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Investment Advisors
www.dickinsoninvestments.com 712.256.4856
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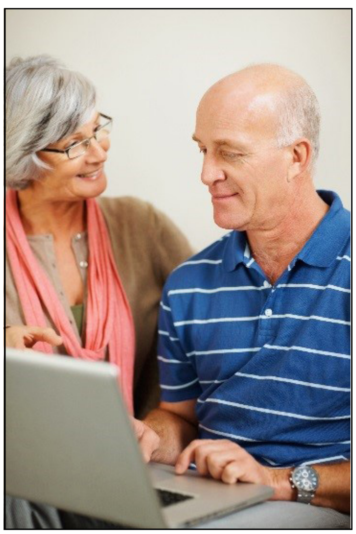
Make Sure That You Comply With All The RMD Rules

If you are retired and in your 70s or older, you're generally required to withdraw money from your employer-sponsored retirement plans and traditional IRAs every year whether you want to or not. Under IRS rules for "required minimum distributions" (RMDs), you must take a withdrawal each and every year for the rest of your life the year after you turn 70½. And the tax penalty for missing an RMD or taking out too little can be onerous.



Benefits of Contributing to Tax-Advantaged Plans

Having to take RMDs does little to undercut the advantages of putting money into 401(k)s and IRAs. With a 401(k) or other workplace plan, your contributions up to a generous annual limit are normally free from current taxes. For instance with a 401(k) plan, you can defer up to $18,000 of salary to your account in 2015, or $24,000 if you're age 50 or older, and your employer also may match part or all of your contribution. Then you get to choose from a variety of investment options, and investment earnings inside the account are exempt from current taxes.

The benefits for IRAs are similar. Your annual contributions are subject to specified limits. For the 2015 tax year, the limit is your earned income or $5,500 (or $6,500 if you're age 50 of older), whichever is less. Depending on your situation, your contributions may be fully or partially tax-deductible, especially in the early stages of your career. And here, too, you can choose from a variety of investment options, and earnings inside your account are tax-free.

Tax Treatment of Distributions

However, it's time to pay the piper when you take money out of these retirement plans. Generally, money representing tax-deductible contributions and earnings will be taxed at ordinary income rates of up to 39.6%.

Under the RMD rules, you must begin annual withdrawals by April 1 of the year after the year in which you turn age 70½, followed by RMDs in every subsequent tax year. The amount of the RMDs is based on your account balances at the end of the prior year and life expectancy tables provided by the IRS.

Although the RMD rules apply to everyone, you can postpone distributions from a company plan if you're still working full time and you don't own 5% or more of the company. That exception doesn't apply to RMDs from IRAs.

(Continued on page 4)

Introducing David Piatkowski

We welcome Dave as the most recent addition to our team. Dave has been a wealth manager with an international financial services firm in Omaha, Nebraska, and he has more than 20 years of experience. We are extremely excited to have Dave join our team.

Dave also has experience in teaching, youth coaching, and volunteering, all of which gives him a unique background that will serve our clients well for many years to come.

Dave will be a member of our Investment Committee and will serve in a business development capacity.

I welcome the opportunity to blend in the best features of a large international firm into our small entrepreneurial firm – without losing the special relationship that we offer our clients.

In addition to our team of Tom, Amy, Julie, and Ron, Dave will help us complete an important step in our growth process. It is essential to have a succession plan in place to take care of our clients in a worst case situation where I would not be available. I have no plans of retiring any time soon, but will mentor Dave in my planning and investment processes both to service his clients and to provide backup to all of us on the team.

Ron Dickinson

How A Financial Advisor Can Help

What are your hopes and dreams for the future? They probably begin with being able to provide for yourself and your family. But you also might aspire to a bigger home, an exotic vacation or another luxury, savings for your children's education, and a nest egg for retirement.

While you may be able to achieve all of those things, you can't just snap your fingers and make them happen. You'll need hard work and financial discipline, and you'll need to make a long-term commitment to work toward your goals. Enlisting the services of a financial advisor could help guide you along the way.

