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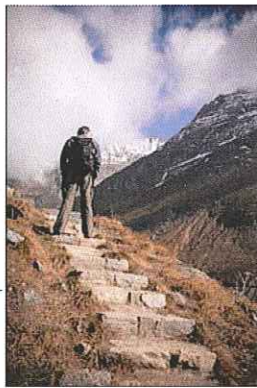
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Don't Go It Alone—Why Planning Is A Family Affair

Having one spouse handle most family financial matters may feel like an equitable division of labor—with the husband, say, monitoring accounts and making investment decisions while the wife manages other household affairs. But it's an approach that could be damaging in the long run. Divorce or death could plunge the remaining spouse into unfamiliar waters—unable, perhaps, even to find crucial information about life insurance and retirement accounts. And if children have been left out of financial discussions, they may fail to appreciate the family's situation and be ill prepared to take on adult financial responsibilities.



Like it or not, most women will one day handle their own finances. According to the Social Security Administration, women live four years longer during retirement than men do, on average, and they comprise almost 60% of Social Security beneficiaries. At age 65, only 43% of women are married, compared with three out of four men. Divorce plays a major role as well. In 2005, the marriage rate was 7.5 per 1,000 people, according to the U.S. Census Bureau, while the divorce rate was 3.6 per 1,000.

It's not that most women are financial novices. According to a recent survey by Oppenheimer Funds, six in 10 wives balance the family checkbook, while more than half pay

household bills. The same survey found that 43% considered themselves somewhat or very knowledgeable about investing. Yet that still leaves more than half of women facing a steep learning curve if they're suddenly forced to handle investment responsibilities.

And even when both spouses are around, having one of them take responsibility for a family's finances can be perilous. If family members don't understand their economic situation—how much money comes in each month, what gets spent on fixed expenses as well as discretionary purchases, what the

family's short- and long-term saving goals are—it's difficult for them to behave responsibly, and arguments about spending are likely. And if the husband, say, has sole charge of family investments, he may take more risk than if both spouses were responsible for their investments. Taking a flyer on a stock tip is easy when you're sitting alone at your computer; explaining why that sure bet tanked is much harder, as you'll have to do if you and your spouse regularly review account statements.

Failing to bring children into the financial loop could also have unhappy consequences. In many families, money spent on the kids accounts for a large part of the budget, and showering them with extras—from sports camps and music

(Continued on page 4)

We've Faced And Overcome Tough Times Before

It's hard to believe that it has been over eight years since that infamous day in September 2001 when more than 3,000 perished in al Qaeda's attack on America. Since then, our country has avoided another direct attack, though the fear remains and the struggle against terrorism around the world continues. While the enemies we face now are frightening, we have overcome danger before.

The 65th anniversary of the D-Day invasion in June makes us recall how the U.S. and its allies united and succeeded against the common enemy in World War II. We also overcame the pervasive fear of the Cold War era. No wonder we are confident that we can succeed in our latest battles, no matter how difficult it is to measure that "success."

Over the long haul, the U.S. economy and financial system have always come through these scary times just fine. That's not bluster—it's history. Cycles come and go, but the basic system has always survived and prospered, despite the internal or external chaos.

While you need to remain realistic and prepare for inevitable times of volatility, you must also keep a cool head and stay invested. A successful investor doesn't let the fear and emotions of frightening times affect investment decisions. As professional investors we understand the importance of keeping level-headed in times of adversity, and we can help you develop and stay true to a financial plan that is designed to help you reach your goals.

John A. Heald

Social Security Benefit Cuts Are Likely

You've been paying into the Social Security system your entire adult life. At some point, you expect to retire and collect your fair share of benefits. But will the money be there?

Many experts believe Social Security benefits will be reduced or watered down through taxes and other adjustments during the next few decades. Because you may receive less from Social Security, you may need to save more in other retirement accounts.

The Social Security Administration (SSA) says the program's annual costs will exceed its revenues in 2016. And while the SSA projects that the system's trust fund will be able to cover the shortfall through 2037, that's down four years from last year's estimate. And with unemployment still rising—leading to lower tax revenues to fund Social Security benefits—the deficit could worsen, putting pressure on future payments to retirees.

