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FINANCIAL*ink*

Your Money Management Newsletter

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*Snap*SHOTS

FEELING CONFIDENT

Survey respondents who felt confident in having enough money to live comfortably throughout retirement identified these top reasons for their confidence:

Source: *Journal of Financial Planning,* May 2011

Up FRONT

24%

Percentage of workers with total savings and investments of $100,000 or more

Source: Employee Benefit Research Institute, 2011

Quick HITS

Fifty-five percent of households with a traditional IRA have rolled over assets from an employer-sponsored retirement plan.[1]

Employers expect to hire 19% more recent college graduates in 2011 than they did in 2010.[2]

Children with savings accounts in their own names are six times more likely to attend college than those without savings accounts.[3]

There are currently 2.9 workers for each Social Security beneficiary.[4]

Prescription medicines make up 21.5% of U.S. health-care expenditures.[5]

1) Investment Company Institute, 2011
2) *Money,* June 2011
3) MoneyWatch.com, May 17, 2011
4) Social Security Administration, 2011
5) U.S. Department of Health and Human Services, 2010

Practical insights for your **FINANCIAL GOALS**

To Roll or Not to Roll: **IT'S YOUR CHOICE**

It used to be common for employers to encourage (or require) departing employees to withdraw their money from the company's retirement plan.[1] Like most employee benefits, an employer-sponsored retirement plan is typically an expense for the employer.

Now that the baby-boom generation has started reaching retirement age (at the rate of about 10,000 per day), some employers are encouraging departing employees to leave their retirement savings in the company plan.[2–3] These employers are finding that the loss of large employee accounts can diminish their leverage when negotiating with plan administrators, possibly making their retirement plans less attractive to current and prospective workers.[4]

If and when you leave your current job, either to retire or to take a new position, understanding the options for your retirement savings may help you make decisions that serve *your* interests and not those of a former employer.

STAY VERSUS ROLL

Employees are under no obligation to leave money invested in a former employer's retirement plan but are free to roll it over to a traditional IRA. A properly executed IRA rollover can help preserve the tax-deferred status of retirement assets and avoid unwanted tax consequences and penalties. However, there are some subtle differences between IRAs and employer plans to be aware of before you decide how to proceed.

Investment options. The investment options in an employer plan tend to be limited by the plan administrator. The investment options available in IRAs are nearly unlimited.

Early withdrawals. If you think you might tap your retirement assets early, you may want to leave them in the employer plan. Normally, a 10% federal income tax penalty applies to distributions from traditional IRAs and employer retirement plans before age 59½. However, you may be able to avoid this penalty with an employer plan if you sever employment during or after the year in which you turn 55. [The age 55 exception does not apply to IRAs, annuity contracts, or modified endowment contracts (MECs), nor does an exception for death apply to MECs.]

You may also be able to withdraw money from a former employer's plan or an IRA and avoid the early-withdrawal penalty by taking a *series of substantially equal periodic payments* (based on life expectancy) that continue for at least five years or until age 59½, *whichever occurs later.*

Early withdrawals may be penalty-free in the event of death or disability. IRA exceptions to the penalty also include a first-time home purchase ($10,000 lifetime maximum), unreimbursed medical expenses that exceed 7.5% of adjusted gross income, and qualifying higher-education expenses. Withdrawals from traditional IRAs and employer-sponsored retirement plans are subject to ordinary income tax.

Keeping track of multiple accounts. Over the course of your career, you could accumulate several retirement accounts. Rolling them all into a single IRA may give you a better perspective of your retirement portfolio and help reduce the potential for losing track of your money.

Creditor protections. Employer plans have strong creditor protections enshrined in federal law. Money rolled into an IRA from an employer plan typically enjoys the same protections.

There is no one-size-fits-all solution. A careful evaluation of your circumstances could help you decide what to do with your retirement assets when you change jobs or retire.

