



SOCIETY FOR FINANCIAL EDUCATION AND PROFESSIONAL DEVELOPMENT

Enhancing financial and professional growth...

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financial



U C C E S S

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Get These Decisions Right

The sheer number of financial decisions required to manage our finances can seem overwhelming. But often we spend an inordinate amount of time on small stuff — getting the bills paid on time, reconciling bank accounts, and calling to have a late charge waived. While those things need to get done, how do we judge whether we're headed on the right course? There are six basic financial decisions that can determine the course of your financial life:

1. How you earn a living. Sure, we all want to enjoy our work. But within that parameter, why not choose a job that will pay more than another? Your income is going to drive all your other financial decisions, so investigate your options:

✓ Are you sure you're being paid a competitive wage with competitive benefits? Even if you aren't interested in changing jobs now, pay attention to what is going on in your field.

✓ Do you have an outside interest or hobby that can be turned into a paying job? This could be a good way to supplement your current salary, or it could turn into a part-time job or business after retirement.

✓ Can you get some additional training to help secure a promotion or qualify for another job? Read up on what jobs are expected to experience the highest growth rates and/or highest salaries over the next five years. If you don't enjoy your current job, you have even more incentive to implement these suggestions.

2. How you spend your income. The amount of money left over for saving is a direct result of

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Keep Track of Retirement Accounts

It's important to manage your retirement accounts actively. But how can you do that if your accounts aren't even located in one place? Here are a couple of tips:

Organize your records. As long as you continue to hold your account in a former employer's plan, you should receive statements. Keep them all in a file — or even better, enter them all in a spreadsheet, tracking the combined balances and the amount in each type of investment.

Consolidate your accounts. It's much easier to manage your assets if they're all in one place. Fill out the paperwork necessary for rolling them over into one account. That single consolidation account could be the plan you're currently contributing to, if the plan permits rollover contributions. You can also open a rollover individual retirement account (IRA) and have the funds from your other accounts directly transferred there. Be careful about asking for a check. Withholding taxes may be taken out, and you may have to pay a penalty if you don't deposit the check into a qualified account within 60 days. ○○○



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Get These Decisions

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your lifestyle choices, so learn to live within your means. To get a grip on spending, consider these tips:

✓ Analyze your spending for a month. In which categories do you spend more than you expected? Are you wasting money on impulse purchases? Give serious thought to your purchasing patterns, trying to find ways to reduce spending.

✓ One of your most significant spending decisions will be your home. Many people purchase the largest home they can afford, often straining their budget. Purchasing a smaller home will reduce your mortgage payment as well as other costs associated with owning a home.

✓ Prepare a budget to guide your spending. Few people enjoy setting or sticking to a budget, but inefficient and wasted expenditures can be major impediments to accomplishing your financial goals. A budget gives you a roadmap for spending your income. Start by setting a budget for a couple of months, tracking your expenses closely over that time. You can then fine-tune your budget for an annual period.

3. How much you save. You should be saving a minimum of 10% of your gross income. But don't just rely on that rule of thumb. Calcula-



late how much you need to meet your financial goals and how much you should be saving on an annual basis. If you can't seem to save that much, go back to your spending analysis and cut your spending. First, look for ways to reduce your spending by lowering the cost of your purchases. Perhaps you can refinance your mortgage, find insurance for a lower premium, or use strategies to reduce taxes. At some point, however, you may need to cut your discretionary spending, such as entertainment, dining out, clothing, and travel.

4. How you invest. The ultimate size of your portfolio is a function of two factors — how much you save and how much you earn on those savings. Even small differences in return can significantly impact your investment portfolio. Typically, investments with potentially higher rates of return have more volatility than investments with lower rates of return. While you don't want to take on excessive risk, you also don't want to leave all your savings in investments with little growth potential. Your portfolio should contain a diversified mix of investment categories, based on your return expectations, risk tolerance, and time horizon for investing.

