



Survey Shows Retirement Planning A Major Concern

It takes a clear plan of action to reach a goal—or so countless self-help books and motivational seminars have told us. Yet when it comes to reaching financial objectives, the message doesn't seem to be getting through.

In the 2009 National Consumer Survey, conducted by the Certified Financial Planner Board of Standards, 1,742 consumers were asked in May and June about their major financial concerns and the steps they've taken to address them. A majority of respondents, about half of whom have more than \$1 million in investable assets, said they are worried about managing retirement income, keeping their health care insurance, handling debt, and building a retirement fund. Yet 64% have never had a written financial plan, 11% had one once but not now, and 8% have a plan that needs to be updated. Only 17% have a current, written plan.

Among those who have a financial plan and work with a financial advisor, 65% said they have benefited from the process. Among those with a written

plan but no advisor, just under half said the plan has been helpful. "Clearly, consumers who have a financial plan are more confident that their finances are in order and that they can reach their financial goals," says Kevin R. Keller, CEO of the CFP Board.

Those without a written plan cited a number of reasons for not having one:

- 42% said their financial affairs weren't complicated
- 42% said it was too costly to hire a financial planner and develop a plan
- 41% said they do their own informal planning
- 40% said they get along fine without a plan
- 30% said it's hard to know who provides the best planning services
- 24% said they don't really know what is in a financial plan and how it benefits people
- 20% said they couldn't trust the recommendations of financial professionals

The survey notes that 36% of respondents who work with an advisor said they've turned to the advisor more often during the global economic crisis that began in October 2008.

The higher the respondents' income, education level, and asset level, the more likely they are to employ a financial advisor and follow a financial plan, the survey shows. For instance, about one in four with a high school

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In The Wake Of Financial Upheaval, Three Steps To Take

With nerves still frayed over the global economic crisis that began in late 2008 and more recent struggles in Europe, it's difficult to be optimistic. But it may be helpful to put the bad news about the American economy in perspective.

According to the International Monetary Fund, U.S. gross domestic product in 2009 totaled more than \$14 trillion. That represented nearly a fifth of the world's total output of goods and services, even though we have less than one-twentieth of the world's population. America remains the world's dominant economic power.

And though much of the financial and economic news has been bleak, stock prices rose more than 70% from their March 2009 lows and the economy has slowly improved.

Where does all of this leave you? Here are three steps to take:

1. Be open to diversifying across asset classes that behave differently from each other, and to reevaluating your financial goals to ensure they are realistic.
2. Give more attention to your long-term financial plan—this is a time for proactive planning.
3. Finally, stress-test your portfolio to determine the impact that market volatility may have on your ability to reach your goals and objectives.

If you need help in any of these three areas, please call to make an appointment.

How Valuable Is A Written Financial Plan?

Have you benefited from the development of a written plan?	Percentage	Percentage
Definitely yes	46	82%
Yes	19	
Probably yes	17	
Probably no	7	13%
No	4	
Definitely no	2	
Don't know	5	5%

Source: Table 6.10: 2009 Consumer Survey on Personal Finance, Certified Financial Planner Board of Standards

Tax Is Key To Your Roth IRA Decision

This may be the first year you qualify for a Roth IRA conversion. But should you make the switch, and, if so, how much of your traditional IRA assets should you earmark for a Roth? Of the many factors affecting your decision, the tax aspects are among the most critical.

Until January 1, you could move money from a traditional IRA to a Roth only in a year in which your modified adjusted gross income didn't exceed \$100,000. Now, that barrier's gone, and though you'll owe income tax on most assets you transfer to a Roth, if you convert in 2010, you can spread out the income (and resulting tax liability) over the following two years.

Once five years have passed, withdrawals you make after age 59½ are completely tax-free. And with a Roth IRA, you never have to take money from the account; for traditional IRAs, mandatory distributions must begin after age 70½. If you don't need the Roth's tax-free income, you can pass it along to your heirs.