Of course, you still would be the one calling the shots, but an advisor can provide valuable assistance in many respects. An advisor can help you:

- Assess your current financial status, including your income, investments, assets, liabilities, insurance coverage, tax situation, and estate plan;
- Set goals that are both ambitious and reasonable;
- Account for changes in your personal circumstances (births, deaths, marriage, or divorce);
- Address weaknesses in your current investment and retirement planning;
- Develop a comprehensive plan to suit your current needs and future desires.

Couldn't you do all of this on your own? If you're sufficiently savvy about financial matters you could, but few people have the time, expertise, and inclination to do all that's required. And even if you're determined to tackle your financial objectives by yourself, you could need a push to get you started. What's more, an objective third party such as a professional financial advisor may add a valuable new perspective to your own outlook. You might benefit from having someone review key decisions about your financial future.

Even if you don't feel you need the help of a financial planner now, something could happen to trigger a call for help. For instance, maybe you've inherited a large sum of money or property and you're not sure how to handle it. Perhaps you, or your spouse, have been laid off from a job and suddenly money is tight and you're forced to make financial trade-offs. Or you may require assistance on other financial fronts ranging from elder-care planning to paying higher-than-expected college costs for your kids or resolving a shortfall in your retirement savings.

If you do decide to use a professional financial advisor, you'll still need to find one who is experienced and has experience helping clients in your situation. We would be glad to show you the high level of services that we provide. ●

Here's What You Can't Do In An IRA

If you have an IRA, you know how easy it is to move assets from one investment to another. You're able to choose from a wide array of investment options, and to take out money whenever you want, although you'll have to pay tax when you do. But there are some things you can't do with an IRA. There are strict rules against certain "prohibited transactions," which are spelled out in the tax laws. And there could be adverse consequences if you don't comply with the requirements.

The IRS defines a prohibited transaction as any improper use of an IRA by the owner, his or her beneficiary, or any "disqualified" person. That last includes IRA fiduciaries and members of the owner's family. An IRA fiduciary is someone who (1) exercises any discretionary authority or control in managing the IRA or exercises authority or control in managing or disposing of its assets; (2) provides investment advice to the IRA for a fee, or has any authority or responsibility for doing so; or (3) has discretionary authority or responsibility for administering the IRA.

What can't you do with your IRA? You're prohibited from:

- Borrowing money from it;
- Selling property to it;
- Using it as security for a loan;
- Buying property for personal use with IRA funds.

You can, however, effectively take a short-term loan from your IRA by withdrawing funds from it and then depositing the same amount back into the same or a different IRA within 60 days. That is technically a "rollover" and is not treated as a prohibited transaction.

If a prohibited transaction occurs, your account stops being an IRA as of the first day of the year of the violation. The net effect is that you're treated as having received a distribution of all of

7 Traps For IRA Owners To Steer Around

The rules for IRAs offer plenty of opportunities to save a tidy nest egg through contributions directly to the accounts as well as rollovers from 401(k)s or other employer-sponsored retirement plans. Funds in the accounts normally compound tax-deferred while you're working and into the early years of your retirement. You won't owe a penny of federal income tax until you take money out of your IRA.

But if you don't fully understand those rules for IRAs you could run into trouble. Consider these seven common tax traps:

1. You withdraw money from your IRA too early. Because IRAs are meant to be used for retirement saving, the government will penalize you for taking withdrawals prematurely. Generally, a 10% tax penalty applies to distributions made before you reach age 59½, although there are some exceptions—your heirs won't owe the penalty on withdrawals if you die before you reach that age, and you also are allowed to take "substantially equal periodic payments" over several years without penalty. But when you do have to pay the penalty, 10% is added to the regular income tax you owe on the withdrawal.