How will Social Security's future play out? The system's financial situation is clearly deteriorating as there are fewer workers to fund retirement benefits for the huge baby boom generation, and there's little appetite for yet another taxpayer-funded bailout of a cash-strapped

government program. Yet the likelihood that Congress would actually approve cuts to a program long known as the third rail of American politics also seems low. If benefit reductions come, it may be through the action of a bipartisan commission charged with solving the system's financial woes.

In the meantime, de facto cuts have already begun. An earlier Social Security commission recommended raising the full retirement age from 65, and current rules are gradually increasing the full retirement age to 67 for those born in 1960 or later. You can still choose to begin taking benefits as early as age 62, but you'll receive sharply lower monthly amounts than if you had waited until today's older full retirement age.

Rising Medicare premiums, normally deducted from a recipient's Social Security payments, also serve to undercut cost-of-living benefit

increases. Moreover, you're increasingly likely to be taxed on a portion of your Social Security benefits. While only about 30% of current beneficiaries are taxed on benefits, that's projected to rise to

42% by 2020, and high-income retirees may pay tax on up to 85% of benefit payments.

In this volatile environment it is prudent not to rely too heavily on Social Security to provide a large percentage of your retirement income. With the system's future uncertain, your benefits could fall, and even the loss of, say, \$1,000 a month could have a negative

impact on your retirement plan. We can help you reexamine your retirement income projections, recommend strategies for replacing what you might lose from Social Security, and show you strategies for reducing the amount of taxable Social Security benefits. ●



Is Medicare A Mystery? Test Your Knowledge

Talk about a historic first: 2008 marked the year the oldest of baby boomers turned age 62 and became eligible to claim Social Security benefits. Yet despite their reputation as the best-educated generation in U.S. history, a recent survey suggests that most boomers are woefully uninformed about their retirement health insurance picture, particularly Medicare eligibility.

According to the survey by the National Association of Insurance Commissioners, only 36% of baby boomers knew the age at which they would become eligible for Medicare benefits. And while 84% of boomers said access to health insurance was an

important consideration in choosing when to retire, only 43% cited Medicare eligibility as important. Given that most retirees depend on Medicare to pick up much of their health-care tab, the implied gap in understanding could signal trouble ahead for many boomers.

Also two-thirds of those who responded weren't familiar with options such as Medicare Advantage, a managed care program that offers lower costs and broader coverage in return for restrictions on the choice of doctors and hospitals. And while most boomers didn't know much about the Medicare system, more than eight in 10 expressed concern about its long-term financial viability.

How savvy are you about Medicare? Use this quiz to test your knowledge.

1) Medicare is:

- a) The largest health insurance program in the nation
- b) Partly funded by the federal government
- c) Both of the above
- d) Neither of the above

2) You are eligible to receive Medicare coverage at:

- a) Age 59½
- b) Age 62
- c) Age 65
- d) Age 67

3) You may qualify at a younger age if:

- a) You pay extra.
- b) You are disabled or suffer from end-stage renal disease.

Benefits Of 401(k)s Far Outweigh Negatives

To paraphrase Mark Twain, the news of the death of the 401(k) plan has been greatly exaggerated. If you halted contributions to your company's retirement plan after the stock market plummeted late in 2008, it may be time to resuscitate your account.

No one could blame you for feeling the heat. The Standard & Poor's 500 stock index declined by a whopping 56% from its peak in October 2007 to its trough in March 2009, resulting in comparable losses for numerous 401(k) plan participants whose portfolios weren't well diversified. About 6% of 401(k) participants had to withdraw funds from retirement accounts in 2008 to meet pressing financial needs, and almost 5% stopped contributing to their 401(k) account altogether. Still, in bad times and good, the benefits of using a 401(k) to save for retirement far outweigh the perceived negatives.

