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How Does Divorce Affect Social Security Retirement Benefits?

Self-Directed IRAs

When Your Child Asks for a Loan, Should You Say Yes?

Am I liable for unauthorized transactions on my debit card?



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LIFE THE WAY YOU PLANNED IT.

How Does Divorce Affect Social Security Retirement Benefits?



One of the challenges of planning for retirement is that an unexpected event, like divorce, can dramatically change your retirement income needs. If you were counting on your spouse's Social Security benefits to provide some of your retirement income, what happens now that you're divorced?

What are the rules?

Even if you're divorced, you may still collect benefits on your ex-spouse's Social Security earnings record if:

- Your marriage lasted 10 years or longer
- You are age 62 or older
- Your ex-spouse is entitled to receive Social Security retirement or disability benefits, and
- The benefit you're entitled to receive based on your own earnings record is less than the benefit you would receive based on your ex-spouse's earnings record

If you've been divorced for at least two years, and the other requirements have been met, you can receive benefits on your ex-spouse's record even if he or she has not yet applied for benefits.

How much can you receive?

If you begin receiving benefits at your full retirement age (66 to 67, depending on your year of birth), your spousal benefit is equal to 50% of your ex-spouse's full retirement benefit (or disability benefit). For example, if your ex-spouse's benefit at full retirement age is \$1,500, then your spousal benefit is \$750. However, there are several factors that may affect how much you ultimately receive.

Are you eligible for benefits based on your own earnings record? If so, then the Social Security Administration (SSA) will pay that amount first. But if you can receive a higher benefit based on your ex-spouse's record, then you'll receive a combination of benefits that equals the higher amount.

Will you begin receiving benefits before or after your full retirement age? You can receive benefits as early as age 62, but your monthly

benefit will be reduced (reduction applies whether the benefit is based on your own earnings record or on your ex-spouse's). If you decide to receive benefits later than your full retirement age, your benefit will increase by 8% for each year you wait past your full retirement age, up until age 70 (increase applies only if benefit is based on your own earnings record).

Will you work after you begin receiving benefits? If you're under full retirement age, your earnings may reduce your Social Security benefit if they are more than the annual earnings limit that applies.

Are you eligible for a pension based on work not covered by Social Security? If so, your Social Security benefit may be reduced.

Planning tip: *If you decide not to collect retirement benefits until full retirement age, you may be able to maximize your Social Security income by claiming your spousal benefit first. By opting to receive your spousal benefit at full retirement age, you can delay claiming benefits based on your own earnings record (up until age 70) in order to earn delayed retirement credits. This can boost your benefit by as much as 32%. Because deciding when to begin receiving Social Security benefits is a complicated decision and may have tax consequences, consult a professional.*

What happens if one of you remarries?

Benefits for a divorced spouse are calculated independently from those of a current spouse, so your benefit won't be affected if your spouse remarries. However, if you remarry, then you generally can't collect benefits on your ex-spouse's record unless your current marriage ends. Any spousal benefits you receive will instead be based on your current spouse's earnings record.

What if your ex-spouse dies?

If your marriage lasted 10 years or more, you may be eligible for a survivor benefit based on your ex-spouse's earnings record.

For more information on how divorce may affect your Social Security benefits, contact the SSA at (800) 772-1213 or visit socialsecurity.gov.



The IRS has warned: "IRAs that include, or consist of, non-marketable securities and/or closely held investments, in which the IRA owner effectively controls the underlying assets of such securities or investments, have a greater potential for resulting in a prohibited transaction." (Source: IRS Instructions to Form 1099-R, 2015)

Note: All investing involves risk, including the potential loss of principal.

Self-Directed IRAs

A self-directed IRA isn't a different type of IRA. Rather, the term refers to any individual retirement account (traditional or Roth) that allows you to direct the investment of your IRA assets into nontraditional investments. For example, in addition to the usual IRA mainstays (stocks, bonds, mutual funds, and CDs), a self-directed IRA might invest in real estate, limited partnership interests, a small business, or anything else the law (and your IRA trustee/custodian) allows. In fact, the only investment you can't have in an IRA is life insurance. Collectibles (artwork, stamps, wine, and antiques) aren't strictly prohibited, but if your IRA purchases these items, you could suffer adverse tax consequences.