Eventually, someone must pay income tax on the money in traditional IRAs (except for any portion that comes from nondeductible contributions). You can pay the tax bill now, if you convert your accounts to a Roth IRA. Or it can be paid later, when you or your heirs must empty the

accounts. A large part of your decision involves gauging which is preferable financially.

That's especially hard now, because high-income taxpayers, in particular, could soon pay more in taxes. Federal rates are scheduled to revert to higher levels in 2011, and even greater levies could hit those in top brackets. So while you might normally expect a

lower tax bracket during retirement—thus reducing the value of tax-free Roth income—that may not happen. State taxes, too, have an impact, and you need to consider where you'll get the cash for tax payments. If you tap IRA assets, there will be less money to continue to grow in your tax-sheltered account.

The Roth IRA Conversion Optimizer, a tool used by wealth management professionals, can calculate the impact of different conversion scenarios. Suppose that you're age 55, your spouse is 50, and

you earn \$250,000 a year. There's \$500,000 in your IRA. Based on an annual 4% rate of return and a future 28% federal income tax rate, your "optimal net benefit" will be \$996,000 if you transfer 100% of your assets,

don't use any of these funds to pay the tax, and make no withdrawals during your life expectancy of 29 years.

Note: The "net benefit" doesn't reflect the opportunity

cost of using the funds that are paying taxes for other investment purposes.

But what if your future tax rate jumps to 50%? Assuming that nothing else changes, your optimal net benefit skyrockets to \$2.12 million over the same 29 years. Even if you factor in a 10% state tax in the year of the conversion, your net benefit will be \$1.81 million.

If you're considering a Roth conversion, we can help you with an in-depth analysis that takes into account all of the tax ramifications. Please call to set up an appointment. ●



Do You Know Estate Planning Basics?

With the future of the estate tax up in the air, you may be tempted to neglect estate planning. The federal tax on inherited wealth is currently scheduled to be repealed in 2010, only to return in 2011 under less favorable terms. Congress will most assuredly resolve this issue before year-end, perhaps exempting all but the wealthiest families from estate tax liability. Yet whatever the fate of the law, having a thoughtful, effective estate plan will continue to be crucial.

At a minimum, you need a legally enforceable will that lays out how you want your assets to be distributed. An accompanying, non-binding letter of

instruction could further spell out your wishes. You may also want to establish one or more trusts designed to minimize taxes, manage assets for minors, provide asset protection for heirs, implement philanthropic plans, or protect assets from creditors. And a living will (or health care proxy) could provide valuable direction on end-of-life health care.

Are you familiar with estate planning basics? Use this quiz to test your knowledge.

1. Which of the following is true?

- a) A will is legally valid only if drafted by an attorney.
- b) You can transfer jointly owned property through a will.
- c) A will may appoint a guardian for minor children.
- d) Your property must go through probate if you don't have a will.

2. When can a will be changed and remain legally enforceable?

- a) Only if the changes are recorded by an attorney
- b) Only when the heirs named in the will provide their consent
- c) Any time before your death or mental incompetence
- d) Never

3. In 2009, the federal estate tax exemption was:

- a) \$1 million
- b) \$2 million
- c) \$3.5 million
- d) Zero

Japan's 20 Years Lost: Can It Happen In The U.S.?

Twenty years after Japan's "economic miracle" collapsed, the Asian nation still has not recovered its once-vaunted economic clout. Japan's debacle involved a spectacular jump in stock and real estate prices followed by an equally spectacular fall as those bubbles burst, much like the twin "pop" that sent the United States into a recessionary spiral in December 2007.

Does that mean Americans are doomed to spend the next two decades struggling to get their economic lives back? And what lessons can investors learn from the Japanese experience?

Echoes of a debacle in Japan. The start of Japan's so-called "lost decade" in 1990—which has stretched to two decades since that phrase was coined to describe Japan's extended economic malaise—was triggered by a period of irrational exuberance in the 1980s. Loose monetary policy fueled a rapid rise in stock and real estate prices. Driven by speculation, leveraged assets, and investing excess, Japanese industrial production rose by 50% during the 1980s, and by 1989 Japanese banks had become the largest in the world. When the bubble burst in 1990 and the economy collapsed, investors belatedly realized that much of the growth had been illusory.

