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The Financial Planning Newsletter

Don't Let Economic Troubles Threaten Your Retirement Plans: As the economy has worsened, retirement funds dropped in value with the market. Many people have been tempted to tap savings as a way to cut debt or otherwise shore up their finances after a job loss. Still more have found employers have dropped matching contributions to shore up their own finances.

Worry about retirement seems to be widespread. A January survey by the National Institute on Retirement Security noted that 83% of Americans are concerned about their ability to retire.

One of the most difficult actions you can take is to tap into or to give up on your retirement funds. No one can know with any certainty when the investment markets will rebound entirely, but even if you can contribute something, you stand to gain once markets do rebound. Even more important, you risk penalties and the lost potential for the earnings if you turn your back.

Of course, if this is your only source of funds for living, it may make sense to use those retirement funds, rather than entering foreclosure or bankruptcy.

Here are a few actions to take to put your retirement funds in better shape, assuming you have enough outside resources for daily living.

- **While you're still working, don't stop funding your 401(k):** In March 2009, 34% of U.S. employers stated they either reduced or eliminated matching contributions to employees' 401(k) and 403(b) plans since January 2008. The Pension Rights Center reports dozens of major companies have cut back their match, including Motorola and Starbucks. It's a significant impact. *US News & World Report* recently reported a worker who earns $50,000 annually and receives a full employer match of 50 cents to the dollar on six percent of his or her pay, the match cut means $16,000 less for retirement. An employer dropping its contribution is bad news, but you should make every effort to keep up with your contribution because if you don't, you may miss valuable tax deductions and the chance to build your savings more effectively for the long term.

- **Stay invested in a diversified portfolio according to your Investment Policy Statement:** Because no one precisely knows when the market is headed up or down it's best to stay invested at a time when everyone is waiting for a rebound. Keep in mind the market's top performing days typically come at the start of a recovery.

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- **Withdrawing or borrowing your funds can be costly:** If you have an emergency situation, be careful. Workplace 401(k) plans do allow for hardship withdrawals, but you might have an option to take a loan, which would save you the taxes and the 10% penalty accompanying hardship withdrawals for account holders under the age of 59 ½. Many 401(k) plans allow you to borrow up to 50 percent of your vested account balance or $50,000, whichever is less. If you are laid off or change jobs, consider leaving your retirement funds with your former employer, instead of transferring those funds into an IRA. With your funds at your former employer, you may still be able to access the loan feature in times of hardship, thereby avoiding the taxes and penalties that may accompany IRA withdrawals.

- **Adjust your spending so you can save more:** If you have an existing Roth or traditional IRA or other means of saving for retirement then do whatever you can to get more money into these accounts. It may not come close to meeting the shortfall from losing an employer's contribution or the chance to add to a 401(k) after you've lost your job, but it's critical to keep some savings going.

A To-Do List for Settling an Estate: The adjustment to the loss of a loved one is hard enough without the inevitable workload of settling their affairs. Even if they don't have much in the way of assets, the process takes time, often up to a year or more.

It makes sense to have foreknowledge of how that year might go. What follows is a list of what needs to be done at critical intervals of the process. But this is not just a list to help survivors. This can be a key estate-planning tool for you as well. Remember the way you handle your estate planning before you pass, including financial and funeral arrangements can lighten the load on family members. Tailor the following list to your own needs, and discuss it with your chosen executor while you're in good health. And if you need to make changes, keep them informed:

- **Start by rounding up key documents:** An executor has to find, identify and organize a deceased person's financial records, tax returns, and other key papers to figure out what the decedent owned or controlled. Working closely with a financial planner can insure all the documents are well-organized and easy to locate when needed. Further, the executor needs to look for bank accounts, brokerage accounts or other investments, life insurance or annuity policies, retirement plans, deeds to real estate, automobile titles and other evidence of assets with value. The executor will need to find the will or trust documents directing what is to be done. Also, the executor needs to track down all records of outstanding loans, mortgages or credit card bills. Make sure at least 10-20 certified copies of the death certificate are ordered. This won't be done in a day, even if the deceased was extremely well organized.

- **Start making key phone calls:** The executor needs to inform key contacts that the person has died. Be sure to contact:

- ✓ Social Security if the deceased was receiving benefits;
- ✓ The Veterans Administration if they were a qualified veteran for burial benefits;
- ✓ Their employer, health insurer, credit unions, banks, mortgage company and credit card companies for possible death benefits;
- ✓ Life insurance agent for possible death benefits;
- ✓ Automobile insurance agency if they owned a car;
- ✓ All creditors including mortgage companies, credit card companies, and any organization that's owed money by the deceased;
- ✓ Utility companies including cell phone and internet providers; and
- ✓ Service contract providers such as landscapers or exterminators.

- **Get permission to check safety deposit boxes:** If there isn't a will in an easy-to-find place or an at-home lock box, the executor may need to try and get into a bank safety deposit box, which can take a bit of time. The procedures vary from state to state, but the bank should be able to direct the executor. This is why it's good to keep a copy of important papers outside of the safety deposit box. Ensure your executor either has a copy of these important documents or knows where they are, and can access them quickly.

