

# FINANCIAL FOCUS



A QUARTERLY NEWSLETTER FROM  
**THE INSIGHT GROUP**<sup>®</sup>  
A Registered Investment Advisory Corporation

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## Watch Twists And Turns To IRA-To-IRA Rollovers

NOT ALL IRAs ARE CREATED EQUAL. SOME ACCOUNTS MAY have better investment options than others do, and the financial companies that hold IRAs may differ in terms of services and fees. So what can you do if you don't like the choice you made when you set up your account? You're not legally obligated to keep the assets there. Instead, you could transfer some or all of the money to a different IRA—and if you do it carefully, you won't owe any tax for making the move.

The rules for making a tax-free “rollover” from one IRA to another are similar to those that apply when you transfer money from a company retirement plan, such as a 401(k) plan, to a traditional IRA. But you don't have to change jobs or retire to make this switch. As with a rollover from a 401(k), you have a 60-day window for getting funds from one IRA to another. If, within 60 days of receiving a distribution from the old account, you deposit the full amount of the distribution into a new IRA, you won't be taxed on the transfer.

If you don't complete the rollover in time, however, you'll be taxed on the full amount of the distribution (minus any portion representing nondeductible IRA contributions), at ordinary income rates as high as 35%. Plus, you'll owe a 10% penalty on the taxable portion of the distribution if you're under age 59½, unless one of several tax law exceptions applies (for example, if you took the distribution because you're disabled). And unless you failed to meet the deadline for a reason beyond your control, the IRS is not likely to grant you a waiver.

Keep in mind, too, that if you take a distribution from an IRA, the trustee of that account has to withhold tax on that amount, even if you fully intend to roll it over to another IRA within 60 days. The withholding rate is 10%, compared with the 20% that's required on rollovers from company retirement



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plans. You can get the money back when you file your taxes, but if you roll over, say, \$100,000, you'll lose the chance to invest the \$10,000 that was withheld until you file your taxes and receive your refund.

A better idea is to arrange a trustee-to-trustee transfer from one IRA to another. That way, there's no withholding, and you shouldn't have to worry about the 60-day rule. Your IRA custodian can provide the necessary paperwork.

But there's another important timing restriction to consider. If you take a distribution from an IRA and roll over the funds to another IRA, you can't use the rollover technique again for the same IRA for at least one year, unless a special exception applies—for example, if an IRA custodian becomes insolvent. The one-year clock

starts ticking on the date of the IRA distribution.

For example, let's say that you currently have two IRAs we'll call IRA-1 and IRA-2. On July 1, 2012, you receive a distribution from IRA-1 and roll over the funds tax-free into a new IRA, called IRA-3. Due to the one-year rule, you can't roll over funds from either IRA-1 or IRA-3 until July 1, 2013. However, you can still roll over funds from IRA-2 into any other IRA at any time, because you did not transfer any funds into or out of that account within the previous year.

Note that the one-year limit on IRA-to-IRA rollovers doesn't apply to distributions from company plans. Therefore, you can make as many 401(k)-to-IRA rollovers in a year as you want, as long as you are otherwise eligible.

Yet another restriction on IRA-to-IRA rollovers is that the property that you move into a new IRA must be the same as the property you took out of the old one. That means you can't take a cash distribution from one IRA, use the money to acquire other assets, and then transfer those assets into a new IRA. The IRS will treat such a transfer as a taxable event.

Finally, a rollover doesn't absolve you of the requirement to take required minimum distributions (RMDs) from a traditional IRA. You must start taking RMDs from a traditional IRA the year after the year in which you turn age 70½, and you'll generally be taxed on the full amount of those



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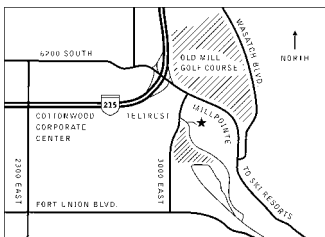
## Meeting Diverse Needs

MANY OF YOU ARE AWARE OF THE Financial Insight Center. This is a company that Paul and Mark created two years ago with the purpose to meet the needs of a growing group of emerging affluent families with less complicated planning needs. Chuck Cutler became a partner last year and leads this new venture. We are excited to announce that in April, Financial Insight Center moved to new space in our building.

Financial Insight Center maintains a high quality client experience similar to that of Insight Group clients. The resources at Financial Insight Center have been modified to meet the specific needs of the growing population of retirees and those soon to retire who generally have less than \$1 million in assets.

If you have been reluctant to refer a friend in the past due to The Insight Group's higher asset minimum account size, we now have the ability to effectively provide services to many more. Know that we will take great care to see that those you recommend get services where there is a great fit--either at The Insight Group or The Financial Insight Center.

The Insight Group is continuing to grow in our efforts to meet your needs and those of your family and friends. We welcome your feedback on both positive experiences or perspectives on desired change. Our purpose is to give you the 'insight' you need to reach your goals.



## How To Guard Against “Skimmers”

IN THIS AGE OF TECHNOLOGY, YOU PROBABLY don't think twice about using the ATM at your bank, the self-checkout machine at the supermarket, or various credit card terminals around town. It's never been a problem before. But a new type of crime called “skimming” may give you pause.

