



McKay Wealth Management

Managing Life's Milestones For Over 30 Years

Fall 2010

McKay Wealth Management

Jeffrey McKay
Financial Advisor
6000 Southcenter Blvd Ste 70
Tukwila, WA 98188
206-973-4482
info@mckaywealth.com
www.mckaywealth.com

Thank you to those who joined us for this year's Cars4TheCure. The weather held up and we had an excellent turn out. To date we have raised \$2,490 for ZERO-The Project to End Prostate Cancer. We would like to thank those who attended and donated so generously.

ZERO is committed not only to reducing prostate cancer and alleviating the pain from the disease but to ending it. For more information on ZERO-The Project to End Prostate Cancer please visit their website at:

www.zerocancer.org.

In this issue:

Year-End Tax Planning--Special Concerns for 2010

In-Service Withdrawals from 401(k) Plans

Avoiding Probate: Is It Worth It?

What does a stronger dollar mean for my portfolio?

Year-End Tax Planning--Special Concerns for 2010



Year-end tax planning is as much about 2011 as it is about 2010. Often, there's a real opportunity for year-end tax savings when you can predict that you'll be paying taxes at a lower rate in one year than in the other. For example, under the right circumstances, deferring a year-end bonus or potentially accelerating deductions into the current year can pay off in a big way. Of course, to effectively plan, it helps to have a good idea of what next year's tax rates will be. Unfortunately, as 2010 draws to a close, 2011 brings some uncertainty in that regard.

Will there be higher tax rates in 2011?

Currently, there are six marginal federal income tax brackets: 10%, 15%, 25%, 28%, 33%, and 35%. These brackets--the result of 2001 tax legislation--expire at the end of 2010. As things stand now, in 2011 the 10% bracket disappears, and the remaining brackets return to their pre-2001 levels: 15%, 28%, 31%, 36%, and 39.6%. Though it would take action by Congress, the president has indicated that he would like to permanently extend the 2010 rates for individuals earning less than \$200,000 and married couples earning less than \$250,000 (these dollar benchmarks would be reduced by an amount that reflected the standard deduction and exemption amounts), but allow the two highest brackets to return to 36% and 39.6% for higher earners.

What about long-term capital gains?

Currently, long-term capital gain is generally taxed at a maximum rate of 15%. If you're in the 10% or 15% marginal income tax bracket in 2010, though, a special 0% rate applies (in other words, you owe no tax on any long-term capital gain). The same rates apply to qualified dividends received in 2010.

These rates also expire at the end of the year. The maximum rate on long-term capital gain in 2011 will generally increase to 20%, with a 10% rate applying to individuals in the lowest tax bracket (special rules would apply to qualifying

property held for five years or more). Qualifying dividends will be taxed as ordinary income. The president has proposed to permanently extend the 0% and 15% rates, with a new 20% rate applying to high-income individuals (those in the 36% and 39.6% tax brackets). Again, though, that all depends on what Congress does in the next few months.

Other considerations

- **2010 Roth IRA conversions:** A special rule applies to Roth IRA conversions in 2010 that allows you to postpone paying federal income tax on the income that results from the conversion. Instead of including the taxable income that results from the conversion on your 2010 federal income tax return (still an option if you so choose), you can report half the income on your 2011 return and half on your 2012 return. Whether a Roth conversion makes sense for you depends on your individual circumstances, including your marginal income tax rate in 2011 and 2012.
- **Alternative minimum tax (AMT):** In a now-familiar pattern, legislation that temporarily increased AMT exemption amounts, forestalling a dramatic increase in the number of individuals ensnared by the tax expired at the end of 2009. Congress is likely to act, but the specifics are uncertain.
- **Required minimum distributions (RMDs):** The requirement to take minimum distributions from IRAs and defined contribution plans was temporarily suspended for 2009; minimum distribution requirements are once again in effect for 2010.
- **Pending legislation:** Legislation is pending to extend some popular provisions that had expired, including the ability to deduct state and local sales tax in lieu of income tax on Schedule A, the additional standard deduction for state and local real property tax, and the above-the-line deduction for qualified tuition and related expenses. And additional legislation is likely, too, so stay up-to-date.

In-Service Withdrawals from 401(k) Plans

You're probably familiar with the rules for putting money into a 401(k) plan. But are you familiar with the rules for taking your money out?

All 401(k) plans are not the same

Federal law specifies the withdrawal options that a 401(k) plan can offer. But your plan can be stricter than the law allows (i.e., offer fewer withdrawal options), and may even provide that you can't take any money out until you reach normal retirement age (usually 65). However, many plans are more flexible.

