

# FINANCIALink

Your Money Management Newsletter



Gregory Taranto, CPA

## TARANTO FINANCIAL SERVICES & CPAs

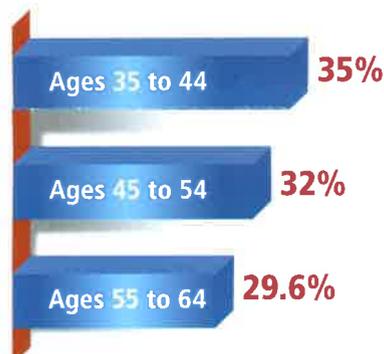
1263 Route 31 • Lebanon, NJ 08833  
 (908) 730-7211 • Fax (908) 735-5524  
 Email: gtaranto@americanportfolios.com  
 www.TarantoAssociates.com

## SnapSHOTS



### TRENDING HIGHER

Average increase in 401(k) balances from January 1, 2009, to February 28, 2010, for workers who have been in their jobs for 10 to 19 years.



Source: Money, April 2010

## Up FRONT

**10,000+** Number of baby boomers who will become eligible for Medicare and Social Security every day over the next 20 years.

Source: Journal of Financial Planning, April 2010



## Quick HITS

**The average** tax rate paid by the 400 highest-earning households in the United States was 16.6% in 2007.<sup>1</sup>

**Fifty-six percent** of workers expect to receive retirement income from a defined-benefit pension plan, despite the fact that only 37% of them have this type of plan with a former or current employer.<sup>2</sup>

**About 54%** of workers are either “very” or “somewhat” confident that they will have enough money to retire comfortably.<sup>3</sup>

**Seven in 10** Americans don't have a current will.<sup>4</sup>

**Universities** such as Brown, Duke, Harvard, and Stanford report that their combined tuition, fees, and room and board will break \$50,000 for the first time in the 2010–2011 academic year.<sup>5</sup>

Sources:

- 1) Journal of Financial Planning, April 2010
- 2–3) 2010 Retirement Confidence Survey, Employee Benefit Research Institute
- 4) LegalZoom.com, 2010
- 5) The Wall Street Journal, March 27, 2010

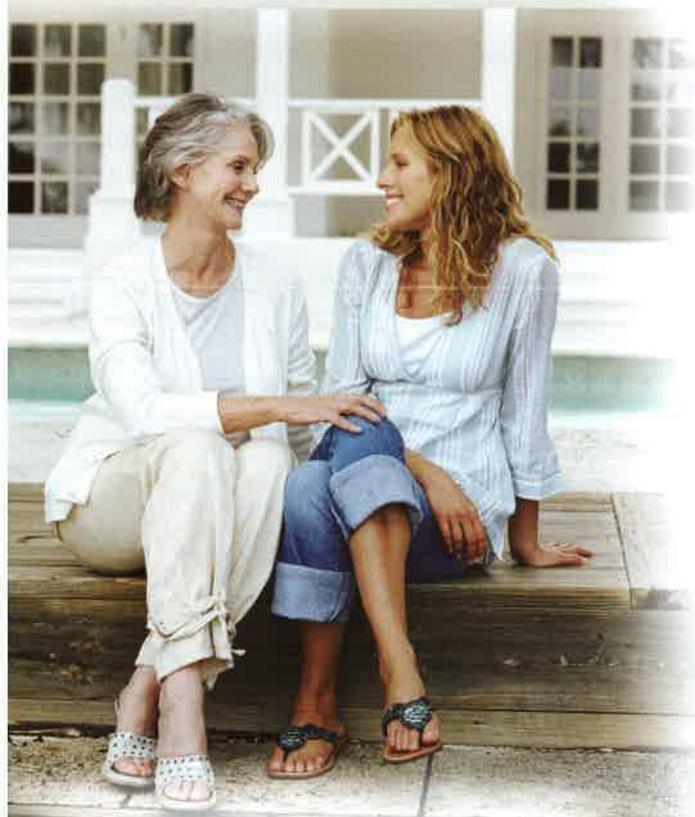
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Practical insights for your **FINANCIAL GOALS**

# An Estate Is a **TERRIBLE THING TO WASTE**

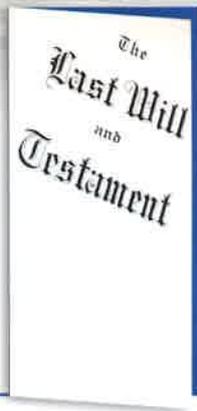
If you have a current will, consider yourself ahead of most Americans when it comes to estate planning. In fact, a recent survey found that an alarming 70% of Americans don't have this most basic estate conservation document.<sup>1</sup>



## What Makes a Legacy?

Baby boomers who say the following bequests are very important

77%



Values,  
life lessons

34%



Possessions of  
emotional value

10%



Financial  
assets

Source: Money, April 2010

With a will, you can direct the probate courts that oversee the distribution of your estate. You can also name legal guardians for minor children and their inherited assets.

