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Don't Go It Alone—Why Planning Is A Family Affair

Having one spouse handle most family financial matters may feel like an equitable division of labor—with the husband, say, monitoring accounts and making investment decisions while the wife manages other household affairs. But it's an approach that could be damaging in the long run. Divorce or death could plunge the remaining spouse into unfamiliar waters—unable, perhaps, even to find crucial information about life insurance and retirement accounts. And if children have been left out of financial discussions, they may fail to appreciate the family's situation and be ill prepared to take on adult financial responsibilities.

Like it or not, most women will one day handle their own finances. According to the Social Security Administration, women live four years longer during retirement than men do, on average, and they comprise almost 60% of Social Security beneficiaries. At age 65, only 43% of women are married, compared with three out of four men. Divorce plays a major role as well. In 2005, the marriage rate was 7.5 per 1,000 people, according to the U.S. Census Bureau, while the divorce rate was 3.6 per 1,000.

It's not that most women are financial novices. According to a recent survey by Oppenheimer Funds, six in 10 wives balance the family checkbook, while more than half pay household bills. The same survey found that 43% considered themselves somewhat or very knowledgeable about investing. Yet that still leaves more than half of women facing a steep learning curve if they're suddenly forced to handle investment responsibilities.

And even when both spouses are around, having one of them take responsibility for a family's finances can be perilous. If family members don't understand their economic situation—how much money comes in each month, what gets spent on fixed expenses as well as discretionary purchases, what the family's short- and long-term saving goals are—it's difficult for them to behave responsibly, and arguments about spending are likely. And if the husband, say, has sole charge of family investments, he may take more risk than if both spouses were responsible for their investments. Taking a flyer on a stock tip is easy when you're sitting alone at your computer; explaining why that sure bet tanked is much harder, as you'll have to do if you and your spouse regularly review account statements.

Failing to bring children into the financial loop could also have unhappy consequences. In many families, money spent on the kids accounts for a large part of the budget, and showering them with extras—from sports camps and music

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Despite Concerns, Most Don't Have A Financial Plan

Even after one of the worst economic downturns in U.S. history, only 17% of Americans have a written and updated financial plan, according to a survey by Certified Financial Planner Board of Standards.

With the value of retirement assets slashed and incomes stalled, it would make sense for people to take steps to rebuild their financial futures. Yet the survey, taken eight months after the economic collapse of October 2008, shows most people don't have a blueprint for getting back on track.

According to the CFP Board survey, a majority of Americans of all incomes and asset levels are worried about managing retirement income, keeping health care insurance, managing debt, and building a retirement fund. Meanwhile, 65% of respondents who employ a financial advisor to help them establish and maintain a financial plan feel they are benefiting from the relationship. Only 46% of those who have a written plan but don't work with an advisor are satisfied.

When it comes to reaching financial goals and life dreams, it doesn't make sense to leave things to chance. A financial plan not only gives you a concrete direction, it helps you stay on course and change direction when necessary.

If you have yet to set up a financial plan, or if your plan is falling short, call our office today so that we can help you chart a solid path to a secure financial future.

Fighting For Lower Credit Card Rates

For beleaguered credit card users, help has arrived. The Credit CARD Act (officially, the Credit Card Accountability, Responsibility, and Disclosure Act), signed into law in May 2009, is being phased in, and major new rules went into effect in February 2010. Banks and other card issuers must now give you 45 days notice before a change to your card agreement can take effect, they can no longer raise interest rates on existing balances unless you're more than 60 days late with a payment, and they aren't allowed to hike the rate on a new card during the first year.

But these changes come at a tough time for banks. The recession has pushed millions of consumers to the brink of bankruptcy, and credit card losses are soaring. In advance of the new rules, credit card issuers have raised rates, slashed credit limits, and demanded higher minimum payments. To avoid paying punitive fees and rates, consider these tactics.

Don't be late. If your payment arrives even a day after it's due, you'll likely be hit with a steep fee and a harsh interest rate increase—in some cases to annual rates exceeding 30%. On a $10,000 balance, that comes to more than $250 a month. The simplest way to avoid being hit with these extra charges is to be vigilant about paying up, perhaps by arranging for automatic payments. And if there's no time to mail a check, pay by phone or online. Even if there's a small fee, you'll come out ahead.