The same thing happened in the

United States during the period 2002 to 2007, as "easy money" policies, consumer spending, and foreign investment pushed real estate and stock prices ever upward—until the bubble burst, sending over-leveraged financial institutions to the brink of bankruptcy and the U.S. economy to the edge of systemic failure. Two years later, the U.S. jobless rate surpassed 10%, businesses have trouble obtaining credit, and government officials are weighing further intervention in the economy even as the national deficit soars to unprecedented levels.

From an investor's point of view, the story is illustrated vividly by looking at the most-quoted stock market averages in the two countries. Japan's Nikkei average hit an all-time high of 38,957.44 intraday Dec. 29, 1989, then fell off a cliff. In 2009, the Nikkei never exceeded 10,800, and it nearly fell below 7,000 in March. In the United States, the Dow Jones Industrial average soared to a record intraday high of 14,198.10 on Oct. 11, 2007, then plunged as the economy deteriorated, dropping as low as 6,547.05 in March 2009 before rallying back above 10,000 in the last few months of the year.

Why the U.S. should fare better. While the similarities between the countries' boom-and-bust debacles are striking, there are also fundamental

differences. For instance, the U.S. crisis is unlikely to be as deep and long-lasting as the Japanese downturn largely because the U.S. boom period did not even approach the stupendous price increases seen in 1980s Japan. During the 1990s, Japanese real estate lost an average two-thirds of its value. In contrast, U.S. real estate prices are expected to fall 30% to 40%, although some areas, including Las Vegas, Phoenix, and Miami, have seen steeper declines.

Moreover, the U.S. economic structure is more open and fluid than that of Japan, where banks and major industries had a tendency to sweep problems under the rug. In the United States, major banks have quickly (with the push of the government) written off billions in bad debt in an attempt to get a recovery going without unnecessary delay.

But the most basic difference between Japan in 1990 and the United States today lies in the speed in which interest rates were lowered. American economists, most notably current U.S. Federal Reserve Chairman Ben Bernanke, have criticized Japan's central bank for failing to reduce interest rates quickly enough during the early 1990s, with the delay spawning rampant, long-lasting deflation. Eager to avoid that mistake, the Fed has taken several steps to cut interest rates and keep money flowing. And both the Bush and Obama administrations have pumped billions of dollars into the U.S. economy in the form of corporate bailouts and economic stimulus plans.

Even though the crisis in the United States seems unlikely to mirror the Japanese experience, it's impossible to know what will happen to stocks, real estate, commodities, and currencies in the near term. That's why we advise you to continue protecting yourself from the vicissitudes of the stock market and the world economy by remaining broadly diversified in your investments. That's the best way to ensure you are in a good position to benefit when the economy starts coming back to life. ●

4. In 2010, the annual gift tax exclusion shelters gifts to individuals of up to:

- a) \$10,000 c) \$1 million
- b) \$13,000 d) Zero

5. For estate tax purposes, the value of assets is based on:

- a) Their fair market value on the date of the owner's death (or six months from that date)
- b) The amount received from the sale of those assets
- c) The assets' original cost
- d) The value stated in the owner's will

6. A "power of attorney" is best described as:

- a) A bequest in a legally validated will
- b) A document authorizing an agent to act on your behalf
- c) A document allowing life support

systems to be shut down

- d) The use of a lawyer in estate planning matters

7. Which of the following is not true?

- a) The value of your principal residence is excluded from your estate.
- b) The value of property transferred to your spouse is exempt from estate tax at your death.
- c) A testamentary trust takes effect when you die.
- d) A will normally determines who will care for minor children.

