

WEALTH STRATEGIES

For Financial Success

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(216) 831-1200

www.hwfa.com

11 Top Financial Planning Tips For The Rest Of 2011

How are you faring financially so far in 2011? Now is a good time to assess your situation and consider changes. Consider these 11 tips.

1. Spend only what you can afford. It seems simplistic, but many people, even those with substantial

incomes, ignore this basic financial principle. If you have more money going out than you have coming in, it's a recipe for eventual disaster. To get things in balance may require trimming

your spending or earning more. Are you being paid what you're worth? Can you get an additional, part-time job? Do you have entrepreneurial ideas that could bring in extra income? Making a few thousand dollars more each year could add up to a significant sum over your lifetime.

2. Make a budget and stick to it. This tip dovetails with the previous one. Regardless of how much you earn, it's important to know what you're spending and where the money goes. Track your expenses by keeping credit card receipts and noting cash payments. You may be surprised at how much you spend on certain items and monitoring your outlays could help you find easy ways to economize.

3. Avoid mounting credit card debt. One of the worst financial traps is to make large purchases on credit and then fail to pay off the full amount each month. Despite recent legislation to reform rules on credit cards, your issuer can still impose double-digit interest rate charges on unpaid balances, sending

your debt higher and higher and making it increasingly difficult to retire. If you have a large balance or two, consider consolidating your debt and putting away your plastic until you catch up.

4. Pay yourself first. This idea also needs to be coordinated with previous tips. But the main point is to set aside perhaps 5% to 10% of your income on a regular basis—before it gets spent. It may help to have the money automatically deducted from your paycheck and deposited into a separate account.

5. Invest your savings. It's not enough just to save money; you also have to put it to work for you. It's important to have an investment plan that considers your savings goals, when you'll need the money—for your kids' education, your retirement, or another objective—and how much investment risk you're comfortable taking. We can help you devise and implement an effective portfolio strategy.

6. Maximize employment benefits. Taking advantage of on-the-job benefits such as employer-sponsored health, dental, and life insurance could mean substantial savings. If your company offers flexible spending accounts, you can arrange to use pre-tax dollars to pay for unreimbursed medical or dental expenses—and save as much as a third on those outlays.

7. Salt away money in retirement plans. Most employers let you participate in a 401(k) plan or another tax-favored retirement account.



New Toy Line Teaches Kids About Money

When should you start teaching your kids and grandkids about saving money? Maybe not while they're still in diapers, but you don't have to wait much longer to begin the process. Now a nationally known toy manufacturer is doing its part.

Zillionz, a toy line from Summit Products, includes several items designed to help children keep track of their money. The regular lineup features products such as cash registers, digital piggy banks, and electric coin jars. All of these may give youngsters a head start on learning to manage their personal finances. But a new Zillionz product could be even more helpful. The device, a personal-savings machine, has three jars that a child could use to save for different purposes—say, to buy a new bike, a camera, and an X-Box. The toy counts money as it is inserted and keeps a running tally for each jar. It also has a customizable LCD screen that displays the savings in each jar as well as the total amount.

This creative device is not your father's piggy bank. It can even remind the kids to deposit their weekly allowance!

According to a recent press release, the new savings machine is available at Toys "R" Us for \$49.99. Zillionz products can also be found in stores such as Walmart and Target.

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Don't Succumb To Market Hysteria

The market has been experiencing occasional panic attacks of late. But please avoid confusing the market's gyrations with what's actually going on in the real economy.

Stocks are overreacting to the unfortunate confluence of events: the downgrade of U.S. government bonds, some weaker than expected economic data, and the troublesome but manageable U.S. fiscal position. Along with sovereign debt issue threatening Europe, these factors are making the markets volatile.

Former Federal Reserve Board Chairman Alan Greenspan put it this way last Sunday on Meet The Press: "The United States can pay any debt it has because we can always print money to do that. So there is zero probability of default." Greenspan, who is not an oracle but who does years of experience in running the nation's central bank, added that the downgrade "hit the self-esteem of the United States, the psyche."

While such a blow to our nation's financial reputation cannot be dismissed and must be addressed, it's also important to remember that there has been no real change in fundamentals driving the economy.

Improving economic data is plentiful. "The leading indicators point

to slowly expanding economic activity in the coming months, according to the Conference Board's most recent appraisal of the economy.

Weekly unemployment claims have tumbled from the April 2009 peak. The Bureau of Labor Statistics reported modest improvement in job growth for July. Layoffs of government workers have masked a jobs rebound in the private sector that looks fairly typical at this stage of an economic recovery. Economists cite renewed July-August auto hiring and a slower pace of state and local government layoffs ahead as reasons for optimism on initial claims for unemployment benefits.

Corporate earnings estimates keep climbing. Q2 nominal Gross Domestic Product is up 3.7%, while Q2 revenues on Standard & Poor's 500-company were up a whopping 13.2%!

Earnings estimates for 2011 and

2012 rose again last week, continuing a trend of upward estimate revisions.