Read your mail. Card companies can't make changes without notifying you in writing—but that's what fine print is for. Don't throw away inserts that come with your bill or delete email notifications without reading them. If you don't want to accept a higher interest rate or a lower credit limit, write back to say you're closing the account.

Ask for a better deal. Banks have the right to raise rates and fees arbitrarily. But you have leverage, too, and simply requesting more favorable terms may pay off. Suppose, for example, you're a long-time customer with a good payment record. If you mislaid a bill or you're having trouble meeting your monthly minimum, a call to customer service to explain your situation could win you a reprieve. Faced with the prospect of a defaulted account, credit card companies fairly routinely cut rates and extend repayment periods for responsible cardholders.

Try some legal muscle. Sometimes card issuers are just wrong. They may charge late fees for payments that arrived on time—and then penalize you for exceeding your credit limit. If you dispute a bank action and aren't getting anywhere, ask to speak to a supervisor, threaten to hire an attorney, even consider hiring an attorney to write a strongly worded letter on your behalf. Lawyers' fees aren't cheap, but here, too, a successful resolution could be well worth the cost. ●

Quiz: The Rules Of Roth IRA Conversions

Roth IRA conversions aren't off limits to six-figure earners anymore. Starting in 2010, you can convert a traditional IRA to a Roth regardless of your income. Previously, such conversions were permitted only in a year in which your adjusted gross income (AGI) didn't exceed $100,000.

Why would you want to convert to a Roth? It's a good idea for many retirement savers. Unlike withdrawals from a traditional IRA, which are taxed as income, "qualified distributions" from a Roth that has been established for at least five years are tax-free. And whereas a traditional IRA forces you to take taxable distributions during retirement, a Roth IRA has no mandatory withdrawals.

Of course, there's no such thing as a free lunch. You must pay tax at ordinary income tax rates on the amount you convert from a traditional IRA to a Roth.

How well do you know the rules? Test your knowledge with these questions.

1. When are contributions to a Roth IRA tax-deductible?
   a) Only when your AGI is less than $100,000
   b) Only when you don't have a traditional IRA
   c) Only when you itemize deductions on your tax return
   d) Never

2. The regular annual contribution limit for a Roth IRA is:
   a) $2,000 c) $6,500
   b) $5,000 d) Unlimited

3. A Roth distribution is not a qualified distribution if it's made:
   a) because of death or disability
   b) after reaching age 59½
   c) to pay first-time homebuyer expenses
   d) to pay higher education expenses

4. When can you contribute to a converted Roth IRA?
   a) Only when you don't have a traditional IRA
   b) Only when your AGI doesn't exceed an annual limit
   c) Only when you're disabled
   d) Never

Should You Convert To A Roth IRA?

For the first time, many higher income earners may qualify for a Roth IRA conversion. Before 2010, you couldn't convert a traditional IRA into a Roth in a year in which your modified adjusted gross income (MAGI) exceeded $100,000. But now, that income restriction has been eliminated. What's more, though converting to a Roth results in income taxes on the amount you transfer, there's a bonus for conversions made in 2010—you get to spread out the income and the resulting tax liability over 2011 and 2012. That not only delays some of the pain of paying for a conversion; it may also save you actual tax dollars, if the lower installment payments keep you from being bumped into a higher tax bracket and tax rates don't increase significantly in 2011 and 2012.

There are good reasons to convert to a Roth. Qualified distributions from a Roth that has been established for at least five years are completely exempt from income tax. You're eligible to receive this tax-free income once you reach age 59½, and qualified distributions are also possible in case of death or disability or to pay first-time homebuyer expenses (up to a lifetime limit of $10,000). And with a Roth IRA, there's no rule requiring that the distributions must begin for holders of traditional IRAs after age 70½. So if you don't need the money, investment gains in your account can continue to compound without being eroded by taxes until a non-spouse inherits the IRA.

Yet these advantages don't necessarily mean you should immediately transfer all of the assets in your traditional IRAs into a Roth. There are numerous variables to consider, and it doesn't have to be an all-or-nothing proposition. It could be beneficial to convert only a portion of your traditional IRA assets. Your answers to these questions could factor into your decision.

1. How will you pay the tax on the conversion? If the money has to come out of the tax-deferred assets you're transferring, it will limit the benefit of the conversion.

2. What's your tax rate? How much you pay now and your expected tax rates during retirement directly affect the conversion equation. While you might normally expect to be in a lower bracket during retirement—thus reducing the value of tax-free Roth income then—federal tax rates are scheduled to revert to higher levels in 2011 and even greater levies could follow for those in top brackets. State and local taxes may also increase.

