

Financial Insights®

A Creative Personal Finance Report



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October 2008

College Math 101

According to the **College Board** the average annual cost of attending college, including tuition, books, room, and board, is \$13,589 for an in-state public college or university and \$32,307 for a private college or university. In past years, college costs have risen around 5 percent per year. In 2007-2008, increases have been close to 6 percent for both private and public colleges.

While a variety of options – including scholarships, grants, work-study programs, and loans – are available to help defray some of these costs, most families will still need to rely on a college savings plan.



Creating the best investment plan for your child/grandchild's education will depend on several factors:

- whether you are investing for a private or a public education
- how many years before your child begins college
- how much you can invest now
- how much you can add to your investment over the years, and
- your personal risk tolerance.

There Are Only Five Sources of Money

- You, working
- Charity
- Inheritance
- Lottery or gambling winnings
- Your money, working

That's right, only five sources -- and it doesn't matter how young or old you are; whether you're a resident of a red or blue state; conservative, liberal, other; or how rich you are. That's it. That's all there is.

Here's the dilemma:

When you approach middle and older ages, the first option (You, working) may not be available. Although more and more elderly people continue to work full time (and, often, retirees are at least consulting or working part-time), on occasion, like it or not, the world of work retires you, whether or not that's what you want. (See page four for more on retirement.)

Accepting charity is certainly an option, but not a very pleasant one or one that you would likely choose, given other options.

An inheritance is a possibility, but no guarantee, and with people living longer and longer, rich Uncle Harry's estate may not be up for grabs for a long time — he might even use it up BEFORE he dies! Way to go, Harry!

Hitting it big on the lottery or in Vegas is also a possibility, but not one that you'd likely be willing to bet on!

So what's left? Your money, working for you.

And how do you go about achieving that? Steady saving and investment for the rest of your working life (and after, too). Even if you are currently retired, you should not surrender your saving and investing strategies.

If your child is one or two years old, you may, if you wish, be more aggressive with your investment portfolio. Going broke safely is no fun. For example, a family beginning to save for a newborn's college education might consider investing in vehicles that provide an opportunity to outpace inflation and maximize the growth of their investments (no guarantees, of course).

As your child gets older and your time horizon decreases, you may want to consider adjusting your asset alloca-

tion in order to conserve your principal. You might consider shifting the focus of your portfolio toward more conservative investments, providing more stability.

There is no question that college costs are daunting for most families. While the best specific investment vehicle or combination of investment vehicles may differ from family to family, the single most important factor for getting a handle on college costs is to start an investment plan as early as possible in your child/grandchild's life.

Questions & Answers

Q. I've tapped into my traditional IRA to pay for graduate school at age 45. Will I have to pay taxes on the withdrawals? penalties?

A. We're not sure what your other circumstances are, but the habit of dipping into retirement funds at age 45 these days should be a last resort.

At any rate, you will have to pay taxes on the amount you withdrew for education, but penalties should not be a problem since the law allows for early withdrawal to pay for qualified higher education expenses.

Q. I've heard that I can get a tax credit if I buy a 2009 hybrid car. Is that right? How much is it?

A. According to the IRS website, <http://www.irs.com>, the only makes and models of 2009 hybrid cars that qualify for tax credits are the Ford Escape Hybrid 2- and 4-Wheel Drive and the Mercury Mariner 2- and 4-Wheel Drive.

The amount of tax credits are \$3,000 for the 2-Wheel Drives and \$1,950 for the 4-Wheel Drives.

Q. What are the advantages of a living trust?

A. It helps avoid probate; facilitates the reduction of estate taxes; allows quick distribution of assets to beneficiaries; preserves privacy and is completely confidential; is very difficult to contest; provides for your wishes to be followed, even at physical and mental incapacity or death; can minimize emotional stress on family members; minimizes the risk of unintentional disinheritance; avoids problems of joint ownership; is relatively inexpensive to set up and maintain; can be changed or canceled at any time (revocable); and protects dependents with special needs, among others.

We will accept questions from readers and reprint selected answers in this column. Send your question(s) to us; we'll answer as many as we can.

Financial Notes Worth Noting

"Economic Stimulus" Scams on Rise

The IRS website, www.irs.gov, cautions taxpayers to be on the lookout for email or phone calls that falsely claim to be from the IRS in an attempt to get people to reveal personal and financial information such as Social Security, bank account or credit card numbers.

