



Winter 2010

2010 Update

Keystone Financial
Partners
116 New Edition
Court
Cary, NC 27511

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Happy New Year! We hope you enjoyed the holiday season. As we look forward to a new year at Keystone Financial Partners, we want to share news and updates with you.

Welcome Tami!

Tami Hollingsworth joined us in the position of Client Service Assistant in November. In this role, Tami will be our clients' first contact with our firm, whether on the phone or in person. She will assist our clients with their questions and handle the administrative duties for the firm. Tami is also a NC State University graduate with a background in the financial services industry.

Tami's office hours are Monday through Friday, 9am to 3pm. To learn more about her, feel free to visit her bio on our website at www.keystonefinancialpartners.com.

4th Annual Durham Bulls Game

Our 4th annual night out at the Durham Bulls ballpark is scheduled for Saturday, April 24th. We will be in a private picnic area watching the 2009 National Champion Durham Bulls take on the Gwinnett Braves. We hope you will be able to join us for a fun time of watching baseball and enjoying great

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ballpark food. Feel free to reserve a spot for your children and grandchildren as well. Game time is 7pm, with dinner from 6-8pm. Be on the lookout for an invitation in your mailbox soon.

2009 Holiday Gift

On behalf of you, our clients, Keystone Financial Partners made a donation to Life Experiences in lieu of a 2009 holiday gift. Life Experiences, Inc. is a nonprofit organization that blends education, training, and the free enterprise system to create and operate businesses which provide fulfilling employment for adults with developmental disabilities, allowing them to function as independent, productive citizens of the Triangle. Jim and his family have been supporters of Life Experiences for many years. To learn more about Life Experiences, you can visit their website at www.lifeexperiences.org.

We are looking forward to an exciting 2010. As always, if you have any questions, or if we can assist you in any way, don't hesitate to contact us.

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Retirement: Does Your Withdrawal Strategy Need a Second Look?

In its simplest terms, a withdrawal rate is the percentage you withdraw from an investment portfolio in any particular year. However, in retirement income planning, what's important is not just your withdrawal rate, but your sustainable withdrawal rate.

A sustainable withdrawal rate represents the maximum amount (expressed as either a dollar amount or a percentage) that can be withdrawn from your retirement assets each year with reasonable certainty that the portfolio will provide income for as long as it's needed (for example, throughout your lifetime).

A commonly expressed rule of thumb states that your portfolio should last for your lifetime if you initially withdraw 4% of your balance (based on an asset mix of 60% stock and 40% fixed income securities), and then continue withdrawing that same dollar amount each year, adjusted for inflation. However, this rule of thumb has been under increasing scrutiny, and like any rule of thumb, it may not apply to you.

Why is it important?

A sustainable withdrawal rate is critical to retirement planning. Draw too heavily on your savings, especially in the early years, and you could run out of money too soon. Take too little, and you might needlessly deny yourself the ability to enjoy your money. You want to find a rate of withdrawal that gives you the best chance to maximize income over your entire retirement period.

Withdrawal rates are based on a number of assumptions, including your living expenses, projected lifespan, risk tolerance, projected rates of return and inflation, asset allocation, taxes, and whether you wish to leave a portion of your estate to others. As you progress in retirement, you'll have empirical data against which you can evaluate these assumptions. Plus, your investment horizon will be getting shorter. That's why it's important to periodically revisit your withdrawal strategy during your retirement to see if your assumptions are still accurate and whether your strategy needs to be modified.

Dealing with market volatility

If you're currently withdrawing a fixed percentage of your investment portfolio each year, the amount you receive will fluctuate with the performance of your portfolio. Small changes may not significantly impact your lifestyle. But what if your portfolio suffers a serious decline

due to a market downturn? Will you be able to meet your expenses with the reduced withdrawal amount you'll be receiving? If you're currently withdrawing a fixed dollar amount each year, you may be able to meet your expenses, but can your reduced portfolio continue to support that same dollar amount or will your assets be depleted much too soon?

