Plan well. Live well.

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The Bank of Missouri
Investments & Retirement Planning
3610 Buttonwood Drive, Ste. 10
Columbia, MO 65201
573-874-4900
info@bankofmissouriinvestments.com
www.bankofmissouriinvestments.com

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What You Should Know about Trusteed IRAs

The tax code allows IRAs to be created as trust accounts, custodial accounts, and annuity contracts. Regardless of the form, the federal tax rules are generally the same for all IRAs. But the structure of the IRA agreement can have a significant impact on how your IRA is administered. This article will focus on one type of trust account commonly called a "trusteed IRA," or "individual retirement trust."

Why might you need a trusteed IRA?

In a typical IRA, your beneficiary takes control of the IRA assets upon your death. There's nothing to stop your beneficiary from withdrawing all or part of the IRA funds at any time. This ability of your beneficiary to withdraw assets at will may be troublesome to you for several reasons. For example, you may simply be concerned that your beneficiary will squander the IRA funds.

Or it may be your wish that your IRA "stretch" after your death--that is, continue to accumulate on a tax-deferred (or in the case of Roth IRAs, potentially tax-free) basis--for as long as possible. Your intent to stretch out the IRA payments may be defeated if your beneficiary has total control over the IRA assets upon your death.

Even if your beneficiary doesn't deplete the IRA assets, in a typical IRA you normally have no say about where the funds go when your beneficiary dies. Your beneficiary, or the IRA agreement, usually specifies who gets the funds at that point. So, in a typical IRA, if you name your spouse as your primary beneficiary, your spouse could name children from a previous marriage, or a new spouse if he or she remarries, as the ultimate beneficiary of your IRA assets. A trusteed IRA allows you to control the ultimate beneficiaries of your IRA, by letting you specify contingent beneficiaries that cannot be changed by your primary beneficiary.

With a trusteed IRA, you can't stop the payment of required minimum distributions (RMDs) to your beneficiary but you can restrict any additional payments. You can direct the trustee to pay only RMDs to your beneficiary. Or you can provide the trustee with discretionary authority to make payments to your beneficiary in addition to RMDs, e.g., for your beneficiary's health, welfare, or education. Or you can impose restrictions on distributions that last only until your beneficiary reaches a specified age. Trusteed IRAs can also be set up to qualify as marital, QTIP, and credit shelter (bypass) trusts, potentially simplifying your estate planning.

A trusteed IRA can also be a valuable tool during your lifetime. It can be structured so that if you become incapacitated, the trustee will step in and take over the investment of assets and distribution of benefits on your behalf, ensuring that your IRA won't be in limbo until a guardian is appointed.

Is a trusteed IRA right for you?

While trusteed IRAs can be as flexible as a particular trustee will allow (not all provide the same level of IRA planning services), they aren't right for everyone. The minimum balance required to establish a trusteed IRA, and the fees charged, are usually significantly higher than for other IRAs, making trusteed IRAs most appropriate for large IRA accounts. You may also incur attorney's fees and other costs.

And in some cases, another approach might be more appropriate. For example, you may be able to assure that your IRA "stretches" after your death by instead naming a trust as the beneficiary of your IRA. If specific IRS rules are followed, RMDs can be calculated using your trust beneficiary's life expectancy (this is commonly called a "see-through" trust).

See-through trusts are generally more expensive, and more complicated, than trusteed IRAs. It's important that you consult an estate planning professional who can explain your options and make sure you choose the right vehicle for your particular situation.

Ways to Trim College Costs

Here's a new twist on an old saying. There are three things in life that are certain: death, taxes, and college costs that go up every year, even during a recession. How can students and parents avoid the "extreme borrowing" phenomenon that can lead to years of burdensome loan payments? They can start by looking for ways to trim college costs so they won't have to borrow and/or pay as much in the first place. Here are some ideas.

Pick a college with a lower sticker price

Pricey private colleges often like to point out that the majority of their students don't pay the full "sticker price." The problem is, you never quite know how much, exactly, their students are paying. Every student's aid package is different, and the presence of merit aid awards makes the picture even murkier. Private colleges with the biggest endowments can afford to be the most generous (replacing loans with grants in aid packages, for example, or guaranteeing merit aid for all four years), but not every private college can do this. Even if a college takes $15,000 or $20,000 off its sticker price, that may still leave $30,000 or more to pay each year.

In the past few years, enrollment at public colleges has soared due to their lower sticker prices--public colleges are typically half the cost of private colleges and, for in-state residents, the savings can be even greater. Education experts often debate the benefits of spending more money to attend a well-known, more prestigious private college vs. a public college. But it's generally agreed that motivated, bright students can succeed anywhere, and that after a certain period of time, job experience matters more than where you went to college.

