



Sound Financial Strategies

Helping You Make Informed Financial Decisions!

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Saving for Retirement and a Child's Education at the Same Time

You want to retire comfortably when the time comes. You also want to help your child go to college. So how do you juggle the two?

Know what your financial needs are

The first step is to determine what your financial needs are for each goal. Answering the following questions can help you get started:

For retirement:

- How many years until you retire?
- Does your company offer an employer-sponsored retirement plan or a pension plan? Do you participate? If so, what's your balance? Can you estimate what your balance will be when you retire?
- How much do you expect to receive in Social Security benefits?
- What kind of lifestyle do you hope to have in retirement? For example, do you want to travel extensively, or will you be happy to stay in one place and live more simply?
- Do you or your spouse expect to work part-time in retirement?

For college:

- How many years away is college?
- Will your child attend a public or private college? What's the expected cost?
- Do you have more than one child?
- Does your child have any special skills that could lead to a scholarship?
- Do you expect your child to qualify for financial aid?

Figure out what you can afford to put aside each month

After you know what your financial needs are, the next step is to determine what you can afford to put aside each month. To do so, you'll need to prepare a detailed family budget that lists all of your income and expenses. Once you've come up with a dollar amount, you'll

need to decide how to divvy up your funds.

Retirement takes priority

Though college is certainly an important goal, you should probably focus on your retirement if you have limited funds. With generous corporate pensions mostly a thing of the past, the burden is primarily on you to fund your retirement. But if you wait until your child is in college to start saving, you'll miss out on years of tax-deferred growth and compounding of your money. Remember, your child can always attend college by taking out loans (or maybe even with scholarships), but there's no such thing as a retirement loan!



Help! I can't meet both goals

If the numbers say that you can't afford to educate your child or retire with the lifestyle you expected, you'll have to make some sacrifices. Here are some things you can consider.

Defer retirement: The longer you work, the more money you'll earn and the later you'll need to dip into your retirement savings. Or, consider working part-time during retirement.

Make changes to your lifestyle now or in retirement: You might be able to adjust your spending habits now, or you may consider cutting back in retirement.

Increase your earnings now: Consider increasing your hours at your current job, finding a new job with better pay, taking a second job, or having a previously stay-at-home spouse return to the workforce.

Invest more aggressively: But remember that aggressive investments mean a greater risk of loss.

Send your child to a less expensive school: Don't feel guilty--a lesser-known liberal arts college or a state university may provide your child with a similar quality education at a far lower cost.

Social Security Survivor's Benefits

You might think Social Security is a program that only provides you with a monthly income after you retire. But what you might not realize is that Social Security may also provide monthly payments in the form of survivor's benefits, based on your work record, to certain members of your family after your death.

Earning survivor's benefits

In order to be able to provide Social Security survivor's benefits to your family, you have to earn those benefits. Generally, to be eligible for survivor's benefits, you must pay Social Security taxes and you have to work long enough to earn sufficient credits to be fully insured. The length of time you need to work and pay Social Security taxes depends on your age--the younger you are, the fewer years you need to work. But in any case, if you've worked at least 10 years (the equivalent of 40 credits) you'll be fully insured for any Social Security benefits, including survivor's benefits.

Even if you haven't worked long enough to be fully insured, if you've worked at least 1½ years out of the 3 years immediately before your death, survivor's benefits will be available to your dependent children and to your spouse if he or she is caring for your children.

Who can receive survivor's benefits?

Your spouse is eligible to receive full survivor's benefits at your spouse's full retirement age. Full retirement age is 66 for people born between 1945 and 1956, and gradually increases until reaching age 67 for people born in 1962 or later. Your spouse can receive reduced survivor's benefits as early as age 60. If your spouse is disabled, he or she can begin receiving survivor's benefits as early as age 50. And your spouse can receive survivor's benefits at any age if he or she is caring for your child who is receiving Social Security benefits and is under age 16 or disabled.

Your former spouse, if you've been divorced, may receive survivor's benefits if your marriage lasted at least 10 years, and your former spouse does not remarry before age 60 (remarriage after age 60 will not affect your former spouse's eligibility for benefits based on your work record). If your former spouse is caring for his or her child who is under age 16 or who is disabled and entitled to benefits based on your work record, your former spouse may receive benefits at any age. In that case, your former spouse need not meet either the age or length-of-marriage requirements.