5. How you manage debt. Before you take on debt, consider the effect it will have on your long-term goals. If you are already having trouble finding money to save, additional debt will make it even more difficult to save. To keep your debt in check, consider these tips:

✓ Mortgage debt is acceptable as long as you can easily afford the home.

✓ Be careful about taking equity out of your home in the form of a home-equity loan. You might want to set up a home-equity line of credit for emergency use, but then make sure it is only used for emergencies. It may also make sense to use a home-equity loan to pay off



higher interest rate consumer loans, but then don't run those balances up again.

✓ Never purchase items on credit that decrease in value, such as clothing, vacations, food, and entertainment. If you can't pay cash, don't buy them.

✓ If you must incur debt, borrow wisely. Make as large a down payment as you can. Consider a shorter loan period, even though your payment will be higher. Since interest rates can vary widely, compare loan terms with several lenders. Review all your debt periodically, to see if less expensive options are available.

6. How you prepare for financial emergencies. Making arrangements to handle financial emergencies will help prevent them from adversely affecting your financial goals. Make sure to have:

✓ An emergency fund covering several months of living expenses. Besides cash, that fund can include readily accessible investments or a line of credit.

✓ Insurance to cover catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability, and personal liability.

✓ A power of attorney so someone can step in and take over your finances if you become incapacitated.

Making the correct choices for these six basic financial decisions will help put you on the right financial course. If you'd like help with these decisions, please call. ○○○

Taking Minimum Required Distributions

Many holders of most retirement accounts must start withdrawing money at age 70½. The amount that you are required to withdraw is called a required minimum distribution (RMD). Generally speaking, the RMD applies to all retirement funds except those in Roth IRAs and employer plans like a 401(k) plan for those still working at age 70½. Once you retire after age 70½, you must begin taking your RMD from that plan as well.

If you fail to withdraw your RMD, the IRS will impose an excess accumulation tax, which equals 50% of the RMD you failed to withdraw. To avoid the excess accumulation tax, follow these steps:

✓ **Determine whether you're required to take an RMD.** For your retirement accounts, you must take your first RMD by April 1 of the year after you turn 70½. If you wait until then (rather than taking your first RMD that same year), you'll have to take another RMD by December 31 of that same year. After that, you'll be required to take your RMDs by December 31 of each following year.

If you've inherited a retirement plan, you're generally required to take an RMD the year after the plan holder's death, unless the plan owner turned 70½ before death. In that case, you're required to take the RMD the same year as the owner's death. Spouse beneficiaries may be able to delay distributions.

✓ **Identify all your retirement accounts.** List all your retirement accounts, including employer plans, traditional IRAs, SEP, and SIMPLE accounts. This list will help ensure you calculate your RMD correctly.

✓ **Calculate your RMD.** Your total account balance as of the preceding year is divided by your life expectancy to calculate your RMD. The IRS publishes life

expectancy tables for this purpose.

✓ **Create a withdrawal plan.** You don't have to take an RMD from every one of your accounts, as long as your total withdrawal equals the total amount calculated in the previous step. You can group your retirement accounts by account type and take a single distribution from one account in each group. However, you can't cross over between IRAs, 401(k)s, and 403(b)s, for instance.

✓ **Perform a year-end checkup.** Toward the end of each year, make sure you've identified all your accounts, calculated your RMD accurately, and distributions have been taken. You only have until December 31 to make any necessary adjustments to avoid the 50% excess accumulation tax.

This is just a brief guide to RMDs. Please call if you'd like to discuss the topic in more detail. ○○○

Insurance for Stay-at-Home Spouses

When most people think about life insurance, they think about replacing the take-home pay earned by the family's primary breadwinner should he/she die. Yet, it could be just as important to insure a stay-at-home parent.

The issue is one of valuation: how do you set a dollar figure on the contributions that a stay-at-home parent makes to a family? Start by looking at the functions he/she provides: cooking, cleaning, childcare, shopping, laundry, paying bills. How much would it cost for those same services?

In a recent survey, Salary.com estimated that full-time stay-at-home parents in the U.S. work 96 hours a week and, if paid \$25 per hour, would earn more than \$123,000 a year. Reduce the hourly rate by half, and you're still talking about more than \$60,000 a year.

