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THE HANOVER PERSPECTIVE

The U.S. economy remains weak, but the fundamentals have shown some signs of improvement. Corporate earnings remain strong and corporate balance sheets are flush with cash. The unemployment rate, while still terrible, has been trending downward. The jobless number has been slowly declining through the year, falling from 9.7% a year ago to the current 9.0% rate. Also, the latest batch of economic data has shown a slightly more positive trend. Both revised and forecast GDP figures demonstrate the economy is slowly healing. The most recent surveys of leading

economic indicators are more upbeat and validate the position the U.S. economy is recovering, and the risk of an economic downturn is receding. The housing sector is still deeply depressed, but the data indicates the real estate market is demonstrating some early signs of stabilization.

The Debt Crisis In The Euro Zone Continues To Threaten The Global Economy

Unfortunately, at the current time, the politics surrounding global sovereign debt issues are dominating the macroeconomic landscape and overshadowing any slightly positive U.S. economic data. The debt crisis in Europe continues to threaten the U.S. economy and remains the central challenge to global growth. The EU and the U.S. economies are the two largest in the world and have the world's largest combined bilateral trade relationship, accounting for almost a third of all global trade flows. It is difficult to foresee any scenario whereby the U.S. economy would not suffer a great deal of fallout from a major credit event in the euro zone.

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Laurence Bumette, CFP

COMMON QUESTIONS CONCERNING REQUIRED MINIMUM DISTRIBUTIONS

Annual required minimum distributions returned last year (tax year 2010). Congress suspended the distribution requirement in 2009 to allow retirees' tax-deferred retirement savings accounts to recover some of the losses they took at the onset of the recession. We thought this may be the

appropriate time to revisit some of the basic details regarding Required Minimum Distributions (RMDs). The following are some of the most common questions clients raise regarding RMDs. Keep in mind, this is just a brief overview of rules and regulations based on Internal Revenue Codes and sections from the Pension Protection Act of 2006. For any specific advice regarding your personal retirement plan or tax situation, please consult a profession planner, tax attorney or CPA.

What are RMDs?

RMDs are minimum amounts that a retirement plan account owner must withdraw annually starting in the year they reach the age of 70½ or if later, the year in which the account owner retires. However, as in all IRS regulations, there are exceptions to this guideline. If the retirement plan is an IRA or the account holder is a 5% owner of the business sponsoring the retirement plan, the RMD must begin once the account holder is age 70½, regardless of their retirement status.

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RMD rules are designed to spread out the distributions of your entire interest in an IRA or retirement plan account over your life expectancy.

What types of retirement plans require minimum distributions?

RMD rules apply to all employer sponsored retirement plans, 401(k) plans, 403(b) plans, 457(b) plans, and all profit-sharing plans. RMD rules also apply to traditional IRAs and IRA based plans such as SEPs, SARSEPs, and SIMPLE IRAs. RMD rules also apply to Roth 401(k) accounts, but do not apply to Roth IRAs while the account owner is alive.

When is the deadline for taking a RMD from an IRA?

The first RMD can be delayed until April 1st of the year following the year in which the plan owner reached the age of 70½. Please take note that for all subsequent years, including the year in which the RMD was paid by April 1st, the plan owner must take the RMD by December 31st of the year. For example, if tax year 2011 is the first year you are required to take a distribution, and you delay taking it until April 1, 2012 – you must still take your distribution for tax year 2012 by December 31, 2012.

How do you calculate the amount of your RMD?

Distributions are calculated by a specific IRS formula. As a general rule, custodians are very good about issuing the plan owner a statement about their RMD every year. If you would like to calculate an RMD on your own, please consult *IRS Publication 590*. Make sure you use the correct table for your specific tax situation. If there is any question about the accuracy of your RMD, please seek the advice of a tax expert. *If an account owner fails to withdraw a RMD, fails to withdraw the full amount of the RMD, or fails to withdraw the RMD by the legal deadline, the amount not withdrawn is taxed at 50%. This penalty is in addition to ordinary income tax at the individual's federal marginal rate and any state income taxes.*

What if you inherited a tax-deferred retirement plan?

If you are the beneficiary of a tax-deferred retirement plan, RMDs can become a complex issue. The RMD rules and regulations are dependent on specific individual situations, for example: is the beneficiary a spouse or non spouse, is the beneficiary the sole primary beneficiary, what was the age of the plan owner at the time of death, was the inherited plan via a rollover from an employer-sponsored plan, etc. If you do inherit a tax-deferred retirement plan it is critical you seek the advice of a tax expert who can recommend your best possible options.

What if you have multiple RMD accounts?