Getting started

First, you'll need to find a trustee or custodian that specializes in self-directed IRAs. Make sure you understand the expenses involved—some trustees charge transaction fees and/or asset-based fees, depending on the particular investment. You also need to be aware of the prohibited transaction rules. These rules are designed to make sure that only your IRA, and not you (or your immediate family), benefits from your IRA transactions. If you violate these rules, your account will cease to be treated as an IRA, with potentially devastating tax consequences.

Finally, you need to understand the UBIT (unrelated business income tax) rules. Even though IRA investments usually grow tax deferred (or even potentially tax free in the case of a Roth IRA), if your IRA conducts certain business activities or has debt-financed income, then your IRA could be taxed currently on all or part of the income generated.

What are prohibited transactions?

Generally, a prohibited transaction is any improper use of an IRA by you, your beneficiary, or a "disqualified person" including certain family members. The following are examples of prohibited IRA transactions:

- Selling property to, or buying property from, the IRA
- Borrowing money from it
- Receiving unreasonable compensation for managing it
- Using it as security for a loan
- Buying property for personal use (present or future) with IRA funds

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Consequences of engaging in a prohibited transaction

Generally, if you (or your beneficiary after your death) engage in a prohibited transaction at any time during the year, the account stops being an IRA as of the first day of that year. The account is also treated as distributing all its assets to you at their fair market values on the first day of the year. For a traditional IRA, if the total of those values exceeds your basis in the IRA, you'll have taxable income that's included in your income. If you're not yet age 59½, the 10% premature distribution penalty tax may also apply.

The IRS hasn't yet provided specific guidance describing how these rules apply to Roth IRAs. However, it's likely that if you've satisfied the requirements for a qualified distribution, the distribution will still be tax free. A nonqualified distribution from a Roth IRA will result in taxable income to the extent the distribution exceeds your Roth IRA contributions (and again, the premature distribution penalty tax may apply if you haven't yet reached age 59½).

What is UBIT?

UBIT, as noted earlier, stands for "unrelated business income tax." While not common, it can apply to your traditional (and Roth) IRA. In simple terms, if your IRA regularly conducts a trade or business (for example, your IRA buys and operates a bakery), then the income from that trade or business (less any expenses directly connected with carrying on the trade or business) is subject to UBIT. The IRA is taxed on the income (unrelated business taxable income, or UBTI) at trust tax rates.

The term "trade or business" has been broadly interpreted to apply even if an IRA doesn't directly conduct a business, but instead invests in a pass-through entity, like a partnership, that conducts a trade or business. If an IRA invests in a partnership that conducts a trade or business, then the IRA must calculate its UBTI based on its share of the partnership's gross income and deductions.

As you can see, a self-directed IRA can provide you with almost unlimited investment flexibility, but also presents some traps for the unwary. Carefully weigh the benefits and risks to determine if it's the right choice for you.



When Your Child Asks for a Loan, Should You Say Yes?



Perhaps you have plenty of money to lend, and you're not earning much on it right now, so when your child asks for a loan, you think, "Why not?" But even if it seems to be the right thing to do, look closely at potential consequences before saying yes.

You raised them, helped get them through school, and now your children are on their own. Or are they? Even adult children sometimes need financial help. But if your child asks you for a loan, don't pull out your checkbook until you've examined the financial and emotional costs. Start the process by considering a few key questions.

Why does your child need the money?

Lenders ask applicants to clearly state the purpose for the loan, and you should, too. Like any lender, you need to decide whether the loan purpose is reasonable. If your child is a chronic borrower, frequently overspends, or wants to use the money you're lending to pay past-due bills, watch out. You might be enabling poor financial decision making. On the other hand, if your child is usually responsible and needs the money for a purpose you support, you may feel better about agreeing to the loan.

Will your financial assistance help your child in the long run?

It's natural to want to help your child, but you also want to avoid jeopardizing your child's independence. If you step in to help, will your child lean on you the next time, too? And no matter how well-intentioned you are, the flip side of protecting your child from financial struggles is that your child may never get to experience the satisfaction that comes with successfully navigating financial challenges.

Can you really afford it?

