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DOLAN FINANCIAL SERVICES

FOCUS ON FINANCIAL FREEDOM® SPRING 2009

Your Financial Road Map

Are you making progress toward your financial goals? Are your finances in order? Are you prepared for a financial emergency? If you're not sure, take time to thoroughly assess your finances so you have a road map for your financial life:

Assess your financial situation

Evaluating where you currently stand financially will help you determine how much progress you are making toward your financial goals. There are several items to consider:

- **Your net worth** — Prepare a net worth statement, which basically lists your assets and liabilities, with the difference representing your net worth. Prepared at least annually, it can help you assess how much financial progress you are making. Ideally, your net worth should be growing by several percentage points over inflation.
- **Your spending** — Next, prepare a cash flow statement, detailing your income and expenditures for the past year. Are you happy with the way you spent your income? You may be surprised by the amount spent on nonessential items like dining out, entertainment, clothing, and vacations. This awareness may be enough to change your spending patterns. But more likely, you will need to prepare a budget to help guide your future spending.
- **Your debt** — Debt can be a serious impediment to achieving your financial goals. To assess how burdensome your debt is, divide your monthly debt payment, excluding your mortgage, by your monthly net income. This debt ratio should not exceed 10% to 15% of your net income, with many lenders viewing 20% as the maximum. If you are in the upper limits or are uncomfortable with your debt level, take active steps to reduce your debt or at least lower the interest rates on that debt.

Increase your savings

Calculate how much you are saving as a percentage of your income. Is it enough to fund your future financial goals? If not, go back to your spending analysis and look for ways

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Spring Has Arrived!

Spring is a welcome change from the cold of winter; a time of renewal, preparation, and anticipation.

The sights, sounds, and scents of spring evoke many fond memories from childhood, including the "spring cleaning" ritual. It seemed that everyone joined in to clean and reorganize homes and yards. Curtains were changed and floors waxed. Closets and drawers were emptied and cabinets reorganized. We sorted through endless items and discarded unmatched socks, worn clothes, and broken toys.

While I was not thrilled about forfeiting time on my bike to clean, I took pride and pleasure in the final outcome. Mom's repeated reminder of the long-term benefit definitely helped. "If we complete the work before the end of school, we will be able to spend more time at the beach." I learned at an early age that clutter prevents us from enjoying the things that matter most.

As adults, "financial clutter" is a source of distraction. We are all well aware of the financial matters that we are ignoring or overlooking. It may be time to prepare or redo our will, establish a trust, apply for life insurance, or to simply organize financial paperwork. It is tempting to ignore the financial clutter. However, a looming financial "to-do" list can cloud our thoughts and take time and attention away from the most important things in life.

Tackle your "financial spring cleaning" now. Make a simple list of the financial chores that need to be taken care of and set a target date for completion. If you would like some help with the process, call for an appointment. Let's work together to clean up the "financial clutter" so you can truly enjoy the summer!

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Road Map

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to reduce expenditures. That may mean reassessing your lifestyle choices, since you need to live below your means to find money to save. Commit to saving more immediately and then take steps to make that commitment a reality. For instance, you may decide to increase your saving by $25 per week through your 401(k) plan at work. To do that, you may need to forego your daily stop for coffee and a doughnut, cut back on how often you dine out for dinner, and reduce your monthly clothing allowance. Not sure it's worth that much sacrifice to save $25 a week? After 20 years, that weekly $25 savings could grow to $63,811 at an 8% annual rate of return, before the payment of any income taxes. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)*

Rebalance your investments

At least annually, thoroughly analyze your investment portfolio:

- ❍ Review each investment in your portfolio, ensuring that it is still appropriate for your situation.
- ❍ Calculate what percentage of your total portfolio each asset type represents, compare this allocation to your target allocation, and then decide if changes are needed.
- ❍ Compare the performance of each component to an appropriate benchmark, to identify investments that may need to be changed or monitored closely.
- ❍ Finally, calculate your overall rate of return and compare it to the return you estimated when setting up your investment program. If your actual return is less than your targeted return, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future.

Prepare for financial emergencies

To make sure you and your family are protected in case of an emergency, set up:

- ❍ A reserve fund covering several months of living expenses. The exact amount you'll need depends on your age, health, job outlook, and borrowing capacity.
- ❍ Insurance to cover catastrophes. At a minimum, review your coverage for life insurance, medical insurance, homeowners insurance, auto insurance, disability income insurance, and personal liability insurance. Over time, your insurance needs are likely to change, so you may find yourself with too much or too little insurance.

