

Q1

2007

SC&H | financial perspectives

A quarterly newsletter for the clients and friends of SC&H Financial Advisors, Inc.

Upcoming SC&H Financial Seminars

A series of seminars will be held at our Sparks, MD headquarters at 6:30 p.m.

- May 10, 2007
Education Planning
- Sep. 20, 2007
Tax-Favored Investment Strategies
- Nov. 15 2007
Wealth Transfer

For more information or to register, call Katie Lochte at (410) 785-8052 or visit www.scandh.com/events.

To schedule a consultation, please contact Greg Horning, Audrey Drossner, Robin Patalon, or Jay Bittner at 410-403-1500.

To Our Readers

Recently, baseball fans received the news on the 2007 inductees into the Baseball Hall of Fame. It strikes me that there is a "life lesson" in the results of the balloting. Cal Ripken and Tony Gwynn approached historical records for the highest percentage of votes received, while Mark McGwire, another star in his first year of eligibility, fell far short of the necessary votes.

The key difference between Ripken/Gwynn and McGwire, which will determine their legacy, is simple: it is the level of integrity with which they have approached their lives and careers. Ripken and Gwynn focused their energy on diligent efforts to develop their skills as fully as possible through hard work and served as leaders by example.

At SC&H Financial - a practice within SC&H Group - we hope to exhibit the same level of enthusiasm for our craft and integrity in our actions.

For SC&H Financial, 2006 was an exciting year in our growth and development. Highlights include the following:

- As of December 31, 2006 assets under management, for the first time, exceeded \$100 million.
- SC&H Financial was again recognized as one of the top producing 1st Global partners, ranking 11th among more than 1200 partners.
- The entire SC&H Group moved to our beautiful new facilities in Sparks, Maryland.

Most importantly, we have added significant additional expertise to our group:

- Audrey Drossner joined SC&H Financial in September as a Partner, after spending 19 years at Legg Mason. Her depth of expertise in wealth management, wealth transfer and stock option planning has already had a significant impact on our practice and on our clients' financial success.
- Susan Twigg-Wirtz joined our team from a local law firm as a Senior in our Estate and Trust Administration group, where she adds significant operational depth.
- Marianne Platek joins the SC&H Financial team from a Big 4 CPA firm, and will work with our clients in the area of tax and wealth management planning.

I want to thank all of our clients for their words of encouragement, and particularly for your thoughtful referrals. We enter 2007 more energized than ever to deliver exceptional client service.

As always, please call if we can be of assistance.

Regards,

Greg Horning, President, SC&H Financial Advisors, Inc.

(410) 403-1512, GHorning@SCandH.com

Last Call for Retirement Plan Contributions

By Audrey Drossner

2006 may be over but there is still one tax planning opportunity available. You have until April 16, 2007 (the original due date of your return, excluding extensions) to open and fund a 2006 IRA contribution. You might want to consider funding your 2007 IRA at the same time. The only requirement is that you have either earned income, alimony, or a spouse with earned income.

There are three types of IRAs - traditional deductible, traditional non-deductible, and the Roth. On the

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Last Call for Retirement Plan Contributions, cont'd

following page we have outlined some of the important features and requirements of each plan to help you choose the one which best suits your needs.

You must be under age 70 ½ to contribute to either of the traditional IRAs. There is no age limitation for a Roth IRA. Contributions to a traditional deductible IRA generate a current tax benefit unless you or your spouse is an active participant in an employer sponsored retirement account. Both the traditional deductible and the Roth IRA have strict income limits. The traditional non-deductible IRA has no income limitations.

CONTRIBUTIONS

For 2006 and 2007 the maximum combined contributions to all types of IRAs can not exceed \$4000, unless you were at least age 50 by the end of 2006 and are therefore eligible for the \$1000 "catch-up" contribution. Contributions to a traditional

deductible IRA give you immediate tax savings. Earnings in both the traditional deductible and nondeductible IRAs are tax deferred. Nondeductible contributions to a nondeductible IRA can be withdrawn tax free based on an exclusion ratio. Withdrawals from a Roth are tax free after the 5 year holding period requirement is met.

REQUIRED MINIMUM DISTRIBUTIONS

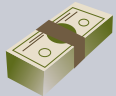

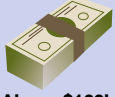
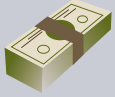
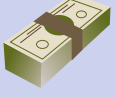

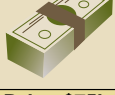





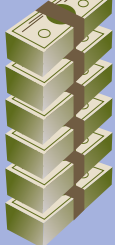
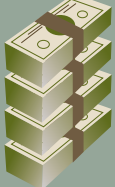
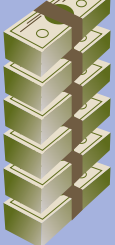
There are also required minimum distributions for both types of traditional IRAs that must begin no later than April 1 following the calendar year in which the owner reaches age 70 ½. Waiting until the calendar year after the owner reaches age 70 ½ will cause the owner to have two distributions in one year. The Roth has no required distributions. Those individuals who are over 70 ½ and have charitable intent, may have up to \$100,000 of their IRA distributed directly to a qualified charitable organization in 2007. This amount

will reduce their required minimum distribution and not be includable in their income.

10% EARLY DISTRIBUTION PENALTY

Distributions made before an individual is over age 59 ½ are subject to a 10% penalty on early distributions. Exceptions to this penalty include substantially equal payments for at least 5 years or until age 59 ½, whichever is later (referred to as the 72(t) exception); qualified higher educational expenses; qualified first time homebuyer (\$10,000 lifetime limit); death; permanent disability; and medical expenses exceeding 7.5% of AGI.

