Christopher H. Weed CPA, Inc.
Registered Investment Advisor

Christopher H. Weed, CPA/PFS, CFP, MBA (Tax)

1313 W. Robinhood Drive, Suite A-2 • Stockton, CA 95207
P.O. Box 7954 • Stockton, CA 95267-0954
(209) 957-5025 • Fax (209) 957-5027
Website: www.chrisweedcpa.com • e-mail: cweed@pacbell.net

FINANCIAL CONCEPTS APRIL 2011

Retirement in the New Economy

The fact is that the recent recession has changed the way that we think about our money, today and into the future. Young and old, we find ourselves asking, "What does this 'new economy' mean for my retirement?"

A study conducted last year by AgeWave and Harris Interactive titled, "Retirement at the Tipping Point: The Year That Changed Everything," looked into how the recession is impacting Americans' "retirement fears, hopes, attitudes, advice, and plans." They interviewed thousands of Americans across four generations to gather their data.

The results were somewhat predictable in that they unveiled overall trepidation and shifting plans, with a new outlook on the role of retirees in America. The results predict a new era of cautiousness after many saw their retirements, as they had planned them, change dramatically. Yet amidst all of that fear-based caution, there is also an underlying sense of hope. Looking into the survey data further, we find:

Retirement in the new economy may mean working longer. Nearly 60% of Americans have lost money in mutual funds, 401(k) plans, or the stock market. Respondents of the AgeWave/Harris Interactive survey believe it will take an average of seven years for their investments to recover. The report cites that "today's preretirees say they will need to postpone their retirement 4.2 years on average, which would be the first time in history that retirement age significantly increased in America."

Retirement in the new economy means worrying about the cost of health care. The biggest financial

Continued on page 2

Credit Issues as You Age

While obtaining credit can be just as important for older individuals as it is for younger ones, older individuals often have unique credit issues. To help ensure that you don't have credit problems as you age, consider these tips:

- **Apply for major loans while you are still working.** If you are getting close to retirement and know you'll need a loan, perhaps for a retirement home or new car, apply for credit a few years before retirement.
- **Make sure that credit cards are obtained as joint accounts.** If you have an individual account with your spouse listed as an authorized user, the lender can close the account if you die. However, if the account is a joint one, the creditor cannot automatically close the account or change its terms. The lender may require your spouse to update the application if the lender suspects that he/she does not have adequate income for the credit limit.
- **Ensure that both you and your spouse have a good credit history.** Review your credit reports, ensuring that all information is accurate and that you both have sufficient history. That way, either of you will be able to obtain credit if the other dies.
- **If you are denied credit, find out why.** It could have been an error, or you may convince the lender to consider other information. You may also be able to negotiate a compromise with the lender. For instance, if the lender is concerned about your age when considering a 30-year mortgage, perhaps a 15-year mortgage would be acceptable. ❍❍❍

FR2010-0824-0011

Retirement

Continued from page 1

concern among respondents age 55 or older is being able to afford medical expenses during retirement. For them, it is the biggest unknown. Medicare coverage, though helpful, is limited. Retirees are considering supplemental insurance, known as "medigap," as the financial burden of health care can quickly deplete a person's retirement fund.

Nearly 70% of Americans over the age of 65 will need some long-term care, such as home care, assisted living, or nursing home care. In 2008, the average annual cost for a room in a private nursing home was $76,460 a year (Source: Genworth Financial, 2009).

Retirement in the new economy means being more fiscally responsible. Only 4% of respondents strongly agreed that Americans behave in a financially responsible manner. An astounding 81% said that to "live within your means" was the most important financial advice parents could pass on to their children.

Retirement in the new economy means stabilizing your funds. Generally, you should have a larger share of your investments in equities the further you are from retirement; as you approach retirement, you should gradually decrease your equity investments and increase your bond and fixed-income assets — shifting from growth toward income generation. In other words, dialing down the risk in your portfolio as you approach retirement is important.

Retirement in the new economy means finding a new purpose. The majority of Americans — 60% — now say they view retirement to be "a new, exciting chapter in life" and 70% ***want*** to work in retirement as a way to contribute to their community and remain stimulated. It seems that a longer life span now means a longer work span...out of choice as well as necessity.

What's more, we want retirees to work. Nearly 75% of all survey respondents think our country would benefit if retirees were more involved in contributing their skills and experience to community and civic life.

There is no doubt that the recession created anxiety across the nation. As we all take a deep breath and assess our retirement funds, we assess with a new outlook. We have learned a lot. We have learned that working longer can create a new purpose. We have learned that our health is something we need to plan for as much as — if not more than — our retirement. We have learned that being fiscally responsible cannot be overemphasized. We have learned — again — that Americans are resilient and adaptable. We will get through this economic downturn...and be all the wiser.