The converse of this is also true. If your portfolio realizes a gain that's significantly greater than your assumptions, a fixed percentage withdrawal will provide you with more dollars than you had been taking. Do you need the additional income? If you're taking a fixed dollar amount each year, is it time to give yourself a raise?

Market volatility may also lead you to consider changes in your asset allocation. If your portfolio is down, you may be inclined to become more conservative to avoid additional losses; conversely, when your portfolio is up, you might contemplate becoming more bullish. But if your asset allocation is designed to produce sustainable long-term income, changes should be considered carefully and only implemented as part of a disciplined strategy.

Other factors to consider

When you review your withdrawal strategy, make sure you consider the following:

Inflation: Inflation erodes your buying power. If you've underestimated the inflation rate, you may need to increase your withdrawals. If your portfolio can't support additional withdrawals, you'll need to reduce your expenses, or find another source of income (e.g., part-time work) to maintain your lifestyle. If inflation is lower than you've anticipated, you may be able to withdraw less and prolong your portfolio's income-producing ability.

Lifestyle: You may find that your expenses during retirement decrease from your initial estimate as you travel less or downsize a home—or they may increase because of health care or other costs.

Legacy: A decision to increase or decrease the amount you leave to heirs or charities can have a significant impact on your withdrawal strategy.

Revisiting your withdrawal strategy will allow you to focus on changes that have occurred during your retirement and fine-tune your strategy going forward, helping to ensure your retirement will be a financially secure one.

A sustainable withdrawal rate is critical to retirement planning. Draw too heavily on your savings, especially in the early years, and you could run out of money too soon. Take too little, and you might needlessly deny yourself the ability to enjoy your money.



Retirement Issues to Watch in 2010

Recent years have seen a flurry of legislation impacting retirement plans. Here are some of the more significant changes that take effect in 2010.

Nonspouse rollovers must be permitted

The Pension Protection Act of 2006 allowed, for the first time, nonspouse beneficiaries to make a direct rollover of inherited funds from an employer plan to an IRA. While the provision seemed fairly straightforward at the time, confusion arose as to whether plans were actually required to allow these rollovers. Congress addressed this in the Worker, Retiree, and Employer Recovery Act of 2008--beginning in 2010, employer plans *must* let nonspouse beneficiaries make a direct rollover to an IRA if they so choose. The new law also clarified that prior to 2010 employer plans could, but were not required to, allow the rollovers.

IRA conversions for (almost) everyone!

Beginning in 2010, if you own a traditional IRA, you'll be able to convert it to a Roth IRA. The income limits and marital status requirements that previously applied to Roth conversions were repealed by the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA).

In addition, if you convert a traditional IRA to a Roth IRA in 2010, you'll be able to report half the income on your 2011 tax return and half on your 2012 return. Or, if it's to your benefit, you can instead elect to include the entire amount in income on your 2010 return. It's up to you.

If you inherit a traditional IRA from your spouse, and you elect to treat that IRA as your own, you'll also be able to convert the inherited IRA to a Roth IRA in 2010, regardless of your income or marital status. Nonspouse beneficiaries, however, still can't convert an inherited traditional IRA to a Roth.

Note that the income limits for contributing to a Roth IRA haven't changed for 2010. If your income is high enough, your ability to make regular contributions to a Roth IRA in 2010 may be limited, or even eliminated. The ability to convert a traditional IRA to a Roth without income limits, however, provides a potential workaround--you can make your annual contribution to a traditional IRA, and then immediately convert that traditional IRA to a Roth. You'll have to aggregate all your traditional

IRAs when calculating the tax effect of the conversion, so speak with a financial professional first to make sure this strategy works for you.

Employer plan conversions for everyone!

Beginning in 2008, employees and beneficiaries were permitted for the first time to essentially "convert" employer plan distributions by rolling the funds over to a Roth IRA. This was allowed, however, only if the payee satisfied the income and marital status limits that applied to traditional IRA conversions. The elimination of those restrictions by TIPRA, described above, also applies to distributions from employer plans--so beginning in 2010, anyone who receives an eligible distribution of non-Roth funds from an employer plan can roll those funds over to a Roth IRA, regardless of income or marital status. This applies even to nonspouse beneficiaries--but only if the transfer to the IRA is done in a direct rollover.