Consider taking a year off

The number of students taking time off between high school and college is growing in a measurable way. This period, commonly referred to as a "gap year," is typically spent volunteering, traveling, working, and/or interning. One of the main benefits of a gap year is the increased maturity and focus that comes from engaging in new experiences. These traits can help students get their money's worth in college by sharpening study habits and career goals. Another benefit is the potential to earn money to pay for college. For example, working full-time for 42 weeks (10 months) at the federal minimum wage of $7.25 per hour equals about $12,180 before taxes. Or, for the volunteer-minded, the AmeriCorps program currently provides a modest living allowance and a stipend in 2010 of $5,350 in exchange for service work (future stipends will be tied to the maximum federal Pell Grant). And more than 80 colleges now offer matching grants to students who earn an AmeriCorps stipend (see www.americorps.gov for more information).

Tweak the typical four-year experience

If your child doesn't mind forgoing the typical four-year college experience, here are some ways to trim costs:

- Attend a community college for one or two years, then transfer to a four-year institution
- Take AP high school courses to earn college credit and reduce the time in college
- Look at colleges that offer three-year accelerated degree programs
- Consider living at home and commuting to school to save on room-and-board costs
- Research online education options (check out www.distance-education.org)

Research scholarships

After your child fills out the federal government's financial aid application (the FAFSA) and the college's financial aid application (the standard PROFILE application or the college's own form), he or she should set aside as much time as possible to research and apply for scholarships. With online searches, students can easily input their talents and background and get a filtered list of relevant scholarships (try www.fastweb.com or www.collegeboard.com). Also, don't forget to check with your employer and the local chamber of commerce for scholarships.

Budget well during college

Encourage your child to look for deals on mandatory items like books, supplies, and other personal dorm room items. For discretionary items, establish guidelines for a reasonable amount of monthly spending money, but build in flexibility. If you do co-sign a credit card application with your child (a co-signer is now required in most cases for applicants under 21), make sure your child doesn't succumb to the temptation of easy money. According to a study last year by Sallie Mae, the average college student has $3,200 in credit card debt. Discuss your expectations of credit card usage and make sure your child understands how interest accumulates on unpaid monthly balances.

Does cost affect the choice of college?

According to an online survey by The Project on Student Debt, 64% of students said college affordability was a "big consideration" when selecting a college, and 19% said it was a "moderate consideration."

Avoiding Probate: Is It Worth It?

When you die, your estate goes through a process that manages, settles, and distributes your property according to the terms of your will. This process is governed by state law and is called probate. Probate proceedings fall under the jurisdiction of the probate court (also called the Surrogate's, Orphans', or Chancery court) of the state in which you are domiciled at the time of your death. This court oversees probate of your personal property and any real estate that is located in that state. If you own property located in a state other than the state in which you are domiciled at the time of your death, a separate "ancillary" probate proceeding may need to be initiated in the other state.

Note:*"Domicile" is a legal term meaning the state where you intend to make your permanent home. It does not refer to a summer home or a temporary residence.*

Items that are subject to probate are known as probate assets. Probate assets generally consist of any property that you own individually at the time of your death that passes to your beneficiaries according to the terms of your will. Nonprobate assets include all property that passes outside of your will. Examples of nonprobate assets include property that is owned jointly with right of survivorship (e.g., a jointly held bank account) and property that is owned as tenants-by-the-entirety (i.e., real property owned jointly by a husband and wife). Another example is property that passes to designated beneficiaries by operation of law, such as proceeds of life insurance and retirement benefits.

Why avoid probate?

Most wills have to be probated. The rules vary from state to state, but in some states, smaller estates are exempt from probate, or they may qualify for an expedited process.

Probate can be slow. Depending on where your executor probates your estate and the size of your probate estate, the probate process can take as little as three months or as long as three years. Three years can be a long time to wait for needed income. It can take even longer if the estate is a complicated one or if any of the heirs are contesting the will.

Probate can be costly. Probate costs usually include court costs (filing fees, etc.), publication costs for legal notices, attorney's fees, executor's fees, bond premiums, and appraisal fees. Court costs and attorney's fees can vary from state to state. Typically, the larger the estate, the greater the probate costs. However, if a smaller estate has complex issues associated with its administration or with distribution of its assets (e.g., if the decedent owned property in several states), probate can be quite costly.

Probate is a public process. Wills and any other documents submitted for probate become part of the public record, something to consider if you or your family members have privacy concerns.

Why choose to go through probate?

For most estates, there's usually little reason to avoid probate. The actual time and costs involved are often modest, and it just doesn't make sense to plan around it. And, there are actually a couple of benefits from probate. Because the court supervises the process, you have some assurance that your wishes will be abided by, and, if a family squabble should arise, the court can help settle the matter. Further, probate offers some protection against creditors. As part of the probate process, creditors are notified to make their claims against the estate in a timely manner. If they do not, it becomes much more difficult for them to make their claims later on.