3. Did you make nondeductible contributions to your traditional IRA? You won't be taxed to convert the nondeductible contributions, but the earnings will be subject to tax.

4. How old are you and other members of your family? This affects how long assets will be able to grow in a converted Roth IRA—and the longer they grow, the bigger the tax advantage. If you have young children who might inherit the income tax-free assets, they may be able to spread out distributions (required after the account goes to the next generation) over many decades.

With all of these factors to consider, deciding whether to convert can be complicated. Suppose, for example, that you are 55, your spouse is 50, and your only child is 25. You have $500,000 in a traditional IRA and you're in the 33% tax bracket. Assume you're planning to convert to a Roth in 2010, you'll elect the two-year schedule recognizing income and paying conversion taxes, and the money will come from outside your IRAs. The Roth IRA assets will earn 4% annually, and you intend to begin withdrawing $1,000 per month at age 70.

The Roth IRA Conversion Optimizer, a tool for wealth management professionals, shows that the optimal "net benefit" of this Roth conversion would be $1.19 million, assuming you transferred all of the traditional IRA's assets.

But changing the scenario slightly results in a different outcome. Suppose you can pay only half of the conversion taxes with outside funds. In this case, converting 100% of the assets would provide a $725,000 net benefit. However, converting only 60% of the traditional IRA assets would produce a net benefit of $809,000.

If you don't have any outside funds to pay the conversion taxes and instead use only the IRA's funds, the net benefit of the Roth conversion greatly decreases. In this example, the benefit is only $231,000 for a 100% conversion and for a 60% conversion it's $320,000. This demonstrates the importance of using outside funds to pay taxes and why a partial conversion can be ideal when outside funds are insufficient.

The variations can be mind-boggling, but you don't have to crunch the numbers on your own. Give us a call and we'll help you decide what works best in your situation. ●

5. After 2010, contributions to a traditional IRA:
   a) will be subject to the old income limits for Roth contributions
   b) will no longer be subject to mandatory distributions
   c) will be eligible for conversion to a Roth IRA
   d) will be taxable

6. The tax on a Roth conversion in 2010:
   a) must be paid in full in 2010
   b) must be paid in full in 2011
   c) can be divided between 2011 and 2012
   d) can be postponed indefinitely

7. What is the age limit for Roth IRA contributions?
   a) 21
   b) 59½
   c) 70½
   d) There is none

8. When can you undo a Roth IRA conversion?
   a) Within one year
   b) By your tax return due date
   c) If your AGI is less than $100,000
   d) Never

9. A Roth conversion is valued for tax purposes on:
   a) the date of conversion
   b) your tax return due date
   c) the last day of the prior year
   d) the first day of this year

10. How often are Roth conversions allowed?
   a) Only one per month
   b) Only one per year
   c) Once in a lifetime
   d) Unlimited

Answers: 1-d, 2-b, 3-d, 4-b, 5-c, 6-c, 7-d, 8-b, 9-a, 10-d

Planning Is A Family Affair

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lessons to private school tuition and vacations abroad—may give them unrealistic views about money. Lack of financial grounding at home may be one reason so many kids have problems with credit cards when they head off to college. According to a 2009 study by student lender Sallie Mae, the average student now has four credit cards and debt of more than $3,000. Six in 10 students in the study said they were surprised at how high their account balances had grown, and 40% said they'd charged things knowing they didn't have enough money to pay the bills.

Transparency and a willingness to talk about family finances can go a long way toward minimizing such problems. If family members understand that setting aside a certain amount each month is crucial to pay for the kids' college and the parents' retirement, they may be more inclined to stick to the budget. Having spouses agree on an investment strategy and then reviewing progress and making needed adjustments can also help. Regardless of each spouse's role in the family finances, maintaining an up-to-date list of accounts, insurance policies, and other financial essentials—and making sure everyone in the family knows where to find the list—can be crucial if the financial decision-maker suddenly dies or becomes incapacitated.

Yet as important as it is for families to work together, many don't. According to a recent study of couples by Fidelity Investments, just four in 10 said they collaborated with spouses on decisions about retirement saving and investing, and only 15% thought that if they died, their spouses would be prepared to take over the family finances. If you need help getting on the same page, we may be able to help. ●

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