Perhaps you can afford to lend money right now, but look ahead a bit. What will happen if you find yourself in unexpected financial circumstances before the loan is repaid? If you're loaning a significant sum and you're close to retirement, will you have the opportunity to make up the amount? If you decide to loan your child money, be sure it's an amount that you could afford to lose, and don't take money from your retirement account.

What if something goes wrong?

One potential downside to loaning your child money is the family tension it may cause. When a financial institution loans money to someone, it's all business, and the repayment terms are clear-cut. When you loan money to a relative, it's personal, and if expectations aren't met, both your finances and your relationship with your child may be at risk.

For example, how will you feel if your child treats the debt casually? Even the most responsible child may occasionally forget to make a payment. Will you scrutinize your child's

financial decisions and feel obligated to give advice? Will you be okay with forgiving the loan if your child is unable to pay it back? And how will other family members react? For example, what if your spouse disagrees with your decision? Will other children feel as though you're playing favorites?

If you decide to say yes

Think like a lender

Take your responsibility, and the borrower's, seriously. Putting loan terms in writing sounds too businesslike to some parents, but doing so can help set expectations. You can draft a loan contract that spells out the loan amount, the interest rate, and a repayment schedule. To avoid playing the role of parent-turned-debt collector, consider asking your child to set up automatic monthly transfers from his or her financial account to yours.

Pay attention to some rules

Having loan documentation may also be necessary to meet IRS requirements. If you're lending your child a significant amount, prepare a promissory note that details the loan amount, repayment schedule, collateral, and loan terms, and includes an interest rate that is at least equal to the applicable federal rate set by the IRS. Doing so may help ensure that the IRS doesn't deem the loan a gift and potentially subject you to gift and estate tax consequences. You or your child may need to meet certain requirements, too, if the loan proceeds will be used for a home down payment or a mortgage. The rules and consequences can be complex, so ask a legal or tax professional for information on your individual circumstances.

If you decide to say no

Consider offering other types of help

Your support matters to your child, even if it doesn't come in the form of a loan. For example, you might consider making a smaller, no-strings-attached gift to your child that doesn't have to be repaid, or offer to pay a bill or two for a short period of time.

Don't feel guilty

If you have serious reservations about making the loan, don't. Remember, your financial stability is just as important as your child's, and a healthy relationship is something that money can't buy.



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Am I liable for unauthorized transactions on my debit card?

It depends. Federal law provides consumers with protection against most unauthorized credit- and debit-card transactions.

Under federal law, consumer liability for unauthorized credit-card transactions is limited to \$50. However, many banks and credit-card companies offer even more protection for credit cards in the form of "zero liability" for unauthorized transactions.

For unauthorized debit, rather than credit, transactions, the rules get a bit trickier. For the most part, you won't be held responsible for any unauthorized debit-card withdrawals if you report the lost card before it's used. Otherwise, the extent of your liability depends on how quickly you report your lost card. If you report your lost debit card within two business days after you notice your card is missing, you'll be held liable for up to \$50 of unauthorized withdrawals. If you fail to report your lost debit card within two days after you notice your card is missing, you can be held responsible for up to \$500 of unauthorized withdrawals. And if you fail to report an unauthorized transfer or

withdrawal that's posted on your bank statement within 60 days after the statement is mailed to you, you risk unlimited liability.

The good news is that some banks and credit-card companies are offering the same "zero liability" protection to debit-card users that they offer to their credit-card users. This zero liability protection, however, does come with exceptions. In order to have zero liability for unauthorized debit-card transactions, consumers may be required to report the loss of their card "promptly" (typically, no more than two days after they learn of the card loss or theft). In addition, a consumer may need to exercise "reasonable care" to safeguard his or her debit-card information. For example, an individual who gives someone else his or her debit card and PIN could be held responsible for any unauthorized transactions.

It's important to remember that, unlike credit cards, debit cards directly link to your financial accounts. As a result, you should act quickly and call your bank or credit-card company as soon as you learn of any unauthorized transactions on your account.



What is this new chip-card technology I've been hearing about in the news?

In recent years, data breaches at major retailers have increased across the United States. As a way to counteract these data breaches, many U.S. credit-card companies have started implementing a more secure chip-card technology called EMV (which is short for Europay, Mastercard, and Visa).