2. You fail to withdraw money from your IRA. But you're also not allowed to keep money in an IRA indefinitely. The IRS requires you to begin taking required minimum distributions (RMDs) in the year after you reach age 70½. Then you must take an RMD, based on a life expectancy table and the amount in your account at the end of the prior year, for each succeeding year. Failure to take RMDs results in a penalty equal to 50% of the amount that should have been withdrawn.

3. You don't complete a rollover in time. The tax law allows you 60 days from the time you receive a distribution from a tax-deferred retirement plan to redeposit the funds in an IRA. This rollover is exempt from federal income tax. That's generally true whether the rollover comes from an employer plan or from another IRA. However, if you don't redeposit the same amount as you withdrew within 60 days, the transfer is treated as a taxable distribution.

4. You double up on RMDs in the first year. Technically, you don't have to take your first RMD until April 1 of the year following the year in which you turn age 70½. However, if you wait until then to withdraw that first year's RMD, you still must take an RMD for the second year as well. What's more, doubling up on RMDs in one year may increase your overall tax by pushing you into a higher tax bracket. You might end up owing less in taxes if you take the first distribution during the year you turn 70½.

5. You roll over to another IRA more than once a year. Although rollovers aren't taxed as long as they're completed within 60 days, you can make an IRA-to-IRA transfer only once during a 12-month period. Violation of this "once-in-a-year rule" results in a taxable transfer. Previously, the IRS treated this rule as applying separately to each IRA you own. However, because of a recent Tax Court case and a subsequent change in IRS rules, the once-a-year rule now applies to all IRAs. So if you make a transfer between any of your accounts, you won't be able to make another one until a year has passed.

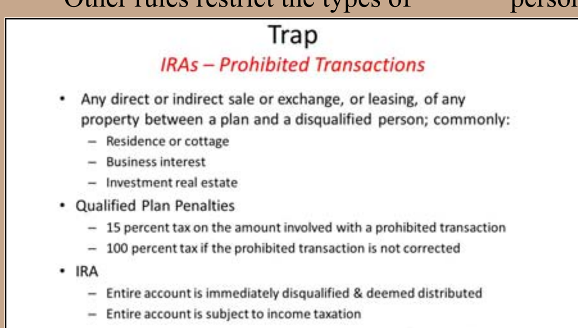
6. You make the wrong choice for a spousal rollover. Spouses who inherit an IRA may elect to treat the IRA as their own, remain as a beneficiary of the deceased spouse's IRA, or "disclaim" the IRA so that it goes to a contingent beneficiary. This complex decision could have unintended tax consequences. For instance, if you inherit an IRA, you are under age 59½, and you need to make a withdrawal, designating the IRA as your own could result in a 10% tax penalty.

7. You ignore estate tax ramifications. IRA owners sometimes forget the estate tax implications of inherited IRAs. Because IRA assets will be included in your taxable estate, the person you designate as beneficiary can make a difference. Spouses normally can inherit an unlimited amount without owing estate taxes, but that money could be taxed when the second spouse dies. It pays to consider all of the possible implications when you work with your advisors to devise an estate plan that fits your situation.

By paying close attention to the rules, and sidestepping these traps, you can derive the maximize benefits from your IRAs. ●

the IRA assets equal to their fair market value (FMV) on January 1 of that year. Assuming the total FMV exceeds your basis in the assets, you owe tax on the difference, just like you would on any other withdrawal. Plus, you're generally required to pay a 10% penalty if you're younger than 59½.

Other rules restrict the types of investments you can make in an IRA. For instance, you can't invest in life insurance or collectibles such as works of art, stamps, precious stones, or jewelry. With a few limited exceptions, IRA funds also can't be invested in gold or silver coins. And the IRA can't hold any property that you personally use, such as your primary residence or a vacation home. Holding certain other types of real estate, however, such as undeveloped land, may be permitted.