Your unmarried children may receive survivor's benefits if they are younger than age 18 or age 19 if they're attending elementary or secondary school full-time. If your child was disabled before reaching age 22, and remains disabled, he or she is eligible for benefits at any age. Also, your stepchildren, grandchildren, stepgrandchildren, or adopted children may be eligible for benefits under certain conditions.

Your dependent parents can get survivor's benefits if they're at least age 62 and you provide at least one-half of their support.

How much will the benefits be?

The easiest way to find out how much your family may receive in survivor's benefits is by checking your Social Security statement, which is sent to you each year beginning at age 25. Generally, survivor's benefits are based on your basic benefit amount, which can be increased by delayed retirement credits, or reduced if you claimed retirement benefits before reaching full retirement age. The amount your survivors receive is based on a percentage of your basic benefit, and the percentage, in turn, is based on the survivor's age and relationship to you.

For example, at full retirement age, your surviving spouse can receive 100% of your retirement benefit. However, if your spouse claims survivor's benefits between age 60 and under full retirement age, then the benefit will be reduced to between 71% and 99%, depending on his or her age. An eligible child and a surviving spouse caring for a child under age 16 would receive 75% of your benefit amount. At your death, there is also a one-time death benefit of \$255 paid to your surviving spouse or child under certain circumstances.

Limits on benefits

Depending on the circumstances, the total amount of monthly benefits your family can receive is capped at between 150% and 180% of your retirement benefit amount. Your survivor's benefits may be reduced if you're receiving a pension from an employer that didn't contribute to Social Security, like federal civil service, or if you're under your full retirement age but still working, and your earnings exceed certain limits.

Social Security survivor's benefits are an important means of providing for the continued support of your family members after your death. For more information, go to the Social Security website, www.ssa.gov.



Of the total new benefits awarded by Social Security in 2009, 16% was paid to survivors of deceased workers. Source: Social Security Administration



Charitable Giving

Today more than ever, charitable institutions stand to benefit as the first wave of the baby boomers reach the stage where they're able to make significant charitable gifts. If you're like many Americans, you too may have considered donating to charity. And though writing a check at year-end is one of the most common ways to give to charity, planned giving may be even more effective.

What is planned giving?

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts. For example, you may need to receive income in exchange for the assets you donate, or you may want to be involved in deciding how your gift is spent--things that typically can't be done with standard checkbook giving.

Questions to consider

To help you start thinking about your charitable plan, consider these questions:

- Which charities do you want to benefit?
- What kind of property do you want to donate (e.g., cash, stocks, real estate, life insurance)?
- Do you want the gift to take effect during your life or at your death?
- Do you want to retain an interest in the property you donate?
- Do you want to be involved in deciding how your gift is spent?

Gifting strategies

There are many ways to donate to charity, from a simple outright cash gift to a complex trust arrangement. Each option has strengths and tradeoffs, so it's a good idea to consult an experienced financial professional to see which strategy is best for you. Here are some common options:

Outright gift--An outright gift is an immediate gift for the charity's benefit only. It can be made during your life or at your death via your will or other estate planning document. Examples of property you can gift are cash, securities, real estate, life insurance proceeds, art, collectibles, or other property.

Charitable trust--A charitable trust lets you split a gift between a charitable and a noncharitable beneficiary, allowing you to integrate financial

needs with philanthropic desires. The two main types are a charitable remainder trust and a charitable lead trust. A typical charitable remainder trust provides fixed income for one or two persons for life. At the end of the trust term, assets remaining in the trust pass to the charity. This can be an attractive strategy for older individuals who seek steady income. There are different variations of the charitable remainder trust, depending on how the income stream is calculated. With a charitable lead trust, the order is reversed; the charity gets the first, or lead interest, and the noncharitable beneficiary receives the remainder interest at the end of the trust term.

Charitable gift annuity--A charitable gift annuity also provides fixed income for one or two persons for life. But it's easier to establish than a charitable remainder trust because it doesn't require a formal trust document.

