



# The Mosaic Financial Group LLC

Your Wealth Management Partner

## Seven Good Reasons To Create And Fund A Trust

**W**ho needs a trust? Maybe a better question is: Who doesn't? Trusts can be an essential part of an estate plan for anyone who owns significant assets. Reasons for establishing and funding a trust may range from gaining protection from creditors to saving on taxes. A trust can also create a legacy.

There are many different types of trusts, some of which are revocable—you retain certain rights over trust assets—while others are irrevocable, requiring you to cede all control. And some trusts are complex while others are simple. Although every situation is different, consider these seven potential benefits of have a trust.

1. **Avoiding probate.** Assets distributed according to the provisions of your will must go through a process known as probate, governed by state law. In some states, this can be extremely lengthy and costly, especially if your will is contested. What's more, your will is open to public inspection—anyone can find out what you're giving to which beneficiaries. Assets transferred to a trust, however, are exempt from probate. When you die, the trustee of a trust can quickly—and privately—distribute your worldly goods to the beneficiaries you've chosen.

2. **Protecting assets from creditors.** Irrevocable trusts are often used to

protect personal assets from creditors. That could be helpful if you (or your beneficiaries) work in a profession in which you might be sued or if you have large debts. But keep in mind that an irrevocable trust is permanent—you can't change your mind.

3. **Deterring spendthrift family members.** If you would like to leave assets to a someone—perhaps a young child or grandchild—you might be concerned about what will happen when that young person gets his or her hands on the money. A trust can include restraints that

may deter profligate spending. For instance, you might set up a trust to dole out amounts at regular intervals, with a lump sum coming when a minor is mature enough to handle the wealth. Or you might impose specific requirements for gaining access to the funds—for example, completing a college degree.

4. **Authorizing “dead-hand” control.** This basically means that the conditions that a trust imposes will remain in effect after you've passed away. So, for example, that youngster might not finish college until years down the road. But maintaining this kind of control may not have the desired effect, or the trust could be subject to legal challenges if its conditions violate public policy.

## Spotlight On... Carmel Saldana

**H**ello everyone! My name is Carmel Saldana. I have been with Mosaic's Investment

Advisory team for over two years, and have enjoyed my time here since then. My responsibilities include report generation, data management, and account service operations.

I grew up in the Philippines, as the youngest of five children. In March 2013, I graduated from Ateneo de Manila University with a Management Engineering major. Six months later, I moved to Chicago where my sister lived. I recently passed my CFA Level II exam, and hope to complete the designation within the next few years.

Outside of work, I volunteer as a high school math and science tutor at the Metro Achievement Center, an after-school program for girls. I love attending classical music concerts, especially those held by the Chicago Symphony Orchestra and the Chicago Civic Orchestra. As an amateur violinist, I take private lessons and play in the second violin section of a local community orchestra that holds 3 to 4 concerts per season. With our orchestra composed of people from different professional backgrounds, the camaraderie and intricate music make every rehearsal worth looking forward to.



*(Continued on page 4)*

# Remember The Lesson Of Rebalancing

Sometimes investors need to be reminded just how unpredictable equity markets can be. Any big, unforeseen event—such as the United Kingdom’s so-called “Brexit” vote to leave the European Union—can result in dramatic market swings. And because such fluctuations are as inevitable as they are unpredictable, it makes sense to be prepared for all possibilities.

The best way for most investors to deal with short-term volatility is to stick to a long-term plan, rather than panicking or making ill-considered market moves. And your plan will need a proper balance between stocks and bonds in your portfolio.

Historically, stocks have outperformed other kinds of investments and have provided a hedge against inflation, while bonds have provided steady income and more protection against market volatility.

Diversification and asset allocation—core principles for attempting to control investment risks—are used to create a portfolio that may have the breadth to reduce volatility when markets get turbulent. Your overall tolerance for risk can help determine how you allocate your

investments to stocks, bonds, and other assets. Diversification and asset allocation are designed to minimize inherent risks, although there are no absolute guarantees.



But as important as it is to choose a mix of investments that makes sense for you, you’ll also need to revisit your portfolio periodically to help restore the balance you’ve established. If stock prices rise, for example, that part of your portfolio may grow larger than you intended—and this could make you vulnerable if equity prices fall. “Rebalancing” helps you get back to the target percentages you started with.

Yet as simple as that may sound, rebalancing can seem counterintuitive in practice. It requires you to sell

investments that have been doing well and buy others that have slumped. Your natural inclination may be to keep riding a wave of success, and to stay away from parts of the market that haven’t performed well.

But rebalancing can help impose needed discipline for your plan. It can enable you to sell high and buy low and to maintain the broad balance that may cushion your holdings against volatility. And though it sometimes may result in a lower rate of return than you would have gotten if you’d let your winning positions continue to grow, that may be a small price to pay for feeling more comfortable

about your investments.