Another way to look at it is to break out the cost of some of the services the surviving parent might have to buy if the stay-at-home parent passed away.

So for a newly single parent of two children, the price of continuing to work could mean spending as much as \$40,000 or more a year on child care and household services. If you can't imagine finding

that kind of additional cash flow, covering your spouse or partner with a life insurance policy to pay those expenses for as many years as needed makes sense.

You have two choices: you can take out a *separate policy* on your spouse that names you as the beneficiary, or you can add a *spouse rider* to your own policy. The advantage of a rider is that it can be cheaper than securing a separate policy for the stay-at-home parent.

On the other hand, if your spouse dies after you do, the rider typically doesn't pay a death benefit to your spouse's beneficiary. In addition, your spouse will have no access to cash value accumulation since the policy and cash values are owned by you. And with some insurance companies, you can't secure as much coverage on your spouse in a rider as you can in a separate policy.

If there are other reasons for your spouse's life to be insured — like designating different beneficiaries or meeting estate planning objectives — then a separate policy might be the better choice.

For help assessing which spousal coverage decision is best for you, please call. ○○○

Using IRAs for Charitable Contributions

Taxpayers age 70½ and older can still take tax-free distributions, up to \$100,000 in 2011, from traditional and Roth individual retirement accounts (IRAs) for charitable purposes. Without this provision, donors typically find that the income tax deduction for the charitable contribution is not enough to offset the tax bill generated by the IRA distribution. With this provision, the income from the IRA is not included in gross income, and the charitable contribution cannot be deducted on the donor's tax return. To qualify, the distribution must meet these conditions:

- ✓ The distribution must be made from an IRA. Distributions from 401(k) plans, SEPs, and SIMPLE plans do not qualify. However, rollovers from another retirement plan to an IRA can be used for this purpose.
- ✓ Charitable contributions must be made to public charities, such as churches, hospitals, museums, and educational organizations. Contributions cannot be made to private foundations, donor advised funds, supporting organizations, or split-interest entities.
- ✓ The IRA owner must be at least age 70½.

- ✓ The distribution must be made directly to the charity.
- ✓ The distribution must otherwise be fully deductible as a charitable contribution. Thus, the donor must not receive any benefit from the contribution or the entire distribution is disqualified from IRA charitable rollover treatment.
- ✓ The distribution must otherwise be included in gross income. Thus, only the taxable portion of the IRA distribution qualifies. If a nontaxable distribution is taken from the IRA, the IRA owner would not have to include the distribution in income and could take a charitable contribution deduction. Qualified distributions from an IRA to charity are deemed to come first from the taxable portion of the IRA, leaving the maximum amount of tax-free dollars in the IRA.

The provision benefits taxpayers who do not itemize deductions, who want to donate more than they can currently deduct as a charitable contribution, or who find that excluding the distribution from gross income will allow them to retain other tax benefits. Please call if you'd like to discuss this in more detail. ○○○



Contributing to Spousal IRAs

A spousal individual retirement account (IRA) allows a non-working spouse to contribute to an IRA, even though the spouse has little or no earned income. Here are the basics:

- ✓ To be eligible to contribute, the couple must be legally married at tax year-end and file taxes jointly.
- ✓ Contributions can be made to traditional IRAs as long as the owner is under age 70½, while there is no age limit for Roth IRAs.
- ✓ In 2011, the maximum contribution to an IRA is \$5,000, with an additional \$1,000 catch-up contribution for individuals age 50 and over.
- ✓ Traditional IRAs have income limitations for contributions, which vary depending on whether one or both spouses are covered by a qualified retirement plan. If neither of you is covered by a qualified plan, both of you can make a deductible contribution regardless of your AGI.
- ✓ For Roth IRAs, eligibility is phased out for AGI levels between \$169,000 and \$179,000 in 2011. It doesn't matter whether your spouse is covered by a qualified retirement plan at work. ○○○

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