Duane E. Lee, II
Cannon Financial Institute, CWS, AFIM, AIF, CTFA
Executive Vice President
649-4 South Milledge Ave.
Athens, GA 30604
706-353-3346
dlee@cannonfinancial.com
www.cannonfinancial.com

Remember: ***It's not that we plan to fail, it's just that we fail to plan.***

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The Spousal IRA Rule

Generally, you can contribute up to $5,000 to an IRA in 2011 ($6,000 if you'll be age 50 or older by the end of the year), as long as you have taxable compensation at least equal to the amount of your IRA contribution. But what if you have little or no taxable compensation for the year? The spousal IRA rule may help. If you're married, file a joint federal income tax return, and earn less than your spouse, the amount you can contribute to an IRA is based on the combined compensation of you and your spouse.

How it works

The rule is especially helpful if one spouse has little or no compensation. For example, Mary (age 45) and Joe (age 50) are married and file a joint return for 2011. Mary earned $100,000 in 2011 and Joe, a stay-at-home dad, earned nothing for the year. Mary contributes $5,000 to her IRAs for 2011. Even though Joe has no earnings, he can still contribute up to $6,000 to his IRAs for 2011, because Joe and Mary's combined compensation is at least $11,000.

It gets just a little more complicated if your combined compensation is less than the maximum IRA contribution allowed. Assume Nicole earns $4,000 in 2011, and Jack earns $2,000, for total compensation of $6,000. If Nicole makes no contribution at all to her IRAs in 2011, Jack can contribute up to $5,000 to his IRA ($6,000 if he's 50 or older). If Nicole contributes $4,000 to her IRAs for 2011, then Jack can contribute up to $2,000 to his IRA. Note that the spousal IRA rule applies only to the spouse with the lesser amount of compensation. In the previous example, the maximum amount that Nicole (the higher earning spouse) can contribute to her IRAs is $4,000, because she's not entitled to take Jack's earnings into account.

Here's the actual contribution formula, as stated by the IRS: The spouse with the lesser amount of taxable compensation can contribute the smaller of the following two amounts:

1. $5,000 ($6,000 if age 50 or older)
2. The total amount the couple includes in gross income for the year, reduced by the amount the higher earning spouse contributes to his or her own IRAs (traditional or Roth) for that year

Source of funds

The spousal IRA rule only determines how much you can contribute. It doesn't matter where the money you use to fund your IRA actually comes from. For instance, in the first example, Mary earned $100,000 and Joe earned nothing in 2011. But Joe could still contribute up to $6,000 to his IRA because of the spousal IRA rule. It doesn't matter if the money Joe actually uses to fund his IRA comes from Mary, from savings, from a gift Joe receives, or from any other particular source. The spousal IRA rule doesn't require you to track the source of your contribution.

Impact on other IRA rules

The spousal IRA rule doesn't change any of the other rules that generally apply to IRAs. You can contribute to a traditional IRA, to a Roth IRA, or both. However, you can't make regular contributions to a traditional IRA for the year you turn 70½ or thereafter. And your contributions to a traditional IRA are deductible only if neither you nor your spouse is covered by an employer retirement plan or, if either of you is covered by a plan, your combined income is within certain limits.

If you aren't eligible to make deductible contributions to a traditional IRA because you and your spouse earned too much, you can make nondeductible contributions instead. However, you may be better off contributing to a Roth IRA (if you qualify) instead of making nondeductible contributions to a traditional IRA.

Your ability to make annual contributions to a Roth IRA may also be limited, or eliminated, depending on the amount of your combined income. If you're eligible, though, you can contribute to a Roth IRA at any age--the 70½ rule doesn't apply. And it doesn't matter if you or your spouse is covered by an employer plan.

Could You Handle a Financial Windfall?

Receiving a financial windfall is often a life-changing event. It's a relatively common one, too. You might never win the lottery, but the odds are that at some point you'll receive a significant amount of money, perhaps from an inheritance, bonus, insurance settlement, or the sale of a home or business. If so, would you be prepared for the financial decisions you might suddenly face?

Proceed with caution

The first thing you'll want to do after receiving a large sum of money is to take a deep breath. You may feel the urge to spend, invest, move, quit your job, or give to others. But if you want your windfall to last, don't do anything until you've had a chance to come to terms with the personal and financial consequences. Regrettably, some people who suddenly come into money lose it all within a few years because they fail to plan. Taking the time to make well-thought-out financial decisions will help ensure that your money will last.

Put your money somewhere temporarily

Until you've had time to explore your options, there's nothing wrong with putting a lump sum into a relatively liquid account, such as a savings or money market account. You don't have to leave it there forever--just set it aside until you've had time to formulate a plan.

