



Perspectives

Letter from the President



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Dear Valued Client:

If you haven't gotten serious about retirement planning yet, Uncle Sam is making it more enticing than ever for you to do so.

This year's big tax law changes include a host of provisions designed to encourage Americans to save money for their golden years—and reap significant tax benefits in the process. The Economic Growth and Tax Relief Reconciliation Act of 2001 contains comprehensive retirement and pension changes that benefit individuals of any age. Indeed, in the aftermath of the September 11 attacks—as well as the shaky stock market for the past 18 months—money managers say a lot more people are finally wising up to the need for planning and providing for the future.

One of the chief advantages of the new tax law is that it allows for big increases in contributions to individual retirement accounts and 401(k)s. Currently, individuals can put a maximum of \$2,000 a year into an IRA. That limit will increase to \$3,000 annually for 2002 to 2004, and then rise to \$4,000 for the years 2005 to 2007, before reaching \$5,000 in 2008.

The impact of higher contribution limits is even greater for people putting money into 401(k) plans, especially those who have plenty of time to watch their money grow and reap the benefits of tax-deferred compounding.

Starting next year, workers participating in 401(k) plans will be allowed to set aside from their salaries up to \$11,000 tax deferred each year, up from the current limit of \$10,500. In addition, the deferral limit will increase \$1,000 a year through 2006. That means the deferral limit will rise to \$12,000 for 2003, \$13,000 for 2004, \$14,000 for 2005 and \$15,000 for 2006. After 2006, all future increases to the deferral limit will be tied to cost-of-living increases and made in \$500 increments.

The economic downturn has hit virtually every sector of corporate America, resulting in hundreds of thousands of workers—from hotel clerks to investment bankers—getting pink slips. Job losses following the September 11 terrorist attacks have added to workers' woes, pushing the unemployment rate in October to 5.4%, the highest level in five years.

For starters, employees will soon be able to move funds among a variety of tax-deferred retirements savings vehicles, including 403(b) plans, some 457 plans and traditional IRAs. This is an option not currently available.

Additionally, rollovers of after-tax contributions will be allowed via a direct rollover to a traditional IRA or defined-contribution plan. So people who land a new job can readily transfer assets from their old employer into a plan offered by a new employer—and resist the temptation

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Have You Named Your IRA Beneficiary?

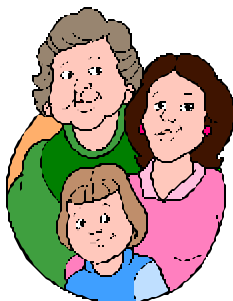
Millions of Americans have some type of IRA, and whether traditional IRAs, Roth IRAs, SEP-IRAs or similar arrangements, naming a beneficiary is a very important step in the IRA process.

Unlike most other property or assets, IRAs can have a named beneficiary who will inherit the account after you die. The IRA can pass directly to the beneficiary without being mentioned in a will and avoid the potential delays, costs and publicity that have often been associated with the probate process.

Many IRA holders fail to name a beneficiary or to update their beneficiary. This could cause big problems. For example, if you have not named a beneficiary for your IRA and you die, your IRA will pass according to the provisions of your IRA plan document.

Most plan documents say that, in such a situation, the IRA will pass through your estate. This means the IRA will have to go through probate, and if you have no will, the money your IRA holds will be distributed according to terms of state law. In other words, the state, not you, will decide who'll get the money you have saved in your IRA.

Even if you have a will, passing your IRA through your estate and the probate process means that your heirs will miss out on the chance they would otherwise have to stretch out withdrawals from their IRAs over a long period of time. Stretching out withdrawals helps beneficiaries reduce the tax impact of taking money out of an inherited IRA. It also leaves more money in the account to grow on a tax-deferred basis.



Even if you have already named a beneficiary when you first opened the account, have you updated it lately?

In some cases, the beneficiary forms have become outdated. Perhaps you named someone who has since died, or you named your spouse and forgot to update your beneficiary designation after divorce.

It is a good idea to list not only a primary beneficiary, but also a "contingent" beneficiary. A contingent beneficiary is someone who will inherit your IRA should the primary beneficiary die first.

Keep in mind, too, that IRAs are not the only things you need to check on occasionally. For example, make sure that there are beneficiary forms in place and up to date for your life insurance policies, 401(k) and other such plans. If not, fill one out for each such policy and plan.

