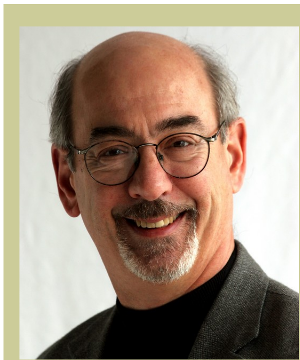

THE PERSONAL PLANNER

Personal Financial Planning Tips for Today and the Rest of Your Life

March 2011

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February... what a mess! It started with a mega-inch snowfall that took a week to clean up and now it's ending with the State of Wisconsin in complete disorder and who knows how long it will take to clean this up.

The political disorder was not confined to Wisconsin, of course, as the uprisings in the Middle East keep spreading. The potential for political disruption raised investor concerns about the reliability and cost of Gulf oil supplies and kind of spoiled what had been a pretty decent month in the equity markets. Still we finished on the positive side for the month and that's progress, I guess.That doesn't mean that we're out of the woods though. Continued unrest in middle East will undoubtedly have repurcussions in our portfolios, even if the uprisings result in positive political change.

Enjoy this issue and the onset of Spring.

Bruce R. Heling, CFP CPA

In this issue:

HELING ASSOCIATES
Bringing the Personal to Financial Planning

Saving for Retirement and a Child's Education at the Same Time

You want to retire comfortably when the time comes. You also want to help your child go to college. So how do you juggle the two?

Know what your financial needs are

The first step is to determine what your financial needs are for each goal. Answering the following questions can help you get started:

For retirement:

- How many years until you retire?
- Does your company offer an employer-sponsored retirement plan or a pension plan? Do you participate? If so, what's your balance? Can you estimate what your balance will be when you retire?
- How much do you expect to receive in Social Security benefits?
- What kind of lifestyle do you hope to have in retirement? For example, do you want to travel extensively, or will you be happy to stay in one place and live more simply?
- Do you or your spouse expect to work part-time in retirement?

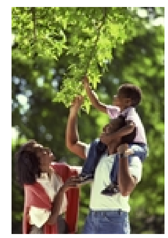
For college:

- How many years away is college?
- Will your child attend a public or private college? What's the expected cost?
- Do you have more than one child?
- Does your child have any special skills that could lead to a scholarship?
- Do you expect your child to qualify for financial aid?

Figure out what you can afford to put aside each month

After you know what your financial needs are, the next step is to determine what you can afford to put aside each month. To do so, you'll need to prepare a detailed family budget that lists all of your income and expenses. Once you've come up with a dollar amount, you'll need to decide how to divvy up your funds.

Retirement takes priority



Though college is certainly an important goal, you should probably focus on your retirement if you have limited funds. With generous corporate pensions mostly a thing of the past, the burden is primarily on you to fund your retirement. But if you wait until your child is in college to start saving, you'll miss out on years of tax-deferred growth and compounding of your money. Remember, your child can always attend college by taking out loans (or maybe even with scholarships), but there's no such thing as a retirement loan!

Help! I can't meet both goals

If the numbers say that you can't afford to educate your child or retire with the lifestyle you expected, you'll have to make some sacrifices. Here are some things you can consider.

Defer retirement: The longer you work, the more money you'll earn and the later you'll need to dip into your retirement savings. Or, consider working part-time during retirement.

Make changes to your lifestyle now or in retirement: You might be able to adjust your spending habits now, or you may consider cutting back in retirement.

Increase your earnings now: Consider increasing your hours at your current job, finding a new job with better pay, taking a second job, or having a previously stay-at-home spouse return to the workforce.

Invest more aggressively: But remember that aggressive investments mean a greater risk of loss.

Send your child to a less expensive school: Don't feel guilty--a lesser-known liberal arts college or a state university may provide your child with a similar quality education at a far lower cost.

Social Security Survivor's Benefits

You might think Social Security is a program that only provides you with a monthly income after you retire. But what you might not realize is that Social Security may also provide monthly payments in the form of survivor's benefits, based on your work record, to certain members of your family after your death.

Earning survivor's benefits

In order to be able to provide Social Security survivor's benefits to your family, you have to earn those benefits. Generally, to be eligible for survivor's benefits, you must pay Social Security taxes and you have to work long enough to earn sufficient credits to be fully insured. The length of time you need to work and pay Social Security taxes depends on your age--the younger you are, the fewer years you need to work. But in any case, if you've worked at least 10 years (the equivalent of 40 credits) you'll be fully insured for any Social Security benefits, including survivor's benefits.

