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Thanks for the Opportunities

What are average Americans and the pundits predicting for the rest of the year and 2009? Everything!

With volatility in the markets and the tendency of people to respond to daily crises announced by the media, almost equal numbers of serious forecasters and economists feel that the Fed will/will not lower the interest rate. Some say the Dow will recover in a year; others say we are in a recession, or even worse. Some say this; some say that! What are we to do?

Since the world economy (and the U.S. as a subset) is based on such a complex, high tech and puzzling mix of politics (witness the divided nature of the current debate regarding government's role in the markets, tax breaks, dealing with terror, health insurance, deregulation, mergers, sub-prime loans and other factors, it's impossible to predict anything with accuracy. Near the end of 2008, as always, the future is viewed through a cloudy crystal ball.

As taxpayers and investors, we invariably complain about taxes and inflation — things that work against wealth accumulation and our ability to reach our financial goals. But we also need to be mindful of the things we are thankful for . . . especially our opportunities.

"Don't wait for extraordinary opportunities," comments Orison Swett Marden, founder of *Success* magazine. "Seize common occasions and make them great. Weak [people] wait for opportunities; strong people make them."

We have untold opportunity to use well-known and time-honored strategies like broad diversification, enormous flexibility and the luxury to navigate the markets with a long-term view.

Among a myriad of investment possibilities, we have the opportunity to invest by OWNING (equity) and LOANING (fixed-income). A mixture might be good for your heart, your mind and your pocketbook.

Strategies for Managing Market Volatility in Retirement

While the strategies below cannot guarantee against loss, they may be able to ease the sharpness of the valleys and mountains of market volatility and provide some sense of security.

- Keep withdrawal assumptions conservative. Be realistic when deciding how much of your retirement portfolio you can withdraw. Of course, the amount and expected length of retirement are two criteria but you might want to err on the conservative side here as well. Maintain a cushion against future market declines by estimating a reasonable payout plan of 20 years — maybe more, depending on your age, health and lifestyle.
- Maintain a sensible and diverse asset allocation. Divide your portfolio among many different investments: exposing you to the potential of long-term growth, but providing some protection against market risk. By spreading your assets across investments that react differently to various market conditions, you reduce the impact that any single negative event might bring. Remember, diversity is no panacea or guarantee against loss. It's just a good strategy.
- Review and rebalance your portfolio from time to time to ensure that it still reflects your needs. Sometimes, by doing nothing, market fluctuations actually cause your asset mix to become too heavy in certain investments.
- Work with a financial professional. The guidance of a skilled financial advisor for those nearing or in retirement is essential. Retirees, often at high risk, may benefit from the objectivity of an advisor in making informed, unemotional and knowledgeable decisions.

Questions & Answers

Q. Someone told me there is a new rule that requires donors to prove that donations are in "good" condition. How does the new rule work?

A. If you take a tax deduction for charitable donations of, say, household appliances or clothing, you will have to prove that the items are in good and "working" condition. Under the new law, you must have a receipt from the charitable organization with its name, date and location of the contribution along with a detailed description. You are responsible for keeping records of the items if you do not have a receipt.

Further, if the deduction is greater than $500, you must include a Form 8283 (Noncash Charitable Contributions) with your annual tax return.

You might consider taking photos of items with high value to indicate their condition. While the IRS has not issued a clear definition of what, exactly, "good condition" is, some experts seem to feel that if you would give it to a friend or relative, it is likely fit to deduct.

Q. Does the standard "70 - 80 percent of pre-retirement income is needed in retirement" still hold true?

A. Most likely not.

That 70 - 80 percent "rule of thumb" is pretty old and probably doesn't hold water anymore, what with retirees carrying larger mortgages into retirement, living longer and "higher than before" health insurance and medical costs.

That 70 - 80 percent idea was based on a theory that most homeowners, due to less mobility and staying in jobs (and therefore close to home) longer, usually had no mortgages by the time they were ready to retire.

Rethink the whole idea of saving more for mortgage costs in retirement.

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

Social Security Commissioner Releases New Agency Strategic Plan

Michael J. Astrue, Commissioner of Social Security, recently released the agency's new Strategic Plan. Using the motto, "Social Security Benefits America," the plan identifies the challenges the agency faces and the steps needed over the next five years to meet those challenges.