Rebalancing also can help you resist the impulse to try to “time” the market—attempting to jump in when prices are rising and to get out before they fall. That is rarely a recipe for success and could lead to significant losses.

How often should you rebalance? Expert opinions vary, but you probably should review your portfolio and rebalance at least once a year. The end of the year could be a good time to get your ducks in a row. ●

## Ins And Outs Of Nondeductible IRAs

If you meet certain requirements, you may be able to deduct your contributions to a traditional IRA, although deductions are phased out at relatively low income levels. Yet even if you don’t qualify for a tax deduction, you still can contribute to an IRA, especially if you aren’t eligible to make Roth IRA contributions. You also might have “after-tax” assets in a 401(k) or other retirement plan that you want to roll over into an IRA. But having both deductible and nondeductible assets in the same account can complicate matters when it’s time to withdraw money.

Deductions for contributions to an IRA are phased out if you (or your

spouse) participate in an employer-sponsored retirement plan and your adjusted gross income (AGI) exceeds an annual limit. For example, the phaseout for 2016 occurs between \$61,000 and \$71,000 of AGI for a single filer who is an active plan participant and between \$98,000 and \$118,000 for a joint filer. The range is from \$184,000 to \$194,000 if your spouse is the participant and you file jointly.

Meanwhile, your ability to contribute to a Roth IRA, which offers the promise of future tax-free payouts, is phased out in 2015 between \$117,000 and \$132,000 of AGI for a single filer and between \$184,000 and \$194,000 for

a joint filer.

Even if you don’t qualify to make tax-deductible contributions to a traditional IRA or after-tax contributions to a Roth, you still can put money into a traditional IRA on a nondeductible basis. You also can choose to forego deductions for contributions if that suits your purpose, but you’ll have to file Form 8606 for nondeductible contributions with your tax return to notify the IRS. The deadline for making IRA contributions is the tax return due date for the year of the contribution, so you have until April 18, 2017, to complete the forms for 2016.

Besides making nondeductible

# Five Big Tax Penalties To Avoid At All Costs

**T**axes are a necessary evil, but you don't want to make matters worse by paying unnecessary federal tax penalties. Here are five to avoid:

**1. Not taking required minimum distributions.** This is the granddaddy of tax penalties. After you reach age 70½, you must begin taking annual "required minimum distributions" (RMDs) from your tax-advantaged retirement plans (unless you're still working) and from traditional IRAs. (For the year you turn 70½, you can postpone the payout until April 1 of the following year, but that will require you to take two withdrawals in the same calendar year.) The RMD is based on your age—entered into a life expectancy table—and your account balances at the end of the year in which you turn 70½.

Failing to take RMDs can result in a 50% penalty tax on the amount that should have been withdrawn (on top of the regular income tax you owe on the distribution). Unless you can show reasonable cause for missing an RMD, you'll be stuck with this penalty.

**2. Making early withdrawals.** On the opposite end of the spectrum, you may be penalized for withdrawing funds from your qualified plans and IRAs too soon. Generally, a 10% penalty tax applies, in addition to the

contributions to a traditional IRA, you might roll over after-tax assets from a 401(k), or other employer plan, to a traditional IRA.

While you aren't technically required to file a Form 8606 in the year of the rollover, when you take distributions from the IRA you must use the form to report any portion representing after-tax assets. That portion won't be subject to income tax.

If your IRA has nondeductible assets, the tax-exempt portion of any withdrawal will be figured on a pro rata



regular tax you owe on the distribution, unless you've already reached age 59½ or the payout is because of death or disability. However, the tax law provides several exceptions to the early withdrawal penalty, such as payments used for deductible medical expenses.

Another key exception is available for substantially equal periodic payments (SEPPs). If you take SEPPs over your life expectancy, or over the life expectancy of you and a beneficiary or beneficiaries, there's no penalty if those payments continue for at least five years or until you reach age 59½, whichever is longer.

**3. Not reporting income from foreign accounts.** Your tax return may not be the only document you're required to file each year. If you have financial interests in foreign banks totaling more than \$10,000 at any time during the year, you must report the account information to the IRS using the FBAR form (short for Report of Foreign Bank and Financial Accounts).

FBARs have to be filed by June 30 of the year following the year of the foreign account activities, and no extensions are allowed. (Beginning with the 2016 tax year, the FBAR

basis, taking into account all of your IRAs. Suppose you've deposited \$20,000 in nondeductible contributions to an IRA and the total value of all of your IRA assets is \$100,000. Based on the 20% allocation, if you take a distribution of \$10,000, \$2,000 would be tax-free and the other \$8,000 would be subject to tax.