Even if you haven't worked long enough to be fully insured, if you've worked at least 1½ years out of the 3 years immediately before your death, survivor's benefits will be available to your dependent children and to your spouse if he or she is caring for your children.

Of the total new benefits awarded by Social Security in 2009, 16% was paid to survivors of deceased workers. Source: Social Security Administration

Who can receive survivor's benefits?

Your spouse is eligible to receive full survivor's benefits at your spouse's full retirement age. Full retirement age is 66 for people born between 1943 and 1954, and gradually increases until reaching age 67 for people born in 1960 or later. Your spouse can receive reduced survivor's benefits as early as age 60. If your spouse is disabled, he or she can begin receiving survivors benefits as early as age 50. And your spouse can receive survivor's benefits at any age if he or she is caring for your child who is receiving Social Security benefits and is under age 16 or disabled.

Your former spouse, if you've been divorced, may receive survivor's benefits if your marriage lasted at least 10 years, and your former spouse does not remarry before age 60 (remarriage after age 60 will not affect your former spouse's eligibility for benefits based on your work record). If your former spouse is caring for his or her child who is under age 16 or who is disabled and entitled to benefits based on your work record, your former spouse may receive benefits at any age. In that case, your former spouse need not meet either the age or length-of-marriage requirements.

Your unmarried children may receive survivor's benefits if they are younger than age 18 or age 19 if they're attending elementary or secondary school full-time. If your child was disabled before reaching age 22, and remains disabled, he or she is eligible for benefits at any age. Also, your stepchildren, grandchildren, stepgrandchildren, or adopted children may be eligible for benefits under certain conditions.

Your dependent parents can get survivor's benefits if they're at least age 62 and you provide at least one-half of their support.

How much will the benefits be?

The easiest way to find out how much your family may receive in survivor's benefits is by checking your Social Security statement, which is sent to you each year beginning at age 25. Generally, survivor's benefits are based on your basic benefit amount, which can be increased by delayed retirement credits, or reduced if you claimed retirement benefits before reaching full retirement age. The amount your survivors receive is based on a percentage of your basic benefit, and the percentage, in turn, is based on the survivor's age and relationship to you.

For example, at full retirement age, your surviving spouse can receive 100% of your retirement benefit. However, if your spouse claims survivor's benefits between age 60 and under full retirement age, then the benefit will be reduced to between 71% and 99%, depending on his or her age. An eligible child and a surviving spouse caring for a child under age 16 would receive 75% of your benefit amount. At your death, there is also a one-time death benefit of $255 paid to your surviving spouse or child under certain circumstances.

Limits on benefits

Depending on the circumstances, the total amount of monthly benefits your family can receive is capped at between 150% and 180% of your retirement benefit amount. Your survivor's benefits may be reduced if you're receiving a pension from an employer that didn't contribute to Social Security, like federal civil service, or if you're under your full retirement age but still working, and your earnings exceed certain limits.

Social Security survivor's benefits are an important means of providing for the continued support of your family members after your death. For more information, go to the Social Security website, www.ssa.gov.

Important Questions to Ask Aging Parents

Remember "the talk" your parents initiated (maybe) with you many years ago? Well, now it's your turn to sit on the opposite side of the table. If you're the adult child of aging parents, it's important to open up a conversation about their future needs and wishes. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.

The reality, though, is that many adult children would rather avoid such a discussion, because it can create feelings of fear and loss on both sides, and adult children want to avoid getting too personal by asking about financial or other matters. Here are some questions in the areas of finances, health, living situation, and memorial wishes that can help you start a conversation.

Finances

- What institutions hold your assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers and online user names and passwords, if applicable. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you currently work with any financial, legal, or tax advisors? If so, get a list of names with contact information.
- How often do you meet with your financial advisor? Do you think it would be helpful to do so soon? Would you like me to come?
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills?
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if he or she becomes disabled or incompetent.
- Do you have a will? If so, find out where it's located and who is named as executor. If it's more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now (e.g., Aunt Agnes should get the china set).
- Are your beneficiary designations up-to-date? Designated beneficiaries on insurance policies, pensions, IRAs, and investments trump any instructions in your parents' wills.
- Do you have an overall estate plan? A trust? A living trust can help manage an estate while your parents are still living.