Private foundation--A private foundation is a separate legal entity you create that makes grants to public charities. You and your family members, with the help of professional advisors, run the foundation--you determine how assets are invested and how grants are made. But in doing so, you're obliged to follow the many rules and regulations governing private foundations.

Donor-advised fund--Similar to, but less burdensome than, a private foundation, a donor-advised fund is an account held within a charity to which you can transfer assets. You can then advise, but not direct, how your assets will be invested and how grants will be made.

Tax benefits

Charitable giving can provide you with great personal satisfaction, but let's face it--the tax benefits are valuable too. Your gift can result in a substantial income tax deduction in the year you make the donation, and it may also reduce capital gains and estate taxes.

To enjoy these tax benefits, the charity must be a qualified public charity. Be careful--not all tax-exempt charities are qualified charities for tax purposes. To verify a charity's status, check IRS Publication 78, or visit www.irs.gov.



Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts.





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Ask the Experts



I won \$2,000 on a slot machine, but I've lost more than that over the year. Will I have to pay tax on the \$2,000?

If total gambling losses for the year equal or exceed total winnings, common sense might lead you to believe that the two would cancel out without any tax consequence. That might not necessarily be the case, however.

Let's start with your gambling winnings. All gambling winnings have to be included in your income. Because you won over \$1,200 on a slot machine, you should have received (or should be receiving) a Form W-2G. This W-2G will show the \$2,000 that you won. Assuming that you're not a professional gambler, this amount, plus any other gambling winnings you received for the year (regardless of whether or not the winnings are documented with a W-2G), are reported as "other income" on Form 1040.

You can generally deduct gambling losses, but only up to the amount of your gambling winnings. And, unless you're a professional gambler, gambling losses are claimed as an itemized deduction on Form 1040, Schedule A (as a miscellaneous deduction not subject to the 2% adjusted gross income limit). That's

important, because many individuals find that the standard deduction amount that they are entitled to exceeds the total amount of itemized deductions that they are able to claim. If that's the case, you won't get a direct deduction for your gambling losses.

For example, assume that you file as single on your federal income tax return, and your only itemized deduction is a \$2,000 gambling loss. If you qualify for a \$5,800 standard deduction, you're better off taking the standard deduction. Your total tax due would be unaffected by your gambling losses, even though your taxable income is increased by your gambling winnings.

If you itemize your deductions on Schedule A, you'll want to keep good records of all of your gambling winnings and losses--this will be important if your losses are questioned by the IRS.

Additionally, check with your state (and if the winnings occurred in another state, that state as well) to determine if you have any state tax obligations on the winnings.



I gamble a lot. Should I file as a professional gambler?

In determining whether you are a professional gambler, all of the facts and circumstances relating to your gambling activity have to be taken into account.

The fact that you spend a great deal of time gambling, and are occasionally able to make money at it does not mean that you're a professional gambler. If you conduct your gambling activities in a businesslike manner, dedicate significant time, effort, and resources, and you have the expertise and experience to reasonably pursue gambling as a profitable business, you *might* be considered a professional gambler. Also significant is whether you actually rely on your gambling income to live (i.e., do you have other sources of income?), and whether you've actually had demonstrable success, recently or in the past. The fact that you enjoy gambling, does not disqualify you from being a professional gambler, but it cannot be your driving motivation.

What difference does it make? If you are a professional gambler, you are in the business of gambling. Like other self-employed

individuals who own a business, you report your income (in this case, your gambling income) on Form 1040, Schedule C. Because you're self-employed, you'll be responsible for paying self-employment tax on your net business income (calculated on Form 1040, Schedule SE). If gambling were simply a hobby (not a business), you would simply report your gambling income as "other income" on Form 1040--this income would not be subject to self-employment tax.

Individuals are generally able to claim a deduction for gambling losses, up to the amount of any gambling winnings, as an itemized deduction on Form 1040, Schedule A. If you qualify as a professional gambler, however, you'll be able to claim your gambling losses as an "above-the-line" deduction, but your deduction will still be limited to the amount of your gambling winnings. As a professional gambler, you might also be entitled to a deduction for related expenses (e.g., travel).

The bottom line? It's complicated, so discuss your situation with a tax professional.