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The Financial Planning Newsletter

Wesling Financial Planning Services

Unbiased Advocates for Your Sound Future

Should You Renovate? With the current housing market uncertainties, many people have been asking if they should renovate to be prepared for the eventual return of better markets. Be really careful here. People often expect renovations to pay off big, and rarely does that happen – it may take years to recoup your money, much less show a profit. Still considering some improvements can be helpful for an eventual sale. When the market recovers, buyers probably won't revert to the mentality of late 2004 when they wanted property in virtually any condition at any cost. Buyers will want property in clean, move-in condition when you decide to put it on the market, so make sensible investments in landscaping and cosmetic repairs inside and outside the house. In any event, a renovation project is one you should enjoy, and don't expect immediate profits on the renovation.

IRA Required Minimum Distributions: It's not too early to start planning for this year's Required Minimum Distribution (RMD), if it must be taken. How do you know if you need to take a RMD? The following 5 step approach will help you to ensure you take any RMDs. You may ask what happens if I forget or the RMD doesn't occur by the end of the year? Well, the IRS has it all figured out for you. The penalty for a missed RMD is 50% of the amount that should have been withdrawn but was not. That's right: 50%! Don't make this mistake.

1. Identify whether you have an IRA for which an RMD must be taken. You might say, hey, I'm nowhere near retirement age, so I can't possibly need to take an RMD. Think again. If you are the beneficiary of an inherited IRA you can be subject to RMD requirements at any age.

2. Double check your age calculations if you're approaching age 70 ½. If you turn 70 ½ anytime during 2007, then your first RMD is not required until April 1, 2008 (this is the rule for waiting until April 1st of the year after you turn 70 ½). For most taxpayers waiting until 2008 to take your first RMD makes no sense since you also have to take the 2008 RMD in 2008. So you actually take two years of RMDs in 2008 with the resulting increase in taxes.

3. Calculate the RMDs for 2007 based on your IRA account balances as of December 31, 2006. Include the account balances for all your IRAs, SEP IRAs and SIMPLE IRAs. Do not include inherited IRAs or Roth IRAs. Once you have the total balances from the end of 2006, divide that number by the correct factor from the appropriate IRS life

expectancy table. The reason you don't include inherited IRAs is that the RMD for an inherited IRA must be handled separately and cannot satisfy an RMD for your IRAs. Also, Roth IRA distributions (if required for an inherited Roth IRA) can't be used to satisfy traditional IRA RMDs and vice-versa.

4. Set up a withdrawal plan. You can make a calendar entry on your computer's calendar to alert you to make this necessary withdrawal (remember the 50% penalty!). These withdrawals should be initiated before Thanksgiving to make sure there's plenty of time to correct any problems by the end of the calendar year. Also, make sure your RMD does not get deposited into an IRA! RMDs do not qualify as earned income for IRA contributions.

5. The final step is to ensure the RMD has been correctly withdrawn. There's no reason not to make that quick phone call or check your bank deposit to make sure everything is okay. If you figure out on January 1st (even through the fog & grog of waking up after your New Year's Eve bash) there's been an error (including an honest mistake) file IRS Form 5329 to explain the error and to ask forgiveness.

<u>Thinking About Adopting?:</u> Then you need a specific financial plan. Adopting a child is a massive decision, probably as big as or bigger than education, marriage or career. Few people anticipate how expensive it is to have a child, and depending on your choice of different adoption approaches you're going to need a financial plan.

It's not at all overstating to say in some cases, you may be paying the price of a four-year public college degree just to complete the adoption process.

Let's take a very general look at what those figures might look like. The least expensive form of adoption comes from your local foster care system. Your cost could conceivably be zero since states often subsidize these programs. Meanwhile, agency and private domestic adoptions can range from $5,000 to $40,000 depending on agency and attorney fees, travel expenses, birth mother health and living expenses, state requirements and many other factors unique to the situation. International adoptions can also be very costly depending on travel costs, adoption agency and other fees and expenses to be paid on the ground in the adoption country.

Here are six financial steps you should consider to make your adoption a financial, as well as a family success.

1. Update your financial advisory situation. Know how much you really have in savings, debt, insurance and investments. You should understand how much the additional costs of adopting and raising a child will affect all the numbers. Seek out information from several sources about the potential costs. State & local agency websites, your attorney, and people you know who have been through the adoption process are good places to start.

2. A major decision like having a child is a good reason to take a "clean slate" approach to debt. Reducing debt is almost always a good idea, but with a potentially expensive adoption on the horizon, it makes a lot of sense to pay off your high rate credit cards and any other high-rate debt.

3. Today, adoptive parents are typically older and closer to retirement. That means you have to create an estate plan and a safety net of insurance and savings to secure your child's future if the worst happens. Also, if you are a single parent or part of an unmarried couple hoping to adopt, the whole issue of estate planning becomes much more critical. You may also want to consider separate guardianship for the child and the child's finances. If you're unmarried this may be a great time to make sure all your beneficiary forms are correct and that your will reflects your wishes.

4. In today's health, life and home insurance environment, the addition of a child to a policy can bring additional cost and not always with the guarantee of the best coverage. Before you start adopting, check with your employer or your insurance agent to make sure you have the best coverage for what you can afford. If you're self-employed, family coverage becomes an extremely expensive bargain, so you really need to evaluate your options since you're footing the entire bill. Also, keep in mind you can put an adopted child on your health plan within 30 days of the adoption date, but if you delay, you might have to wait until the next open enrollment session to put your child on your insurance.

5. Families adopting overseas can get some tax relief. Parents are entitled to a one-time tax credit of $11,390 in 2007 for adoption expenses. Though the credit can't be reduced by the alternative minimum tax, qualifying expenses include paperwork costs, court costs, attorney fees and all travel expenses including meals and lodging. This amount is phased out if an individual's modified adjusted gross income (MAGI) is between $170,820 and $210,820. Over the $210,820 level, taxpayers can't claim the credit or exclusion.

6. Whenever a new child comes into the house, money flies out the door at a velocity most childless people have never seen. As much as we love them, remember children cost money and sometimes unpredictably so. It pays to build your savings before they arrive so you won't overuse your credit cards. Also, in the case of surrogacy, it's possible that a birth mother's health may take a turn during the pregnancy, so that's an expense that needs to be anticipated.

This is the best day the world has ever seen. Tomorrow will be a better one.

-R. A. Campbell