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The AFG Navigator

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Above photo courtesy of Rachel Albury



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Streamlining Retirement Accounts - Less Can Definitely Be More

by J. Michael Pierce, JD, CFP®

When was the last time you met someone who has worked for one employer for his or her entire career? If you can't remember, you're not alone. In fact, recent data compiled by the U.S. Department of Labor indicates that wage and salary workers have averaged just four years with their current employer. Not surprisingly, older workers tend to have more years of tenure than their younger counterparts. For example, employees between ages 55 and 64 have 9.3 years of tenure—about three times that of workers between ages 25 and 34, who have 2.9 years. (1)

If it is common for today's work force to switch jobs voluntarily or involuntarily, what is the side effect of this cultural shift? For starters, many people find that they have retirement plan accounts and IRAs scattered among multiple custodians, such as banks, investment companies, and former employers.

It's challenging to keep track of assets that are so widely scattered. If you find yourself in this position, regardless of how many accounts you have and where they're held, you may want to consider the benefits of consolidating your

retirement assets.

Simplify your IRAs and retirement assets through consolidation. Whether you have a 403(b), 401(k), 457 plan, your own IRA, or some combination thereof, you may find that consolidating your retirement assets into a single account is a good choice if you want to:

- Avoid paying multiple custodial fees. Many mutual fund companies and brokerages charge an annual fee of \$10 or more on IRAs worth less than \$5,000. If you
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Selling Business or Investment Property? Is a 1031 Exchange Right for You?

By Peter C. Van Alstine, CPA, ChFC



The opportunity to protect hard earned equity in the sale of an investment has been available to consumers since 1921. However, complexities and details of the tax code prevented only the most knowledgeable from using this option. In 1990 the Omnibus Budget Act clarified the process and opened this option to a broader set of consumers.

Section 1031 Exchanges, which have

become more popular since the mid-90s, allow investors to defer the tax on capital gains until some point in the future.

Section 1031 of the Internal Revenue Code provides that no gain or loss shall be recognized on the exchange of property held for productive use in a trade or business, or for investment. A tax-deferred exchange is a method by which a property owner trades one or more relinquished

properties for one or more replacement properties of "like-kind", while deferring the payment of federal income taxes and some state taxes on the transaction.

The theory behind Section 1031 is that when a property owner has reinvested the sale proceeds into another property, the economic gain has not been realized in a way that generates funds to pay any

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Streamlining Retirement Accounts - Less Can Definitely Be More *continued from page 1* by J. Michael Pierce, JD, CFP®

transfer all your IRAs into one retirement account and add in your old 401(k), you may have a big enough balance to earn a fee waiver.

• Simplify tracking on one statement. If all your retirement assets are in one place, you'll find it easier to monitor your progress and investment results. You'll receive a single statement that eliminates the need to keep track of multiple accounts from a variety of sources. You'll also have the benefit of accessing your information through one website and one phone number.

• Get a clearer picture of your asset allocation. With a full view of your retirement picture, you are more likely to receive appropriate guidance whenever you think allocations should change or investment opportunities should be considered. Plus, if you have an old 401(k) that only offers expensive, underperforming mutual funds, you'll have the chance to roll it into an account that offers a variety of investment choices to help increase your bottom line.

• Manage risk exposure. With several accounts invested in different funds, you may become over-invested in certain sectors or companies through overlap-

ping investments. With one consolidated account, you can more easily track underlying investments and manage your risk exposure.

• Simplify your required minimum distribution (RMD) calculations. When you reach age 70½, you must begin taking RMDs from IRAs and other retirement accounts, such as a 401(k)s. It's typically easier to calculate and take withdrawals from a single account.

Do your homework before taking action For many people, consolidating their retirement assets makes life easier and provides financial comfort. To avoid costly mistakes, however, be sure you fully understand each retirement account you own and the tax rules that apply to it before doing anything. Keep in mind the following:

• Review your current holdings. If you have worked for awhile, this process may take some time, but it is important to have a clear picture of all your accounts. You should determine where each account is located and what it is worth.