If all of that seems unnecessarily complex, keep in mind that mistakes could result in unnecessary tax and an early withdrawal penalty if you're under age 59½. ●

deadline is moved up to April 15 and a six-month extension is available.) The penalty for failing to make the filing is severe—a fine of up to \$250,000 and a prison sentence of up to five years can be assessed for a willful violation. Other penalties may be imposed for providing false information.

**4. Not having health insurance.** Under the Affordable Care Act (ACA), also known as Obamacare, most people must have health insurance or must pay a "shared responsibility payment." For 2016, the amount of that payment is equal to the greater of 2.5% of your

annual household income or \$695 per person for the year (\$347.50 per child under 18), up to a maximum of \$2,085 per family.

This penalty kicks in when you, your spouse, or a dependent go without coverage for more than three months, with certain exceptions. Consult with your tax and financial advisors to see whether you qualify for a premium tax credit or an exception to the penalty.

**5. Missing the deadline for your tax return.** Generally, if you don't file your tax return on time, or if you fail to pay the tax you owe by the tax return due date (even when you receive an extension for filing your return), you'll be assessed a penalty.

The penalty for filing late is 5% of the unpaid taxes for each month or part of a month that a tax return is late. It begins accruing after the tax-filing due date and can't exceed 25% of your unpaid taxes. If you don't pay your taxes by the tax deadline, you normally face a penalty equal to 0.5% of the unpaid taxes. This applies for each month or part of a month after the due date and starts accruing the day after the tax-filing due date.

Again, the six-month filing extension, which is automatic if you request it, is not an extension for *paying* your taxes. You still must make a reasonable estimate and pay that amount. ●





# What's The Truth About Probate?

**H**ave you heard horror stories from families that had to suffer through costly, protracted probate proceedings after a relative dies? The possibility is very real, especially if a will is contested. Yet while it might turn into a nightmare, sometimes probate works like a dream. Before you take drastic steps to avoid probate, it's important to know what it's likely to involve.

The first thing to know is that laws concerning probate vary from state to state. In some states, the process may be quick, while in others it's likely to take a while.

Probate is the court-supervised process of distributing the assets of someone who has died, according to that person's will. Even when there's no will, however, assets usually still have to go through probate. Among the exceptions are life insurance proceeds, which normally can go to designated beneficiaries without passing through probate.

If there's a will and an executor, that person usually handles the probate process. When there's no will,

the probate court will assign someone to assume those responsibilities. The person representing the person who has died will tally up and list the assets; pay outstanding debts, bills, taxes, and fees; and distribute the assets to beneficiaries according to prevailing laws. It may be helpful to hire an attorney to assist a court-appointed representative.



Probate proceedings are open to the general public. And even if an estate is relatively simple, probate can eat up time and money, perhaps delaying the distribution of assets that family members are counting on. And the last thing grieving family

members are likely to want is to be caught up in interminable meetings and legal wrangling.

One way to avoid the hassles of probate is to establish a living trust and transfer assets into it. The contents of a living trust don't have to go through probate, and the amounts and recipients of bequests remain private.

Yet in some states, probate can work to a family's benefit, especially if an estate is relatively small or someone has died without a will. State law can lay out a blueprint for ensuring that the right people receive the property. In addition, it may be better for the family to have the estate bear the cost of the probate process. The laws in some states include provisions for a relatively fast, inexpensive

resolution to probate that may be preferable to using a living trust or other complex arrangements.

Your financial advisor and your attorney can explain the laws in your state and help you decide how to proceed. ●

## Create And Fund A Trust

*(Continued from page 1)*

5. Shifting responsibility for your investments. Usually, when you're investing for yourself, you shoulder most of the responsibilities. But transferring assets to a trust and placing them under the control of a trustee can relieve you of that burden. The trustee, who must meet certain fiduciary standards, then becomes responsible for managing the portfolio of trust assets and other property in the trust. Establishing a trust may also be a way to consolidate some investments.

6. Meeting charitable intentions. You can use a trust to direct donations to a charity both while you're alive and after your death. With a charitable

remainder trust (CRT), your family can receive regular payments during your lifetime, with the remainder of the assets going to the charity when you die. A charitable lead trust (CLT) reverses that equation, providing current income to a charity and then directing the assets that remain at your death to your beneficiaries. In either case, establishing the trust is likely to reduce your taxes.

7. Saving estate taxes. A properly structured trust can maximize the available estate tax benefits on both federal and state levels. Federal law

allows an unlimited marital deduction for transfers between spouses and a generous estate tax exemption (\$5.45 million in 2016) for other transfers.

Trusts can also utilize your generation-skipping exemption as well as providing future tax protection of your heirs.

There are other reasons why you might utilize a trust, but these seven

are among the most common. What about you? Consult with your estate planning advisors to see which type of trust, or combinations of trusts, might best suit your needs. ●

