



Winter 2007

## Keystone News & Updates

### Keystone Financial Partners

116 New Edition Court  
Cary, NC 27511

**Jim Trull, CLU, ChFC, CLTC, CFP®**  
CERTIFIED FINANCIAL PLANNER™  
Professional

**Karen Brock, CFP®**  
Client Relationship Manager

**Patrice Hewlett**  
Financial Executive Assistant

#### *In this issue:*

Keystone News & Updates

The Importance of Getting a Qualified Appraisal

Income in Retirement

Ask the Experts

The past quarter has been a very busy time at Keystone Financial Partners. We would like to keep you up to date on all the new services and growth in the firm.

Earlier this summer, Jim attended an intensive two day course led by Ed Slott on IRA Distribution Planning. Jim has now obtained membership in Ed Slott's Elite IRA Advisor Group. The Elite IRA Advisor Group is a private IRA study group of professional advisors with extensive IRA experience. The group is designed to provide its members ongoing access to the most up to date IRA information available in order to properly and professionally serve their IRA clients.

As anyone who is remotely familiar with the intricacies of IRA's knows, Ed Slott, CPA, is generally acknowledged as one of the foremost experts in the care and handling of IRA's in the country. Ed is the author of several books on IRA distribution planning and you will often see him quoted in the Wall Street Journal and other financial publications like Money Magazine and Kiplingers. It is a real privilege to be able to study with Ed Slott for two days every six months.

In upcoming client review meetings, we will be asking you to provide us with copies of your beneficiary forms on all of your retirement accounts and insurance policies. Since the new year is upon us, we have enclosed an insert called IRA New Year's Resolutions. We hope you will take time to review it.

#### **Our Telephone Numbers**

Local: (919) 463-0018  
Toll Free: (877) 400-2899  
Fax: (919) 463-0064

#### **Our Website**

[www.keystonefinancialpartners.com](http://www.keystonefinancialpartners.com)

As many of you know, you currently have the ability with the click of a button to view all of the assets our firm manages for you. This service is called 'Investor 360'. We are excited to announce that we now have the capability for you to add to Investor 360 any assets held outside our firm.

You can now add outside assets such as 401K balances, savings accounts, stock options, credit cards, and mortgages. Every business day, these account values will be updated in Investor 360. With the touch of a button, you can get a personal net worth statement updated daily. Not only is this a great service for our clients, it allows us to be in a better position to advise you on all of your investments. To learn more about this new account aggregation feature, email or call Karen Brock in our office (see below).

Now would be a great time to thank our clients for recommending us to their friends and family throughout the year. As you know, our business has been built on word-of-mouth advertising. We take it as a tremendous compliment that you have the confidence in us to wave our flag. It really means a lot. We treat it as a huge responsibility and one that we never take lightly. Thanks!

Keystone Financial Partners wishes you and your family a wonderful and joyous holiday season.

#### **Our Email Addresses**

**Jim:**  
[jtrull@keystonefinancialpartners.com](mailto:jtrull@keystonefinancialpartners.com)

**Karen:**  
[kbrock@keystonefinancialpartners.com](mailto:kbrock@keystonefinancialpartners.com)

**Patrice:**  
[phewlett@keystonefinancialpartners.com](mailto:phewlett@keystonefinancialpartners.com)

### Penalties on Donors

*The new penalty tax imposed on donors is 20% of any underpayment of tax for "substantial" misstatements and 40% for "gross" misstatements.*

*For income tax purposes, a "substantial" misstatement is a 150% overstatement. For gift and estate tax purposes, a "substantial" misstatement is a 65% overstatement.*

*For income tax purposes, a "gross" misstatement is a 200% overstatement. For gift and estate tax purposes, a "gross" misstatement is a 40% understatement.*



***Gifts valued at \$5,000 or less do not need an appraisal, but do require a receipt. You must also describe the property and the method you used to determine the property's value.***

## The Importance of Getting a Qualified Appraisal

For years, Congress and the IRS perceived that taxpayers were overstating the value of donations for tax deduction purposes. As a result, the rules regarding valuations of charitable contributions have recently become more stringent, and they include harsher penalties for excessive valuations.

Although the new valuation rules are currently focused on charitable contributions (including conservation easements), it is widely believed that Congress and the IRS will expand the new rules to all tax valuations in general. Cautious taxpayers may want to apply the new rules to any tax-related transactions involving appraisals, such as valuations required for noncharitable gifts or a buy-sell agreement.

