THE PERSONAL PLANNER

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

April 2011

Heling Associates Inc.
Bruce R. Heling, CFP(R)
CPA
PO Box 1385
Brookfield, WI 53008-1385
262-821-1008
bheling@helingassociates.com
http://HelingAssociates.com

It seems like I start this way more often than I should... What a month! A major earthquake and tsunami aren't enough, we also have to suffer a multiple nuclear meltdown, a new military action in North Africa, a continued budget imbroglio in Washington, and creative lawmaking in Madison. And through it all (at least as of the 30th) the financial markets have held up well. As I write this, not all categories are in the black for the month, but most are and I expect that will translate into portfolio returns for the month that are slightly positive. That's much better than I would expected just a few short weeks ago. These results speak of an economic recovery that is stronger than I thought it was or, alternatively, a somewhat pollyanish view of the world by investors who are simply in denial. Let's all hope for the former.

Enjoy the onset of Spring, and don't try to get those plants in the ground too early!

Bruce Heling
March 30, 2011

In this issue:

401(k) In-Plan Roth Conversions

You may have heard the buzz ... 401(k) plans can now permit in-plan Roth conversions. But is this an option for you?

What is it?

A 401(k) in-plan Roth conversion (also called an "in-plan Roth rollover") allows you to transfer the non-Roth portion of your 401(k) account into a designated Roth account within the same plan. The amount you convert is subject to federal income tax in the year of the conversion (except for any nontaxable basis you have in the amount transferred), but qualified distributions from the Roth account in the future are entirely income tax free. The 10% early distribution penalty doesn't apply to amounts you convert (but that tax may be reclaimed by the IRS if you take a nonqualified distribution from your Roth account within five years of the conversion).

What part of my account can I convert?

Here's where it gets a bit tricky. Assuming your 401(k) allows in-plan conversions (plans aren't required to), you have to be entitled to a distribution from the plan in order to make a conversion. For example, you're generally entitled to a distribution from your 401(k) plan after you terminate employment. If your account balance is greater than $5,000, you also have the right to keep your money in the plan until you reach normal retirement age (typically 65). So in this case, your plan may allow you to transfer all or part of your account into a Roth account (except for any required distributions and certain periodic payments).

But what if you're still employed? If you want to transfer your pretax contributions and earnings into a Roth account, you'll generally only be able to do so if you're age 59½ or disabled, or you've received a qualified reservist distribution, because those are the only events that can trigger an eligible distribution (hardship withdrawals aren't eligible for rollover or conversion). In some cases, your vested employer contributions (and earnings) may also be available for distribution while you're still employed--for example, after the contribution has been in the plan for two years, or after you have 60 months of participation (the terms of your plan, and federal law, control). If your plan allows these distributions, it can also allow them to be converted.

Keep in mind that if you're entitled to an eligible rollover distribution, you can always roll those dollars into a Roth IRA instead of using an in-plan conversion.

Some employers aren't comfortable letting employees withdraw their retirement funds while they're still employed. The IRS has addressed this concern by letting 401(k) plans provide for the in-service distributions described above *only* if the employee intends to convert those funds. For example, a plan that currently doesn't let employees withdraw pretax dollars at age 59½ can be amended to allow those withdrawals, but only if an employee intends to roll those dollars into a Roth account--the employee would not be allowed to actually take a distribution of the funds, or roll the dollars over into an IRA.

What else do I need to know?

If you have the choice of an in-plan conversion or a rollover to a Roth IRA, which should you choose? There are a number of factors to consider:

- You can recharacterize (undo) a Roth IRA conversion if the conversion turns sour (for example, the value of the converted assets declines significantly), but you can't recharacterize in-plan conversions.
- In general, the investments available in an employer 401(k) plan are fairly limited, while virtually any type of investment is available in an IRA (on the other hand, your 401(k) plan may offer investments that you can't replicate in an IRA, or that aren't available at similar cost).
- Finally, 401(k) plans typically enjoy more protection from creditors under federal law than do IRAs (consult a professional if creditor protection is important to you).

Rising Interest Rates: The Downside of Economic Recovery

Over the last several years, investors have grown accustomed to historically low interest rates. Ever since the Federal Reserve Board's target fed funds rate--the rate at which banks lend to one another--hit a high above 19% in mid-1981, the long-term direction of rates has been downward. In the last decade, the Fed's data* shows the target rate has never been much higher than 6%. And since December 2008, the Fed has kept it at a previously unheard-of level between 0.25% and zero to try to ensure that credit would be available to promote economic recovery.

Because bond prices typically rise when interest rates fall, that decline in yields has produced a bull market in bonds over the last decade. But what happens when the trend reverses? Even if they continue to remain relatively stable for a while, ultra-low interest rates have nowhere to go but up. When the economic recovery begins to show signs of strength, at some point the Federal Reserve Board will begin to raise the target rate again. When that happens, bond prices also will begin to reverse their long-term direction.

