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- Restricted Stock: Understanding Your Options
- Thinking of Retiring Overseas? Considerations to Keep in Mind
- Investing Overseas: A World Awaits
- The Tax-Free Income Potential of Municipal Bonds

Restricted Stock: Understanding Your Options

If you've recently gotten a promotion or new job that grants you access to restricted stock or restricted stock units (RSUs), you'll need to understand how they work.

Restricted stock plans provide employees with the right to obtain shares at one of three price points: fair market value, a discount, or no cost. The use of restricted stock awards to compensate employees is growing in popularity in place of stock options, largely because of a corporation's reduced charge against income provided by restricted stock awards as compared with stock option grants.

The Difference Between Restricted Stock and RSUs

Restricted stock and RSUs are very similar, but they differ in a few important ways that can affect your financial planning. Restricted stock is a grant of company shares made directly to you. Usually, you cannot sell or otherwise transfer the shares until you have satisfied vesting requirements. As long as you continue to work at your company, you will not forfeit your grant and it will not expire.

While the vesting rules are the same with RSUs, no stock is actually issued to you when they are granted. The shares are issued to you at a future time once vesting conditions have been satisfied.

Unlike recipients of restricted stock, holders of RSUs have no shareholder voting rights and do not receive any dividends your company may pay to its shareholders. However, when a company pays dividends on outstanding shares of stock, it can choose to also pay dividend equivalents on RSUs.

How to Obtain Your Shares

Once you are granted a Restricted Stock Award, you must decide whether to accept or decline the grant. After accepting a grant and providing payment (if applicable), you must wait until the grant vests before you take possession of your shares. Vesting periods for Restricted Stock Awards may be time-based or performance-based (often tied to achievement of corporate goals). When a Restricted Stock Award vests, you'll receive the shares of company stock or the cash equivalent (depending on the company's plan rules) without restriction. As stated above, with RSUs, you do not actually receive your shares until the restrictions lapse.

How It Could Impact Your Taxes

If your company grants you restricted stock, you have the right to make a "Section 83(b)" election. If you make the election, you will be taxed at ordinary income tax rates on the "bargain element" of the award at the time of the grant.

- If the shares were simply granted to you, then the bargain element is their full value.
- If some payment is made, then the tax is based on the difference between what is paid and the fair market value at the time of the grant. If full price is paid, there is no tax.

Any future change in the value of the shares between the filing and the sale is then taxed as a capital gain or loss, not ordinary income. If you do not make an 83(b) election, you must pay ordinary income taxes on the difference between the amount paid for the shares and their fair market value when the restrictions lapse. Subsequent changes in value are capital gains or losses. Recipients of RSUs are not allowed to make Section 83(b) elections.

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A Section 83(b) election carries some risk. If you make the election and pay the tax, but the restrictions never lapse, you do not get the taxes paid refunded, nor do you get the shares.

Source/Disclaimer:
This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

Thinking of Retiring Overseas? Considerations to Keep in Mind

Retiring in a foreign country is a dream shared by thousands of Americans. If you are thinking of enjoying your golden years in another country, be sure to understand the hurdles you may have to face. The following considerations will help you lay the groundwork for a smooth transition and avoid any unpleasant surprises that might otherwise arise after the big move.

Social Security
In general, the Social Security Administration allows eligible individuals living outside of the United States to collect Social Security retirement payments in their country of residence. There are exceptions to the rule, however. For example, your eligibility to collect Social Security benefits overseas may be affected by your foreign citizenship status and by whether or not you receive dependent or survivor benefits. And regardless of your citizenship, the U.S. Treasury Department forbids the Social Security Administration to make payments in certain countries, including Cuba, North Korea, Cambodia, and Vietnam.