### New rules

The new rules generally require that you obtain a "qualified appraisal" from a "qualified appraiser" for donations of property worth over \$5,000 (other than cash and publicly traded securities), and you must attach an appraisal summary (IRS Form 8283) to your tax return. These rules apply to valuations for income, gift, and estate tax purposes.

### What is a qualified appraisal?

Generally, a qualified appraisal is:

- Made no earlier than 60 days before the donation is made, and no later than the due date of your tax return (including extensions), and
- Signed and dated by a "qualified appraiser"

### Who is a qualified appraiser?

Generally, a qualified appraiser is an individual who:

- Has earned an appraisal designation from a recognized professional appraiser organization, or has otherwise met "minimum education and experience requirements" for valuing the type of property subject to the appraisal, and
- Regularly performs appraisals for pay

"Minimum education and experience requirements" include:

- Successfully completing college or professional level coursework that is relevant to the property being valued, and

- Obtaining at least two years of experience in the trade or business of buying, selling, or valuing the type of property being valued

### Again, in plain English

More simply stated, to get a qualified appraisal, you must retain an appraiser who holds a professional designation, such as ISA (International Society of Appraisers), ASA (American Society of Appraisers), or AAA (Appraisers Association of America), or someone who has received the requisite schooling and experience.

While these stricter standards are meant to improve the appraisal industry, they have actually shrunk the world of qualified appraisers, for the time being at least. For example, a knowledgeable and skilled expert with years of experience at Sotheby's, but no professional designation or time in the classroom, may no longer be qualified to make appraisals under the new rules.

Further, because the meaning of the new rules needs some clarification, some appraisers may be unsure about whether they're qualified, and they may be unwilling to risk incurring potential penalties. Needless to say, finding a qualified appraiser has become a more daunting task.

### Practical guidance

Your best bet is to hire an appraiser who holds a professional designation related to the property being appraised. Contact the societies listed above for referrals. However, while it may be easy to find such an appraiser for certain types of property, like real estate, it may not be so easy for other types of property.

Here are some other tips:

- Talk to your financial or tax professional for more information
- Obtain documentation about the appraiser's education and experience, and how often he or she conducts appraisals for a fee
- Most importantly, make sure the appraiser is aware of the new appraisal rules, including what is required and the potential penalties

## Income in Retirement

You've worked hard your whole life, anticipating the day you could finally retire and enjoy your golden years. Well, that day has arrived. There's still work to be done, however--you'll need to carefully manage your assets so that your retirement savings will last as long as you need them to.

### Review your portfolio regularly

It's commonly said that retirees should value the safety of their principal above all else. For this reason, some people shift their investment portfolio to fixed-income investments, such as bonds and money market accounts, as they approach retirement. The problem with this

approach is that if returns don't keep up with inflation, an investment portfolio may not enjoy the growth



needed to fund today's longer retirements.

So while there are good reasons to invest more conservatively as you grow older, consider maintaining at least a portion of your portfolio in growth investments.

### Choosing a sustainable withdrawal rate

A key factor in determining whether your assets will last for your entire lifetime is the rate at which you withdraw funds. The more you withdraw, the greater the likelihood you'll exhaust your resources too soon. On the other hand, if you withdraw too little, you may not enjoy your retirement as much as you could. It's vital that you estimate an appropriate withdrawal rate for your circumstances, and determine whether you should adjust your lifestyle and/or estate plan.

An appropriate withdrawal rate depends on many factors, including the value of your current assets, your expected rate of return, your life expectancy, your risk tolerance, inflation, your expenses, and whether you want some assets left over for your heirs.

Studies have tackled this issue, resulting in the creation of tables and calculators that can provide you with a range of rates that have some probability of success. A financial planning professional can help you with this.

### Which assets to draw from first?

Most retirees have assets in accounts that are taxable (e.g., CDs, mutual funds), tax deferred (e.g., traditional IRAs), and tax free (e.g., Roth IRAs). Given a choice, which type of account should you withdraw from first? The answer is--it depends.

For retirees who don't care about leaving an estate to beneficiaries, the answer is simple in theory: withdraw money from taxable accounts first, then tax-deferred accounts, and lastly, tax-free accounts. By using your tax-favored accounts last, and avoiding taxes as long as possible, you'll keep more of your retirement dollars working for you.