If you have multiple IRAs, you can calculate your RMD total and take the distribution from either a single IRA or any combination of accounts you wish. Remember, you must take the correct *total* RMD due for that tax year or face a stiff penalty. Also, a distribution in excess of the RMD for one year can not be applied for a future year. If you have a single or multiple employer-sponsored retirement plan(s), you must calculate each RMD and withdraw the appropriate distribution from that specific plan, you can not take a distribution from one employer-sponsored account and apply to the RMD of another account.



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Hanover Advisors is pleased to announce a blog is now available on our website. The blog will be updated on a regular basis with pertinent, up-to-date investment commentary regarding portfolio adjustments and unfolding events in the financial markets. Please visit our website at www.hanoveradvisorsinc.com to view our newest feature.

Should RMDs be considered part of the retirement income planning process?

There are many important components to developing a properly prioritized retirement income withdrawal regimen. This concept is known as “retirement withdrawal hierarchy” within the financial planning community. Whether the RMD is taken from an IRA or a qualified plan it is important to observe the tax rules regarding these withdrawals. In addition, make certain that within your withdrawal hierarchy to plan for the RMD withdrawal(s) as part of your taxable retirement income. For long term retirement income planning it is considered generally acceptable to withdraw 4% per year, inflation adjusted, of a retirement portfolio starting balance. With the 4% withdrawal rate considered “safe”, the long term effect of a RMD(s) mandatory accelerating withdrawals should be weighed in developing a personal retirement portfolio run out rate projection specific to your needs.

RMD CHECKLIST



If you are unsure about the required IRS deadlines or how to calculate your RMD, consult your tax advisor or financial planner. Remember, there are severe IRS penalties for missing the required deadline or failing to take the proper RMD.



If you are retired or approaching retirement, speak with a financial planner on how to best incorporate RMDs into your overall retirement income plan. Much of the specific planning will be based not only on your specific retirement goals, but will also be dependant on your specific income stream and tax situation.



If you have inherited an asset which requires a RMD, consult a tax advisor or financial planner. The IRS regulations governing how a beneficiary must handle a RMD are extremely complex and specific. In most cases, professional tax advice is recommended to ensure you are in full compliance with IRS regulations.

This column is provided by Laurence C. Burnette, CFP, a member of the Financial Planning Association.

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SPECIAL ANNOUNCEMENT FOR HANOVER ADVISOR CLIENTS



Hanover Advisors is pleased to announce that beginning January 1, 2012 we will be offering our clients a new platform to view their portfolio performance reports. While similar to our previous reports, the new reports, which will be produced by Black Diamond Performance Reporting Service, will offer many enhanced features. In the December issue of our *Investment Commentary*, we will have specific details and instructions on how clients will be able to access their portfolio performance reports. If you have any questions regarding the new service, please feel free to contact our office at (800) 874-5238 or (770) 392-3998.



A cascade of sovereign debt defaults in the EU could cause financial panic resulting in a freeze of U.S. credit markets. Implementing strict austerity programs throughout the euro zone would result in reduced economic activity and the slowdown could spread to the U.S. economy. The alternative of just kicking the problem down the road and allowing EU debt levels to continue to grow will result at some point in bond markets panicking and pushing the weakest EU members into outright default. While much of the recent focus has been on how a crisis in the euro zone would impact the U.S. banking sector, there is also a growing concern on what it will mean to the broader economy. If the dollar rallies against the euro it makes American exports more costly and hence, less competitive. Exports have been a centerpiece of the U.S. recovery program and are seen as a large component in the creation of new jobs. In just the past couple weeks, some U.S. corporations with major European operations have issued lower earning forecasts due to sluggish sales in the euro zone. General Motors warned their European operations will go into the red this year. GM blamed the European “morass” for their revised outlook.

A Cascade Of Sovereign Debt Defaults In The EU Could Result In A Freeze Of U.S. Credit Markets

The latest forecast from the European Commission regarding growth warned the European continent might be slipping into “a deep and prolonged” recession. The Commission, citing the latest data, sharply revised downward the outlook for European growth to a scant 0.5% annual rate for 2012. Some economists claim that much of Europe is already in a recession.

Beyond Europe, there are worrisome signals Asia is showing signs of weakness, and investors are concerned about the recent failure of the Super Committee to address our nation’s budgetary problems. The downside risk for the global economy stemming from sovereign debt issues is considerable.

The Downside Risk For The Global Economy Stemming From Sovereign Debt Issues Is Considerable

Investment Outlook At this time, we feel stable interest rates make bonds attractive while also a good hedge against weakness in stocks. U.S. Treasuries are an excellent hedge against possible future financial panic. Stocks that offer safe dividends (high coverage ratio) and ones that can grow the dividend are attractive. Commodity prices could come under pressure as austerity programs in Europe are enacted, and a slowdown in China dampens worldwide demand.



Frank Johnson will be back with an article in the next newsletter.

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