Assemble a support team

Because your finances are likely going to be a lot more complex now, one of the first things you should do is to get unbiased advice from a financial professional who can help you put together a financial plan. You may also need to work with an accountant, an attorney, or an insurance professional who can help address any tax, estate planning, or insurance planning concerns. Although receiving a windfall should be a happy event, it's sometimes very stressful, and you may need help from trusted professionals to help you handle the pressure.

Avoid spending and giving impulsively

Spend or give your money away too quickly and you risk depleting your nest egg. Although it's tempting to go out and buy something you've always wanted but couldn't afford before, watch your spending. A financial windfall can turn even a financially conservative person into an impulsive shopper. If your ultimate goal is to create lasting wealth, take time to consider your future needs, not just what you need (and want) today.

What about giving or loaning money to family and friends, or making a charitable donation? Again, it's best to wait until you've set priorities and developed a financial plan. Otherwise, your personal relationships could suffer (will your sister be hurt if you give $10,000 to your brother?), and your generosity might have unintended consequences (will you be approached by dozens of charities once you donate to one?).

Watch out for too-good-to-be-true opportunities

Unfortunately, more than one person has become the target of unscrupulous individuals looking to profit from the good fortune of others. And even if you're approached by a well-meaning friend, family member, or business associate, you should thoroughly investigate any investment or business opportunities presented, instead of relying on someone else's judgment. If you have trouble saying no, consider referring any requests you receive to a third party, such as an attorney or financial professional you're working with.

Look at your financial needs and goals

An important part of handling a financial windfall is to evaluate your short- and long-term needs and goals. This will serve as a foundation for your financial plan.

- Do you have enough money set aside in an emergency account?
- Do you have outstanding debt that you'd like to pay off?
- Do you plan to pay for your children's education?
- Do you need to bolster your retirement savings?
- Are you planning to buy a first or second home?
- Would you like to quit your job or go into business for yourself?
- Are you considering giving or loaning money to loved ones or donating to a favorite charity?
- What would you like to accomplish with your wealth over time?

Have a little fun

Once you've made some initial decisions and set aside money needed to pay taxes, consider spending a small portion of your windfall on something you'd like. There's no reason to deprive yourself, as long as you've taken care of business first. If you plan well and control the urge to spend lavishly, your windfall may provide you with financial security and comfort for many years to come.

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Health Flexible Spending Accounts

An employer-offered health flexible spending account (FSA) can provide you with a tax-favored way to pay for your qualified medical expenses.

An employer-offered health flexible spending account (FSA) can provide you with a tax-favored way to pay for your qualified medical expenses. You can make contributions to the health FSA that reduce your federal taxable wages, and the health FSA can reimburse you tax free for qualified medical expenses.

Health FSA basics

At the beginning of each plan year, you elect the amount (if any) of your wages that will be contributed to a health FSA during the year. The plan must specify a maximum dollar amount or maximum percentage of compensation that can be contributed to your health FSA. You might base your election on prior experience, as well as expectations for the upcoming year. Your employer will then withhold a proportionate part of those contributions from each paycheck. The salary reduction contributions reduce your federal taxable wages. (In some plans, your employer may also make nontaxable contributions on your behalf to the plan.)

When you incur qualified medical expenses during the year, you (or the service provider) submit those expenses to the health FSA. The expenses cannot be paid for or reimbursed under any other plan. Certain written documentation may be required. The health FSA reimburses you (or the service provider) for those expenses, up to the amount that you elected to contribute to the health FSA for the year. You receive the reimbursements tax free. You cannot claim an income tax itemized deduction for medical expenses that are reimbursed to you by the health FSA.

Special rules may apply to highly compensated participants and key employees.

Use-it-or-lose-it rule

Health FSAs are "use-it-or-lose-it" plans. Amounts in the account that remain at the end of the plan year cannot be carried over to the next year; they are paid to the employer and cannot be refunded to you. However, the health FSA can provide a grace period of up to 2½ months after the end of the plan year. For a plan using a calendar year, a grace period until March 15 of the following year might be used. Expenses incurred during the grace period can be paid from amounts remaining in the health FSA at the end of the previous plan year. Know when your plan year ends and whether you have a grace period. If you have money left in your health FSA at the end of your plan year and you have a grace period, look for ways to use up the money during the grace period (for example, by purchasing glasses or contacts, stocking up on prescription drugs, or having dental work done--whatever can be reimbursed by your health FSA).

One-time HSA distributions

If you were covered by a health FSA on September 21, 2006, you may have until the end of 2011 to take a onetime distribution from your health FSA that is transferred directly to your health savings account (HSA) as a qualified HSA distribution. A qualified HSA distribution is treated as a nontaxable rollover from the FSA to the HSA. Various conditions must be met to make a qualified HSA distribution. Consult a financial professional familiar with FSAs and HSAs.