The S&P 500 is trading at 11 times 2011 earnings estimates. Investors

right now can choose to buy the 10-year Treasury bond with a 2.3% yield or get a 2.2% dividend yield on the S&P 500 plus the potential upside on stocks. Will the relative value of stocks versus the 10-year Treasury bond ultimately be recognized by investors? History may not repeat itself. It's possible. But using historical valuations and economic fundamentals to

guide long-term investment decisions is prudent.

Hysteria is not new to investment markets. While it not easy to ignore the gyrations, our advice is to resist the panic by staying focused on fundamental factors that drive long-term values in securities markets. If you need to speak with us, we're here for you. ●



GRATs Survive The Legislative Axe

Reports of the death of the grantor retained annuity trust (GRAT) have been greatly exaggerated. Provisions in the Small Business and Infrastructure Jobs Tax Act of 2010, approved by House of Representatives in March 2010, would have severely restricted the benefits of GRATs, a popular wealth transfer tool that can minimize estate and gift tax liability. But the proposed legislation stalled in the Senate, and its future remains in doubt.

A GRAT is typically set up as an irrevocable trust into which you transfer business interests or other income-producing property, such as

real estate. The trust pays you, the "income beneficiary," an annual annuity during a term that may be just a few years. When the trust expires, the remaining assets are transferred to "remainder beneficiaries," who could be your children or grandchildren.

The original transfer into the trust, which removes assets from your estate, is considered a taxable gift. But its value is based on a projection of what the assets would be worth at the end of the trust term, taking into account the payments to you and assuming that the assets appreciate at a special rate the IRS updates each month to reflect current interest rates.

Recent IRS rates have been quite low—just 2.2% in August 2011, compared with 6.2% four years earlier—and that creates very favorable conditions for GRATs. A low rate translates into a low projected remainder, and that minimizes your gift tax liability. It's often possible to "zero out" a GRAT, so that it is projected to be exhausted during its term by the payments to you. With the calculated remainder having no value, you pay no gift tax. But if assets appreciate at a rate that exceeds the IRS number, there will indeed be something of value to go to your beneficiaries.

How A Solo 401(k) Plan Gives You An Edge

Do you run your business as a sole proprietor? For years, the options for tax-advantaged retirement plans for one-person outfits were relatively narrow, restricted to specialized small-business plans such as simplified employee pensions (SEPs). But recent legislative changes have made it possible for sole proprietorships to use the same type of retirement vehicle—the 401(k) plan—favored by bigger companies. A special “solo 401(k)” may provide a distinct advantage over comparable retirement options, enabling you to salt away considerably more money for the future.

People who work for an employer offering a 401(k) plan have the opportunity to direct part of their salary into a personal retirement account that they can invest in mutual funds or other basic vehicles. The money deferred to a 401(k) isn't taxed, and there are no capital gains taxes on investment profits. Instead, account owners pay income tax on money they withdraw during retirement. Many corporations match a portion of employees' contributions.

There's an annual limit on how much can be contributed to a 401(k). For 2011, salary deferrals are capped at \$16,500 (\$22,000 for those age 50 or over). In addition, the total annual contribution for 2011 to a “defined contribution plan” such as a 401(k) or a

SEP is generally limited to 25% of compensation or \$49,000 (\$54,500 for those 50 or older), whichever is less. If you're self-employed, the cap is 20% of what you earn, and the maximum compensation for these purposes is \$245,000 in 2011.

Thanks to a recent change in pension laws, however, you now may be able to combine the annual deferral to a solo 401(k) with an employer's matching contribution so that the total going into your plan exceeds the normal percentage limit for defined contribution plans. For example, suppose you're 45 years old, self-employed, and earn \$150,000 in 2011. If you contribute to a SEP in 2011, your contribution would be limited to 20% of \$150,000, or \$30,000. But if you establish a solo 401(k) plan instead, you may be able to save considerably more. First, you defer the employee's maximum \$16,500 to the plan. Then, because you work for yourself, you can sweeten the deal with the maximum employer contribution of \$30,000. Add the two together and you can contribute \$46,500 to the plan this year.

The more you make, the more you can put into a solo 401(k), though you'll still be subject to the overall dollar limits of \$49,000 or \$54,500 that apply to defined contribution plans. Once your compensation reaches \$162,500—20%

of which is \$32,500, the maximum you can add to the \$16,500 individual contribution without exceeding the \$49,000 cap—the comparative advantage of having a 401(k) instead of an SEP begins to decline. But you'd have to make the full \$245,000 to be able to contribute as much to an SEP as to a 401(k).

How much more can you accumulate if you choose a solo 401(k)? It depends on the maximum contributions at your income level for a 401(k) compared with an SEP and how long you have until retirement. But if, for example, you're able to put away \$15,000 more each year in a solo 401(k), you have 25 years to retirement, and you earn 8% annually on investments within the plan, you'll pile up an additional \$1,143,549.