In addition, some states require that your will be probated before the beneficiaries under your will can exercise certain rights. Among the rights that may otherwise be limited are the right of your surviving spouse to waive his or her share under the will and elect a statutory share instead, the right of your surviving spouse to use your residence during his or her remaining life, the right of your surviving spouse to set aside certain property, and the right of your surviving spouse to a family allowance.

How to avoid probate

An estate plan can be designed to limit the assets that pass through probate or to avoid probate altogether. The major ways property is passed outside of probate are by owning property jointly with rights of survivorship; by ensuring that beneficiary designation forms are completed for those types of assets that allow them, such as IRAs, retirement plans, and life insurance; by putting property in a trust; and by making lifetime gifts.

See your financial professional or attorney for more information.

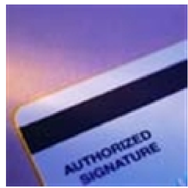
Why avoid probate?

- *It can be slow; getting needed assets into the hands of your heirs may be delayed*
- *It can be costly, especially if an estate is large or complex, or ancillary probate is needed*
- *It is public; documents that you wish to remain private can be accessed by the public*

How to avoid probate

- *Own assets jointly with rights of survivorship*
- *Own assets that pass by beneficiary designation, such as life insurance and retirement plans*
- *Use a trust*
- *Gift assets during your lifetime*

What is a rewards program?



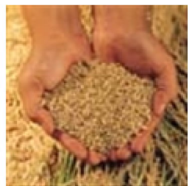
Offered by merchants of all types, rewards programs are marketing tools that encourage brand-loyalty purchasing through price discounts, bonus points and/or coupons toward future purchases, donations to your favorite charity, and even cash rebates. If you're part of the program, you access it by using a membership card that looks like (and often is) a credit card. The card compiles information about your purchases and the rewards you've earned; it also stores information about you that's useful to the merchant when tailoring advertising that's pitched to your spending preferences.

While many rewards programs offer credit with (and rewards from) a particular merchant, other programs, offered by credit card issuers, may allow you to earn rewards, such as gift certificates, that may be used with a wide variety of merchants. And in most cases, these cards offer the option of earning cash back each time you use the card. A cash back reward can be used anytime, anywhere.

The rules, restrictions, and limitations on what you may earn through a rewards program can be complex. Most programs offer a larger percentage reward for purchasing select products or categories of products than they do for all products. You may have to spend a minimum amount per month, quarter, or year to get any rewards, and there are often limits both on the amount of rewards you can earn and on the time allowed for cashing them in. What's more, the originator of the rewards program may change the rules or cancel the program altogether with little notice or recourse.

The prohibition against certain dubious but profitable practices by the Credit Card Accountability, Responsibility, and Disclosure Act of 2009, coupled with the overall tightening of credit, have made the reward card market less lucrative, and credit card issuers with rewards programs may begin to take steps to preserve their profit ratios. Such steps could include higher interest rates and annual fees, restructurings of reward policies that water down the rewards, inactivity fees, and/or reinstatement fees to restore points lost because of late payments.

How can I reap the most from a rewards card?



As you sow, so may you reap. To reap the most from a credit card rewards program, here are some things to consider.

- *Don't do it just to have it.* Because opening or closing credit cards may impact your credit score, don't open a new account just to accumulate airline miles, merchant discounts, or any other rewards. Open a rewards card only if you need credit. And watch your spending. It's often too easy to overspend just to get more rewards.
- *Compare, compare, compare.* Comparison shop to get information on a card's rates, fee structure, and the details of its rewards program, including any limits or restrictions. Consider what you buy most often and where you shop, and get a card that will work for you in those areas.
- *Cash back may be best.* You may never rack up enough points to fly to Tahiti or get that bracelet from Tiffany's, but everybody can always use cash, anywhere, anytime, for anything.
- *Don't carry a balance.* Because rewards cards often carry high interest rates, carrying an unpaid balance will create finance charges that may cancel out the value of your rewards. What's more, if you are late making a monthly payment, you may lose your reward points, only to get them back upon paying a reinstatement fee.
- *Check your statements.* You should check your statements monthly to make sure your purchases--and your rewards--have posted properly.
- *Learn the rules.* Qualifying for rewards often involves a complex formula, and certain limitations may have to be met in order to redeem them. Read the fine print to keep track of these rules, and review them periodically to determine if the creditor has changed them.
- *Charity begins at home.* Programs that donate your rewards to your favorite charity actually contribute only pennies for every dollar you spend, and you can't deduct the donation on your income taxes. You (and the charity) may be better off if you get a cash back reward instead and then send a check to the charity.

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3610 Buttonwood Drive, Ste. 10
Columbia, MO 65201
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info@bankofmissouriinvestments.com
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