If you'd like some help assessing your retirement plans, please call. ❍❍❍

Five Common 401(k) Mistakes

While it's true that participation is the first step, simply putting money into a 401(k) plan won't guarantee a comfortable retirement. Consider these five common 401(k) mistakes and how you can avoid them:

1. Believing that simply contributing to your 401(k) plan is sufficient. Your goal should be to contribute the maximum annual limit — $16,500 for people under 50 years of age and $22,000 for investors 50 years of age or older. But living well within your means today can mean a more comfortable retirement tomorrow.

2. Using your 401(k) plan as a savings account. Withdrawing from your 401(k) plan today not only puts a dent in the balance that will compound over time, but if you're not yet at retirement age, the Internal Revenue Service may send you a hefty tax bill for withdrawing that retirement money early. Use other cash assets for those inevitable rainy days.

3. Fearing diversification. Diversification is a risk management technique that mixes a wide variety of investments within a portfolio. It's based on the idea that a mix of different investments may yield higher returns with lower risk than any individual investment.

A good rule of thumb is to invest more in equities the further you are from retirement, and then gradually increase your bond allocation over time to help make that shift from a growth orientation toward an income orientation.

4. Not participating in the company match program. Figure out how to budget your monthly take-home pay accordingly so that you can contribute at least as much as your employer will match (most match 50 cents or $1 for every $1 contribution, up to a certain percentage of pay).

5. Suffering analysis paralysis. Whatever your situation, it is better to be prepared for retirement than not. The mistake here is either failing to tap the benefits a 401(k) plan offers (like company matching) or setting up contributions and then failing to pay attention to how they are allocated and making necessary adjustments.

If you feel like you may be making some of these mistakes, please call. ❍❍❍

Reducing Your Debt — Where to Start

Debt has taken on a negative connotation during this economic recession — out-of-control consumer spending, people living beyond their means, and individuals borrowing more money than they can afford to pay back have all contributed to the current financial crisis. If you find that you have accumulated too much debt, there are various ways to tackle it. Here are a few suggestions to get you started.

Understand your expenses. Produce a list of all your expenditures: mortgage, cell phone bill, medical expenses/prescriptions, car loans, magazine subscriptions, etc. Then categorize them into fixed expenditures (i.e., mortgage and car loans); items that are necessary but not fixed (home phone bill, fuel, etc.); and items that are highly variable (clothes, dining out, etc.).

Create a budget. After coming to a solid understanding of your expenditures, prepare your monthly budget. Include all of the expenditures you just calculated. Then make a list of all your debt obligations and the interest you're charged for each.

Create a line item in your monthly budget for debt payoff. This number needs to be above the minimum payments on your credit card statements. Once you determine the maximum amount you can pay off each month, pay down the debt with the highest interest rate first — that usually means your credit card balances. Once the debt with the highest rate is wiped out, put your money toward paying the debt with the next-highest rate, and so on.

If you have debt besides your home, don't be overly ambitious in paying off your mortgage. Mortgages tend to have lower interest rates than other debt, and you can deduct the interest you pay on the first $1 million of a primary-home mortgage loan.

Lower your expenses. After you've created your budget, think about how you can dedicate more money to debt payoff. Cut down on the extra items in your variable spending category, and put the extra money toward your debt payments.

For many people, reining in discretionary spending for a few months goes a long way toward tackling debt. But if that's not enough, move toward reducing your fixed expenses: think about lowering your household bills, refinancing your mortgage to get a lower interest rate, or asking the credit card company to lower your interest rate.

Increase your income. Consider whether there's any way to boost your take-home pay. Even though the job market is still struggling, it can't hurt to ask for that well-deserved raise or to post for an open position within (or outside of) your company.

What not to do. It may be convenient to borrow against your home equity or your 401(k) to pay off debt, but that can be dangerous. It puts your home at risk and means that you may fall short of your retirement goals. Even if you can't manage your monthly debt payments, lenders are often willing to work with you to create a repayment plan that you can manage (without putting your home or your retirement at risk).

Finally, the best debt-reduction move is to ask for help. Please call if you'd like to discuss this topic in more detail. ❍❍❍

Reassess Insurance at Retirement

As retirement approaches, you should reevaluate your insurance coverage. This will ensure you are adequately protected in all areas, while making sure that your premium costs are minimized. Consider these points:

Health insurance — Since Medicare coverage doesn't begin until age 65, you'll need to consider other coverage if you retire before that age. Even with Medicare, many costs aren't covered, so you'll want to consider supplemental coverage. With health insurance premiums so high, you might want to raise deductibles and copayments to lower premiums.