Taxes
As far as the IRS is concerned, out of sight is not out of mind. You'll need to pay tax on income – including taxable distributions from employer-sponsored pension plans and pensions – regardless of where you live when you receive the money. The United States has signed tax treaties with approximately 50 nations around the world. In part, these treaties are designed to help taxpayers avoid double taxation (i.e., paying full taxes on the same income to two different governments). You should consider working closely with a tax advisor who specializes in international taxation to learn exactly how your benefits payments will be taxed in the country where you plan to live.

Exchange Rates
If your retirement assets are denominated in U.S. dollars, then you'll need to consider the implications of spending and budgeting in a foreign currency. For example, you could opt to convert U.S. dollars to cash on an as-needed basis, or choose to make purchases on a U.S. credit card that automatically "translates" the amount back into dollars on your statement. In either situation, it pays to research which financial institutions offer the best exchange rates and lowest transaction fees.

Just as important, however, is the need to understand how currency fluctuations can affect your budget, particularly if you're living on a fixed income. If the value of the U.S. dollar declines, then the purchasing power of your U.S. income may drop significantly.

(article continued on next page)

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Medicare and Other Insurance
Medicare coverage usually ends when you set foot on foreign soil. If it's impractical for you to return to the United States for medical treatment, then you should consider purchasing additional health insurance policies. Remember, too, that moving to a country with universal health coverage does not necessarily mean you will be immediately eligible for such coverage. Again, it pays to know the rules before arriving in your new country.

You should also review any U.S. insurance policies that you plan to keep in place after a move. For example, if your U.S. homeowner's policy requires the residence to be owner occupied, then a relocation could jeopardize your existing coverage.

Finally, don't overlook the immigration policies of the country you hope to call home. The expenses and waiting periods associated with submitting your paperwork may be significant, and ignoring them could result in an unfriendly "welcome" from the local authorities on moving day.

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Investing Overseas: A World Awaits

As global economic barriers diminish, investing internationally has become increasingly popular.[1] Global markets can offer increased potential investment opportunities as well as potential risk reduction by providing additional diversification.[2]

Investing internationally has grown rapidly in recent years. The bias for investing only within our national borders is diminishing, as an increasing number of individual and institutional investors boost their international exposure to pursue their investment goals. Behind the trend toward international investing are the realizations that the global market can offer attractive opportunities for investment and that diversification abroad can help reduce risk.

In 2012, foreign markets represented 55% of the world's investment opportunities. It is estimated that by 2030 the U.S. stock market will represent just 38% of the world market.[3]

Diversification, Returns Are Key Drivers
The quest for diversification and higher returns are driving forces behind the internationalization process. When U.S. investors began to invest in foreign equities, a key reason for the move was increased diversification. Because international markets do not always move in sync -- some may zig while the others zag -- diversification on a global scale may help offset the effect of a downturn in the U.S. market. Investors in international securities may face additional risks, such as higher taxation, less liquidity, political problems, and currency fluctuations. But despite these risks, the potential for higher returns and diversification makes these markets attractive to many investors.

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As investors around the world become more sophisticated and aggressively explore potential investment opportunities, they find that the global arena can offer competitive returns. The MSCI Europe, Australasia, Far East (EAFE) index, which tracks 21 major world markets, posted a 9.91% annualized rate of return for the 30 years ended December 31, 2012, compared with the 10.81% annualized return of the S&P 500.[4] This difference in returns is due in part to differences in economic and market environments in countries around the world.

Special Risks

International investing does present unique risks and considerations. A U.S. investor's foreign-investment return depends on both the local currency's exchange value against the U.S. dollar and the stock price in the local currency. For U.S. investors, currency losses could also stem from a rise in the dollar's value against the currency of the foreign country they are investing in. In the past, currency fluctuations have tended to balance out overextended periods of time, although there are no guarantees this will always be the case. Maintaining a long-term perspective and diversifying international investments can help minimize these risks.

Source/Disclaimer:

[1]Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.

[2]Diversification does not ensure a profit or protect against a loss.

