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CERTIFIED FINANCIAL PLANNER™

*Objective Advice to Help You Reach  
Your Goals & Find Peace of Mind*

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## **Savings**

**Virginia 529 College Savings Plans**, VEST and VPEP, are doing well and have low costs relative to those in other states. The Commonwealth allows a \$2,000 annual tax deduction for contributions to Virginia 529 plans. There is no cap on the deduction for taxpayers age 70 and older.

**American Funds 529 College Savings Plan** is also a good option but must be bought through a registered investment advisor or broker. You can avoid a commission of up to 5.75% by purchasing an American Fund 529 Plan through a fee-only financial planner.

**Lost Accounts** - Make sure that all of your retirement accounts are present and accounted for. If you have not already done so, you should contact all former employers to ask about any retirement benefits due to you. The Pension Benefit Guaranty Corporation (PBGC) helps find traditional pension plans ([www.pbgc.gov](http://www.pbgc.gov)) by offering a search service as well as tips to assist you. You should also contact financial institutions that may have some of your personal savings or investment accounts. You might need to conduct a search through the National Association of Unclaimed Property Administrators – [www.unclaimed.org](http://www.unclaimed.org)

**Retirement Savings** – Are you saving in an IRA? The rules can be confusing and keep some people from investing in them. Just about anyone with earned income can fund an IRA of some type, even a child. For children and many young adults, a Roth IRA makes very good sense.

You should seriously consider having an IRA even if you have a good pension with cost of living adjustments built in and full funding of an at-work retirement plan. If you don't have a pension and/or an at-work plan like a 401(k), then an IRA becomes a top priority.

It is not necessary to have \$4,000 to open an IRA account. Most IRA's can be opened with a much smaller amount or through small monthly contributions.

Also, you are allowed to contribute to both an IRA and an employer-sponsored plan in the same year. However, if your income is high, you may not be eligible for the Roth version of the IRA or for the tax deduction on the traditional IRA.

### **Investments**

**Current Market** – Over the past few weeks we have started to see some downward swings in the equity markets (stocks, mutual funds, ETF's) here in the U.S. and abroad. People who have investigated their risk tolerance and chosen a balanced, diversified portfolio should generally hold tight to their choices and wait out a market downturn. Do check to be sure that any funds you may need in the next 4-5 years are invested conservatively in money markets, CD's, or other cash type accounts.

The average investor often makes major errors in up and down markets. Don't let this happen to you! We should buy when the market is low and sell when it is high but often do not do so. Selling broad based investments after a market downturn is rarely wise unless your portfolio was not properly prepared to match your needs in the first place. Studies show that the average individual and the average broker under perform the overall market returns that can be earned by investing in low-cost funds and staying put through down markets. If you are uncomfortable about your investments in any manner, please do not hesitate to call John.

**Bias in Financial Magazines** - When you read investment recommendations in magazines such as "Money," "Kiplinger's," and "Smart Money," consider that these publications receive ad revenues from the funds they recommend. A recent study suggests a correlation between ad revenue and recommendation in magazines but not in the Wall Street Journal or New York Times. Consider also that "Consumer Reports," which has started providing investment research, does not accept any advertising at all.

**Exchange-Traded Funds** – The number of Exchange-Traded Funds (ETF's) is increasing faster than the number of mutual funds in the 1980s and 90s. ETF's are passively managed funds similar to index mutual funds but with some key differences: 1) Shares of ETF's can be bought during the day at current market prices instead of only once a day, 2) Limit orders can be used for ETF's, but not for mutual funds, 3) There is no minimum purchase, and 4) ETF investors do not have to pay taxes on capital gains distributions at the end of the year – only when they sell. Therefore, ETF's make sense for taxable accounts. Do look for ETF's that have low expense ratios.

**Dimensional Fund Advisors (DFA)** – Dimensional Funds offer passively managed index funds that filter out some stocks using portfolio construction theory based on the work of Nobel Prize winners. These funds are only sold to individual investors through fee-only planners who receive no commission or other compensation for recommending them. Investors in DFA funds avoid buying high and selling low and generally receive better returns than investors in other index funds. We certainly have been pleased with results in portfolios we manage.