Withdrawing your own contributions

If your plan allows, you can withdraw your own pretax and Roth contributions (and in some cases, any investment earnings on them) for one of the following reasons:

- You terminate employment
- You attain age 59½
- You become disabled
- You incur a hardship

Hardship withdrawals are permitted only if you have an immediate and heavy financial need, and only in an amount necessary to meet that need. In most plans, you must need the money to (1) purchase a principal residence or repair a principal residence damaged by an unexpected event (e.g., a hurricane), (2) prevent eviction or foreclosure, (3) pay medical bills, (4) pay certain funeral expenses, (5) pay certain education expenses, and (6) pay income tax and/or penalties due on the hardship withdrawal itself. In addition, you generally must have already utilized all other available distributions and nontaxable loans under all plans maintained by your employer. But think carefully before making a hardship withdrawal--in most plans your employer must suspend your participation in the plan for at least six months after the withdrawal, and you could lose valuable employer matching contributions.

Withdrawing employer contributions

Getting employer dollars out of a 401(k) plan can be even more challenging. Many plans won't let you withdraw employer contributions at all before you terminate employment. But some plans are more flexible, and let you withdraw at least some vested employer contributions before then. "Vested" means that you own the contributions and they can't be forfeited for any reason. In general, a 401(k) plan can let you withdraw vested matching or profit-sharing contributions if:

- You become disabled
- You incur a hardship
- You attain a specified age
- You participate in the plan for at least five years, or
- The employer contribution has been in the account for a minimum of two years

Taxation

Your own pretax contributions, company contributions, and investment earnings are taxable when withdrawn from the plan. If you've made any after-tax contributions, they'll be nontaxable when withdrawn. Each withdrawal is deemed to carry out a pro-rata portion of taxable and nontaxable dollars. Any Roth contributions, and investment earnings on them, are treated separately: if your distribution is qualified, then your withdrawal will be entirely free from federal income taxes. If your withdrawal is nonqualified, then each withdrawal will be deemed to carry out a pro-rata amount of your nontaxable Roth contributions and taxable investment earnings. And keep in mind that taxable distributions made prior to age 59½ are generally subject to a 10% premature distribution tax in addition to any income tax due, unless an exception applies.

Plan loans

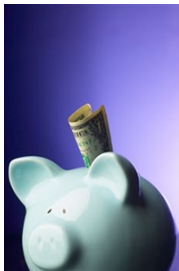
Many 401(k) plans allow you to borrow money from your own account. A loan may be attractive if you don't qualify for a withdrawal, or you don't want to incur the taxes and penalties that may apply to a withdrawal.

In general, you can borrow up to one half of your vested account balance (including your contributions, your employer's contributions, and earnings), but not more than \$50,000.

You can borrow the funds for up to five years (longer if the loan is to purchase your principal residence). In most cases you repay the loan through payroll deduction, with principal and interest flowing back into your account. But keep in mind that when you borrow, the unpaid principal of your loan is no longer in your 401(k) account working for you.

Be informed

You should become familiar with the terms of your employer's 401(k) plan to understand your particular withdrawal rights. A good place to start is the plan's summary plan description (SPD). Your employer will give you a copy of the SPD within 90 days after you join the plan.



Remember that your 401(k) account is there for your retirement. Using it before then should be a last resort only.

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*



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Ask the Experts



What does a stronger dollar mean for my portfolio?

In the summer of 2008, investors were watching the dollar shrink. Because interest rates here were still relatively low, investors favored riskier investments that offered higher returns. The euro's value climbed to a record of almost \$1.60 at one point. But with autumn came the crisis that shook the global financial system. Panicked investors suddenly decided that dollar-denominated assets such as U.S. Treasury bonds didn't look so wimpy after all. Within three months, a euro was worth 30 cents less. Worries about the European debt crisis and whether the euro would even survive as a currency has kept the dollar at roughly the same level or better for much of 2010.

What does that mean for your portfolio? The most obvious impact of a stronger dollar is on the value of overseas investments; the value of holdings denominated in a foreign currency will fluctuate with the exchange rate between that currency and the dollar. Some mutual funds that invest overseas attempt to hedge their currency exposure, using currency futures

and other derivatives to try to limit the impact of that fluctuation on the fund's value. Others do not, hoping that any dollar weakness will increase the fund's value for U.S. investors.

Before investing in an international fund, check its prospectus, which is available from the fund. In addition to carefully considering its investment objectives, risks, fees, and expenses, don't forget the special risks of global investments, including political risks, currency risks, and different accounting standards; all of these can vary considerably by country and region. Also, find out whether the fund is hedged or unhedged. A falling dollar can enhance the returns of an unhedged fund, but the lack of a hedge leaves it unprotected if the dollar strengthens.

A stronger dollar can affect your portfolio even if you don't think you own any foreign investments. Many U.S.-based multinationals get a substantial percentage of their revenues overseas. A stronger dollar can cut into those revenues as U.S. exports become more expensive for overseas consumers. Also, many broad-based mutual funds include a percentage of overseas holdings among their assets.