There are risks, of course. The value of your investments will fall from time to time, and the performance of your retirement portfolio depends not only on the investment choices you make but also on market movements beyond your control. There are no guarantees you'll make money or even escape with your principal intact. And, unlike defined-benefit pension plans, 401(k)s aren't insured by the Pension Benefit Guaranty Corporation. Furthermore,

while your employer may contribute to your account, you could lose that money if you change jobs or retire before you're "vested." But since employer contributions are essentially free money for your account, that's hardly a negative.

Finally, distributions from your plan during retirement will be taxed at ordinary income rates—and if you take withdrawals early, before age 59½, you'll probably owe a 10% penalty as well.

However, the list of 401(k) pros is much longer than the list of cons.

1. Over long periods of investing for retirement, your account is likely—though not certain—to gain value. Even when markets fall, it can be a blessing if you have a long-term time horizon because your continued regular investments let you accumulate shares at low prices, setting yourself up for big profits when the market rebounds.

2. Your 401(k) offers several investment options, and you're usually the one calling the shots, not your employer. Many plans include prepackaged portfolios with broadly diversified investments, and professional advice about investments is often available.

3. Contribution limits are generous. For 2010, you can put as much as \$16,500 in your account, or \$22,000 if you're age 50 or over. In contrast,

the annual limit for IRA contributions is only \$5,000 (\$6,000 if you're age 50 or over).

4. Contributions to a traditional 401(k) may be made as pre-tax salary deferrals, which reduce your taxable income and the amount you owe the IRS. Nor are you taxed on investment earnings until you withdraw funds from your account.

5. Employers often match a portion of employee contributions with company-paid contributions based on a percentage of your salary. And once you meet the 401(k)'s vesting requirements, that money is yours to keep.

6. The impact of long-term, tax-deferred compounding can magnify annual contributions into a sizeable nest egg. For example, if you put \$20,000 in your account each year and average a 7% return, your account will be worth about \$1.3 million after 25 years.

7. When you retire or change jobs, you can roll over the assets in your 401(k) tax-free to an IRA or the qualified plan of your new employer. That preserves the tax advantages of your retirement plan. For some, it will also make sense to roll over the assets to a Roth IRA.

8. Because you pay into Social Security only until you reach a specified income ceiling—\$106,800 in 2010—once you've crossed that threshold, you could use payroll savings to increase your 401(k) contribution without reducing your paycheck.

9. Because your company's 401(k) plan is protected by the Employee Retirement Income Security Act (ERISA), it cannot be garnished by creditors or assigned to others (except in domestic court cases involving a divorce decree or a child support order).

A 401(k) plan continues to be one of the easiest ways to save for retirement, and its advantages far outstrip its drawbacks. If you bailed out during the financial crisis, you may have already missed substantial gains during the market recovery. But getting back in now and sticking with your financial plan going forward could help you resume building for a comfortable life after work. ●

c) Your household income is below the poverty level.

d) None of the above

4) Medicare now includes how many coverage options?

a) Two c) Five

b) Four d) Six

5) The newest addition to Medicare coverage is:

a) Preventive care

b) Fitness programs

c) Prescription drugs

d) None of the above

6) Which of the following is true?

a) No Medicare recipients pay premiums.

b) Some Medicare recipients pay premiums.

c) No Medicare recipients pay

deductibles.

c) No Medicare recipients pay coinsurance charges.

7) Which of the following is false?

a) Medicare will pay for long-term health-care services.

b) You have to apply for Medicare coverage.

c) You can purchase supplemental insurance.

d) Health discount cards are not insurance products.

If you're confused about Medicare or long-term-care, please give us a call. We'll be glad to help.

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

Build Up IRA Now For 2010 Roth Conversion

Thinking about converting a traditional IRA to a Roth IRA? Now in 2010, new rules permit anyone to make that move. But before you empty your traditional IRA, you might consider building it up, including using non-deductible contributions. The more money you convert, the more you'll be able to tap during retirement through tax-free Roth IRA distributions, but it's important to note that your Roth IRA conversion doesn't need to be an all-or-nothing event—you can do partial conversions. Just keep in mind that a little-known rule may affect the taxation of non-deductible contributions during a Roth conversion.

