. That way, you'll still have the information you need if you must evacuate in a hurry and the damage to your geographic area is widespread.

Take inventory

Preparing an itemized home inventory now can expedite insurance reimbursements. A detailed photo inventory accompanied by an itemized list of your possessions is valuable information for your insurance agent. An easier but still worthwhile alternative: Walk through your home with a video camera to capture a record of everything you own.

However you prepare this inventory, update it periodically. Keep a copy with your insurance agent, or a friend or family member who lives in another region.

Be safe

Of course, your first priority in a disaster is to make sure your family is safe and secure. But once the dust settles, your next concern will be getting your lives back to normal as quickly as possible. By planning ahead, you can feel more confident about being able to weather any storm that comes your way. ■

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