Commissioner Astrue said. "This Strategic Plan charts the course that will enable us to maintain a strong level of performance on Social Security's core workloads and work toward long-term improvement of our service to the public."

Among the many challenges facing the agency are the unacceptable backlog of disability claims and the aging baby boomer population who will be filing retirement and disability claims at an ever-increasing rate. To address these and other challenges, the plan concentrates on four specific goals:

- ***Eliminate the hearings backlog and prevent its recurrence.***
- ***Improve the speed and quality of the disability process.***
- ***Improve retiree and other core services.***
- ***Preserve the public's trust in Social Security's programs.***

Underlying each of these goals is a series of specific objectives and long-term outcomes the agency plans to achieve. The plan also notes the key foundational elements for achieving success: Social Security's employees and information technology.

"Our workforce is one of our greatest strengths," Commissioner Astrue said. "The challenges we face have not shaken our resolve to provide the vital services on which the nation depends. We also need to rigorously explore and wisely employ new technology. While we have effectively maintained and augmented our systems infrastructure, some of our key computer systems and our primary data center are more than 30 years old. A strong and modern infrastructure requires new investments in technology."

"Abraham Lincoln once said, 'The best way to predict your future is to create it,'" commented Astrue. "Working together with the President, Members of Congress and our stakeholders, we can provide world-class service for generations to come."

To read the full text of Social Security's Strategic Plan, go www.socialsecurity.gov/strategicplan.html.

Quotable Quotes

Learn from the mistakes of others; you can never live long enough to make all of them yourself.

Anonymous

The easiest way to calculate the true cost of living is to take your total family income and add a big bunch.

Anonymous

Money is like a sixth sense - and you can't make use of the other five without it.

W. Somerset Maughm

Have you ever noticed that anyone going slower than you is an idiot and anyone going faster than you is a maniac?

George Carlin

Family Wealth:

Accumulation, Protection and Distribution

What does family wealth conjure up for you? Taking a luxury cruise to distant and fascinating ports-of-call?

Owing a vacation property at the beach or a villa somewhere in Europe?

Lounging poolside at a home in the country, far from the madding crowd?

Sure, it could be something like that, but the scenario is most likely to include some practical things as well: having the means to educate your children/grandchildren, a comfortable and dignified retirement, and supporting your favorite causes. In short, wealth is a means of enhancing the lives of you and your loved ones, improving your family's situation and bettering your community.

Here are 10 ideas that might help you achieve family wealth and, maybe more importantly, protect your assets from loss so you can pass them on.

1. **Understand that investing has its ups and downs.** This means, for example, that you should consider buying when all other investors are pessimistic and unsure. Sitting on the sidelines sets up being sorry for potential missed opportunities.

2. **Invest on a regular basis, no matter how big or how small the amount.** Make it a habit and NEVER BREAK IT! As we've said before, the formula for wealth is time, money and an investment. Although systematic and periodic investment does not guarantee profit or guard against loss, it does create a discipline regarding investing. Systematic investors should consider their ability to continue investing during periods when the value of their investments may be declining.

3. **Maintain a long-term perspective for as long as you can.** While short-term and intermediate goals are important, a long-term plan is critical as well. Wall Street sayings apply: "Bulls and Bears make money; hogs don't" and "Anxious money doesn't succeed."

4. **Watch out for inflation!** While inflation has been under relative control over the past few years, remember that an inflation rate of 5 percent can erode the purchasing power of a dollar by 40 percent in ten years.

5. **Use your advisors** and plan to meet with them to review your portfolio at least once a year.

6. **Diversify.** Diversification won't eliminate the risk of investment loss, but it's important to spread assets among several kinds of investments, since it may help manage risk.

7. **Take advantage of tax-deferred and tax-advantaged vehicles** like qualified retirement plans, annuities, IRAs and variable/cash value life insurance policies.

8. **Protect your heirs.** This includes investing for minors, gifts to minors and shifting income, to name a few.

9. **Consider trusts** as a method to avoid probate costs, organize your estate and provide for the highest possible bequest for your loved ones/heirs.