In practice, however, your choices, to some extent, may be directed by tax rules. Retirement accounts, with the exception of Roth IRAs, have minimum annual withdrawal requirements. In general, your first withdrawal must be made by April 1 of the year following the year you turn age 70½, with subsequent distributions due each December 31. Failure to do so can result in a 50% excise tax imposed on the amount by which the required minimum distribution exceeds the distribution you actually take.

For retirees who intend to leave assets to beneficiaries, the analysis is more complicated. You need to coordinate your retirement planning with your estate plan. For example, if you have appreciated or rapidly appreciating assets, it may be more advantageous for you to withdraw from tax-deferred and tax-free accounts first. This is because these accounts will not receive a step-up in basis at your death, as many of your other assets will.

However, this may not always be the best strategy. For example, if you intend to leave your entire estate to your spouse, it may make sense to withdraw from taxable accounts first. This is because spouses are given preferential tax treatment with regard to retirement plans. A surviving spouse can roll over retirement plan funds to his or her own IRA or retirement plan, or, in some cases, may continue the deceased spouse's plan as his or her own. The funds in the plan continue to grow tax deferred, and distributions need not begin until the spouse's own required beginning date.

By planning carefully, investing wisely, and spending thoughtfully, you can increase the likelihood that your retirement will be a financially secure one.

*While there are good reasons to invest more conservatively as you grow older, consider maintaining at least a portion of your portfolio in growth investments.*



Securities and Advisory Services offered through Commonwealth Financial Network, Member FINRA, SIPC, A Registered Investment Adviser

Copyright 2007 Forefield Inc.  
All Rights Reserved.

## Ask the Experts



If you have a credit card account, you've no doubt seen them: blank checks that may be used to make purchases, obtain cash, or transfer higher-interest balances. As it turns out, these checks are often more convenient to your creditor (for making a profit) and to thieves (for going on a spending spree at your expense) than they are to you.

When you use the checks, your creditor makes a greater profit than when you use your card. That's because:

- The interest rate on convenience check usage is often higher than the rate charged on card purchases
- The creditor may charge a substantial fee for using the check (up to 5% of the check amount, with no cap)
- There may be no grace period on purchases made with these checks; interest accrues from the moment you write one
- Your creditor may apply your payments

### How convenient are credit card convenience checks?

first to balances (such as card purchases) with a lower interest rate

What's more, if you purchase defective merchandise with your credit card and you have no luck returning it to the seller, you may contact your credit card company for relief. If you use a convenience check to make the purchase, however, these protections may not apply.

Convenience checks are a favorite target of mailbox thieves. Unlike unsolicited credit card offers, you can't "opt out" of receiving them. Since you never know when the credit card company will send them, you can't report them missing when they don't arrive. Most creditors don't require a call to activate them, and merchants often don't verify signatures on convenience checks. To make matters worse, the regulations that limit your liability to \$50 for use of a lost or stolen credit card do not apply to convenience checks.

So, the bottom line: It may be best to "inconvenience" yourself by using your credit card instead.

### Should I pay off my credit card debt with home equity financing?

Your credit card balances have gotten pretty steep, and the interest charges seem to be going through the roof. Meanwhile, you've built up substantial equity in the roof over your head (your home). Wouldn't it make sense, then, to take an equity loan to pay off your credit card debt?

Well, maybe. Home equity financing (which may be set up as either a loan or a line of credit) does have certain advantages over unsecured personal debt, including:

- Favorable interest rates
- Low monthly payments (due in part to longer terms)
- Tax-deductible interest (if you itemize your deductions on your federal income tax returns)

But equity financing also has drawbacks:

- You may have to pay closing costs and other fees
- Longer repayment terms can lead to high total interest charges

- Since your home is the collateral that secures the financing, you run the risk of foreclosure if you can't make your payments

If you do repay your credit card debt with equity financing, here are some tips that may help you make the most of that decision:

- Shop around. In an effort to attract your business, a lender may absorb or waive some or all of the costs of obtaining the financing.
- If possible, make monthly payments at least equal to what you were paying on your credit card debt. At the lower interest rate, you'll apply more to the principal and repay the debt faster (and at a lower total interest cost, too).
- Remove the temptation to "dig the hole again." If you don't cut up the credit cards, at least try to use them sparingly and pay them off every month.