

**SPECIAL  
POINTS OF  
INTEREST:**

- Dividends may do more than provide income. Read on to see what else they can do!
- Who are your beneficiaries? Plus, key questions you should ask yourself regarding your heirs.
- Do you know what the effects are if you tap into your retirement assets early? The disadvantages of early withdrawals you need to know.

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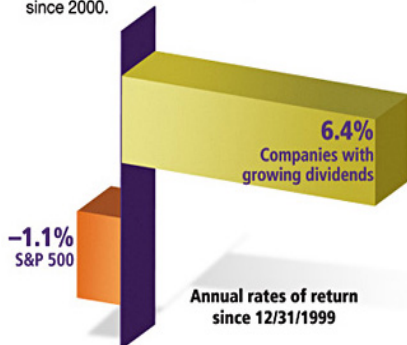
## When Investing Pays Dividends

**Typically, stocks that pay a portion of earnings to shareholders in the form of dividends are not considered to be superstars of the stock market. They typically do not offer the growth or price appreciation potential of small-cap companies, but tend to be more stable.**

Dividends may not only help provide income but could also point the way toward possible investment opportunities. Aside from the potential for steady payments, dividends can be a good way to assess a company's health, quality of earnings, and future prospects. In fact, research shows that companies that have started or consistently increased dividend payouts since 1972 have outperformed the broader market.<sup>1</sup>

### Payout and Performance

One key to income investing is finding companies that have consistently increased their dividends year after year. In fact, companies that have steadily increased their dividends for 25 years have outperformed the S&P 500 since 2000.



Source: Money, January/February 2010. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results.

Companies that pay dividends tend to be large and well established, and their stock may be appropriate in a conservatively allocated portfolio. Companies may elect to pay a dividend because they consider it to be a better option for distributing profits than reinvesting in the business.

Even though income stocks are theoretically less risky than growth stocks, the return and principal value of all stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

### The Uncertainty of Taxes

Under current law, qualified dividends are taxed at a maximum rate of 15%. For taxpayers in the two lowest federal income tax brackets (10% and 15%), the tax rate on dividends is zero.

However, these low tax rates are set to expire on December 31, 2010, unless Congress acts to extend them. If the special tax treatment is allowed to expire, dividend income taxation will revert to the rules that were in effect prior to 2003. Under these rules, dividend income is taxed at the same rates as ordinary income, which could be as high as 39.6%.

The possibility of higher dividend tax rates in 2011 is a



factor to consider when investing in dividend-paying stocks. It would be wise to consult with a tax professional before taking any specific action.

Income stocks can offer a steady payout as well as the possibility of solid returns. Call today to discuss the role that income stocks can play in your portfolio.

1) CNNMoney, November 9, 2009

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# Get to Know Your Beneficiaries

**If you are among the majority of Americans who don't have a will, it might interest you to know that you can arrange to convey some of your most valuable assets to your heirs without a will or a probate court.**

Of course, you still have to fill out the right forms, but the process is nowhere near as complicated as writing a will. In fact, your retirement assets, life insurance, and some other account types should convey to whomever you named as a beneficiary, regardless of what it says in your will or whether you even have a will.

However, be advised that failing to designate your beneficiaries correctly can create problems for your heirs that will make probate seem like a Caribbean cruise.

## **Don't Default to Default Beneficiaries**

Generally, when you set up a retirement account or purchase a life insurance policy, you are given an opportunity to name primary and secondary beneficiaries. Although it would be unlikely for someone to buy life insurance without designating a beneficiary, it's not uncommon for people to leave their retirement account beneficiary forms blank.

Most people assume that their IRAs and employer-sponsored retirement plans will go to their spouses. It's true that these types of accounts have provisions for default beneficiaries, but who exactly qualifies as a default beneficiary can vary based on the account type and custodian — and there's no guarantee that it will be your spouse.



## **THE BENEFICIARY TEST**

- Can you name your beneficiaries from memory?**
- Are they still living?**
- Are they the same people you would most want to receive your assets and/or life insurance benefits?**
- Are they the same people who would most likely be expected to pay your final expenses and any other expenses or taxes that might be due on your estate?**
- Are there circumstances that, or people in their lives who, might encourage your beneficiaries to misuse the money if they were to inherit it today?**

It can be dangerous to assume that the default beneficiary is the person whom you want to inherit your assets. If it isn't, the person who was expecting to inherit your retirement assets may have to mount a legal challenge to attempt to change the outcome. If the default beneficiary turns out to be your estate, your intended heirs could lose valuable tax benefits.

Although it's still important to have a current will in place, a will won't settle all estate conservation matters. It's a good idea to review your beneficiary designations on a regular basis to help ensure there is no debate over who will inherit your retirement as-

sets and receive your life insurance benefits.

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# Is It Ever OK to Make Early Withdrawals?