The IRS advises that **all of its communications will come in writing** and that it will never call or email asking for your Social Security number or bank account information. The IRS will never send a letter or email asking for a response by phone or email.

Reporting suspicious emails will help the IRS track them to their origins and shut down the scam. Forward suspicious emails, phone numbers and unusual correspondence that might request such information to phishing@irs.gov.

Working and Receiving Social Security

You can work while you receive Social Security retirement (or survivors) benefits. When you do, it could mean a higher benefit for you in the future. Higher benefits can be important to you later in life and increase the future benefit amounts your family and your survivors could receive.

While you are working, your earnings will reduce your benefit amount only until you reach your full retirement age. After you reach full retirement age, the Social Security Administration (SSA) recalculates your benefit amount to leave out the months when they reduced or withheld benefits due to excess earnings.



The Social Security Administration uses a formula to determine how much your benefit must be reduced:

If you are under full retirement age for the entire year, SSA deducts \$1 from your benefit payments for every \$2 you earn above the annual limit. For 2008, that limit is \$13,560.

In the year you reach full retirement age, SSA deducts \$1 in benefits for every \$3 you earn above a different limit, but they only count earnings before the month you reach your full retirement age.

If you will reach full retirement age in 2008, the limit on your earnings for the months before full retirement age is \$36,120. (If you were born in 1943, your full retirement age is 66 years.)

Starting with the month you reach full retirement age, you can get your benefits with no limit on your earnings.

If you are not already receiving benefits, be sure to contact the Social Security Administration at the beginning of the year you reach full retirement age. Even if you are still working, you may be able to receive some or all of your benefits for the months before you reach full retirement age.

For a full chart of actual reductions in benefits and "full retirement age" tables, visit <http://www.ssa.gov/pubs/retirechart.htm>

Source: Social Security Administration

Saving For Retirement in America

How Confident Workers Are About Their Retirement Savings and Comfort After Retirement

The 2008 Retirement Confidence Survey® (RCS, accomplished annually by the Employee Benefit Research Institute) finds that the percentage of workers who are very confident about having enough money to live comfortably in retirement has dropped significantly to 18 percent. This matches the low point observed in 1993.

Some specific findings from the 2008 survey include:

Thirty-three percent of workers who have not saved for retirement nonetheless feel very or somewhat confident that they will have a comfortable retirement.

Seventy-two percent of workers report that they and/or their spouse have saved money for retirement. The proportion of workers having saved for retirement has fallen since a high-mark in 2000 (78 percent) and has remained fairly constant since then at about 70 percent.

As would be expected, older workers tend to have saved more than younger workers, but overall savings levels tend to be modest. Forty-nine percent of workers report less than \$25,000 in total savings and investments (excluding their home and defined benefit plans).

Education and income are major factors in whether workers save for retirement. Married workers and those who have attempted a retirement savings needs calculation are more likely than their counterparts to have saved.

Somewhat surprisingly, workers who expect to work in retirement and those who do not expect to work in retirement are equally likely to report having saved for retirement.



Forty-four percent of workers expect an employer-sponsored retirement savings plan to be a major source of income

in retirement. Roughly 30 percent of workers expect Social Security (31 percent), other personal savings or investments (30 percent), and a pension (29 percent) each to be major sources of retirement income.

Workers who have saved for retirement are more likely than non-savers to expect major retirement income from workplace or personal savings, pensions, and IRAs. Conversely, non-savers are more likely to say Social Security will be a major source of retirement income.

Fifty-nine percent of workers say

money from a defined benefit pension plan will provide them with income in retirement, while 34 percent expect employer-provided retiree health benefits.

Although those who currently have a traditional pension plan are more likely than those who do not to expect employer-provided benefits in retirement, substantial portions of those currently without a pension also expect to receive these benefits.

Forty-seven percent of workers have taken the time and effort to complete a retirement needs calculation — the basic strategy that can help investors determine how much money they might need in retirement and how much they will need to save to meet that goal.

The percentage of workers who have done this calculation is higher than the 42 percent measured in 2005–2006.

Forty-two percent of workers think they need to accumulate at least \$500,000 by the time they retire to live comfortably in retirement. Sixteen percent feel they need between \$250,000 and \$499,999, while 25 percent think they need to save less than \$250,000 for a comfortable retirement.

Workers who have performed a retirement needs calculation (27 percent) are over two times more likely than those who have not (11 percent) to expect they will need to accumulate at least \$1 million before retirement.