Currently, most retailers use the magnetic strips on the back of your debit or credit card to access your account information. Unfortunately, the information contained in the magnetic strips is easily accessed by hackers. In addition, the magnetic strips use the same account information for every transaction. So once your card information is stolen, it can be used over and over again.

With the new EMV technology, debit cards and credit cards are embedded with a computer chip that generates a unique authentication code for each transaction. So if your card information is ever hacked, it can't be used again--it's a "one-and-done" scenario.

While many developed nations moved to EMV technology years ago, U.S. retailers have previously been unwilling to shoulder the costs.

Fortunately, there is good news for U.S. consumers on the horizon.

Beginning in 2015, many large retailers will switch to the new EMV technology by installing payment terminals designed to read the new chip-embedded payment cards. It may take additional time, however, for smaller retailers to adopt this latest technology.

Along with EMV, even more advanced encryption technology is being developed that will increase security for online transactions and payments made with smartphones. In fact, new mobile payment options like Apple Pay and Google Wallet could eventually make paying with plastic entirely obsolete.

In the meantime, in the wake of these data breaches, you should make it a priority to periodically review your credit-card and bank account activity for suspicious charges. If you typically wait for your monthly statements to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed.



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Gender Earnings Deciphered

You probably know that women earn less than men in the U.S. economy, but you may not realize that the gap is not going to close any time soon. A study by the Institute for Women's Policy Research (<http://statusofwomendata.org/app/uploads/2015/02/EE-CHAPTER-FINAL.pdf>), created by a rather large team of economists and researchers, compared the discrepancy between pay for men and women today vs. last year and prior years. Then they extrapolated the year in which the two genders would be paid the same for the same positions and work responsibilities.

The answer: the year 2058. To put that into perspective, the FutureTimeline.net website predicts that in the same year, humans will have established a colony on Mars.

The gender gap seems to be a cultural phenomenon. Some states, like New York, Maryland, the District of Columbia, Vermont and Florida, have gender earnings ratios above 85%; that is, women, on average, are paid more than 85% of what men are paid. But a woman living in Louisiana, West Virginia or Wyoming are likely to be paid less than 68% of their male counterparts' salary, according to the study. The gap also appears to grow as people become more highly-educated. Women who have not earned a high school diploma tend to earn 73.8% of what men with comparable jobs are making, but if men and women both have a graduate degree, the women are earning just 69.1% of mens' salaries.



Tax Statistics

As the tax filing season has just ended, Money Magazine has offered some interesting statistics on our annual ritual. In the early months, the IRS says that roughly 83% of all returns have resulted in refunds, with an average refund of \$2,893 per return. In all, roughly eight out of ten filers qualify for a refund, and this year's refund is in line with previous year averages.

Meanwhile, the IRS website notes that in the past few years, roughly 47% of Americans were below the threshold where they had to pay income taxes—which is where the famous “47 percenters” phrase came from in the Romney presidential campaign. However virtually all of those Americans paid FICA taxes.

In all, 185.5 million income tax returns were filed last year, but only 34,000 estate tax returns and just 335,000 gift tax returns. The government collected \$1.64 trillion in individual income taxes, compared with \$353 billion in business income taxes. In aggregate, Californians paid the most taxes, at \$369 billion, well ahead of Texas (\$265 billion) and New York (\$251 billion). At the other end of the spectrum, the citizens of Vermont paid \$4.3 billion and people and companies living in Wyoming paid \$4.9 billion,

Finally, here is an interesting comparison. The King James Bible totals around 700,000 words, whereas the U.S. Federal Tax Code numbers 3.7 million words.