Long-term-care insurance — This insurance covers the cost of nursing homes or home health care. If you have significant assets, you may prefer to pay any costs yourself rather than pay for insurance. If you have few assets, Medicaid is likely to pay most of the cost. Those in most need of this insurance are individuals with moderate assets who don't want to deplete those assets to pay for nursing home costs.

Homeowners insurance — Make sure your coverage is sufficient to rebuild your home if it is destroyed. Keep your liability limits high to protect you in case you are sued.

Liability insurance — Your auto and homeowners insurance should provide some coverage. If those limits don't at least equal your net worth, obtain liability insurance to cover the difference.

Life insurance — Whether you need life insurance will depend on your individual circumstances. You may not need life insurance if your children are grown and you have sufficient assets to support your spouse after your death. However, you may need life insurance to provide for a spouse or child or to provide for the payment of estate taxes.

Before retiring, review all your insurance to determine if it is appropriate for your new circumstances. ❍❍❍

Clamp Down on Spending

If you're trying to increase savings, remember that savings are directly tied to spending — the less you spend, the more you have to save. Looking for ways to increase your savings? Some tips to help you clamp down on your spending include:

❍ **Analyze your spending for a month.** Are you surprised by how much you spend on dining out, groceries, entertainment, or clothing? Give serious thought to your purchasing patterns, looking for ways to reduce spending. Clean out your closet and really assess whether you need new clothes. Cut back on how often you dine out or at least go to less-expensive restaurants. Rent a movie instead of going to the theater. Make a list before grocery shopping and don't deviate from it. Look for coupons and sales before shopping.

You may scoff at these ideas for saving money, thinking you can't possibly add much to your savings. After all, you're just spending a few dollars here and there. But over a long time period, even modest amounts can grow to significant sums.

❍ **Go over major expenditures also.** When was the last time you comparison shopped your auto or homeowners insurance? Have you checked mortgage rates lately to see if you should refinance? Have you reviewed strategies to reduce your income taxes? Take a look at all of your major expenditures, looking for ways to save money.

❍ **Make a spending plan and put it in writing.** Budget for all major expenditures and resolve not to purchase items that aren't in your budget.

❍ **Throw out your credit cards (or at least hide them for a while).** Most people find it more difficult to spend cash than to charge a purchase. So, for the next couple of months, make sure to only purchase items with cash.

❍ **Don't purchase items over a fairly low dollar amount on your first shopping trip.** How often have you purchased something on impulse, only to realize when you arrived home that you really didn't need it? To control those impulses, compare price and value on your first shopping trip. Then go home, think about whether you really need the item, and purchase it on another trip. Often, you will realize you don't even need to make the purchase.

❍ **Think carefully before making major purchases, such as a vacation home or sports car.** Often, upkeep and maintenance can add significantly to your costs. Consider a less-expensive car or a used car. Keep your car for four or five years instead of getting a new one every two or three years.

❍ **Figure out the maximum amount you can afford for a house and then buy one substantially less expensive than that.** Not only will you save on your mortgage payment, other costs associated with owning a home will be lower. Living well within your means is one of the best ways to ensure you have money left over for saving.

Learn to clamp down on your spending, and your savings should increase as a result. Please call if you'd like help in this area. ❍❍❍

FR2010-0824-0011

Did You Know?

Almost half of individuals age 65 or older said they pay more for insurance and health care expenses than they had anticipated when planning for retirement. Less than one-third of retirees had saved specifically for the cost of health care in retirement during their working years (Source: *Employee Benefit News*, 2010).

The overall value of employer-financed retirement benefits, including retiree medical and life insurance plans, fell by 19% over the past decade (Source: Towers Watson, 2010).

A study by the Federal Reserve found that the median borrower who strategically defaulted on a mortgage did so only after the loan amount exceeded the home's value by 62%. The study also tracked borrowers in Arizona, California, Florida, and Nevada who bought homes in 2006 using nonprime mortgages with 100% financing. By September 2009, almost 80% of those mortgages were in default (Source: Federal Reserve, 2010).

In a recent survey, 39% of respondents defined financial success as being debt free. The appeal of being debt free varied according to age, with half of those age 65 and older citing no debt as a measure of success, compared with only 30% of those between the ages of 18 and 34. Nearly one-third of all respondents defined financial success as being able to save for long-term goals such as education and retirement (Source: TD Ameritrade, 2010). ❍❍❍