1, 3–4) *The Wall Street Journal,* May 8, 2011
2) Pew Research Center, 2010

Full or Partial?

Amount of most recent traditional IRA rollover from employer-sponsored plan

Time to Consider CAPITAL GAINS *and* DIVIDENDS

The 2010 Tax Relief Act temporarily extended the favorable tax rates on long-term capital gains and qualified dividends that have been in effect since 2003. The extension on dividend taxes alone is expected to save individual investors almost $75 billion in 2011 and 2012.[1]

Because these tax rates are scheduled to become significantly higher in 2013, this might be a good time to consider how potential tax changes could affect you.

CURRENT TAX RATES

Under current provisions, long-term capital gains and qualified dividends are taxed at a 0% rate for taxpayers in the 10% and 15% federal income tax brackets, and at a 15% rate for taxpayers in higher brackets.

Long-term capital gains are profits from investments held for more than one year. Short-term capital gains — profits on investments held for one year or less — are taxed as ordinary income. This is not scheduled to change.

Qualified dividends must be received from a domestic corporation or a qualified foreign corporation, and the underlying stock must be held for at least 61 days within a specified 121-day period. This period begins 60 days prior to the ex-dividend date (the day after the last date that an investor can buy the stock and receive the dividend).

WHAT'S COMING?

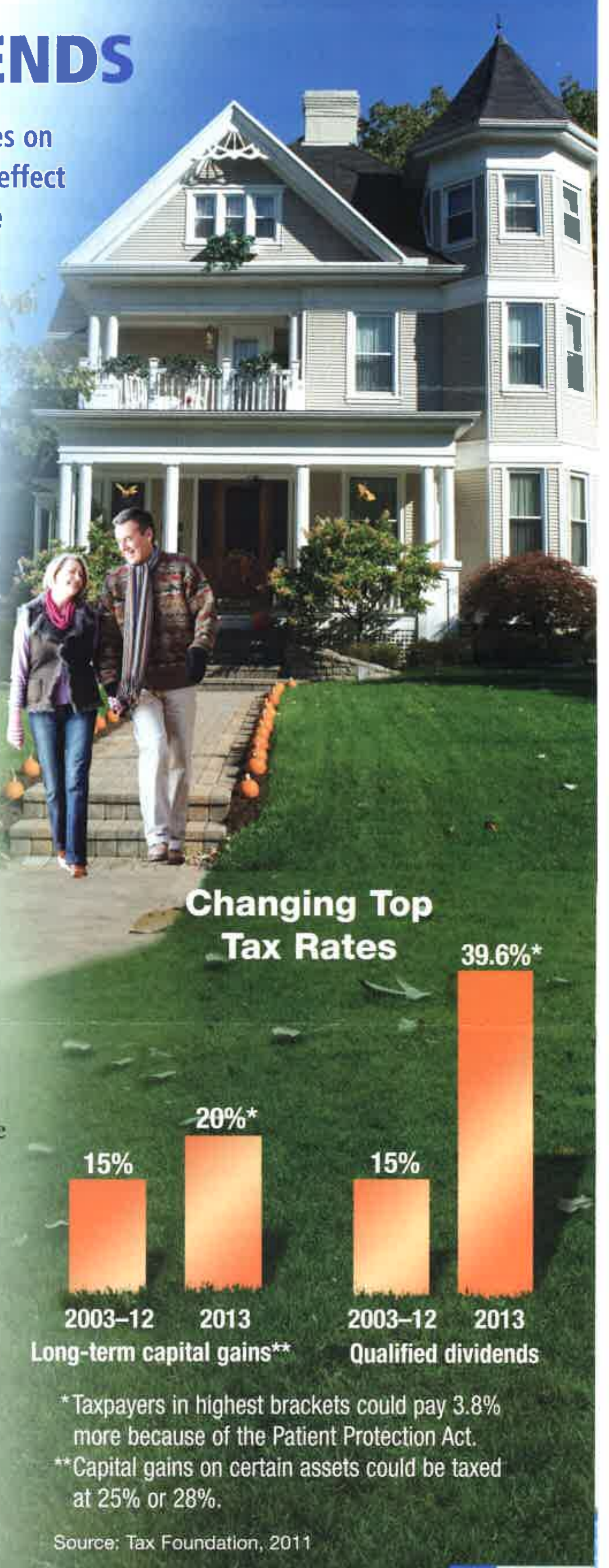
Unless there is further legislation, tax rates on capital gains and dividends will revert to pre-2003 levels after 2012.

