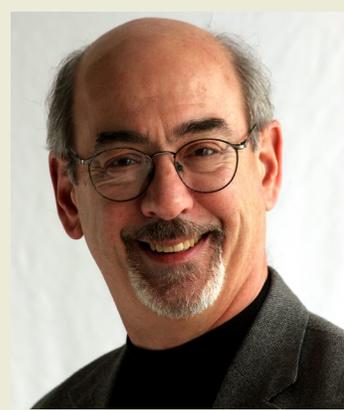


THE PERSONAL PLANNER

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



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Which do you want first?...

The good news?... Kate and I had a great vacation touring sites we'd never seen before in Montreal, Quebec City, Concord MA, Mystic CT, Cape May NJ, and Washington DC.

The not *really* good news?... Our vacation wasn't interrupted by a need to restore portfolio equity positions as no equity category really got close to a restoration signal.

The really *bad* news?... As I predicted, Congress came back and markets turned down again, this time significantly. Some more good news?... except for a small real estate position, we're still out of equities and watching the recent market mayhem as spectators, not participants. I don't know how far down this market panic will take prices, but HA investment clients can take comfort in knowing that our Active Portfolio Risk Management strategy appears to be working to protect us from really significant market declines.

Bruce Heling, CFP CPA
September 26, 2011

October 2011

The Debt Ceiling and the Road Ahead
Making Benefit Decisions during Open Enrollment

Factoring Health-Care Costs into Retirement Planning

I'm retiring to a state with no income tax. Can my former state tax my retirement benefits?

 **HELING ASSOCIATES**
Bringing the Personal to Financial Planning

The Debt Ceiling and the Road Ahead

The Budget Control Act of 2011 left all sides with plenty to argue about for the rest of the year. In addition to gradually increasing the debt ceiling, it's intended to bring down the federal budget deficit by an estimated \$2.1 trillion over the next 10 years, focusing on spending cuts rather than increased revenues. The Act also sets the stage for more debate over how to achieve that \$2.1 trillion reduction. Here are some of the key provisions of the debt ceiling legislation.

The debt ceiling will rise in stages

The legislation increased the \$14.3 trillion debt ceiling by \$400 billion immediately, and by another \$500 billion after September. The increases enable the Treasury to pay bills without interruption while additional discussion of deficit reduction measures takes place.

An additional \$1.2 trillion to \$1.5 trillion in borrowing authority, which is believed will take care of the Treasury's needs until 2013, will be available in 2012; the amount will depend on whether certain requirements are met. Though Congress could vote to disapprove the additional borrowing authority, that action could be vetoed by President Obama, which would prevent a rerun of last July's uncertainty.

Discretionary spending will be cut

Caps on domestic and defense spending will cut an estimated \$917 billion--roughly the same amount as the initial increase in the debt ceiling--from federal budgets over the next decade.

"Supercommittee" will seek additional \$1.5 trillion deficit reduction

A special 12-member joint select committee of Democrats and Republicans from both the House and Senate is charged with finding ways to reduce the deficit by an additional \$1.5 trillion. The committee is directed to report its proposals by November 23, 2011; by December 2, it must submit legislation to implement those proposals. Both houses of Congress must vote on that legislation, which cannot be amended on the floor, by December 23.

More spending cuts, 2012 debt ceiling tied to deficit reduction

The joint committee's deficit reduction proposals will determine the amount of an additional increase in the debt ceiling. If the committee's proposals are approved by Congress, the debt ceiling will be increased in 2012 by the amount saved by the deficit reduction measures (up to \$1.5 trillion). If the committee cannot agree on how to cut the deficit by at least \$1.2 trillion, or if Congress doesn't approve the committee's proposals, the new debt ceiling increase would be limited to \$1.2 trillion.