• Avoid hidden charges or fees. Some financial institutions charge egregious fees to let you go. Consolidate only if

the payoff outweighs any fee. Some firms may assess charges, such as service and transaction fees, on some or all of your assets when you roll them over.

• Avoid directly receiving a check. Have all the retirement assets from another firm sent directly to the new account, in what is called a direct rollover. A direct rollover allows you to preserve your entire accumulation without having taxes withheld from the funds you are moving. Always remember that you should never take possession of the money. If you do and then fail to reinvest it in an IRA within 60 days, you're looking at an income tax bill, as well as a 10-percent early withdrawal penalty.

Even if you're far from retirement at this point in your career, starting to consolidate your assets now may help you in the long run to develop an effective overall financial plan that provides the maximum benefit to you and your family. A financial professional can provide more information on consolidation and help you determine if it may be a good choice for you.

1. Bureau of Labor Statistics of the U.S. Department of Labor, Current Population Survey (CPS), January 2006.

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tax. In other words, the taxpayer's investment is still the same, only the form has changed (e.g. vacant land exchanged for apartment building). Therefore, it would be unfair to force the taxpayer to pay tax on a "paper" gain.

The like-kind exchange under Section 1031 is tax-deferred, not tax-free. When the replacement property is ultimately

sold (not as part of another exchange), the original deferred gain, plus any additional gain realized since the purchase of the replacement property, is subject to tax.

We have several vendors who offer properties for purchase under Section 1031 of the IRC. Please call or email for more information. Also, you should definitely consult your tax and legal advisor for

their thoughts.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Investors should consult a tax or legal professional regarding their individual situation.



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Health Savings Accounts by Daniel B. Wyman, J.D.

Many employers and individuals are looking at health insurance plans which use Health Savings Accounts. These plans are becoming increasingly useful, due to both the high premium cost of traditional health insurance and the flexibility and tax benefits of HSA's.

As an employer, you know that some of your employees simply don't use traditional health insurance very much, and you wonder whether that monthly premium is really worthwhile. A health savings account is a federal income tax advantaged plan which is used with what the IRS calls a high-deductible health plan ("HDHP"). Because of the tax advantages of an HSA, the IRS requires that the HSA be paired with an HDHP and does not allow the HSA to be paired with a traditional group health insurance policy. The key difference is that an HDHP/HSA health plan cannot have co-pays for office visits or prescription drugs. Preventive care, including screenings and tests, can be covered by co-pays, but in an HDHP/HSA plan, all other services are subject to the deductible which can typically range from \$1,500 to \$3,000.

The premium cost for the HDHP plan should be low enough so that the Health Savings Account can be funded, typically through a combination of employee and employer contributions, with enough money to take the sting out of not having the office visit and prescription drug co-

pays. Contributions from the employer are not federally taxable as income to the employee. Employees can make pre-tax "above the line" payroll contributions to their HSA's. One aspect of the flexibility of HSA contributions is that employees can change their contribution level during the year and are not "locked in", as in Flexible Spending Account plans. If necessary, an individual can even make a one time transfer of money from an IRA to an HSA without incurring taxable income. Contributions do not have to be from "earned" income.

There is also no "use it or lose it" aspect to the funds in the HSA. If an individual has a good year, health care claims wise, the money in the HSA simply carries over to the next year. At that point, perhaps the HSA is sufficiently funded and contributions can be made to an IRA instead of the HSA contributions. The HSA account can be held either at a local or national bank. The national bank may offer more investment choices such as mutual funds, but many employers and employees prefer to deal locally, both for administrative/payroll deduction advantages and for the piece of mind of employees who want to sit down face-to-face with a bank representative. Allan Financial Group can coordinate payroll deduction plans with your local bank.

Distributions from the HSA are typically made through a checking account or a

debit card. These distributions and record keeping are the employee's responsibility, not an administrative headache for the employer. Distributions can be taken by the employee to cover medical costs for spouses and dependents, even if they are not enrolled in the HDHP plan. Distributions for "qualified" medical expenses are tax-free, and the list of qualified expenses is expansive, including over-the-counter medications. An individual can also pay expenses with "regular" out-of-pocket money, and then reimburse him or herself with tax-free money from the HSA at any time. There is no time limit on when the distribution must be made, but, of course, receipts for the expenses must be saved.