Review your estate plan

The estate tax laws have been changing substantially over the past few years. Take a fresh look at your estate planning documents and review them every couple of years during this transition period. Even if the increases in exemption amounts mean that your estate won't be subject to estate taxes, there are still reasons to plan your estate. You probably still need a will to provide for the distribution of your estate and to name guardians for minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, and a health care proxy, which delegates health care decisions to someone else when you are unable to make those decisions.

If you'd like help evaluating your finances, please call. ❍❍❍

Be Prepared for a Layoff

In these economic times, job security is a notion from the past. All workers should be prepared financially for the possibility of a job layoff. Here are some tips to help with that process:

- ❍ **Stay on the lookout for signs of potential cutbacks.** Those signs could include layoffs at competitors, declining financial performance, top management changes, or a major tightening of expenditures. Under federal law, only companies with more than 100 workers are required to give 60 days notice of layoffs or plant closures.
- ❍ **Set up a cash reserve of at least three to six months of living expenses.** It typically takes at least that long to find a new job. It may take even longer in this economic environment or if you are middle-age or older.
- ❍ **Apply for a home-equity line of credit or other type of loan.** It is usually easier to obtain credit when you are employed, so get borrowing options in place to help during a layoff.
- ❍ **Look for ways to cut your living expenses.** Avoid nonessential expenses like extravagant vacations, clothing, and entertainment. Even if you aren't laid off, you can use those savings to increase your retirement savings.
- ❍ **Keep your resume up to date.** While you may not want to actively start looking for another job, be aware of the current job market and expand your professional contacts.
- ❍ **If faced with a layoff, don't just accept your employer's severance package.** Try to negotiate for more severance pay or for an extension of your health insurance benefits. Also check whether the company offers services to help you find another job.

Please call if you'd like to discuss this topic in more detail. ❍❍❍

Raising Financially Responsible Children

It's not unusual to have concerns about the impact money may have on your children's lifestyles. Even beyond basic financial responsibility, you want to make sure that wealth does not remove your children's incentives to work hard, to pursue a meaningful career, or to care about other people. How do you help your children obtain the values you'd like them to have? Consider these tips:

❍ **Lead by example.** Of course, you want to have many discussions with your children about the values you consider important, including the value of hard work, caring about others, and preserving their legacy. But it is equally important to ensure that your behavior supports these values, since children watch their parents' actions closely. Make sure your handling of spending, debt, asset purchases, investments, and charitable donations support the behavior you are trying to instill in your children.

❍ **Teach financial basics.** Encourage your children to take finance courses in high school and college that help explain the basics of investments and personal finance. Include your children in discussions about significant financial decisions, such as which investments to select, which charitable organizations to support, and which major assets to purchase.

❍ **Allow your children to make their own financial decisions.** Don't just give them money every time they want to make a purchase. Give your children an allowance that increases as they get older to cover certain expenses, such as entertainment, lunches, clothing, and gasoline for their car. Let them learn how to spend the money, but don't give them extra money if they make bad choices. It is important for your children to learn from their mistakes. You can discuss options with them, but the final decisions should be theirs.

❍ **Counsel your children on continuing your financial legacy.** You should have plans in place to help ensure your financial legacy lasts for an extended period of time. That could include setting up trusts that will distribute funds to your children gradually, such as in thirds when each child reaches age 25, 30, and 35. Or, you may want to structure distributions to promote behavior that is important to you. Once your plans are in place, explain them in detail to your children so they understand what you are trying to accomplish.

Please call if you'd like to discuss raising financially responsible children in more detail. ❍❍❍

You're Never Too Old for a Roth IRA

Even if you're retired, consider contributing to a Roth individual retirement account (IRA), provided you have some earned income. In 2009, single taxpayers with modified adjusted gross income (AGI) less than $105,000 and married taxpayers filing jointly with modified AGI less than $166,000 are eligible to make a nondeductible contribution to a Roth IRA. Contributions are phased out for married couples filing jointly with modified AGI between $166,000 and $176,000 and for single taxpayers with modified AGI between $105,000 and $120,000. In 2009, the maximum annual contribution is the lesser of $5,000 or earned income. Individuals age 50 and older can make an additional $1,000 catch-up contribution. Pension, investment, and rental income are not considered earned income.

Roth IRAs are a flexible way to save for retirement. Contributions are withdrawn at any time with no tax consequences. Earnings and capital gains can be withdrawn on a tax-free basis if a qualified distribution is made:

❍ at least five years after your first contribution and

❍ you have attained age 59 1/2 or due to death, disability, or to pay up to $10,000 of first-time homebuyer expenses.

Other characteristics of a Roth IRA may make it an attractive investment for retirees:

❍ You can make contributions as long as you have earned income, no matter how old you are. With traditional deductible IRAs, you must stop making contributions when you reach age 70 1/2.