**Economists have warned that it could take much longer for U.S. employment to recover than the economy as a whole, which is actually not unusual. Employment has taken two or more years to return to peak levels following six of the past 11 recessions.<sup>1</sup>**

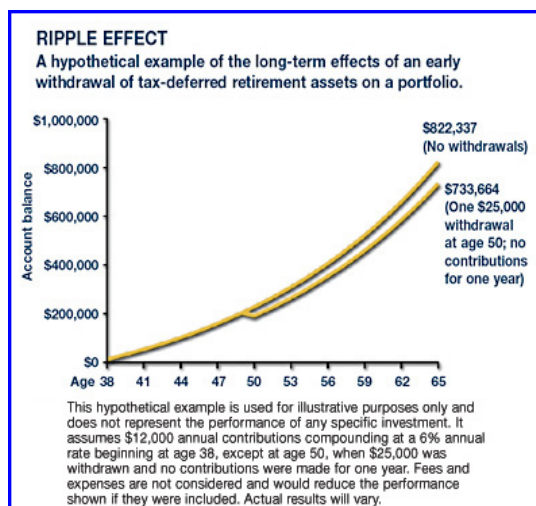
When workers are laid off or transitioning to new ventures, they face a choice about what to do with the assets they have accumulated in employer-sponsored retirement plans. Unfortunately, more than one-third of workers aged 50 to 59 opt to cash out.<sup>2</sup>

There are few ways to sabotage your retirement goals more effectively than tapping your retirement assets before you reach age 59½. Here's why.

**Taxes and penalties.** Contributions and investment earnings withdrawn from a traditional IRA or an employer-sponsored retirement plan are subject to ordinary income taxes, regardless of the account owner's age (except when withdrawing nondeductible contributions or from a Roth IRA). Investors younger than 59½ can expect to pay a federal income tax penalty equal to 10% of the withdrawal, in addition to income taxes.

**Opportunity cost.** Consider a 50-year-old who has been contributing \$1,000 per month to an employer plan that earns a hypothetical 6% average annual return (see chart). After he is laid off, he withdraws \$25,000 to help sup-

plement his unemployment benefits during his job search. If he is able to return to work and resume annual contributions the following year, his retirement balance at age 65 would be about \$88,000 lower than if he hadn't tapped the account and postponed contributions. His retirement savings would be reduced by more than \$3.50 for every \$1 he withdrew, not including the taxes and penalties he paid on the \$25,000 withdrawal.



## Strict Exceptions

Even though early withdrawals can have a disastrous effect, they may be unavoidable for some people. In these situations, there are several ways to withdraw money without incurring a penalty. But as you'll see, the rules are strict and complicated. It would be wise to seek help from a tax professional.

- Workers who separate from their employers during or after the calendar year in which they turn age 55 can withdraw from an employer-sponsored retirement plan without a tax penalty.
- IRA owners and individuals with

money in a former employer's plan can avoid the 10% penalty by taking a series of equal payments based on life expectancy. The payments must last for five years or until age 59½, whichever is later. Altering the payment amount in any way would trigger a 10% penalty (plus interest) on all distributions before age 59½.

- IRA withdrawals may be penalty-free in cases of the owner's death, disability, or a first-time home purchase (\$10,000 lifetime maximum). There is also an exception for qualified higher-education expenses incurred by the IRA owner and his/her spouse, children, and grandchildren. It's not a good idea to take money from your retirement accounts before you reach age 59½. But if you must, it's a good idea to have a well-designed distribution strategy in place.

- 1) National Bureau of Economic Research, 2009
- 2) Hewitt Associates, 2009

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## What's New at Brandywine



### From Raymond's Desk

I traveled to Austin, Texas again this Memorial Day weekend as I have for the past several years to visit with some friends. Austin is one of my favorite cities as it offers many attractions both day and evening to fill the time. First, they are The Live Music Capital of the World, where day or night, weekday or weekend you can always find something playing.

A big part of the culture is the great outdoors. With Hill Country vistas outside the city and various Lakes to go boating on there are plenty of options to enjoy the weather. Austin has miles of hike and bike trails and more than 200 parks. And Austin was recently named the nation's No. 1 golf destination by CNN.com. Needless to say I had plenty of things to do to pass the time!

### From Jill's Desk

Happy June! I hope everyone had a nice Memorial Day weekend. I took a lovely long weekend trip to Los Angeles to visit my best friend! As some of you may recall from the last newsletter, I have never been to California before so this was a very big deal to me. Here is a brief summary of my little trip...

The first place on our list was The Standard Hotel in Downtown LA. We spent the day relaxing in the sun, on purple leather loungers, by the hotel's rooftop pool, that overlooks the city. This ultra hip hotel is a must-see next time you are in LA and it is everything but standard! On Saturday night we went to a Philadelphia sports bar in Marina Del Ray called the Sports Harbour, where we had dinner and watched the first game of the Stanley Cup Finals. On Sunday, we drove through Griffith Park, up to the top of the hill so I could get a view of the whole city, take a picture of the Hollywood sign and see the infamous Observatory from a scene in the film *Rebel Without a Cause*. Afterwards, we drove all through Beverly Hills and Bel-Air so I could gaze at all the beautiful mansions. We also went to Malibu and Venice beach, shopped in Melrose, and drove down Hollywood Blvd so I could see the Chinese Theatre, Madame Tussauds, the Walk of Fame and other famous attractions.

Aside from the three hour flight delay to California, I had an absolutely amazing experience. I can not wait to visit again!