HSA/HDHP plans may not be right for individuals with ongoing health concerns, especially ones with prescription drug needs. Employers are addressing that problem by looking at dual options for their employees, often offering both a PPO plan with co-pays, and an HSA plan. Anthem Blue Cross/Blue Shield is now offering a menu of different plans to employers. An employer, including all small groups and sole proprietors, can select options from the menu and offer them to employees. The flexibility of this approach, along with the ability to offer HSA plans, means a benefits program can be individually tailored to the business, often resulting in holding the line on total premium cost increases.





FICO Score: Why They're Important, How They're Calculated, and What You Can Do to Improve Them

by Thomas C. Chester

Whether you're applying for a credit card, a personal loan, or a mortgage, the lender you choose looks at many things when deciding what type of offer to make to you, including your income, how long you have worked at your present job, and the kind of credit you are requesting. To help them gain a better understanding of your credit risk level, lenders often start by looking at your FICO scores. You have three FICO scores, one from each of the three credit bureaus: Experian, TransUnion, and Equifax. Each score is based on information the credit bureau keeps on file about you. In the simplest terms, good FICO scores generally result in your receiving the best interest rates on all types of loans. Bad FICO scores, on the other hand, can cost you thousands of dollars over the life of a loan.

How your score is calculated

FICO stands for the Fair Isaac Corporation, which is a leading monitor of consumer credit. Fair Isaac develops FICO scores based solely on information in consumer credit reports maintained at the three major credit reporting agencies. An individual's FICO score can range from 350 to 850—850 being the best. In determining your FICO score, the corporation evaluates information in five categories:

- **Payment history (35%):** This includes information on specific types of accounts, such as credit cards, retail accounts, student loans, installment loans, finance company accounts, and mortgages. It also captures any presence of adverse public records, such as bankruptcy, judgments, suits, liens, wage attachments, collection items, and any delinquent or past-due items.
- **Amounts owed (30%):** This category

assesses the number of accounts you have and the amount you owe on each. Additionally, the proportion of balances to total credit limits on certain types of revolving accounts is considered.

- **Length of credit history (15%):** This information examines the time that has elapsed since a specific type of account has been opened.
- **Types of credit used (10%):** This data relies upon recent information about the number of credit cards, retail accounts, installment loans, mortgages, and consumer finance accounts you have.
- **New credit (10%):** This category includes the number of accounts you have recently opened.

Keep in mind, your FICO score considers all of the above categories of information. No one piece of information or factor alone will determine your FICO score. For some people, one factor may be more important than it is for others with a different credit history. As the information in your credit report changes, so does the importance of any factor in determining your FICO score. What matters is the mix of information, which varies from person to person.

Good and bad breaks

If your FICO score is 720 or higher, you are likely in good shape. If it's lower than 720, you may need to brace yourself for some frustration. Most mortgage lenders have firm breakpoints. For example, if your FICO score is 699 and the lender's breakpoint is 700, that minute difference could mean an extra half-point on a mortgage loan.

How can you improve your score?

Your FICO score considers both positive

and negative information in your credit report. Late payments will lower your score, but establishing or reestablishing a good track record of making payments on time will raise your FICO score. You can also do the following to help increase your score:

- Pay down your credit card debt to zero and your score can go up by as much as 20 points in 60 days.
- Get a copy of your credit report and look for errors. This may include payments that appear as late but you can prove were paid on time, accounts that aren't yours, and old debts that shouldn't be on your report anymore (i.e., negative debts that should be taken off your report after seven years and bankruptcies that should be removed after ten years).
- Maintaining multiple credit cards may help you in some circumstances. It is better to have four cards at 20-percent to 30-percent capacity than to have one card that's maxed out.