Essentially, skimming is the practice of stealing your credit card information, usually through the use of high-tech equipment. Then the thief makes purchases under your name or sells the data to someone else. Either way, you could end up with an exorbitant credit card bill or an empty bank account.

Typically, a skimmer installs an electronic device over the actual card reader on the ATM or credit card machine. As your card slides through, the device reads its magnetic strip, capturing your vital financial information.

The level of sophistication can vary from cheap skimmers that should be relatively easy to spot to more expensive versions that are virtually undetectable by the naked eye.

Usually, the skimming device captures and stores your PIN (personal identification number) as well as the card's security code. Some skimmers feature a false keypad that goes on top of the actual keypad reading the PIN, while newer devices utilize pinhole cameras mounted above the keypad. The information may be stored locally and

picked up by the thief or transmitted via a phone line or even wirelessly.

How can you protect yourself against skimming? Here are a few practical suggestions.

- Look carefully at the ATM or credit card terminal before using it. Although sophisticated skimming devices may be hard to detect, cheaper versions are often

clumsily attached to the reader. If something is sticking out or doesn't fit with the rest of machine, walk away.

- Before you insert your credit card, pull on the reader or jostle the card around the slot to see if anything is loose. Again, don't use the terminal if your suspicions are aroused.

- Be aware of people hanging around the ATM for a long time. The skimming criminal could be lurking nearby to collect the information.

- Avoid ATMs in isolated locations that don't seem to be part of a store or bank. There have been instances where fake terminals have been set up

without an establishment's knowledge.

- When you enter your PIN, use your free hand to block the view. That can shield your information from a camera mounted above the PIN keypad.

Finally, pay close attention to your credit card and bank statements. Fraudulent charges or unauthorized cash withdrawals often indicate that your data has been compromised. If that's the case, contact your bank or credit card issuer right away.



## Six Disability Facts To Consider

YOU PROBABLY ALREADY UNDERSTAND THE importance of having life insurance. The proceeds from a life policy can help cover your family's current expenses and may provide a cushion for the future if you die prematurely. But another kind of coverage—disability income (DI) insurance—is often ignored or neglected. And that's a mistake, because DI insurance can be even more vital than life insurance in maintaining a family's financial well-being. A new white paper from the Council for Disability Awareness, an independent nonprofit group, provides these six startling facts.

1. More than one in four of today's 20-year-olds will become disabled before they retire. (Source: Social Security Administration, Fact Sheet, March 18, 2011)

2. Some 8.5 million disabled U.S. wage earners were receiving Social Security Disability Insurance (SSDI) benefits at the end of September 2011. (Source: Social Security Administration, Office of Disability and Income Security Programs)

3. Ninety percent of new long-term disability claims are the result of an illness, not an accident, and fewer than 5% of claims are work-related.

(Source: 2011 Council for Disability Awareness Long-Term Disability Claims Study)

4. The average long-term disability claim lasts 31.2 months. (Source: 2010 GenRe Disability Fact Book)

5. New applications for Social Security Disability Insurance (SSDI) benefits increased 27% from 2008 to 2010. (Source: Social Security Administration, Office of Disability and Income Security Programs)

6. About 100 million workers lack private disability income insurance. (Source: Social Security Administration, Fact Sheet, March 18, 2011)

If you don't have DI insurance, either through a policy from your employer or one you've bought on your own, you can choose from among a wide array of products whose costs and benefits vary

widely. Here are several factors you'll need to take into account.

- How a policy defines "disability" is crucial. The best policies pay benefits if you can't work in your chosen profession, and they don't consider the nature of an injury.

- DI insurance policies generally require a waiting period before paying benefits, and a shorter waiting period normally translates into higher premiums.

- Typically, a policy will state how long and under what circumstances it will pay disability income benefits. It could, for example, provide benefits only until you qualify to receive Social Security retirement benefits.

- If you opt for a noncancellable policy, the insurer can't drop you off its rolls if your health declines.

Finally, don't be seduced by the low costs of a fly-by-night operation. You'll be better off opting for an experienced company with a good reputation.



## Set Up Your Trust To "Fail" On Purpose

THE TAX CLIMATE MIGHT BE RIGHT TO SET up an intentionally defective irrevocable trust, or IDIT. This unusual arrangement may be especially beneficial in light of new legislation affecting federal income, gift, and estate taxes. The basic premise is as follows: The IDIT may be used to effectively freeze the value of the estate for estate tax purposes, while requiring the trust grantor to pay income taxes.

Background: Normally, someone creating a trust might transfer assets, such as cash or securities, to it and name loved ones as the income beneficiaries. By handing over assets to the trust, you avoid tax on any future earnings. That can be particularly helpful for someone in the top 35% income tax bracket. Instead of being taxed to you, income tax on trust assets is paid by the trust, with tax rates starting at 15%. But income tax brackets for trusts are compressed, with only the first \$2,300 of trust income taxed at

that 15% rate in 2011. The trust reaches the top 35% bracket with just \$11,350 of income. That means a trust could pay substantially more tax on earnings than you would as an individual.