Here comes the DB(k) ...

Beginning in 2010, "small employers" (those that generally employ at least 2 and no more than 500 employees) can adopt a DB(k) plan--a single plan that incorporates both a 401(k) plan and a defined benefit plan (including a cash balance plan). A single trust is used, but there is separate accounting for the defined benefit and 401(k) portions of the plan.

The plan must meet certain benefit, contribution, vesting, and nondiscrimination requirements. In return, the plan will be exempt from top-heavy rules and certain 401(k) testing.

Because the DB(k) plan is one plan instead of two, it is expected that the plan will be simpler to administer and less costly than maintaining two separate plans. This, in turn, may provide an incentive for employers to begin offering defined benefit plans to their employees in addition to 401(k) plans. Whether this proves to be the case, however, remains to be seen.



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Ask the Experts



What can affect the cost of homeowners insurance?

There are many factors that can affect the cost of homeowners insurance. Here's a description of some of the more common factors.

Generally, as your home gets older, the cost of insuring it may increase. Older homes have more things that can go wrong, often related to outdated wiring, older plumbing, or lead paint.

The location of your home also can affect your insurance premium. Insurers generally regard homes located in urban areas to be at a higher risk of burglary than comparable suburban homes, translating to a higher premium cost for metropolitan area houses. Insurance may cost more if your home is located in an area prone to a specific peril, such as floods, or in a rural area far from a fire station or fire hydrant.

Living in an area prone to claims for mold damage can increase your premium. In fact, excessive mold damage can be so costly to

repair that some insurers either are significantly increasing premiums to insure mold damage, or they're eliminating coverage completely.

Rising repair or construction costs in your area also will increase your insurance premium. If it'll cost more to repair or replace your home, it'll cost more to insure it as well.

Sometimes, *you* can cause your insurance rates to increase. Swings, trampolines, and other backyard equipment can add to your premium. Owning a swimming pool, sauna, or hot tub may increase your property's value as well as the risk of injury or property damage, which will be reflected in your insurance bill.

Based on the breed and temperament of your dog, an insurer may consider it an increased risk of causing injury, resulting in a higher premium. If the breed of your dog is on the insurer's "bad dog list," you may not be able to get coverage for injuries caused by the dog, or your current insurance can be cancelled altogether.

How can I reduce the cost of my homeowners insurance?

You may not have control over all of the factors that affect the cost of your homeowners insurance. But there may be some things you can do to save some money.

If your home is older, your insurer may lower your premium if you upgrade your heating, plumbing, or electrical systems to reduce the risk of fire and water damage. Let your insurer know when you've made these changes.

Selecting a larger deductible is another good way to lower your cost of insurance. You might want to put your premium savings in an emergency fund to pay the deductible, if needed.

Review your policy. You may be adding to the cost of insurance by carrying extra coverage for things that have declined in value or you no longer own, like furs or jewelry.

Swimming pools can add to the cost of insurance. However, many insurers may not increase your rates if you show them that you have safety features such as fencing or a

locking gate around your pool.

Before you get a dog, check with your insurer to be sure your new pet won't increase the cost of your insurance--or cause it to be cancelled. Also, advise your insurer that you've properly trained your pet and that you've obtained all required vaccinations and tags.

Some insurers will raise your premiums if you file frequent (more than 2-3) claims of relatively small value. Try to use your insurance for major claims and consider self-insuring the rest.

Another way to save on your insurance costs is to buy your homeowners insurance and auto insurance from the same insurer. Most companies will discount the cost of insurance if you buy two or more policies from them.

You may receive a discount from your insurer by improving your home's security. Ask your insurer if adding an anti-theft system, flood lights, or even dead-bolt locks will lower your premium.