Issue 7, Volume 4 Monday, December 10, 2007

The Financial Planning Newsletter

Wesling Financial Planning Services

Unbiased Advocates for Your Sound Future

Your Family Mission Statement: For one of your New Year's Resolutions, consider creating a family mission statement. The family mission statement helps your family establish its identity, helps set goals, and diffuse tensions later. It can also be used to moderate discussions inevitably occurring after major changes within the family: death, divorce or happily, an increase in the number of heirs and family members. As most of you know, we are very strong proponents of planning, and a mission statement is one of the all-time greatest planning tools.

While the end product should produce a document built from discussion, some argument and consensus, it's not so much about the piece of paper as it is about the process. Many families start this as a way to build consensus about long-term financial, business, estate and philanthropic goals. Often, money ends up taking a back seat. Families discover particular strengths, weaknesses and unexpected courses of action for their futures.

Here are some questions to be asked of everyone in preparing the family's financial mission statement. Focus on relationship issues first, and then move into business and money matters.

- What's most important about our family?
- What do I think our goals should be?
- When do I feel most connected to the rest of my family?
- How should we relate to one another?
- What are our strengths as a family?
- Where do I think we'll be as individuals in 5, 10 and 15 years?
- In order, what are the five or ten things I value most in life?
- How should we behave toward each other?
- How should we resolve our disputes?
- How important is the family's wealth to me?
- What's the best way for us to be building our wealth?
- What do I think the role of our family should be in helping the community?
- What should we be doing individually and as a family with regard to philanthropy?

The written mission statement needn't be set in stone. A family should have a meeting every year or two to revise or re-approve its mission.

For a handy resource on writing a family mission statement, we started at this site: http://www.nightingale.com/mission_select.aspx?from=homepage&element=missiontitle. Any questions about building your mission statement please phone us.

703.535.8280, www.weslingfinancial.com

This newsletter includes info adopted from the Financial Planning Association, the membership organization for the financial planning community, and from Ed Slott's IRA Advisor©, October 2007.

Are You Ready for a Depression?: Harry Truman once said, "It's a recession when your neighbor loses his job; it's a depression when you lose yours."

Even if times are good at your employer, use this time to prepare for a rainy day with the following steps:

- Build that emergency fund up to 3-6 months worth of expenses
- Slash your high-interest debt, especially those credit cards
- Keep networking, especially with friends in different fields from yours
- Get a line of credit while you're still working, but don't ever use it
- Use your company's education dollars to strengthen your resume
- Apply for disability coverage while you're still working, get an individual/family policy
- Understand your benefits including COBRA and what others might provide
- Stay away from your 401 (k)'s loan provisions

Avoid These Eight Dumb (and easily avoidable) IRA Mistakes: Let's review these oft-committed errors and what to do about them. Any questions here, be sure to phone us.

Mistake No. 1 – Failure to start: Do you have either a traditional or a Roth IRA as part of your retirement strategy? If not, why not? Remember, you can contribute up until April 15, 2008 for 2007.

Mistake No. 2 – Not comparing the advantages of traditional IRAs and Roth IRAs: The biggest difference between a traditional IRA and a Roth is the way Uncle Sam treats taxes on both types of IRA investments. If you put money in a traditional IRA, you'll be able to deduct that contribution on your income taxes. In a Roth, you don't receive the tax deduction for those contributions, but when it's time to take the money out, you won't have to pay taxes on it.

Mistake No. 3 – Forgetting income limits for a Roth IRA: The income limits for establishing a Roth are as follows: for a married couple filing jointly or a qualified surviving spouse, you can't contribute if your modified adjusted gross income exceeds $166,000; if you're filing single, you can't contribute if your modified AGI exceeds $114,000, and for married people filing separately, you can't contribute if your modified AGI exceeds $10,000.

Mistake No. 4 – Failing to make sure your beneficiaries are correct: The only way to create the stretch IRA is through the beneficiary designation form. Need help, contact us.