To try to prevent gridlock on the committee, failure to agree on at least \$1.2 trillion in deficit reduction would automatically trigger an additional \$1.2 trillion in spending cuts beginning in January 2013. The cuts would apply to both defense spending, such as the Departments of Defense and Homeland Security, and to nondefense spending, such as payments to Medicare providers. However, Medicare cuts would be limited to 2% of the program's cost, and Social Security, veterans benefits, food stamps, and Supplemental Security Income (SSI) would be exempt.

Balanced budget amendment would give authority to increase debt ceiling

President Obama also would be granted immediate authority to increase the debt ceiling by \$1.5 trillion if Congress were to pass by year's end a constitutional amendment requiring a balanced budget. Such an amendment would not become effective unless ratified by three-quarters of the states.

Grad student subsidized loans eliminated

Subsidized-interest Stafford Loans for graduate and professional students (other than those in state-required teaching or certification programs) will end after July 1, 2012, though unsubsidized loans will still be available. To compensate for the cuts, the Act also adds \$17 billion in mandatory funds over two years for Pell Grants.



The decisions you make during open enrollment season are important, because you generally must stick with the options you've chosen until the next open enrollment season. The exception to this is if you experience a "qualifying event" such as getting married or divorced, or having a child, in which case you'll be able to make changes outside of the open enrollment period.

Making Benefit Decisions during Open Enrollment

The end of the year is traditionally open enrollment season, your annual opportunity to review your employer-provided benefit options and make elections for the upcoming plan year. Even if you're busy, take a look at the enrollment packets or information you receive from your employer. You generally only have a few weeks (or less) to make important decisions about your benefits, and with health-care costs rising, it's more important than ever to choose your benefits wisely.

Are you happy with your health plan?

During open enrollment season, many employers roll out new health plan options. Even if you're satisfied with your current health plan, it's a good idea to check out the plans your employer is offering for next year and compare these to your existing health coverage. If you decide to stick with the same health plan you have now, look for differences between this year's plan and next year's. Premiums, out-of-pocket costs, and coverage offered often change from one year to the next.

Some tips for reviewing your health plan:

- Start by reading any plan materials you've received in your open enrollment packet and find out as much as you can about your options. Look for a "What's New" section that spells out plan changes.
- List your expenses. These will vary from year to year, but what you've spent over the course of the last 12 months may be a good predictor of what you'll spend next year. Don't forget to include co-payments and deductibles, as well as dental, vision, and prescription drug expenses.
- Reevaluate your coverage to account for life changes. For example, getting married, having a baby, or retiring are events that should trigger a thorough review of your health coverage.
- Consider all out-of-pocket costs, not just the premium you'll pay. For example, if you frequently fill prescriptions, you may save money with a plan that offers the broadest prescription drug coverage with the lowest co-payments, even if it charges a higher premium than other plans.
- Compare your coverage to your spouse's if he or she is eligible for employer-sponsored health insurance. Will you come out ahead if you switch to your spouse's plan? If you have children, which plan best suits their needs?
- Take advantage of technology. Some employers offer calculators or tables that allow you to do a side-by-side comparison of health plans to help select the best option.

Should you contribute to a flexible spending account?

You can help offset your health-care costs by contributing pretax dollars to a health flexible spending account (FSA) or reduce your child-care expenses by contributing to a dependent care FSA. The money you contribute is not subject to federal income and Social Security taxes (nor generally to state and local income taxes) and you can use these tax-free dollars to pay for health-care costs not covered by insurance or for dependent care expenses.

If your employer offers you the chance to participate in one or both types of FSAs, you'll need to estimate your expenses for the upcoming year in order to decide how much to contribute (subject to limits). Your contributions will be deducted, pretax, from your paycheck. If you're currently participating in an FSA, it's also an ideal time to find out how much money you have in this year's account. Unused contributions are lost if you don't spend them by the end of your benefit period. And remember, you must enroll each year--you won't automatically be reenrolled in a health or dependent care FSA.

What other benefits or incentives are available?