- **Filing the will for probate:** The executor named in the will should be notified, and a decision should be made about whether to file the will for probate. It is usually not necessary to probate a will unless there is property cited in the will titled solely in the name of the decedent that needs to be transferred. If everything is titled in joint names with a surviving spouse or surviving children, there may be nothing to pass under the will. If there is a trust document, the trustees or successor trustees should be notified.

- **Bring in a lawyer if necessary:** The executor may or may not to choose to work with an experienced estate attorney. Generally, it can be a good idea. If there is no will and no trust, the property owned by the deceased will pass to the "intestate" heirs determined under state law.

- **Make sure bills get paid:** The executor needs to make sure that all the deceased's bills and other outstanding debts continue to be paid until they are disposed of.

- **Pay the taxes:** The executor needs to make sure there is a final income tax return filed on behalf of the deceased. A federal estate tax return needs to be filed if the taxable estate is more than $3.5 million in 2009.

- **Make sure assets are properly distributed:** The executor, working with estate and tax experts, can determine after all expenses and taxes are accounted for, that all of the assets are distributed properly. Only at that time can the estate be truly closed.

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This newsletter includes info adopted from many sources including public media, the Financial Planning Association (one of the professional membership organizations for the financial planning community), the knowledgeable weekly newsletters of William S. Fralin and The Estate Planning and Elder Law Firm, research sources, and other entities.

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Top 10 Money Decisions for Today's Incoming College Freshman: The National Center for Public Policy and Higher Education reported last December that college tuition and fees increased 439 percent from 1982 to 2007.

So, it's crucial to train incoming college freshmen in critical personal finance skills. Before you send your child off to school, make sure you cover the following lessons.

- **It's never too early to plan:** It's never too early to deliver the message that how your child manages money in college will set the stage for how well it's managed in adulthood. It makes sense to discuss how your student will save for incidentals at school, maybe a car and bigger purchases later in life.

- **Focus on credit:** It's one thing for a teenager to use their parents' credit card while they're still living at home. It's quite another when they get their first taste of freedom hundreds of miles away, often without the parents' knowledge. As part of the recently enacted credit card reform bill, starting early next year, people under the age of 21 will no longer be issued credit cards without income verification.

- **Bank smart:** Students need to get some familiarity with the banking system before they head to college. Kids generally should set up a checking account near campus, but talk to them about debit options. Also, strenuously counsel your children about fees, particularly for overdrafts, which are sky-high at many banks now. Ask your child to ask the bank about electronic funds transfer options if you're planning to deposit money for their tuition or agreed-to spending needs.

- **Work with them to set up their first emergency fund:** A young person should get used to the idea of savings and reserves for unforeseen events such as emergency trips home or related expenses. Make it clear that late-night pizza is not an emergency.

- **Put the student in charge of maintaining financial aid:** Each year, the FAFSA (Free Application for Federal Student Aid) is due in June. State applications may have been due earlier. While parents need to run the financial aid process, students need to be equally aware of how their education is paid. Everyone should file the form whether or not they think their child may be eligible, and your child should be searching for scholarships at all times. By the way, legitimate scholarships never change fees and are typically open to all applicants for consideration. It might also make sense to take your child to your tax preparer to make sure you're taking advantage of any income tax opportunities.

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- **Make them budget:** If they're leaving for college with a new computer, consider giving them personal finance software to track their everyday expenses. Make sure the computer has a security password. Work together to determine necessary realities about everyday expenses, tuition and financial aid. Tell your child that when she or he comes home at Thanksgiving, there will be time set aside to review those figures and make reasonable adjustments. Build trust by working with your child and take as long as needed to develop solid and consistent money habits.

- **Schedule a holiday credit check:** Credit reports can be ordered online. Parents and students should sit down together with each of the child's three credit reports (Experian, TransUnion and Equifax) and review them for activity and errors. Everyone is entitled to one free report from each agency every year, go to www.annualcreditreport.com.

- **Help them open their first IRA:** If your 18-year-old child is earning wages by working part-time at school, at home during breaks or for your own company, have them open a Roth IRA. Make sure they understand it is essential to future savings so it is not to be cashed in.

- **Discuss identity theft.** Personal financial data left on laptop computers, cell phones and other electronic devices can be readily stolen anywhere. Inattentiveness on campus, in a dorm, or roommate environment can be especially worrisome. Tell your child to keep all paper records in a safe place and to use passwords to keep all their digital information safe.

- **Get them networking:** Internships and jobs in their chosen field during summer breaks can give your student a head start on their career path. Encourage them to research these opportunities freshman year so they'll be in the front of the line when it's time to interview.

- **Handle mistakes gently:** Most kids will make money mistakes in college. I know I did! If they overdraw a checking account or overdo it with their credit card, make the criticism constructive and firm. Try to come up with a corrective plan you'll work on together.

The only real security that a man will have in this world is a reserve of knowledge, experience, and ability.

Henry Ford (1863-1947)

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