To avoid that situation, the trust could be structured to be intentionally "defective," so that trust income is taxable to you instead of to the trust. For instance, you might retain the right to substitute trust assets with other assets of equal

value. Keep in mind that the money you transfer to the trust—and then ultimately to your heirs—constitutes a potentially taxable gift. However, generous exemptions from gift tax liability under the 2010 Tax Relief Act could reduce or eliminate the tax.

Also, under the new legislation, the federal exemptions from estate tax and gift tax have been reunified and the exempt amount has been increased to \$5 million for 2011 and 2012 (indexed for inflation in 2012). So, even if a portion of that total is used up by the transfer to the IDIT, you're likely to have a substantial amount left to reduce estate taxes.

By using the IDIT, you have still relinquished control of the trust assets, so those assets are treated as being removed from your estate. But remember that these are complex arrangements that must be structured carefully. We can work with your attorney to create a trust that fits your situation.

## Watch Twists And Turns To IRA-To-IRA Rollovers

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distributions. You can't avoid tax on an RMD by rolling over the distribution into another IRA.

Although there are other quirks in the law governing IRA transfers, these are the main pitfalls you need to watch out for. If you think it's time for a switch, we can help you move assets tax-free from one IRA to another.

**Material is for informational purposes only, not to be construed as tax, legal, or investment advice. Information has been gathered from sources believed to be reliable, but individual situations can vary and you should consult with an investment, legal, accounting or tax professional.**



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## Leading Indicators Say No Double Dip

TWO AND A HALF YEARS AFTER THE LONG recession that started in December 2007 finally ended, the U.S. economy is growing at a healthy pace—but you might not know that amid all the talk about a “double dip” downturn on the horizon.

A double dip or “W-shaped” recession occurs when the economy contracts, revives enough to begin expanding, but then relapses into a second period of recession. The only true double-dip in recent times ran from January 1980 to November 1982, with a relatively brief 12-month upturn in between.

The problem with speculation about a double-dip scenario now is the length of the current expansion—more than 32 months and counting. If we were moving into a true double dip, there would have been a lot more evidence of fresh weakness spreading through the economy. Instead, says independent economist Fritz Meyer, the United States is very likely to continue to see a reasonably healthy rate of economic expansion.

“Notwithstanding the problems in Europe, we are coming off 2.8% gross domestic product growth in the fourth quarter of last year, and we’re seeing something like 2.5% now that should continue to increase looking out at the next four quarters,” Meyer says. A recent Wall Street Journal survey of 55 economists also pointed to 2.5% GDP growth. And you can't have a recession—double or otherwise—if the economy is growing at an appreciable rate.

Growth between 2.5% and 3% may not be the go-go environment that many investors would like to see, but it takes a lot worse to qualify as a recession, says Meyer. Moreover, current economic forecasts already incorporate a 0.3 percentage point drag on growth attributable to a worst-case scenario resulting from the European Union's budget problems.

Meyer finds it comforting that the Federal Reserve—not known for an overly rosy outlook on the economy—has recently started to sound more optimistic. “The Fed believes that we'll see something like 2% to 3% GDP growth this year, followed by a step-up in the rate of growth in each of the next two years,” he says. “That's very interesting, and actually a very positive forecast from the Fed!”

It's true that Fed Chairman Ben

Bernanke and his colleagues expect only “modest” economic growth and a “gradual” decline in the unemployment rate during the next few quarters, and there's always a risk that unexpected events could dampen economic progress. However, other leading economic indicators simply fail to support the idea that a full-fledged recession is waiting in the wings, Meyer says.

The housing market has not returned to its pre-credit-crunch glory, but it has not appreciably deteriorated during the recent past. Historically, every modern recession has been preceded by a decline in housing permits, whereas now, far from declining, permits rose by 27% during the 12 months ending in February.

Initial jobless claims are also slowly receding, indicating that while U.S. employers may not be hiring as enthusiastically as some might like, they are not cutting staff. Here, too, the numbers are moving in the opposite direction of what we would expect from a looming recession. Americans are also working longer hours, and as of February, wages are back on the rise. These statistics reflect growing strength in the job market, not the disaster that the “double dip” hypothesis would entail.

Granted, every economic expansion eventually comes to an end, and this one could yet come under unexpected pressure. The Federal Reserve recognizes that global financial markets are still under significant strain, and some economists worry that the combination of a sudden spike in oil prices and a meltdown in the European credit market could undo years of hard work repairing U.S. balance sheets.

But by the time even that hypothetical scenario were to wreak its damage on the economy, there would have been three years or more between “dips.” And if you exclude the early 1980s, you'd be hard-pressed to find any expansion shorter than that length of time since World War II. The average growth cycle during that period is just under five years, so if the trend is any guide, the U.S. economy could soldier on into 2015 before predictions of another contraction come true.

And whether it's three years or three months of continued expansion, investors rarely have much to gain by retreating to the sidelines and waiting for the inevitable. “You've got to start somewhere,” Meyer concludes.