If this occurs, the maximum rate on long-term capital gains will rise to 20% (10% for taxpayers in the 15% tax bracket). Qualified dividends will be taxed as ordinary income. Because the top federal income tax rate is scheduled to rise to 39.6% after 2012, this could mean a 164% increase in taxes on qualified dividends for taxpayers in the highest bracket.

Also beginning in 2013, individuals with modified adjusted gross incomes exceeding $200,000 ($250,000 for couples filing jointly) may be subject to a 3.8% Medicare tax on net investment income *(unearned income).* Net investment income includes capital gains, dividends, interest, royalties, rents, and passive income. Thus, an investor in the highest tax bracket could pay as much as 43.4% on qualified dividends (39.6% income tax plus 3.8% Medicare tax).

Taxes are important, but they are not the only consideration when deciding whether to hold or sell an investment. Even so, the specter of higher taxes could affect your investment decisions. Be sure to consult with a tax professional before taking any specific action.

1) BusinessWeek.com, December 8, 2010



Taking a Long Look at **SOCIAL SECURITY**

Social Security experts have been warning that the program's obligations to retirees will eventually exceed its income from tax revenues. That moment arrived somewhat earlier than expected. In 2010, the program paid out $49 billion more to beneficiaries than it collected in payroll taxes. A $46 billion deficit is projected for 2011.[1]

This shortfall was hastened by the weak economy and high unemployment. Because fewer people are working, the program is collecting less tax revenue than expected.[2] The program's financial condition was also likely affected by the temporary reduction in the employee portion of the Social Security payroll tax that is in effect for 2011 only.

Although these developments are troubling, Social Security is still solvent. Drastic changes are not expected anytime soon. Nonetheless, it might be a good idea to adjust your expectations regarding the role that Social Security could play in your retirement income.

By the Numbers: 2011 Benefits

	Per month
Average Social Security retirement benefit	**$1,174**
Maximum Social Security retirement benefit	**$2,366***

*Assumes retirement at age 66, based on earnings at the maximum taxable amount for every year after age 21.

Source: Social Security Administration, 2011

BIG PROBLEMS

One of Social Security's biggest problems is demographic. In 1945, about 42 workers were paying into the system for each person collecting benefits. The ratio had fallen to about three workers per beneficiary by 2011 and is projected to fall to about two to one by 2030.[3]

Over the years, Congress has borrowed surplus Social Security revenues by using them to purchase special-issue Treasury bonds, which are held in the so-called Social Security trust funds. The interest paid on these bonds is expected to cover revenue shortfalls until 2023, when the program may need to start redeeming the bonds to meet its obligations.[4]

Congress has considered several options for shoring up Social Security, including raising taxes, increasing the retirement age, and reducing benefits.[5] No changes have been made yet, but it wouldn't be surprising if some or all of these measures were eventually adopted.

The longer you have until retirement, the greater the possibility that Social Security could undergo changes that may affect your retirement income and lifestyle. As you prepare for retirement, reducing your Social Security expectations may help you focus on building other forms of retirement savings.

1–4) Social Security Administration, 2011
5) *U.S. News & World Report,* May 12, 2011

Do you anticipate changing jobs soon? Do you have money in a former employer's retirement plan? We can help you review your options for managing your retirement assets.

Working toward a better financial future,