A will is certainly the best place to start. However, the goal of any estate strategy should be a smooth transfer of wealth to your heirs, and it may take more than simply having a current will.

## POWERS OF ATTORNEY

Powers of attorney are used to designate someone to make financial and/or medical decisions on your behalf. Powers of attorney can be specific, designating your agent to act for you only in certain circumstances, or they can be general, giving your agent the authority to make any and all decisions on your behalf. You may want to create separate powers of attorney for finances and medical care.

## BENEFICIARY DESIGNATIONS

It's a good idea to make sure that the beneficiary designation forms for your retirement plans and life insurance policies are properly completed and accurate. Retirement plan assets and life insurance proceeds are generally exempt from the probate process and transfer directly to the designated beneficiaries.

## TRUSTS

A trust is a separate legal entity that holds your assets and distributes them according to your wishes. Some trusts can help reduce estate taxes or place conditions on heirs who inherit your property. Others can be used to make charitable donations, to provide for family members with special needs, and to help prevent posthumous challenges from disgruntled parties.

The use of trusts can involve a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional before implementing such strategies.

Even a comprehensive estate strategy may be of limited use if it is out of date. You can help ensure the effectiveness of your strategy by periodically reviewing your will, powers of attorney, and beneficiary designation forms to verify that they are current.

1) LegalZoom.com, 2010

# Retirement with **ALL THE FIXINS'**

**F**ifty-six percent of workers expect to receive income in retirement from a defined-benefit pension plan, despite the fact that only 37% of them have this type of plan with a former or current employer.<sup>1</sup> Considering that companies have been cutting back on pension benefits, the likelihood of securing a pension to provide retirement income is decreasing.<sup>2</sup>

One of the most appealing aspects of a traditional pension is a guaranteed lifetime income. Fortunately, you can begin building your own guaranteed lifetime income with a fixed annuity, regardless of the future pension landscape.

## GETTING YOUR FIX

A fixed annuity is a contract with an insurance company that can be funded by either a lump sum or regular payments over time. In exchange, the insurance company agrees to pay you an income for a specified period or for the rest of your life.

There are two general types of annuities. An *immediate annuity* is typically funded with a lump-sum premium. Payments start immediately thereafter and continue for the duration of the contract. A *deferred annuity* can be funded with either a lump-sum premium or a series of payments over time. Payments start at some point in the future, as determined by the annuity contract, at a rate that reflects the value of any tax-deferred growth during the accumulation period.

## FIXED FLEXIBILITY

You may have the option of receiving annuity payments that last for the lives of both you and your spouse (or selected beneficiary). In some cases, if you opt for payments that last for a specified period and

you die before the contract ends, the income can be paid to a beneficiary for the remaining time period.

The amount of income an annuity will generate depends on the total premiums paid, the contract's rate of return, the number of years over which payments are to be paid, and other contract provisions.

Generally, annuities have contract limitations, fees, and expenses. Most annuities have surrender charges that are assessed during the early years of the contract if the annuity is surrendered. Withdrawals of annuity earnings are taxed as



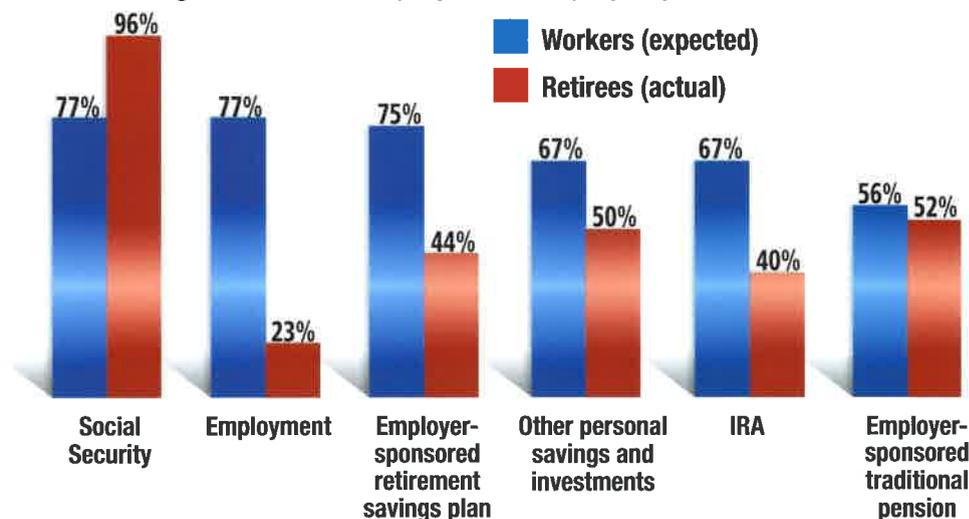
ordinary income. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty. Any guarantees are contingent on the claims-paying ability of the issuing insurance company.