❍ Mandatory withdrawals after age 70 1/2 are not required. You can take out as much or as little as you want, whenever you want, after age 59 1/2. If you don't need the money, the balance can continue to grow on a tax-free basis.

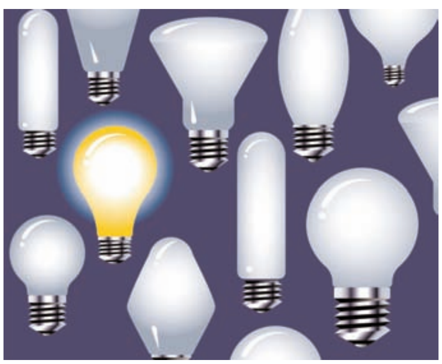
❍ Qualified distributions from Roth IRAs are not included in AGI. Thus, these distributions will not affect income taxation of your Social Security benefits.

❍ Roth IRAs can provide a tax-advantaged way to accumulate assets for heirs. Both traditional and Roth IRAs are subject to estate taxes. However, the beneficiaries of a traditional IRA must also pay income taxes on the proceeds, while beneficiaries of a Roth IRA receive qualified amounts income tax free. ❍❍❍

Reevaluate Your Life Insurance at Retirement

As retirement age approaches, it's usually a good time to reassess your life insurance policies to see if your needs have changed. With your children on their own and no earned income to replace, you may no longer need a large life insurance policy. Especially if your insurance premiums are high, you may be tempted to cancel the policy, take the cash surrender value, and enjoy retirement. Before doing that, however, make sure there aren't other uses for your life insurance policy, such as:

- **To leave a legacy to heirs** — Even if the money isn't needed for your children's support after your death, many people like the thought of leaving a large inheritance to their children or grandchildren. With an insurance policy in place, you can feel free to spend your retirement assets, knowing the insurance policy proceeds will be paid to your beneficiaries after your death. If you have a large estate, the policy proceeds can be used to help pay estate taxes.



- **To pay your grandchildren's college expenses** — With the rapidly increasing costs of college making it more and more difficult for parents to cover this cost, you might want to use an insurance policy as a college fund for your grandchildren. If you're still alive when they start college, you might be able to borrow some of the cash surrender value to pay these costs.
- **To support adult children** — There are a variety of reasons why you might want to provide financial help to an adult child. Perhaps your child is a doctor, but has significant debt from college. Or your child might work at a job that doesn't pay a significant amount of money.
- **To provide a large charitable contribution** — A life insurance policy can serve a couple of purposes when making a large charitable contribution. You can name the charity as the beneficiary of the policy. Or you can leave other assets to the charity that would have been included in your estate and possibly subject to estate taxes. The proceeds of the life insurance policy, if properly structured, can then be paid to your heirs estate- and income-tax free.
- **To help deal with long-term-care costs** — Many individuals don't purchase long-term-care insurance, believing their spouse will take care of them. However, when one spouse dies, there may not be anyone to take care of the surviving spouse. The proceeds of a life insurance policy can be used to provide long-term care for the surviving spouse.
- **To optimize pension benefits** — When retiring, irrevocable decisions about pension-plan benefit payments must typically be made. An individual life income option will pay higher benefits than a joint and survivor benefit, but then your spouse will not have pension benefits if you predecease him/her. You could use the proceeds from a life insurance policy as a source of income for your spouse after your death.

While it is generally believed that life insurance needs decrease after retirement, there are a variety of reasons why you might want to retain your life insurance policy. If you'd like to review your circumstances, please call. ❍❍❍

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Did You Know?

On average, caregivers who were at least 50 years old in 2007 spent $5,531 of their own money to provide assistance to another individual (Source: AARP, 2008).

More than 7.5 million American homeowners with a mortgage are spending half of their income or more on housing costs (Source: U.S. Census Bureau, 2007).

A survey of American workers found that 47% say they always or usually live paycheck to paycheck just to make ends meet, 33% do not participate in a retirement plan, and 25% don't put any money into savings each month. In comparison, 21% of workers earning $100,000 or more say they live paycheck to paycheck, and only 10% say they do not put money into saving each month or participate in a 401(k), IRA, or retirement plan (Source: *Investment News*, September 2008).

In 2006, 29% of Americans in their late 60s were still working, up from 18% in 1985 (Source: *Investment News*, November 2008).

This year, the average premium for employer-sponsored health insurance is $12,680 for an employee and his/her family, which is a 119% increase since 1999 (Source: Harry J. Kaiser Foundation, 2008).

Only 10% of IRA-eligible taxpayers contribute to an IRA (Source: Employee Benefit Research Institute, 2008). ❍❍❍