

# Financial Insights<sup>®</sup>

A Creative Personal Finance Report



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## Required Minimum Distributions: 2009

**O**n December 23, 2008, President Bush signed the **Worker, Retiree, and Employer Recovery Act of 2008** into law. The Act waives any required minimum distribution (RMD) for 2009 from retirement plans that hold each participant's benefit in an individual account, such as 401(k) plans and 403(b) plans, and certain 457(b) plans.

The Act also waives any RMDs for 2009 from an Individual Retirement Arrangement (IRA). This means that most participants and beneficiaries otherwise



required to take minimum distributions from these types of accounts are not required to withdraw any amount in 2009. If they do make a withdrawal in 2009 (that is not a RMD for 2008), they might be able to roll over the withdrawn amount into other eligible retirement plans. Of course, they must still include any previously untaxed portion of the withdrawal that they do not roll over in their gross income. For additional information on rollovers and on calculat-

## Dear Recession: Some Good Fallout

I recently read an article which first appeared in the *Christian Science Monitor* and later in op-ed columns around the country. It was by Paul McDonnold and it was titled "Dear Recession: You're Not So Bad." I decided to title this item, about that article, a little differently.

How could you NOT read an article like that as you sipped your coffee at home (rather than at Starbucks) on your "staycation" rather than "vacation?" The whole idea is that recessions sometimes give us a jolt back to reality. We complain vociferously right now about all the problems of the economy, but when it was booming and our investment totals were increasing exponentially, we didn't do very much griping at all, did we?

The idea is that, in some ways, the recession really does have some good points: our borrowing has slowed down, keeping those credit card balances at more reasonable levels. Next we are looking twice at saving again, rather than wallowing in a spend, spend, spend stupor. The sub-prime loan debacle is making us a bit more wary of those deals that "seem too good to be true." (They usually are.) Let's face it, the housing situation has made a home more affordable to those who saved for a down payment in the traditional way.

In the Great Depression, unemployment was at 25 percent. At this writing (end of January), unemployment statistics topped at 7.2 percent: not a happy scene, but certainly not the cause for workers to riot in the streets!

McDonnold ends the article by saying a gentle thank you to the recession for getting us back on track with spending and saving, but cautions that, while we are in some ways grateful, we don't want too much of a good thing. Fear of a long and deep recession can become a self-fulfilling prophecy.

ing the taxable portion of a withdrawal or distribution, seek competent and professional tax advice.

The Act does not waive any 2008 RMDs, even for individuals who were eligible and chose to delay taking their 2008 RMD until April 1, 2009 (e.g., retired employees and IRA owners who turned 70½ in 2008). These individuals must still take their full 2008 RMD by April 1, 2009, or they might face a 50% excise tax on the amount not withdrawn.

The 2009 RMD waiver under the Act does apply to individuals who may be eligible to postpone taking their 2009 RMD until April 1, 2010 (generally, retired employees and IRA owners who attain age 70½ in 2009). However, the Act does not waive any RMDs for 2010.

If a beneficiary is receiving distributions over a 5-year period, he or she can now waive the distribution for 2009, effectively taking distributions over a 6-year rather than a 5-year period.

## Questions & Answers

**Q. I am about the same age as most of my friends and coworkers — over 60 — and we are worried about making mistakes with our estates. Any general advice for us pre-retirees about avoiding pitfalls?**

**A.** Most people don't enjoy thinking about estate strategies (since it involves thinking in advance about what "might" happen or what will happen after they are dead), so they either avoid it completely, put it off, or end up making mistakes – mistakes that could be costly to their heirs.

Here are some pointers:

No matter what other vehicles you might be using to achieve tax or other estate advantages, you do need a will! Even if you think everything is covered in a trust, what about debtors? What about inheritances that are unknown at the time of death? A will can also provide legacy directives and personal manifestos.

Leaving everything to a spouse to save taxes could be shortsighted. While it is true that there is an unlimited marital exemption, when your spouse dies with your combined estate in hand, the tax bill could be tremendous!

While you definitely need a will, wills have limitations when it comes to joint property, property held in trust, insurance proceeds, money in a joint bank account, etc. Keep your will up to date; have it redrawn as necessary or changed by codicil.

Ownership of life insurance policies makes the proceeds taxable to your estate. If the policy is owned by an irrevocable trust, the proceeds can avoid taxation in your estate.

Finally, you need to take into account the unpleasant idea of incapacity. Mental or physical incapacity is the most neglected problem in designing estate strategies. Such neglect can be devastating to you and your heirs. Deal with it.