If you have questions about estate planning or need to refine your plan, please give us a call. We can work with you and your attorney to make sure all of your needs are met. ●

Answers: 1-c; 2-c; 3-c; 4-b; 5-a; 6-b; 7-a

Beware Of Homeowner's Insurance Gaps

Disaster may strike your home when you least expect it. There could be damage from flooding, an earthquake, termites, or even mold—just to name a few possibilities. And though you probably assume repairs will be covered by your homeowner's insurance policy, they may not be. Your policy may exclude more events than you realize. Even when you are covered—for, say, flood damage—there may be “gaps” in your coverage that limit the amount you can recover.

The good news is that a typical homeowner's policy covers losses resulting from fires, tornadoes, and severe storms. But the list of what it normally doesn't cover may surprise you. For instance, coverage may not extend to floods and earthquakes, although you can usually add a policy rider for such events. The rider's cost will vary based on whether you reside in a high-risk area.

Similarly, if you have to clean up a mess created by a water or sewage backup, the expense won't be covered by standard homeowner's insurance. But here, too, you can purchase a

special rider to avoid this headache, often for less than \$100 a year.

The list of other types of damage that usually aren't covered range from mold to insect and termite infestations to acts of terrorism, war, and nuclear attack. Dig your policy out of your files and take a few minutes to assess your risk exposure for these events.

Even if you're covered for damage—through standard insurance or a rider—payments from the insurance company are based on the property's replacement cost, not its fair market value. Also, if your home is destroyed and it's insured for less than the replacement value, you'll have to pay some of the rebuilding cost. In addition, deductibles and maximum dollar caps may affect reimbursements for possessions that are destroyed or stolen.

In terms of liability exposure, one way to avoid dire consequences is to supplement your current coverage with an umbrella liability policy. As the

name implies, the umbrella policy sits on top of your homeowner's and auto insurance policies to provide additional protection. For instance, if a neighbor slips and is injured on your icy sidewalk or a tree topples onto a car parked in front of your home, an umbrella policy may pick up the slack.

Just like other forms of insurance, you'll need to shop around for the best umbrella policy. And keep in mind that

umbrella coverage kicks in only after other insurance is exhausted, and umbrella policies usually carry deductibles equal to the required underlying limits for the auto and homeowners policies. Still, the cost of umbrella coverage usually isn't prohibitively expensive. You may be able to obtain \$1 million in liability coverage for \$200 to \$300 a year. And you may get a discount for using the same carrier. That could prove a small price to pay for plugging the gaps in policies. ●



Retirement Planning Survey

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education has a written and updated plan in place, compared with 49% of college graduates. Just 26% of those with household income below \$50,000 a year have an updated plan, compared with 53% of those with income exceeding \$150,000 a year. In terms of asset levels, a quarter of those with assets of less than \$100,000 have an updated plan, compared with 53% of those who have from \$100,000 to \$1 million in assets, and 67% of those with \$1 million or more.

“Americans of every type of background and income level think carefully about their assets and how to improve their financial state,” says Eleanor Blayney, a consumer advocate

for the CFP Board. “Yet many don't realize that anyone, regardless of wealth or social status, can benefit from having a financial plan.”

Among all respondents, 59% listed generating current income as a top financial concern. Other top concerns included:

- Providing health insurance coverage (55%)
- Managing or reducing current debt (53%)
- Building a retirement fund (51%)
- Building an emergency fund (47%)
- Preparing for future family medical needs (42%)
- Managing retirement income (40%)
- Providing life insurance coverage (35%)

These answers varied widely according to respondents' levels of education, income, and assets. For instance, 56% of those with a high school education cited “managing or reducing current debt” as a major concern, compared with 48% of college graduates. That worry was also cited by 58% of those earning \$50,000 or less and 41% of those earning \$100,000 or more, and by 61% of those with assets of less than \$100,000 and 45% of those with assets between \$100,000 and \$1 million.

Creating and maintaining a financial plan can be an effective way to get and stay on track to reach your life goals. If you don't have a written, updated, and comprehensive plan to guide you to financial success, we can help you in this vital area. ●