Source: Employee Benefit Research Institute

Confidence in Having Enough Money to Live Comfortably Throughout Retirement, 1993–2008

| | 1993 | 1998 | 2000 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------|------|------|------|------|------|------|------|------|------|
| Very confident | 18% | 22% | 25% | 21% | 24% | 25% | 24% | 27% | 18% |
| Somewhat confident | 55 | 45 | 47 | 45 | 44 | 40 | 44 | 43 | 43 |
| Not too confident | 19 | 18 | 18 | 17 | 18 | 17 | 17 | 19 | 21 |
| Not at all confident | 6 | 13 | 10 | 16 | 13 | 17 | 14 | 10 | 16 |

Americans Assess Their Savings Habits

We Try Hard. We Fall Short.

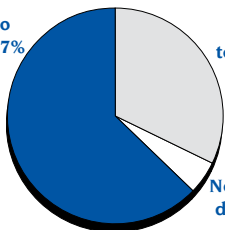
Personal savings rates in this country are in negative territory and yet, more than three-quarters (77%) of Americans describe themselves as people who “always looks for ways to save money.” This paradox is not as stark as it may seem: nearly two-thirds (63%) of Americans acknowledge they don’t save enough, and more than a third say that they often or sometimes spend more than they can afford.

People with lower incomes are more likely to say they always look for ways to save but are less likely to succeed. They’re more prone to worry about money and to have credit card debt. They argue about money more often with spouses. But income levels are not the only demographic characteristic strongly correlated with people’s habits and attitudes about saving and spending. Age and life cycle matter as well.

Which kind of person are you?

MOST ARE ALWAYS TRYING TO SAVE

Always looks to save money: 77%

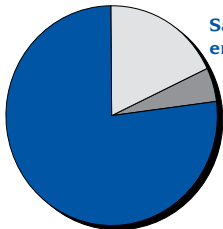


Doesn't try to save: 18%

Neither, both or don't know: 5%

BUT MOST THINK THEY SHOULD BE SAVING MORE

Should save more: 63%



Saving enough: 32%

Don't know: 5%

Older Americans (65 and above) are much more likely than the rest of the adult population to say they save and invest enough. Also, they’re less likely to say they worry about money, or that they spend more than they can afford.

As for the rest of the adult population, difficulties with low savings rates are widely shared by virtually all income and demographic groups. Among people under age 65, majorities of high income adults as well as lower income adults say they don’t save enough. So do majorities of men as well as women; caucasians as well as African-Americans and Hispanics; married people as well as singles, the employed as well as the unemployed; and college graduates as well as those with less education.

These concerns are borne out by government data. The U.S. Commerce Department estimates that, since April of 2005, the American public has spent more money than it has earned after taxes — an unprecedented development in the past half century. **As recently as the early 1980s, Americans on average had been saving more than 10 percent of their after tax earnings.** Also, the Federal Reserve System reports that total household debt has risen in the past decade, due largely to mortgage debt.

However, despite both negative savings rates and the growth in debt, the median financial wealth of families has continued to rise, due mainly to increases in home and stock holdings values.

Economists have argued that this “wealth effect” may partially explain today’s low savings rates. As people see assets grow, they may feel more freedom to spend and less need to save. The survey offers only marginal support for this hypothesis. It finds that about half of all homeowners (46%) say that the value of their home has increased “a lot” in recent years (even with current downtrends). In their saving and spending habits, this group differs from the rest of the population. They are less likely to say they often or sometimes spend more than they can afford and re-

port a slightly lower propensity to worry about money. But they’re no different from the rest of the population in their inclination to describe themselves as



the kind of person who is always looking to save. Similarly, respondents who are market investors worry less about money than do those who don’t have any such financial investments. They’re also more likely to say they save and invest enough, and they’re less likely to say they spend more than they can afford. It should be noted, however, that market investors are also more likely to have high incomes, and having a high income also correlates independently with these same saving and spending characteristics.

Money and Marriage. A majority of husbands and wives share the same basic attitudes toward saving with their spouse, but a significant minority — three in ten — has different views. The breakdown is as follows: among married adults, 56% say that both they and their spouse always look for ways to save money and 6% say that both they and their spouse don’t try particularly hard to save. However, fully 30% say that they and their spouse have different attitudes about saving. And — no great surprise here — these are the couples most likely to argue about money. Some 52% of these couples say they often or sometimes disagree about money, compared with 38% of all married couples.

Source: Pew Social and Demographic Trends