[3]Sources: Morgan Stanley Capital International (1970); Standard & Poor's/Citigroup (2012). 1970 (estimated) market cap shares are based on weights in the MSCI World Index. 2012 market cap shares are based on weights in the S&P/Citigroup World Equity Index. 2030 estimate based on the relative growth rates of the weights since 1970. Index performance is not indicative of the performance of a particular investment, and past performance does not guarantee future results. Individuals cannot invest directly in any index.

[4]Sources: Standard & Poor's; Morgan Stanley Capital International. Based on total returns of the MSCI EAFE and S&P 500 indexes in U.S. dollars. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. The EAFE is an unmanaged index generally considered representative of the international market. Index performance is not indicative of the performance of a particular investment, and past performance does not guarantee future results. Individuals cannot invest directly in any index.

The Tax-Free Income Potential of Municipal Bonds

Municipal bonds (also known as "munis") are fixed-income investments that can provide higher after-tax returns than similar taxable corporate or government issues.[1] In general, the interest paid on municipal issues is exempt from federal taxes and may also be exempt from state and local taxes if they are purchased by residents of the issuing municipality.

Nobody likes to pay taxes. That's why investors naturally are interested in earning tax-free income. Municipal bond issues are a very popular way to earn tax-free income and, if income is reinvested, achieve tax-free compounding of returns.

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Municipal Bonds Defined
A municipal bond is an interest-bearing debt obligation issued by a state or local municipality, which may support general government needs or fund a public works project. A municipal bond can also be issued by legal entities such as a housing authority or a port authority. A variety of projects, such as new roads, stadiums, bridges, or hospitals are usually financed through the issuance of municipal bonds. In addition to providing tax-exempt earnings, municipals can be an excellent way to invest in the growth and development of your community.

Municipal bonds are different from corporate bonds in several ways.

- The income they generate is usually exempt from federal taxes, whereas the income generated by corporate bonds is fully taxable. In addition, if the investor lives in the state that issued the bond, the state tax is usually exempted.
- Corporate bonds are usually issued with "term" maturities, but many municipal bonds are issued with "serial" maturities. This means that the bond is issued with several maturity dates. A portion of the principal matures with each maturity date until the entire principal has been paid off. The interest rate of a serial issue can also be different with each redemption date.
- Corporate bonds are usually issued in $1,000 amounts, but municipal bonds are usually offered in principal amounts of $5,000.
- Municipal bonds are traded only on the over-the-counter market, whereas some corporate bonds are listed on exchanges.

Types of Municipal Bonds

- **General Obligation Bonds:** Backed by the full faith and credit of the issuing government and its taxing power. They are generally considered lower risk and thus offer the lowest yields.
- **Revenue Bonds:** Secured only by a specified revenue source such as highway tolls or airport fees. They are considered somewhat riskier than general obligation bonds and thus usually offer higher yields.
- **Commercial Paper:** Short-term debt issued by governments to meet cash-management needs, budget shortfalls, and the like. Typically they are backed by a bank letter of credit and carry maturities of less than nine months. The yields offered are generally low due to their short maturities.
- **Private Activity Bonds:** Used to fund private pursuits that qualify under federal law as having a tax-exempt status. They are considered riskier than revenue and general obligation bonds and thus offer higher yields. They may not be tax exempt.

Understanding Taxable-Equivalent Yields
Municipal bonds usually have a yield several percentage points below the yield on corporate bonds of comparable maturity. This means that a municipal bond can provide the same after-tax yield as a taxable bond paying a higher interest rate. If you are in a high tax bracket, the benefits of using municipal bonds in the bond portion of your portfolio are impressive. For example, if your income tax rate is 28%, a municipal bond paying 6% interest is actually a better investment than a taxable bond paying interest at 8.3%. You can easily calculate the comparable yield on a taxable investment, known as the taxable-equivalent yield.

Source/Disclaimer:
[1]Municipal bonds are subject to availability and change in price. They are also subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax free, but other state and local taxes may apply.

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