Health

- What doctors do you currently see? Do they have experience treating seniors? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking?
- What health insurance do you have? In addition to Medicare, which kicks in at age 65, find out if your parents have or should consider Medigap insurance--a private policy that covers many costs and services not covered by Medicare--and long-term care insurance, which covers the need for extended medical care.
- Do you have an advanced medical directive? This document includes your parents' wishes regarding life-support measures and the name of the person who will communicate on their behalf with health-care professionals. If your parents do not want heroic life-saving measures to be taken on their behalf, this document is a must.

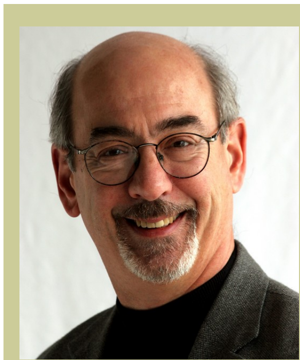
Living situation

- Do you plan to stay in your current home, or have you thought about downsizing to a condominium or townhouse?
- Is there anything I can do now to make your home more comfortable? This might include smaller projects like installing hand rails and night lights in the bathroom to bigger projects like moving the washing machine out of the basement, installing a stair climber, or moving a bedroom to the first floor.
- Do you employ certain people or companies for home maintenance projects (i.e., heating contractor, plumber, electrician, fall cleanup)?

Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific music or reading requests, or other wishes for your memorial service?

The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.



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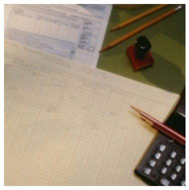

I won $2,000 on a slot machine, but I've lost more than that over the year. Will I have to pay tax on the $2,000?

If total gambling losses for the year equal or exceed total winnings, common sense might lead you to believe that the two would cancel out without any tax consequence. That might not necessarily be the case, however.

Let's start with your gambling winnings. All gambling winnings have to be included in your income. Because you won over $1,200 on a slot machine, you should have received (or should be receiving) a Form W-2G. This W-2G will show the $2,000 that you won. Assuming that you're not a professional gambler, this amount, plus any other gambling winnings you received for the year (regardless of whether or not the winnings are documented with a W-2G), are reported as "other income" on Form 1040.

You can generally deduct gambling losses, but only up to the amount of your gambling winnings. And, unless you're a professional gambler, gambling losses are claimed as an itemized deduction on Form 1040, Schedule A (as a miscellaneous deduction not subject to the 2% adjusted gross income limit). That's important, because many individuals find that the standard deduction amount that they are entitled to exceeds the total amount of itemized deductions that they are able to claim. If that's the case, you won't get a direct deduction for your gambling losses.

For example, assume that you file as single on your federal income tax return, and your only itemized deduction is a $2,000 gambling loss. If you qualify for a $5,800 standard deduction, you're better off taking the standard deduction. Your total tax due would be unaffected by your gambling losses, even though your taxable income is increased by your gambling winnings.

If you itemize your deductions on Schedule A, you'll want to keep good records of all of your gambling winnings and losses--this will be important if your losses are questioned by the IRS.

Additionally, check with your state (and if the winnings occurred in another state, that state as well) to determine if you have any state tax obligations on the winnings.

I gamble a lot. Should I file as a professional gambler?

In determining whether you are a professional gambler, all of the facts and circumstances relating to your gambling activity have to be taken into account. The fact that you spend a great deal of time gambling, and are occasionally able to make money at it does not mean that you're a professional gambler. If you conduct your gambling activities in a businesslike manner, dedicate significant time, effort, and resources, and you have the expertise and experience to reasonably pursue gambling as a profitable business, you *might* be considered a professional gambler. Also significant is whether you actually rely on your gambling income to live (i.e., do you have other sources of income?), and whether you've actually had demonstrable success, recently or in the past. The fact that you enjoy gambling, does not disqualify you from being a professional gambler, but it cannot be your driving motivation.

What difference does it make? If you are a professional gambler, you are in the business of gambling. Like other self-employed individuals who own a business, you report your income (in this case, your gambling income) on Form 1040, Schedule C. Because you're self-employed, you'll be responsible for paying self-employment tax on your net business income (calculated on Form 1040, Schedule SE). If gambling were simply a hobby (not a business), you would simply report your gambling income as "other income" on Form 1040--this income would not be subject to self-employment tax.

Individuals are generally able to claim a deduction for gambling losses, up to the amount of any gambling winnings, as an itemized deduction on Form 1040, Schedule A. If you qualify as a professional gambler, however, you'll be able to claim your gambling losses as an "above-the-line" deduction, but your deduction will still be limited to the amount of your gambling winnings. As a professional gambler, you might also be entitled to a deduction for related expenses (e.g., travel).

The bottom line? It's complicated, so discuss your situation with a tax professional.