Here are some factors to consider in anticipation of a future with rising interest rates.

Bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt, such as corporate, government, emerging market, and municipal debt, can mean that some bonds are under- or overvalued compared to others. Don't forget that the total return on bonds is a combination of yield and price return. Financial professionals have many ways to adjust a bond portfolio to help you cope with rising rates.

Bond maturities: when short is sweet

When interest rates rise, longer-term bonds typically feel the impact the most. In an extended period of rising interest rates, bond buyers become reluctant to tie up their money for longer periods because they foresee higher yields in the future; the later the bond's maturity date, the greater the risk that its yield will eventually be superseded by that of newer bonds. As demand drops and yields increase to attract purchasers, prices fall.

There are various ways to manage that impact. If you own individual bonds, you always have the option of holding them to maturity; in that case, you would suffer no loss of principal unless the borrower defaults. Bond investments also can be laddered. This involves buying a portfolio of bonds with varying maturities; for example, a five-bond portfolio might be structured so that one of the five matures each year for the next five years. As each bond matures, it can be reinvested in an instrument that carries a higher yield. Laddering also can be used with certificates of deposit (CDs).

If you own a bond fund, you can check the average maturity of the fund's holdings, or the fund's average duration, which takes into account the value of interest payments and will generally be shorter than the average maturity. The longer a fund's duration, the more sensitive it may be to interest rate changes.

Rising rates and other assets

Higher interest rates often are an attempt to prevent rising prices. When prices go up, purchasing power goes down, including the purchasing power of a bond's fixed interest payments. That can make bonds less attractive to buyers. However, not all investments are hurt by higher prices. For example, commodities such as oil and wheat typically do well in inflationary periods; in fact, increases in commodity prices are often what trigger a bout of inflation. If you're primarily interested in the overall value of your portfolio rather than a regular income stream, your financial professional can help you explore whether you should consider diversifying into asset classes that tend to benefit from inflation and that might help counteract the potential impact of falling bond prices.

Though bonds are affected most directly, equities aren't necessarily immune to rate increases. Though many companies borrowed money in recent years to take advantage of low rates and postpone the need to issue bonds for some time, those that haven't may see their borrowing costs increase, which could affect their bottom lines. Even those that squirreled away cash could be hit when they return to the bond markets eventually. Also, if interest rates rise to a level that's competitive with the return on stocks, that could reduce investor demand for equities.

Higher rates aren't all bad news

For those who've been diligent about saving, or who have kept a substantial portion of their investments in cash, higher rates could be a boon. Savings accounts, CDs, and money market funds are all likely to do better at providing income than they have in recent years. The downside, of course, is that if higher rates are accompanied by inflation, such cash alternatives might not keep pace with rising prices. And bear in mind that a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money investing in a money market fund.

**Source: Federal Reserve Statistical Release Historical Data for Fed funds rate weekly since 1954.*

Charitable Giving

Today more than ever, charitable institutions stand to benefit as the first wave of the baby boomers reach the stage where they're able to make significant charitable gifts. If you're like many Americans, you too may have considered donating to charity. And though writing a check at year-end is one of the most common ways to give to charity, planned giving may be even more effective.

What is planned giving?

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts. For example, you may need to receive income in exchange for the assets you donate, or you may want to be involved in deciding how your gift is spent--things that typically can't be done with standard checkbook giving.

Questions to consider

To help you start thinking about your charitable plan, consider these questions:

- Which charities do you want to benefit?
- What kind of property do you want to donate (e.g., cash, stocks, real estate, life insurance)?
- Do you want the gift to take effect during your life or at your death?
- Do you want to retain an interest in the property you donate?
- Do you want to be involved in deciding how your gift is spent?

Gifting strategies

There are many ways to donate to charity, from a simple outright cash gift to a complex trust arrangement. Each option has strengths and tradeoffs, so it's a good idea to consult an experienced financial professional to see which strategy is best for you. Here are some common options:

Outright gift--An outright gift is an immediate gift for the charity's benefit only. It can be made during your life or at your death via your will or other estate planning document. Examples of property you can gift are cash, securities, real estate, life insurance proceeds, art, collectibles, or other property.

Charitable trust--A charitable trust lets you split a gift between a charitable and a noncharitable beneficiary, allowing you to integrate financial needs with philanthropic desires. The two main types are a charitable remainder trust and a charitable lead trust. A typical charitable remainder trust provides fixed income for one or two persons for life. At the end of the trust term, assets remaining in the trust pass to the charity. This can be an attractive strategy for older individuals who seek steady income. There are different variations of the charitable remainder trust, depending on how the income stream is calculated. With a charitable lead trust, the order is reversed; the charity gets the first, or lead interest, and the noncharitable beneficiary receives the remainder interest at the end of the trust term.