Health insurance coverage is a valuable benefit, especially if your employer pays a large percentage of the cost, but many employers offer other voluntary benefits such as dental care, vision coverage, disability insurance, life insurance, and long-term care insurance. Even if your employer doesn't contribute toward the premium cost, you may be able to conveniently pay premiums via payroll deduction.

Many employers sweeten benefit packages by offering discounts on various health-related products and services, such as gym memberships, wellness programs, and eyeglasses. Find out what your employer offers--otherwise you may miss out on some saving opportunities. Your employer may also offer incentives for employees who take steps to maintain a healthy lifestyle. For example, you may be eligible for a monetary reward for completing a health assessment, or you may be reimbursed for the cost of fitness classes.

Do you need more information?

Ask your benefits administrator for help if you have any questions about your health plan, the options available to you, or enrollment instructions or deadlines.

Factoring Health-Care Costs into Retirement Planning



Will living a healthy lifestyle reduce health-care costs in retirement? Not necessarily. While living a healthy lifestyle may aid in reducing annual health-care costs, that same lifestyle generally promotes longevity, which may translate to higher total health-care expenditures over a longer lifetime. The moral of the story is even if you're healthy, you still face illnesses and diseases, so don't wait until your health begins to fail to plan for these costs in retirement.



There are many factors to consider in determining how much you'll need to save in order to enjoy a comfortable and financially secure retirement. One often overlooked retirement expense is the cost of health care. You may presume that when you reach age 65, Medicare will cover most health-care costs. However, Medicare currently only pays for a portion of the cost for most health-care services, leaving a potentially large amount of uninsured medical expenses. Without proper planning, health-care costs can sap retirement income in a hurry, leaving you financially strapped.

How much will you need?

How much you'll spend generally may depend on when you retire, how long you live, your health status, and the cost of medical care in your area. But the costs can add up. You won't have to pay for Medicare Part A hospital insurance (unless you don't qualify and have to buy into the program), but you will likely pay either \$96.40 or \$110.50 each month in 2011 for Medicare Part B physician's coverage (although you may pay higher premiums based on income and other factors), and an average of \$30 per month for Medicare Part D prescription coverage. In addition, there are co-pays and deductibles to consider (e.g., after paying the first \$162 in Part B expenses per year, you pay 20% of the Medicare-approved amount for services thereafter).

The cost of health care is rising. The Centers for Medicare & Medicaid Services (CMS) reports that national health expenditures grew by 4% in 2009. And the CMS Office of the Actuary estimates that out-of-pocket spending is projected to grow at an average rate of 5% from 2015 through 2020.

What can you do?

It's clear that health care is an important factor in retirement planning. And while you may be able to buy a cheaper car, live in a smaller home, or take fewer vacations in order to stay within your retirement income budget, you can't do without necessary medical care. So what can you do? You can better prepare for these expenses by taking the following steps:

- Acknowledge that paying for health care in retirement is an issue to consider. Don't presume Medicare and Medigap insurance will cover all your expenses—they probably won't. Include potential health-care costs in your retirement plan.

- Evaluate your present health and project your future medical needs. That might be easier said than done, but taking stock of your overall health now and factoring in your family's health history may help you determine the type of care you might need in retirement. Are you currently being treated for high blood pressure or diabetes? Do you live a healthy lifestyle? Does heart disease run in your family?
- Understand what Medicare covers and what it costs. For instance, Medicare (Part A, Part B, and Part D) generally provides benefits for inpatient hospital care, medically necessary doctor's visits, and prescriptions. But Medicare doesn't cover everything. Examples of services generally not covered by Medicare include most chiropractic care, dental or vision care, and long-term care. You'll also have to account for deductibles, co-insurance costs for some services, and a monthly premium for Medicare Parts B and D.
- Consider the cost of supplemental insurance. Medigap plans are standardized policies sold by private insurance companies that pay for some or all of the costs not covered by Medicare. In addition to Medigap policies, other types of supplemental insurance include long-term care insurance, dental insurance, and vision insurance. The type and amount of coverage that's best for you depends on a number of factors, including how much premium you can afford, what benefits you need, your financial resources, your health, and your anticipated medical needs.
- Don't forget to factor in the cost of long-term care. The National Clearinghouse for Long-Term Care Information estimates that at least 70% of people over age 65 will require some long-term care services. Medicare does not pay for custodial (nonskilled) long-term care services, and Medicaid pays only if you and your spouse meet income and asset criteria.
- Save, save, save. You may have already begun saving for your retirement, but if you fail to include the cost of health care in your plan, you're likely leaving out a big expense. Your financial professional can help you figure out how much you may need to save and adjust your retirement planning strategies to account for potential health-care costs in retirement.