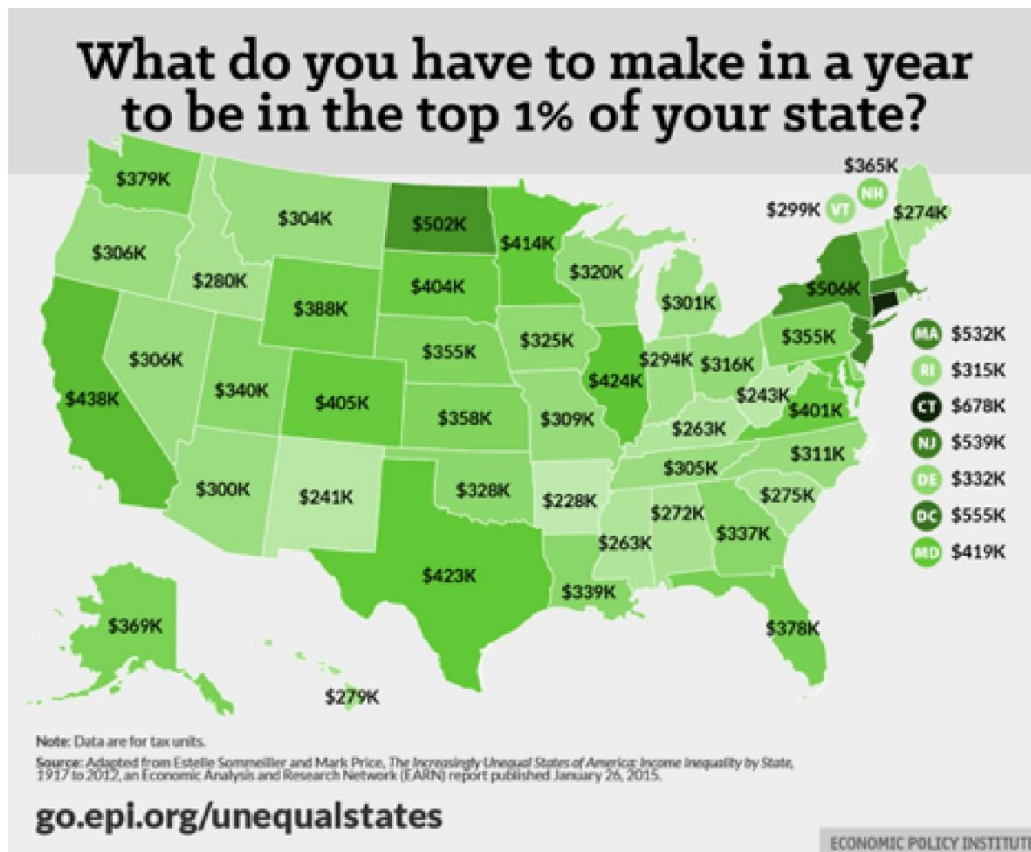
The Upper Uppers

What does it take to be a “one percenter?” How much do you have to earn before you fall into this rarified zone?

A new study written by socioeconomists Estelle Sommeiller and Mark Price, looked at state-level tax data from the Internal Revenue Service over the past 35 years. They’ve created a chart which looks at annual income at the threshold of the top 1% in each U.S. state. If you live in Connecticut, you’re a “one percenter” if you earn more than \$678,000 a year, higher than New York’s threshold of \$506,000, the \$539,000 threshold in New Jersey, \$555,000 in Washington, D.C. or \$532,000 in Massachusetts. California (\$438,000) and Texas (\$423,000), which are considered wealthy states, actually came in behind North Dakota (\$502,000).

States with the lowest threshold include West Virginia (\$243,000), Kentucky and Alabama (\$263,000) and Maine (\$274,000). If somebody earning a good income in Connecticut or New York wanted to break into the one-percent category, he/she could move to a less competitive state.

Nationwide, the total share of income going to the upper 1% rose by about 12 percentage points since 1979. The one-percenters in Connecticut make a little over 33% of all income in that state, and in New York, the percentage is 32.6%. Elsewhere, the range is generally in the 14% to 22% range, up from the 7-11% range back in 1979.





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Blog Updates for April: Articles of Interest

Education Planning Articles

http://www.jicinvest.com/college-financial-aid-five-ways-to-get-the-best_package/
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Estate Planning Articles

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<http://www.jicinvest.com/hidden-dangers-with-aging-parents-financial-advisors/>

Financial Advisor Articles

<http://www.jicinvest.com/4-questions-everyone-must-ask-their-rrretirement-advisor/>

Financial Planning Articles

<http://www.jicinvest.com/how-to-save-on-auto-insurance/>
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Insurance Planning Articles

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Investment Planning Articles

<http://www.jicinvest.com/portfolio-solutions-30-year-market-forecast-for-2015/>

Retirement Plan Articles

None for this month

Retirement Planning Articles

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Tax Planning Articles

<http://www.jicinvest.com/a-cpa-answers-how-should-someone-estimste-taxes-when-filing-for-an-extension/>

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