If you are interested in having a guaranteed source of retirement income and don't have access to a traditional pension plan, you may want to consider a fixed annuity.

1-2) Employee Benefit Research Institute, 2010

## Expected and Actual Sources of Retirement Income

The differences between workers' expected sources of retirement income and retirees' actual sources of income can be telling. For example, are you overestimating the role that employment will play in your retirement?



Source: 2010 Retirement Confidence Survey, Employee Benefit Research Institute

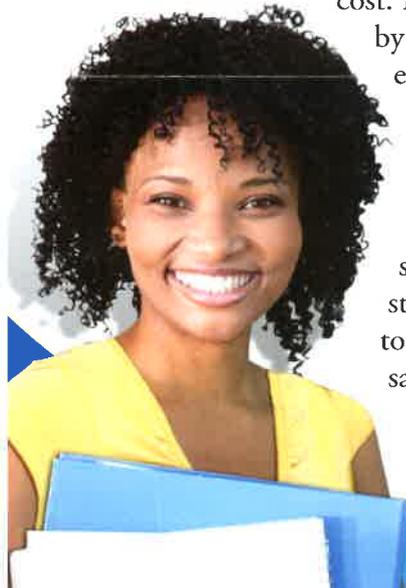
# Keeping Up with COLLEGE COSTS

The cost of a college education continues to rise rapidly, reaching new highs along the way. Universities such as Brown, Duke, Harvard, and Stanford report that their combined tuition, fees, room, and board will break \$50,000 for the first time in the 2010–11 school year.<sup>1</sup>

This worksheet can help you prepare for these mounting costs. Enter a child's name and age. Estimate the current annual college cost and multiply it by the future cost factor listed in the table. The result is the estimated future cost. Multiply that figure by the savings factor to estimate the annual savings required to help fund the child's education.

If you have already started saving, you're a step ahead. Call today to review your college savings goals.

1) *The Wall Street Journal*,  
March 27, 2010



COLLEGE COST WORKSHEET					
NAME OF THE CHILD	AGE	CURRENT ANNUAL COLLEGE COST	X	ESTIMATED FUTURE COST FACTOR	= ESTIMATED FUTURE COST
Carol (example)	8	\$ 15,000	X	7.021	= \$ 105,315
_____	_____	\$ _____	X	_____	= \$ _____
_____	_____	\$ _____	X	_____	= \$ _____

Estimated inflation rate: 5%

AGE OF THE CHILD	ESTIMATED FUTURE COST FACTOR	SAVINGS FACTOR	AGE OF THE CHILD	ESTIMATED FUTURE COST FACTOR	SAVINGS FACTOR
1	9.879	0.039	10	6.368	0.105
2	9.408	0.042	11	6.065	0.123
3	8.960	0.046	12	5.776	0.147
4	8.534	0.051	13	5.501	0.181
5	8.127	0.056	14	5.239	0.232
6	7.740	0.063	15	4.990	0.317
7	7.372	0.070	16	4.752	0.488
8	7.021	0.080	17	4.526	0.952
9	6.686	0.091	18	4.310	1.000

ESTIMATED FUTURE COLLEGE COST	X	SAVINGS FACTOR	=	ANNUAL SAVINGS REQUIRED
\$ 105,315 (Carol)	X	0.08	=	\$ 8,425
\$ _____	X	_____	=	\$ _____
\$ _____	X	_____	=	\$ _____

Estimated investment return: 5%

This hypothetical example is used for illustrative purposes only and does not represent any specific investment. Taxes and investment expenses are not considered.

The information in this newsletter is not intended as tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Emerald. Copyright 2010 Emerald.

*Are you prepared for the future costs of college? Will you be able to help your loved ones pay for higher education? Call today to learn more about how you can help provide some of your own financial aid.*

*Working toward a better financial future,*