Keep copies of your important documents such as your IRA beneficiary forms and other estate planning paperwork in a safe place so that your loved ones and advisers will know where to look when necessary. Also talk with a financial adviser and lawyer for information on how to integrate your IRA and other retirement plans into your overall estate plan.

Remember that this is your money. If you want certain people to inherit that money when you die, make sure you spell that out on your beneficiary forms. Make sure it's current, and keep copies readily available. Also be sure to talk with lawyers and other advisers who are knowledgeable about estate planning. By taking a few simple steps now, you can make things a lot easier for your beneficiaries later.



Tax Credit For Retirement Plan Contributions

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) added a new income tax credit that is available to eligible taxpayers who contribute to a retirement plan or IRA in order to encourage Americans to save for retirement. The IRS recently issued [Announcement 2001-106](#) describing the new "saver's credit" and providing a sample notice that employers can give to employees to explain the credit.

In brief, the saver's credit is an income tax credit equal to a specific percentage, up to \$2,000 per year, of employee salary reduction contributions made to a 401(k) plan, a 403(b) annuity, an eligible deferred compensation plan of a state or local government (a "457 plan"), a SIMPLE IRA, or a SEP. The saver's credit is also available for voluntary after-tax employee contributions to a tax-qualified retirement plan or a 403(b) annuity. Taxpayers age 18 or over, other than full-time students or dependents, are eligible for the credit.

For married taxpayers filing jointly, contributions by or for either or both spouses, up to \$2,000 per year for each spouse, can give rise to the saver's credit. The credit is offset against income tax liability.

Please contact your tax professional for more information or visit the Resource section of our website at www.trustlynk.com for a copy of the Announcement.





Social Security and Your Retirement Plans

Like many other people today, you may be counting on Social Security benefits to provide you with a basic level of income. The age at which you choose to retire becomes part of the equation. In addition, there are many other issues to consider when making that choice.

Some of these issues are: 1) how would an early retirement, for example at age 62 vs. age 65, affect your Social Security benefits; 2) how will those benefits be taxed; and 3) is it in your best interest to continue working to earn extra income when your benefits could be reduced based on how much you earn?

As most people realize, Social Security provides only a base level of income. The maximum benefit for a person who retires in 2002 at age 65 is \$19,920. In comparison, the maximum benefit in 2001 for a person retiring at age 65 is \$18,432. It is important to note that the benefit for a non-working spouse is only 50% of that amount.

If you delay retirement past age 65, your monthly benefit will increase, based on the age at which you elect to take retirement benefits, up to 8% for individuals born in 1943 or later. But, upon attainment of age 70, the benefit increase no longer applies, even if you continue to delay payment.

Taking benefits at age 62 (considered early retirement) is appealing to many people. However, some continue working and earning additional money to supplement basic Social Security income. Here is where you need to be careful. When you do earn additional income, you may forfeit some of your benefits if you earn more than the maximum amount allowed. If you decide to take early retirement benefits from Social Security at age 62, your monthly benefit amount will be permanently decreased by 20% to 30%, based on your "normal" retirement age. If you are 62-64 years old, are receiving Social Security benefits, and earn additional income, your benefits would be reduced by \$1 for each \$2 you earn over \$11,280 in 2002. The year in which you attain normal retirement age (NRA), your benefits would be reduced by \$1 for every \$3 earned over \$30,000. Upon attainment of NRA, you may earn as much as you like and Social Security benefits are not reduced.

For a long time, the retirement age has been 65. Due to longer life expectancies, that age will increase in gradual steps until it reaches age 67. This change began in the year 2000 and affects people born in 1938 and later.

The Social Security Administration (SSA) provides a free service that allows you to check the accuracy of your Social Security records. You can call Social Security at 800-772-1213, or visit their website at www.ssa.gov. You may request a *Personal Earnings and Benefits Estimate Statement* (Form SSA-7004). Once you complete and return it, they'll provide you with a yearly breakdown of salary credited to you since 1950. They'll also include an estimate of benefits to be received by you when you retire.

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to take a retirement distribution that would incur taxes and a 10% penalty.