The tax law gives you plenty of leeway with regard to IRAs, but there are limits to that freedom. Make sure not to step over the line. ●

What To Do When You're Suddenly Widowed

If your spouse should suddenly pass away, you could find yourself overwhelmed—not just emotionally, but also by a host of financial decisions. Your financial situation is probably about the last thing you'd want to be thinking about, and many things could wait, at least for a little while. Indeed, after such a dramatic event in life, it's probably best not to rush into anything. However, time isn't always on your side, and some decisions may be required immediately—especially if you have not planned properly. And sooner or later, you'll need to address certain financial issues. Here are some practical suggestions that may be helpful:

Deadlines. After losing a loved one, it can be easy to neglect deadlines. You'll generally need to file an estate tax return for your spouse within nine months of death, for example, and you still must file a federal income tax return for the year of death by April 15. Don't let letters from places like the IRS and financial institutions fall to the bottom of a pile. Missing deadlines can cost you dearly.

Retirement Accounts. Review benefit options for 401(k)s, pensions, and other retirement accounts. You'll likely need to decide between taking a lump sum or periodic distributions, rolling the funds into an IRA, or leaving the plan assets where they are. Each option has pros and cons.

Cash-Flow. Estimate your expenses for the next five to 10 years. Will you be paying for one or more children to attend college? When do you expect to retire, and what sort of lifestyle do you envision? This requires a thorough analysis of your finances and also might entail adjusting your investment strategy.

Insurance. Don't ignore insurance concerns. Typically, a surviving spouse inherits most, if not all, of the other spouse's assets and will be the primary or sole beneficiary of life insurance death benefits. This is a time to consider what you can do to protect your children's future. Meanwhile, in light of your changed situation, review all of your insurance policies. Be sure your health, disability, long-term care, umbrella and other polices still meet your needs.

Retirement. After losing a spouse, your retirement goals may change. You may want to consider retiring earlier or later. How much in Social Security benefits will you receive based on earnings history? Social Security is complicated, and you'll need to gather all of the facts to make good decisions.

Investments. Pull together all of the relevant records for your spouse's investments and any assets you held jointly. Once you know where you stand, be sure you understand all of the investments you own and are comfortable with the risk they entail. Set a long-term course for the future, but realize that adjustments may be needed now.

We're available to provide any assistance you need. ●

Comply With All The RMD Rules

(Continued from page 1)

How to Figure the RMD

Generally, you can look up your age in the IRS table to determine how much of your account you must withdraw each year as an RMD. But there's an exception: If your spouse is your sole beneficiary and is at least 10 years younger than you are, you can use a joint life expectancy table to calculate the RMD. That option normally will produce a smaller required distribution than the one required under the table for individuals and may be especially beneficial to account holders who are in a second or third marriage.

Once you're required to begin RMDs, you can't miss a year. For instance, if you turn 70½ this year, you have until April 1 of next year to take your first RMD— but then you must take a second RMD by December 31 of that year.

If you have multiple accounts, the IRS provides more flexibility for IRAs than it does for employer plans. When you calculate the RMD for IRAs, you can take out the total amount from a single IRA or any combination of IRAs that you prefer, as long as the distributions add up to the required total. But if you have more than one workplace plan, you generally can't arrange your RMDs in this manner. Instead, you must take an RMD from each plan, based on the life expectancy table and the account balance.

Although these rules are complicated, you need to understand what's required of you, because the penalty for failing to take an RMD is severe—50% of the amount you should have taken. For example, suppose you're required to take a $10,000 RMD this year and you withdraw only $3,000. You'll owe a penalty of $3,500 (50% of $7,000 difference), on top of the regular income tax you have to pay.

But RMD rules don't apply to Roth IRAs during your lifetime. You can leave a Roth intact for as long as you like. However, when you die, your beneficiaries who receive Roth assets then have to comply with the RMD rules.

These rules can be tricky and you don't want to stumble into a huge tax liability. We can provide guidance with respect to your particular situation. ●

Dickinson Investment Advisors 533 South Main Street, Council Bluffs, Iowa 51503 (712) 256-4856 Fax:(712) 328-3139