Recent changes

- *Coverage expanded for children under age 27.* A health FSA can generally reimburse you for qualified medical expenses incurred by you, your spouse, and your dependents. Effective March 30, 2010, qualified medical expenses that can be reimbursed by a health FSA were expanded to include expenses incurred by any child of yours who is under age 27 at the end of your tax year. Prior to March 30, 2010, reimbursement by a health FSA for expenses of a child was generally limited to a child under age 19 (or under age 24 for a full-time student). Such expanded coverage is available only if your employer amends the plan documents to provide it to you.
- *Prescriptions needed for over-the-counter medicine reimbursement.* As of 2011, you will generally need a prescription if you wish to be reimbursed by a health FSA for the cost of over-the-counter medicines. From about 2003 through 2010, a health FSA could reimburse you for over-the-counter medicines without the need for a prescription. The change makes the health FSA definition of medicine or drugs the same as the definition you would use if you were itemizing the deduction for medical expenses for federal income tax purposes: a prescribed drug or insulin.
- *New dollar limit for health FSAs in cafeteria plans.* Starting in 2013, there will be a new annual $2,500 limit for salary reduction contributions that you can make to a health FSA that is part of a cafeteria plan. If your employer wishes, the cafeteria plan can impose a lower dollar limit. The $2,500 amount will be indexed for inflation starting in 2014. Prior to 2013, there is no statutory limit. The new $2,500 limit does not apply to a stand-alone health FSA.

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Ask the Experts

Duane E. Lee, II
Cannon Financial Institute,
CWS, AFIM, AIF, CTFA
Executive Vice President
649-4 South Milledge Ave.
Athens, GA 30604
706-353-3346
dlee@cannonfinancial.com
www.cannonfinancial.com

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What happens to my online accounts when I die?

These days, using a personal computer is just a normal part of life. You may have e-mail or online accounts that require a password, or you may have pictures, videos, or documents stored online or on your hard drive. You may even maintain a blog or website. Like your physical assets, these "digital" or "cyber" assets can have both sentimental and economic value. Chances are, nobody else knows your cyber assets even exist, and if they do, they may not know where those assets are stored or how to access them. It's important that you make plans for the disposition of your cyber assets in the event of your incapacity or death. If you don't, your survivors may have to deal with time-consuming and costly searches, or worse, the assets may be overlooked and lost altogether.

What happens to your cyber assets at your death depends on what type of asset it is, and while the laws regarding cyber assets are not well settled, there are some broad guidelines. Domain names, once registered, become your personal property under property law, and your websites and blog content are yours under federal copyright law. These types of cyber assets are clearly defined by law and are transferable to your heirs (e.g., through your will). On the other hand, certain online accounts, such as e-mail accounts, Facebook, Twitter, eBay, or PayPal, may not be classified as property in the legal sense; you are merely given a license by the website when you agree to its terms of service. Under these terms of service, transferability of your accounts may be limited or even prohibited altogether. Terms of service vary widely from site to site. Some sites, such as YouTube, will allow persons with legal power of attorney to access your accounts, and they post instructions on how to do so. Other sites, such as Facebook, will put your accounts into a "memorial state." Many sites, however, will terminate and permanently delete your accounts upon notification of your death. You should read and understand all terms of service and make any necessary legal arrangements so your heirs will have access to your accounts.

Note: On the flip side, you may have certain private accounts to which you want to ensure that no one is given access and which will be terminated immediately upon your death.

How do I include my cyber assets in my estate plan?

Your cyber (or digital) assets may have sentimental and/or economic value, and you should consider including them in your estate plan. Here's how:

1. Identify your cyber assets. They include (a) domain names, websites, and blogs, (b) photos, videos, and documents stored on sharing sites such as Flickr, YouTube, and Google Docs, (c) e-mail accounts, (d) online bank, credit card, investment, and other such accounts that typically require a password, (e) accounts with online companies such as Facebook, Twitter, and eBay, and (f) documents, spreadsheets, photos, and other such items that are stored on your computers, hard drives, DVDs, smartphones, flash drives, and other offline or online servers or backup servers.
2. Understand which assets are transferable to other persons and which are not. Your domain names, websites, and blogs are transferable under property and copyright laws; however, your online accounts may or may not be transferable, depending on the online site's terms of service (you may merely have a license). Read all terms of service to understand what can be done with the account upon your death. You will find that many accounts will automatically terminate upon notice of your death, and other accounts, such as one on Facebook, may be put into a "memorial state."
3. Inventory your cyber assets. List all your assets indicating (a) where they are located, (b) how they are accessed, including URLs, usernames, and passwords, (c) what you wish to have happen to the asset at your death (e.g., transfer to an heir, terminate, memorialize), and (d) who will be responsible for carrying out those wishes (e.g., spouse, executor). Refer to but do not include this inventory in your will, because wills become public and this is private information. Put it in a safe place and let others know of its existence.
4. Include specific bequests of certain valuable cyber assets (domain names, websites, blogs) in your will, and execute powers of attorney for those accounts that will require it.

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