Mistake No. 5 – Not knowing the maximum contribution: For both traditional and Roth IRAs, the maximum annual contribution for 2007 is $4,000 unless you are age 50 or older, when you can add an additional $1,000 to that total.

Mistake No. 6 – Frittering away your tax refund: Did you know you could deposit your tax refund directly into your IRA, and apply that refund to your 2007 IRA contribution?

Mistake No. 7 – Forgetting retirement savings benefits for active military personnel: The 2006 Heroes Earned Retirement Opportunities (HERO) Act allows active military personnel and their families to put a potentially greater contribution toward their traditional or Roth IRA accounts.

Mistake No. 8 – Withdrawing money early from an IRA by screwing up a rollover: When moving assets from IRA-to-IRA, use a trustee-to-trustee transfer to ensure you don't miss the 60-day deadline, when you might face taxes and penalties.

This newsletter includes info adopted from the Financial Planning Association, the membership organization for the financial planning community, and from Ed Slott's IRA Advisor©, October 2007.

Divorce: Ten Planning Pointers: As many of you know, one of our specialty niches is working with divorcing individuals, and sometimes we help both parties to a divorce. Here are eleven tips to follow when taking steps to divide retirement assets due to a divorce.

Tip #1: Nobody wants any post-divorce or post-death surprises, so read on.

Tip#2: You must always take into account either of the divorcing parties might re-marry! To assume anything else is negligent.

Tip#3: Before agreeing to any division of retirement assets in a divorce, determine when each spouse will receive their share of the asset (will the employer plan allow an immediate distribution or will the soon to be ex-spouse have to wait) and what the income tax implications are of any mandated divisions of the asset (will there be any tax if the transaction is carried out as specified and, if there is, who will have to pay that tax).

Tip #4: It is crucial that clearly worded Qualified Domestic Relations Orders be completed. There are untold numbers of incomplete QDROs sitting in attorney's desks waiting to become malpractice suits in the future.

Tip #5: The documents should be absolutely clear as to how each retirement plan is to be divided. The division of the asset must be carried out in accordance with the instructions in the document. Any retirement plan not mentioned would not be subject to the division.

Tip #6: A distribution of retirement benefits to satisfy amounts owed to a former spouse when that distribution is not required by the divorce agreement will be taxable to the account owner. If these withdrawals drain the IRA then the former spouse will have none of this retirement account.

Tip #7: Always, always, always create new beneficiary designations immediately after your divorce (didn't we say always?). Do this whether the beneficiary changes or not. If you still want your former spouse to get some benefits, the updated beneficiary form makes your intentions clear. In the case of some employer plans, have the new spouse sign spousal waiver and consent forms to ensure your children get their benefits, if this is the desired outcome.

Tip #8: A prenuptial agreement cannot waive spousal retirement rights. If there's a prenup, then any beneficiary forms or spousal waivers mentioned in the prenup ought to be signed (ideally!) at the end of the wedding ceremony, even before the reception. If the groom gags on the wedding cake or doesn't make it through the honeymoon, there could be no end to the legal wrangling to straighten out your intentions. This is one more good way to put the lawyers' kids through college instead of your own!

Tip #9: Some employer pension plans require the new spouse to be married to the participant for over one year to collect spousal survivorship benefits. Check on this provision in your plan, and then be sure to execute beneficiary and spousal waivers to achieve your desired outcome.

Tip #10: Inherited IRAs cannot be slit in divorce (federal law trumps state law). If there is a transfer attempted, the IRA will lose its tax benefits and you may end up paying income tax on the entire IRA value. This is not a pleasant thought.

All riches have their origin in mind. Wealth is in ideas-not money.

-Robert Collier (1885-1950)

703.535.8280, www.weslingfinancial.com

This newsletter includes info adopted from the Financial Planning Association, the membership organization for the financial planning community, and from Ed Slott's IRA Advisor©, October 2007.