For more information on ETF's, DFA funds, 529 plans, or other smart investments please call John at the office.

### **Disability Insurance**

**Disability Insurance** is an oft overlooked but key element in a strong financial plan. Its importance increases if 1) your time to retirement is long or 2) your savings are low relative to your retirement needs. Disability insurance, especially long-term disability insurance, is a valuable employee benefit. If it is not offered where you work, consider an individual policy. If you pay for your plan, the benefits (if you ever need them) are not taxable. Therefore you could buy less coverage to have the same amount of after-tax benefit.

**Retirement Fund Disability Insurance** - Some employers now offer group disability insurance that covers 401(k) contributions. At least two disability insurance companies have started offering individual policies that do likewise – Berkshire Life has Retirement Protection Plus and Massachusetts Mutual Life Insurance Co. offers a rider that would pay the employee's plan contribution plus the employer's match – the contributions would be put in a trust and the earnings in the trust are taxable each year. These new plans are designed for those who make significant contributions to retirement savings and whose employers also make significant contributions

### **Retirement**

**Retirement Safe Withdrawal Rate** – Professional studies published in leading financial planning journals have attempted to define a safe rate of withdrawal from retirement accounts such as 401(k)s, IRAs, and the like. The rule of thumb is that retirees with well-balanced accounts (at least 50/50 stocks to bonds) can take 3-4% per year from their balance each year and keep the account from running out later in life. Customizing this amount depends on many variables: life expectancy, income needed, total amounts saved, rates of return, other income, and more. The most important objective is to determine what you can safely take and then live within your means. People who are borderline as to sufficient retirement income might decide to work a year or two longer than they might have wanted to help build the savings while delaying withdrawals.

**Reverse Mortgages** - Some senior citizens are considering reverse mortgages to fund long-term care expenses or, as a last resort, to cover living expenses. Reverse mortgages

provide homeowners with either a lump sum payment or a line of credit and reduce the equity in their home. While reverse mortgages provide a means to keep one's home and have additional funds, they are usually expensive because of fees (sometimes monthly charges), closing costs, and requirements for mortgage insurance. Anyone thinking seriously about acquiring a reverse mortgage should carefully compare costs at different institutions. It might even be a good idea to consult an elder care attorney.

**Customer Service** - Tired of talking to machines? GetHuman.com provides instructions on how to reach live people when you want customer service at 500 companies.

**OPT OUT** – Don't forget to register your cell phones and business phones on the do-not-call list as well as your home phone. Go to [www.donotcall.com](http://www.donotcall.com). This site requires your e-mail address to complete the registration, which is good for five years. To reduce junk mail, register your home and/or business address at [www.optoutprescreen.com](http://www.optoutprescreen.com) or call 1-888-567-8688.

### **Estate Planning**

The amount an individual can leave to heirs tax-free is currently \$2 million and will increase to \$3.5 million in 2009. In 2010, the federal estate tax is supposed to be repealed altogether but just for that one year. In June 2006, the Senate failed in an attempt to repeal the federal estate tax permanently.

As it stands today, for every dollar over \$2 million that you leave behind, federal taxes will take 45 cents. Could the amount you can leave tax-free go up or down again? Unfortunately, there is no way to predict what the US Congress will ultimately decide.

If your net worth is close to \$1 million, you should begin to consult estate planning attorneys to determine if any tax strategies are right for your situation. One easy strategy is annual gifting, which we have discussed before in this newsletter, but there are several others.

### **Taxes**

The IRS urges taxpayers to check to see if they qualify for the telephone excise tax refund. Apparently, more than 10 million early filers did not request the one-time refund. For more information, visit the [IRS Web site](#).

### **Website Articles**

Recent articles available at [johnfiege.com](http://johnfiege.com) concern IRA Rollovers, corporate trustees, new types of electronic spam and frequent flyer miles. FYI: Investment spam can be reported to [enforcement@sec.gov](mailto:enforcement@sec.gov).