Rapid rescoring

If you're applying for a mortgage, ask whether your lender uses a rapid rescoring service. If so, you can have your credit score rescored in 72 hours; if you've recently improved your score, rescoring may save you money. Rescoring generally costs about \$50 per credit account. Even if you're not in the market for a mortgage or another loan, it is always wise to have a good handle on your FICO scores. It is easier to correct mistakes and improve your score when you don't have an immediate deadline to meet. For more information or to obtain your FICO scores, visit www.myfico.com.





Voluntary Benefits 101: Are your current Voluntary Benefits really looking out for your employees' best interests?

by Rick J. Bagnall

What are your employees really looking for with their voluntary benefits? They really want benefits at affordable premiums that will help plan for their tomorrow. We see our Voluntary Benefits in two levels. The first being Short Term Disability, Long Term Disability, Long Term Care and Life Insurance. These should be your core Voluntary Benefits. In some cases Long Term Disability and Long Term care are not available due to the size and demographics of your business. Short Term Disability and Life Insurance can be established with the best interest of your employees and their families. If you do offer Short Term Disability, does it discriminate against some of your employees because of preexisting conditions? If so, it really does not need to. Every employee should have the right to have a Voluntary Short Term Disability and Life Insurance policy. This is making

two statements: One, as your employer we care about your paycheck and will offer you a way to protect it. Two, your family is important to us and we want you to be able to protect them.

The second level includes Accident, Hospital Indemnities, Critical Illness, Vision, Dental and Cancer Insurance Policies. In this level, Accident, a true "GAP" policy and Dental are used the most. Accident and "GAP" plans can really protect your out of pocket costs from your Health Insurance deductible. If you are fac-

ing increasing deductibles, I have been able to help many businesses with a true "GAP" plan. We are very proud to offer this unique Voluntary Insurance product. Dental plans are great if your employee needs to have work done. You do need to be aware that nearly all Dental plans will include waits for certain procedures. Did you know that Dental Insurance is the most asked for Voluntary Benefit?

With the right plan you can honestly say, "Our voluntary benefits truly are designed with our employees' best interests."



Contributions to SIMPLE IRAs and Other Workplace Retirement Plans

by Joelle S. Albury

Tax laws change every year and it is important for plan sponsors to track these changes not only to keep their retirement plans in compliance, but to help their plan participants make the most of their contributions. In 2002, the Economic Growth and Tax Relief Reconciliation Act of 2001 increased contributions and deductibility limits for employer-sponsored retirement plans. However, EGTRRA's tax provisions are scheduled to sunset in 2010 and with 2008 well on its way tax payers should take advantage of these provisions as soon as possible. According to the IRS, "over 50% of all [SIMPLE IRA] plans reviewed have not timely updated the plans for EGTRRA."*

How do employers inform their employees of the changing contribution

limits? For those of you who participate in a SIMPLE IRA plan, you may recall receiving a Form 5304-SIMPLE. Every year, employers are required to provide all eligible employees a current copy of this form by November 2nd. Form 5304 is a salary reduction agreement between the employer and employee and is used by the employer to set eligibility requirements and the intended employer contribution for the new plan year. Contributions limits for the current plan year are also provided on this form.

Did you know that if you are at least 50-years-old by the end of the plan year you can make an additional "catch-up" pre-tax contribution? For more information regarding contributions or helpful tips for SIMPLE IRAs and other retirement

plans visit the Internal Revenue Service Retirement Plans Community at www.irs.gov/retirement or contact the Allen Financial Group. Our office will be happy to provide you with the resources you are looking for.

2007/2008 Elective Deferral Limits*

SIMPLE 401(k):	\$10,500
Traditional/Safe Harbor 401(k):	\$15,500

Catch-up Contributions for Participants 50 or Older

SIMPLE 401(K):	\$2,500
Traditional/Safe Harbor 401(k):	\$5,000

Note: These limits are subject to cost-of-living-increases after 2008.

* "EP Compliance Trends and Tips – Compliance Activities – SIMPLE IRA Plans," Internal Revenue Service, <<http://www.irs.gov/retirement/>>