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*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

## Financial Flexibility

While your financial plan ought to be firm enough to preclude making it easy to renege on commitments, it also ought to be flexible, providing the opportunity for review and potential change on a periodic basis.



Life's pathways are filled with wonderful vistas and beautiful landscapes, as well as roadblocks, detours and potholes. Personal life changes, new circum-



stances and differing economic environments require a constant review of your financial plan. Sometimes situations call for drastic changes; others might suggest minor adjustments or refinements – tweaking, if you will. And, just as there is no one "right" financial plan for everyone, there is no unalterably correct plan for anyone for an entire lifetime.



For instance, as a 22-year old, Dale, an unmarried professional has a plan that is different from the one at age 25 when Dale is married and has a child. In the middle years, Dale's housing requirements might change and college expenses might kick in. Just before or at retirement, housing requirements might change again based on empty nest syndrome and Dale's portfolio mix might

adjust to prepare for a more solid income orientation.

Life changes that most commonly trigger a need to review your plan and/or portfolio are: **marriage or a substantive change in living arrangements, birth of a new child, adoption, change in jobs, promotion, second home, gifts, inheritances, death, divorce, disability, changes in college plans, changes in goals and priorities, and the sale or purchase of a home or any other major asset.** Keep your plan flexible and call anytime for assistance.

## The Truth About Those Pennies

Remember Ben and his "A penny saved is a penny earned?" And how Grandma always used to tell us to "save our pennies?"

Where do you put yours? In an old ashtray? In a small box in the top drawer of your dresser? In a giant bottle in the family room? We've done a brief survey of a few friends and got even better answers: in the freezer compartment of the extra refrigerator in the garage that no longer makes ice because there's no water hooked up to it or in a special plastic storage facility that actually sorts, counts and wraps them in those annoying paper coin wrappers.

Well, here's the real deal. It costs a little more than 1.25 cents to make one of those pennies. And that's after changing the metal content to make them less expensive. So, you might say, a penny is hardly worth a penny anymore, so what's the difference . . . it's just chump change, right?

Think again. Consider the fact that from January to June of 2008, the U.S. produced 2.7 BILLION pennies. So, at a combined face value of \$27 million, it cost \$34 million to make them!

So, one would think, why bother making them at all when a penny won't buy very much anyway? Talk to the states who are calculating their sales tax and counting every penny of it.

The U.S. is considering changing the metal content again, this time to steel, which would make the penny less expensive to produce.

Also, consider penny nostalgia before you suggest rounding up to the nearest 5c piece. And while we are talking about that every present nickel, just remember that it now costs . . . over 7.5 cents to produce. Go figure.

# Factoring In the Future

**H**ow long will your retirement accumulation last? If you want to use only the gain (perpetual)? If you want to use the gain and the principal?



you will deplete your retirement fund. If you select "perpetual," you'll maintain your fund amount.

**Example One:** To live on a retirement income of \$60,000 for 15 years and assuming you'd receive an 8 percent return, you'd need to accumulate a retirement account of \$554,400 ( $\$60,000 \times 9.24$ ).

**Example Two:** To live on a retirement income of \$80,000 indefinitely, assuming a 7 percent return, your account must total \$1,223,200 ( $\$80,000 \times 15.29$ ).

You may

For a long time, those were difficult questions to answer. But now, thanks to hard work and calculators, we're able to come up with some approximations that will assist in your retirement planning.

The table below is a wonderful tool that will help you identify the cost, in current dollars, of a retirement that you select (with a lifestyle that you choose). Of course, in order to use the table, you'll have to make a few assumptions.

### HOW TO USE THE TABLE

First, figure out how much annual retirement income you would need, were you to retire today.

Second, identify how long you want/expect your retirement fund to last.

Finally, make an estimate of the return you expect to earn on your retirement fund. It may be wise to estimate low here, so you are covered if your returns are less than you would hope for.

If you multiply your annual desired income by the factor that intersects at the number of years and the expected yield, you'll find how much money you'll need in your retirement fund.

Remember, of course, that choosing a certain number of years will include a return of principal as well as gain and

also use the table to calculate how much annual income you can safely draw from your retirement accumulations if you estimate the amount of your retirement account, the number of years you'll use it and the expected return. To use the table in this way, you divide the amount of capital you expect to have in your retirement account by the factor which

appears at the intersection of your selected earning percentage and the number of years you need to draw the income.

**Example Three:** If you expect your retirement account to be \$1,000,000, you can earn 9 percent and want it to last for 25 years, you'd be able to draw \$93,370 annually ( $\$1,000,000 \div 10.71$ ).