A handful of other amendments in the tax law aid entrepreneurs and their workers. For one thing, plan loans will be more widely available. Starting in 2002, owner-employees, such as partners, sole proprietors, and certain S corporation shareholders, may obtain loans from 401(k) plans just like other participants. (For tax purposes, an S corporation is treated as a partnership, where corporate profits and losses are passed on to the tax returns of individual shareholders.)

Small companies that want to establish pension plans will benefit from a change that allows a credit for 50% of qualified plan start-up costs. The credit is limited to \$500 for each of the first three years only. The employer cannot have more than 100 employees who received more than \$5,000 in compensation, and the plan must have at least one participant.

Separately, the Simple IRA, a low-maintenance alternative to a 401(k) plan for firms with 100 or fewer employees, also will enjoy higher contribution limits in future years. The current employee-contribution limit of \$6,500 will rise to \$7,000 in 2002, \$8,000 in 2003, \$9,000 in 2004 and \$10,000 in 2005. Those 50 years of age and older will be able to put away an additional \$500 a year into their Simple-IRA plans starting in 2002. Also, the Simple-IRA contribution limits will increase with inflation in \$500 increments beginning in 2006.

People who are self-employed and use SEP-IRA and Keogh plans can contribute \$40,000 annually to these retirement plans in 2002, up from the current limit of \$35,000. A SEP-IRA, or simplified employee pension individual retirement account, allows small-business owners and people who are self-employed to set aside money for retirement through tax-deferred investment accounts. It is funded solely by employer contributions, which are tax deductible as a business expense. A Keogh is a retirement plan for an unincorporated business. An individual can set up a Keogh if he or she earns self-employment income through the performance of personal services.

We wish you the happiest of Holiday Seasons and look forward to working with you in 2002. As always, any comments or suggestions that you have regarding improvements to our services would be appreciated.

Very truly yours,

James R. Wagner
President



**TRUST ADMINISTRATION
SERVICES CORPORATION**

5950 La Place Court, Suite 160
Carlsbad, CA 92008

Phone: 800-455-9472
Fax: 760-603-0887
Email: tasc@trustlynk.com

Our Mailing Address:

**P.O. Box 85410
San Diego, CA 92186-5410**

Your Retirement Specialist

E-mail us at:

President

Jim Wagner – jwagner@trustlynk.com

Executive Vice President

Paul Maxwell – pmaxwell@trustlynk.com

Vice President of Marketing

Lori Spry – lspry@trustlynk.com

To inquire about our services:

Lori Spry – lspry@trustlynk.com

Customer Service:

Last Name A – G:

Debra Lewis – dlewis@trustlynk.com

Last Name H-O:

Keffer Norris – knorris@trustlynk.com

Last Name P-Z:

Don Stevenson – dons@trustlynk.com

Investment Authorizations:

tasc@trustlynk.com

Year 2002 New Contribution Limits

Traditional and Roth IRA annual contribution limits for the year 2002 have increased to \$3,000.

Age 50 and older IRA owners will also be allowed “catch-up” contributions of \$500 in addition to regular contribution amounts.

Education IRA annual contribution limit has increased to \$2,000 per child.

Annual employee salary deferral limits for 401(k), 457, 403(b) and SAR-SEPs have increased to \$11,000.

As with IRAs, age 50 and older participants in employer plans will also be allowed the “catch-up” deferrals of \$1,000 in addition to their normal deferral amounts.

Salary deferrals for SIMPLE IRAs has increased to \$7,000.



Unrelated Business Taxable Income

Certain investments may generate taxable income within a retirement account. This income is referred to as Unrelated Business Taxable Income (UBTI). This income must be considered in conjunction with all such income from all retirement accounts and may be taxable to your account to the extent that all UBTI for a given tax year exceed the current \$1,000 threshold amount set by the IRS. In such instances, the IRS requires that a Form 990-T be filed for the retirement account along with the appropriate amount of tax. We do not monitor the amount of UBTI in your retirement account and do not prepare Form 990-T. Therefore, you must monitor UBTI for this and any other retirement account that you might have. If you are required to file Form 990-T, please prepare the form or have it prepared by your tax professional and forward it to us for filing, along with authorization to pay any tax due from your retirement account.



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Staff Updates

Please join us in welcoming our new staff members:

Don Stevenson - Account Administrator
Hazel Rosburg-Kaiser - Receptionist