This penalty also applies to qualified retirement plans. If a participant in a qualified retirement plan is over age 55, and separates from service the penalty will not apply. This exception is very important if you have company stock in your qualified retirement plan and want to take advantage of a special tax benefit that only applies to distributions of company stock referred to as the Net Unrealized Appreciation (NUA) strategy.

Do you qualify for a 2006 Traditional IRA?			Do you qualify for a 2006 Roth IRA?	
Modified Adjusted Gross Income (MAGI)			Modified Adjusted Gross Income (MAGI)	
Single*	Married*	Married non-covered spouse	Single	Married
You don't qualify for a Traditional	You don't qualify for a Traditional	You don't qualify for a Traditional	You don't qualify for a Roth	You don't qualify for a Roth
				
Above \$60k	Above \$85k	Above \$160k	Above \$110k	Above \$160k
Partial Traditional	Partial Traditional	Partial Traditional	Partial Roth	Partial Roth
				
Below \$50k: You qualify for a Traditional	Below \$75k: You qualify for a Traditional	Below \$150k: You qualify for a Traditional	Below \$95k: You qualify for a Roth	Below \$150k: You qualify for a Roth
				

*For individuals covered by an employer plan.

DEDUCTIBLE IRAs VS. ROTH IRAs

If you are eligible for both a deductible traditional IRA and a Roth IRA you have a choice to make. The traditional IRA would be your choice if you currently need the tax deduction or anticipate being in a significantly lower tax bracket in retirement. This choice requires assumptions about future tax rates and after-tax returns that can be generated on the tax savings. Age until retirement is also a consideration. The Roth IRA is a more flexible instrument. You can continue to contribute to a Roth IRA after age 70 ½, there are no required distributions until your death, and all eligible distributions are tax free.

NON-DEDUCTIBLE IRAs VS. ROTH IRAs

If you are not eligible for a deductible IRA but are eligible for a Roth IRA, you must choose between the nondeductible IRA and the Roth. The Roth is the better choice because all eligible distributions of income are tax free (rather than tax deferred) and there are no minimum distribution requirements.

If your income prohibits you from making contributions to either a deductible IRA or

A GUIDE TO COMPLETE FINANCIAL PLANNING:

1. Investment Planning
2. Tax Planning
3. Income Protection and Asset Preservation
4. Retirement Planning
5. Business Planning
6. Estate Planning
7. Insurance
8. Education Planning
9. Special Situations
10. Debt Management

a Roth IRA, the traditional nondeductible IRA is still an attractive alternative, offering tax deferred growth.

NET UNREALIZED APPRECIATION

If you have a concentrated position in your employer's stock, have reached the age of 55, and are considering leaving your employer, you may want to take advantage of another alternative. You have the option to transfer your non-employer stock positions to an IRA and transfer a portion or all of your employer stock into a non-tax deferred account. You will have to pay ordinary income tax only on the cost basis (the stock's original cost to the plan) of your employer stock. Any appreciation (the difference between the fair market value at the date of distribution and the original cost) will be taxed at your capital gains rate when you decide to sell the stock. This difference is considered your Net Unrealized Appreciation (NUA). Any further appreciation subsequent to

distribution will be subject to long-term capital gains tax at the time of sale as long as you have held the stock for one year or more from the date of distribution.

You are entitled to this exception only if you take a full distribution from your retirement plan. This means that all of your retirement plan assets must be transferred to another qualified plan or a non-tax deferred account. Your non-employer stock should be transferred to an IRA to defer income taxes. You have the option of transferring all or a portion of your employer stock to a non-tax deferred account and any remainder to an IRA. The more appreciation in the stock, the more valuable this tax break can be.

We are available to help you choose which combination of retirement accounts is most beneficial to you. We will also assist you in selecting investment options for those assets based on your risk tolerance and existing portfolio diversification.

IRAs — Traditional vs. Roth (2006)		
	Traditional	Roth
Contributions		
Limit	\$4,000 (or 100% of earned income, if less)	\$4,000 (or 100% of earned income, if less)
Limit/Age 50 or older	\$5,000 (includes \$1,000 catchup)	\$5,000 (includes \$1,000 catch-up)
Deductible	Yes (May Be Limited if Covered By Employer retirement Plan)	No
Income (AGI) Limitations	Yes, for deductible contribution when covered by employer plan	Yes
Maximum Age	70-1/2	No limit
Distributions		
Taxation	All ordinary income (unless non-deductible contributions made)	Non-taxable if qualified distribution
Age Distribution Must Begin	70-1/2	No age restrictions
10% Penalty for Distributions before Age 59-1/2	Yes, subject to certain exceptions	Yes, N/A to withdrawal of contributions

SC&H Financial Advisors News

For the fifth time, SC&H Financial Advisors was the recipient of 1st Global's Eagle Award. The Eagle Award recognizes top financial advisors and firms that have achieved specific goals set forth at the beginning of the year.

SC&H Financial Advisors was one of 13 national firms to be honored with the Excellence in Wealth Management Award. Chosen from more

than 600 firms, SC&H was distinguished as a firm that truly excels in offering quality wealth management to their clients.

SC&H Group was named to the Future 50 list by SmartCEO Magazine. The Future 50 list recognizes fifty of the fastest growing companies in the Greater Baltimore area based on employee and revenue growth.



Your SC&H Financial Advisors Team



Helping You Meet Your Goals

Contact SC&H Financial Advisors to schedule your estate planning review or financial check-up.

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910 Ridgebrook Road
Sparks, MD 21152
FINANCIAL ADVISORS, INC.
SC&H