Ask the Experts

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I'm retiring to a state with no income tax. Can my former state tax my retirement benefits?

The short answer is "no."

In the past, several states enacted "source tax" laws that attempted to tax retirement

benefits if they were earned in that state, regardless of where a taxpayer resided when the benefits were ultimately paid. For example, if you earned a \$50,000 annual pension while working in California, and then retired to Florida, California would attempt to tax those benefits, even though you were no longer a California resident.

But, in 1996, a federal law was enacted (P.L. 104-95) that prohibited states from taxing certain retirement benefits paid to nonresidents. As a result, if your retirement benefits are covered by the law (most are, see below), only the state in which you reside (or are domiciled) can tax those benefits.

Whether you're a resident of, or domiciled in, a state is determined by the laws of that particular state. In general, your residence is the place you actually live. Your domicile is your

permanent legal residence; even if you don't currently live there, you have an intent to return and remain there.

The law applies to all qualified plans (this includes 401(k)s, profit-sharing plans, and defined benefit plans), IRAs, SEP-IRAs, Internal Revenue Section 403(a) annuities, Section 403(b) plans, Section 457(b) plans, and governmental plans.

The law provides only limited protection for nonqualified deferred compensation plan benefits. Benefits paid from nonqualified plans that are designed *solely* to pay benefits in excess of certain Internal Revenue Code limits (for example, Section 415 excess benefit plans) are covered by the law. Also covered are nonqualified plan (for example, top-hat plan) benefits that are paid over the employee's lifetime, or over a period of at least 10 years.

Examples of benefits that are not covered by the law include stock options, stock appreciation rights (SARs), and restricted stock.



What state tax issues should I consider when deciding where to retire?

If you're retired, or about to retire, you may be thinking about relocating to a state that has low (or no) income taxes,

or that provides special tax benefits to retirees. Here are some state tax issues to investigate before making your move.

State income taxes typically account for a large percentage of the total taxes you pay. So, consider yourself lucky if you're planning a move to one of the seven no-income-tax states--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming (New Hampshire and Tennessee impose income tax only on interest and dividends).

If you're considering a state that does impose an income tax, you'll need to know how that state treats Social Security and retirement income. Social Security is completely exempt from tax in more than half the states. Some states tax your Social Security benefits only if your income is above certain levels. Still others provide a general retirement income exclusion that takes Social Security benefits into account. Most of the remaining states tax Social Security benefits to the same extent they're taxed for

federal income tax purposes.

Most states with an income tax fully or partially exempt retirement income--only California, Indiana, Nebraska, Rhode Island, and Vermont do not. But the exemptions vary considerably by state. Some states exempt public pensions from taxation but tax private pensions, or exempt public pensions earned in that state, but not public pensions earned in another state.

Some states exempt employer retirement benefits from tax, but not IRA income. Other states exempt a specific dollar amount of retirement income, but only if you've reached a certain age or have income within certain limits. In certain states, military pensions are fully or partially exempt, while in others they're fully taxable. Some states exempt defined benefit pension payments, but tax 401(k) benefits.

Remember that states may also impose many other kinds of taxes (for example, sales, real estate, and gift and estate taxes). Check to see if the state you're considering offers tax breaks to seniors, like property tax reductions, or additional exemptions, standard deductions, or credits based on age.