A solo 401(k) plan may also provide other benefits, including:

- The flexibility to put as much or as little as you choose into the plan each year. If your business is having an off year, you can reduce or suspend contributions until conditions improve.
- The possibility of taking loans or hardship withdrawals from the plan. If you borrow from your plan, you're effectively paying yourself back with interest.
- The ability to accept rollovers from other qualified retirement plans or traditional IRAs.

It used to be that the administrative cost of a 401(k) plan was too high for many sole proprietors, but fees have come down during the past decade. Typically, you'll now have to pay a set-up fee of about \$100 plus ongoing expenses of a few hundred dollars a year. Keep in mind, though, that the benefits of a solo 401(k) really apply only to solo businesses. If your company employs other full-time workers, you must cover them as well and make employer contributions to their plans. But that requirement also applies to other types of retirement plans. If you run a successful one-person business and you want to build up your retirement plan balance as quickly as possible, a solo 401(k) could be your best option. ●

The House-passed bill would extend the minimum term of a GRAT from two years to 10 years, not only making it more difficult to zero out a trust but also increasing the likelihood that you might die during the term. If that happens, trust assets are restored to your taxable estate. The proposed legislation also would require the remainder interest to be greater than zero, ensuring there would always be some gift tax liability.

Finally, the bill would prohibit structuring a GRAT with a “declining



annuity” during the first 10 years of its term. That structure provides a higher initial payment that could be used to distribute large gains early in a GRAT's term while guarding against poor performance later.

Although the small business legislation stalled in Congress, it could be revived in the future. If you would like to know more about GRATs, please make an appointment now so we can discuss whether it would be a useful estate planning tool in your situation. ●

Children In College Need A Health Proxy

Have you just sent your child off to college for the first time? For your offspring, this marks a new, exciting chapter in life. But your child will also face new challenges and perils, and it makes sense to take precautions, such as obtaining a “health care proxy” (also known as a “health care power of attorney”) for your son or daughter. This document will give you access to your child’s medical history and enable you to make health care decisions in the case of a serious illness or injury.

Although health care proxies are frequently used for elderly relatives, the same basic premise applies to a child in college. Once your child turns age 18, he or she is treated as an adult for legal purposes. Under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), your child is entitled to full confidentiality unless you have a health care proxy. Without a proxy, you might not even learn of a child’s health problem at school or receive information about the child’s health status.

The health care proxy is a legally binding document appointing someone—usually another family member such as a parent—to make health care decisions for an individual if he or she is temporarily or permanently incapable of making those decisions. It’s a narrow power of attorney that gives authority to the designated party and allows you to take action on behalf of your child.

Of course, you can’t execute a health care proxy unilaterally. Your son or daughter will need to sign the document, thus giving up his or her right to complete medical privacy. But you can reassure children that you’ll have access to information about them only under very specific circumstances. A health care provider may discuss only the immediate medical condition, and only when prompt attention is needed for someone who is incapacitated. Very

likely your kids will see the wisdom of having a health care proxy and may even be surprised to learn that otherwise you would have no say about their care even in life-threatening situations.

Once the proxy has been signed and notarized, you’ll need to make sure that everyone who might be involved in a child’s care knows that it exists. Give a copy to your child’s

college health service as well as to physicians and hospitals in your town from whom your son or daughter might receive care. If your child has a car, you could put a copy of the proxy in the glove compartment, and you might want to give copies to close friends or roommates.

To get a form for the proxy, check online or with your physician or attorney. You can also file a HIPAA release form that gives you additional access to information about your child’s health. ●



Tips For The Rest Of 2011

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With a 401(k), you can defer part of your salary on a pre-tax basis to your investment account, and your company may match a portion of your contribution. Outside of work, both traditional and Roth IRAs can also help you build your retirement nest egg.

8. Convert to a Roth IRA.

One downside to traditional tax-deferred retirement accounts is that you’ll be taxed on distributions at a time when you may need all the income you can get. A Roth IRA, in contrast, doesn’t let you deduct contributions but can deliver tax-free payments in your 60s, 70s, and beyond. You can convert traditional plans to a Roth, paying tax on the converted amount now to avoid

liability during retirement. And because a Roth IRA doesn’t require withdrawals, you’ll have the option of preserving the account to pass along tax-free income to your heirs.

9. Review insurance policies.

Don’t make the mistake of being under or over-insured. For most people, the need for life and disability insurance is greatest during peak earning years and when there are children at home. But you’ll need adequate insurance coverage even during retirement.

10. Create or revise your will.

Your will is the road map to your estate plan, and if you don’t have one,

creating one is an absolute necessity.

And an existing will may need to be updated, especially in light of the generous \$5 million estate tax exemption (\$10 million for married couples) available for 2011 and 2012. It’s also important to have a power of attorney document drawn up in case you are unable to manage your own finances.

11. Get organized. Finally, make sure to keep accurate records and know where they are located. Developing a system for monitoring your finances should prove helpful for years to come. ●