**Example Four:** If you expect your retirement fund to total \$500,000 and think you can earn 9 percent and want your fund to revert to your heirs (perpetual use of earnings only), you'd be able to take an annual income of \$41,288 ( $\$500,000 \div 12.11$ ).



Source: The Walsh Group

If you want to crank inflation into the picture, you'll have to calculate the future value of current dollars and refigure using the given factors. For instance, if you expected inflation to average 5 percent over the 15 years in Example One, you'd take the \$554,400 figure and calculate its future value at 5 percent over 15 years. The new figure becomes \$1,153,152.

### Calculating Retirement Income by Use of Factors

Investment yield on retirement accounts	Duration of Capital					
	10	15	20	25	30	Perpetual
5%	8.11	10.90	13.09	14.80	16.14	21.00
6%	7.80	10.30	12.16	13.55	14.59	17.67
7%	7.52	9.75	11.34	12.47	13.28	15.29
8%	7.25	9.24	10.60	11.52	12.16	13.50
9%	7.00	8.79	9.95	10.71	11.20	12.11

The yields are for illustrative purposes only and do not represent the performance of any particular investment. Your investments' returns will vary and are dependent upon economic and market conditions.

## Information You Can Use

# A Potpourri of Information on Saving and Savings

### How Much Do You Know About Savings in America?

- ▶ Q. How much loose change is available for Americans to save?  
**A. The U.S. Treasury says that Americans hold about \$15 billion in loose change.**
- ▶ Q. What is the typical amount of emergency savings that Americans need?  
**A. According to one recent survey, the typical amount Americans spent last year on unexpected expenditures was \$2000. Surprisingly, lower-income households in the survey cited the same amount.**
- ▶ Q. What are the two most important types of emergency expenditures?  
**A. According to the same survey, two-thirds of unexpected expenditures were related to medical care or motor vehicles.**
- ▶ Q. How long does it take to completely pay off a \$1000 credit card balance if monthly payments are 2% of this balance and there is a 24% interest rate?  
**A. One will never pay off the balance at those payment rates. All payments pay off only interest owed.**
- ▶ Q. About how much more do families with a savings strategy save than those without such a strategy?  
**A. According to one study, if family incomes are the same, those families with a strategy save about twice as much as those who do not have any strategy in place.**
- ▶ Q. What is the only free money for savings that is available to many Americans?  
**A. An employer's match to a contributory workplace retirement plan such as a 401(k). Some employers, up to a certain level, will match each employee dollar contributed, thus guaranteeing at least a 100% yield on this saving activity.**
- ▶ Q. What percentage of elderly individuals depend entirely on Social Security payments for income?  
**A. Currently, twenty-nine percent of individuals age 65 and older relied 100% on Social Security payments for their income.**
- ▶ Q. What is the most effective way to save a substantial amount of money?  
**A. Tell your employer or bank to transfer, each month, as much of your paycheck as possible automatically to a savings or investment account. This is a far more reliable way to acquire a substantial savings amount than to buy lottery tickets or wait for an insurance settlement.**
- ▶ Q. What represents the most effective way families have built assets over the past several decades?  
**A. Through buying a home and paying off the mortgage in full. Almost two-thirds of the assets of homeowners represent home equity.**

#### Top Saving Mistakes

1. Not modifying your spending habits and committing to save.
2. Not taking advantage of your company's match on any plan
3. No setting a specific dollar amount as a target or financial goal.

Source: <http://www.choosetosave.org>

### General Tips on Saving

**S**aving is not as hard as it may appear. Here are some general tips:

- **Save your loose change.** Putting aside fifty cents a day over the course of a year will allow you to save nearly 40% of a \$500 emergency fund. A dollar a day gets you there twice as fast!
- **Keep track of your spending.** At least once a month, use credit card, checking, and other records to review what you've purchased. Then, ask yourself if it makes sense to reallocate some of this spending to an emergency savings account or redesign your spending criteria.



- **Never purchase expensive items on impulse.** Think over each expensive purchase for at least 24 hours. Acting on this principle will mean you have far fewer regrets about impulse purchases, and far more money for emergency savings.

- **Use debit and credit cards prudently.** To minimize interest charges, try to limit credit card purchases to those you can pay off in full at the end of the grace period. If you use a debit card, don't rely on an overdraft feature to spend money you don't have. With either approach, you'll have more money available for emergency savings.

Source: For more specific savings tips (e.g., credit, home and vacation, visit [http://americasaves.org/resources/savings\\_tip.asp](http://americasaves.org/resources/savings_tip.asp)

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