10. **Consider making charitable contributions to your favorite causes.** You can save money for your heirs, do something beneficial for your community, reduce your current income tax and feel mighty good about yourself —all at the same time.

Try it; you'll like it.

Generosity and Taxes

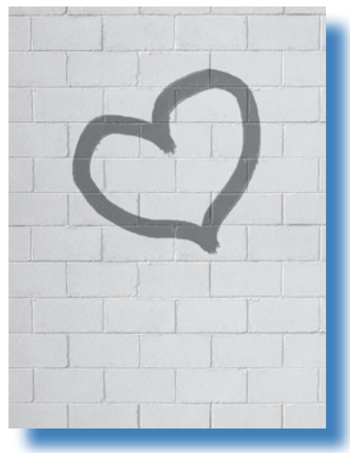
Donating Money and Appreciated Assets Can Help Others and YOU!

You have until December 31 of this year to take actions that can help you tax-wise when you file your 2008 tax returns by April 2009. Charitable donations and gifts of money or assets are both good methods because they allow you to be both generous and tax-smart at the same time. Check with your tax advisor to be certain of your individual circumstances, but, generally, IRS rules allow tax payers to donate up to 50% of their adjusted gross income in a tax year. The rules are somewhat complex and based on different kinds of donations, so review Publication 561, Determining the Value of Donated Property (800-829-3676 or www.irs.gov).

- Donating money or other items such as household goods, clothing, cars, computers or building materials to qualified organizations such as nonprofit charitable, religious or educational groups are great ways to "give" and obtain a tax benefit.

Currently, you can multiply the value of your donation by your tax bracket to determine the resulting reduction in your tax bill. For example, a $100 donation from a taxpayer in the 28% bracket would allow a $28 write off or, a $1,000 donation in the 35% bracket would net a $350 tax reduction. (You get the picture.) Keep track of your donations over the year and get receipts from the organization to which you donate. For non-cash donations, make a list of the items donated, get a receipt for the items from the organization receiving the donation and check with a tax advisor or Publication 561 for guidance in determining the deductible amount of the donation.

- Donating appreciated properties such as publicly traded stocks, real estate, art or antiques, to a qualified organization, can be complicated (again seek advice from a tax advisor). However, in the case of publicly traded stock held for more than a year that qualifies as long-tern capital gain property, such donations can provide you with a hefty tax write-off. Normally, when you sell a long-term capital gain property, you are required to pay tax on the amount of the appreciation. Donating, instead of selling, publicly traded stock held for more than one year may allow you to eliminate or reduce that tax.



Here is an example of how donating that stock can work for you. If you donate that stock (that originally cost you $1,000 but is now worth $5000), you would pay no tax on the $4,000 gain and the gift would be worth a full $5,000 deduction. This amounts to a $1,750 tax savings for an individual in the 35% tax bracket. If, on the other hand, you were to sell the stock and then donate that cash, an $600 capital-gain tax would be applied to the gain (assuming a 15 percent tax bracket). This tax would reduce your donation/deduction to $4,400 and your tax savings would only be $940 ($1,540 for the $4,400 contribution at 35 percent, less the $600 in taxes paid).

The tax rules vary with the type of appreciated property you are donating. For instance, charitable donations of artwork or collectibles often require an appraisal and additional reporting data. However, under the guidance of a good tax advisor, donations of such assets can really boost your tax savings.

- Gifting cash or assets to family and friends could help you reduce the value of your estate and minimize your estate tax bill. Currently, an estate valued at greater than $2,000,000 (the exemption goes to $3.5 million as of January 1, 2009 under current law) is required to pay federal estate taxes before being disbursed. Each individual can gift up to $12,000 a year in cash or assets to as many people as desired without getting penalized by the gift tax. A married couple is able to gift each of their intended heirs (children, children-in-law, grandchildren, etc.) up to $24,000 in a year, in order to reduce their estate's value and possibly reduce any estate taxes.

Consult a competent tax expert to be sure of your donation/deduction options. You can be generous and tax-smart at the same time.

> **"Anyone may so arrange his affairs that his taxes shall be as low as possible. He is not bound to choose the pattern which best pays the Treasury. Everyone does it, rich and poor alike, and all do right, for nobody owes any public duty to pay more than the law demands."**
>
> *Judge Learned Hand*