Charitable gift annuity--A charitable gift annuity also provides fixed income for one or two persons for life. But it's easier to establish than a charitable remainder trust because it doesn't require a formal trust document.

Private foundation--A private foundation is a separate legal entity you create that makes grants to public charities. You and your family members, with the help of professional advisors, run the foundation--you determine how assets are invested and how grants are made. But in doing so, you're obliged to follow the many rules and regulations governing private foundations.

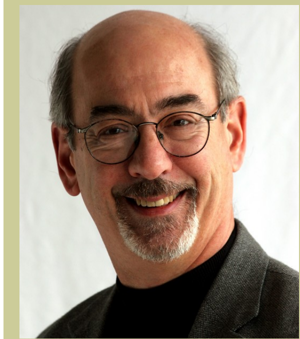
Donor-advised fund--Similar to, but less burdensome than, a private foundation, a donor-advised fund is an account held within a charity to which you can transfer assets. You can then advise, but not direct, how your assets will be invested and how grants will be made.

Tax benefits

Charitable giving can provide you with great personal satisfaction, but let's face it--the tax benefits are valuable too. Your gift can result in a substantial income tax deduction in the year you make the donation, and it may also reduce capital gains and estate taxes.

To enjoy these tax benefits, the charity must be a qualified public charity. Be careful--not all tax-exempt charities are qualified charities for tax purposes. To verify a charity's status, check IRS Publication 78, or visit www.irs.gov.

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts.



Heling Associates Inc.
Bruce R. Heling, CFP(R)
CPA
PO Box 1385
Brookfield, WI 53008-1385
262-821-1008
bheling@helingassociates.com
http://HelingAssociates.com

Ask the Experts

What health-care changes become effective in 2011?

The Patient Protection and Affordable Care Act (PPACA), signed into law in 2010, makes significant changes to our health-care delivery system. Here are some of the most important changes scheduled to take effect in 2011.

The cost of over-the-counter drugs not prescribed by a doctor can no longer be reimbursed through a health reimbursement account or a health flexible spending account, nor can these costs be reimbursed on a tax-free basis through a health savings account (HSA) or Archer medical savings account. Also, the tax on distributions from HSAs and Archer MSAs that are not used for qualified medical expenses increases to 20% (up from 10% and 15% for HSAs and Archer MSAs respectively).

Medicare Part D participants will receive a 50% discount on brand-name prescriptions filled in the coverage gap (i.e., the "donut hole") from pharmaceutical manufacturers, and federal subsidies for generic prescriptions filled in the coverage gap will start to be phased in.

Also, certain preventive services covered by Medicare are no longer subject to cost-sharing (co-payments), the deductible is waived for Medicare-covered colorectal cancer screening tests, and Medicare now covers personalized prevention plans including a comprehensive health risk assessment.

Medicare Advantage (MA) plans can no longer impose higher cost-sharing for some Medicare-covered benefits than would be imposed by traditional Medicare insurance. Also, MA plans cannot exceed a mandatory maximum out-of-pocket amount for most Medicare services. The maximum amount in 2011 is $6,700, but MA plans can voluntarily offer lower out-of-pocket amounts. Also, the annual enrollment period for MA plans is changed to October 15 through December 7.

The requirement that employers report the total value of employer-sponsored health benefits on employees' W-2s was to begin in 2011. However, the IRS has deferred this requirement until 2012.

Are some preventive care services free?

Generally yes. Under the Patient Protection and Affordable Care Act (PPACA), qualifying health insurance plans must offer certain preventive care services to you and your family at no cost.

If your health insurance plan is subject to these new requirements, you and your family may be able to receive important preventive health-care services without having a co-payment, deductible, or co-insurance. Many of the covered services are based on your gender, health status, and age. Some of these services include:

- Blood pressure, diabetes, and cholesterol screenings
- Mammograms, colonoscopies, and many other cancer screenings
- Routine vaccinations against diseases such as measles, polio, and meningitis, as well as flu and pneumonia shots
- Wellness counseling for such issues as quitting smoking and losing weight
- Screenings for depression and alcohol abuse

A current list of preventive care services can be found on the government website: www.healthcare.gov.

To be eligible, you must be enrolled in a health plan through your employer or have individual health insurance put in place after March 23, 2010. The preventive care services will then be effective on the next policy anniversary occurring on or after September 23, 2010, or as of January 1, 2011, for calendar-year plans. If your health plan is "grandfathered" (in place on or before March 23, 2010, and has not been materially changed), these benefits may not be available to you.

Free preventive services may only be available for in-network providers (you may have to pay for preventive services received from an out-of-network provider). Also, if your doctor provides preventive services, such as cholesterol screening, and other diagnostic or therapeutic services during the same office visit, you may have to pay for part of the office visit and the other services given by your doctor, but not the preventive services.