High-income taxpayers generally don't qualify for deductible contributions to a traditional IRA, but they can still contribute on an after-tax basis. The contribution limit for 2010 is \$5,000 (\$6,000 if you're age 50 or over). Distributions of deductible contributions and earnings are taxable at ordinary income rates.

A Roth IRA uses a different formula. Though contributions are never deductible, distributions from a Roth established at least five years ago are

completely tax-free. Contribution limits are the same as they are for traditional IRAs. But here, too, high-income taxpayers may be shut out. For the 2009 tax year, Roth IRAs are off-limits to joint filers with an adjusted gross income above \$176,000 (\$120,000 for single filers), and to convert a traditional IRA to a Roth your AGI must be no more than \$100,000 during the year of the conversion.

But starting in 2010, anyone, regardless of income, will be able to convert a traditional IRA to a Roth. And though you'll owe income tax on converted money that hasn't previously been taxed—in other words, all deductible contributions and earnings—if you make a conversion in 2010, you can pay the resulting taxes during 2011 and 2012.

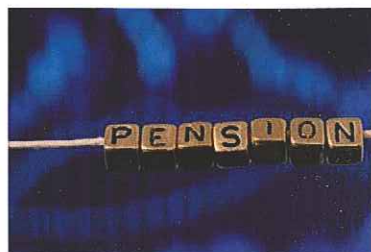
Even without current year deductions, it could make sense to contribute to your IRA on a non-deductible basis before you convert. For example, you have until April 15, 2010 to make an IRA contribution of up to

\$5,000 for the 2009 tax year (\$6,000 for older participants). When you then convert that traditional IRA to a Roth, the portion of the account attributable to those non-deductible contributions may be exempt from tax.

However, for purposes of a Roth conversion, the IRS looks at the overall split between deductible and non-deductible contributions in all of your retirement accounts to determine

how much of a converted amount won't be taxed. Suppose you have one IRA with \$10,000 in non-deductible contributions and another with \$190,000 in deductible contributions and earnings. Because only 5% of your nest egg is represented by non-deductible contributions, if you convert the \$10,000 IRA, you still must pay tax on 95% of the distribution, or \$9,500. If you convert the entire \$200,000, you'll be taxed on \$190,000.

Astute planning can reduce the tax bite on Roth IRA conversions. For more information, please call our office. ●



Planning Is A Family Affair

(Continued from page 1)

lessons to private school tuition and vacations abroad—may give them unrealistic views about money. Lack of financial grounding at home may be one reason so many kids have problems with credit cards when they head off to college. According to a 2009 study by student lender Sallie Mae, the average student now has four credit cards and debt of more than \$3,000. Six in 10 students in the study said they were surprised at how high their account balances had grown, and 40% said they'd charged things knowing they didn't have enough money to pay the bills.

Transparency and a willingness to talk about family finances can go a

long way toward minimizing such problems. If family members understand that setting aside a certain amount each month is crucial to pay for the kids' college and the parents' retirement, they may be more inclined to stick to the budget. Having spouses agree on an investment strategy and then reviewing progress and making needed adjustments can also help.

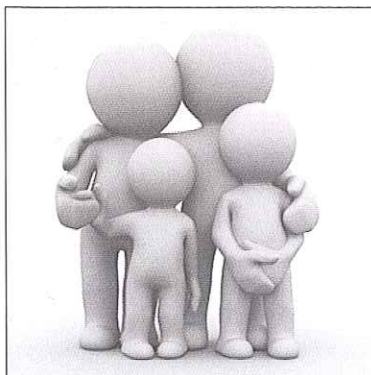
Regardless of each spouse's role in the family finances, maintaining an up-to-date list of accounts, insurance policies, and other financial essentials—and making sure everyone

in the family knows where to find the list—can be crucial if the financial decision-maker suddenly dies or

becomes incapacitated.

Yet as important as it is for families to work together, many don't. According to a recent study of couples by Fidelity Investments, just four in 10 said they collaborated with spouses on decisions about retirement saving and investing,

and only 15% thought that if they died, their spouses would be prepared to take over the family finances. If you need help getting on the same page, we may be able to help. ●



The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

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