The Personal Planner

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

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

Happy New Year!

Welcome to the time of the year at which we pause to reflect on the past and to (eagerly, I hope) anticipate the future. While it's all to easy to look back and find much we'd like to forget, particularly in the economy and markets, I'd encourage everyone to search for the positives in the last year and cling to those memories going forward. And then, when anticipating the future, to resolve to make things better for ourselves and others, in some small way, in the year ahead.

May we all know peace in our lives ahead and may we finds ways to bridge our growing political gaps as we seek ways to a better future for ourselves, our children, and our grandchildren. Please accept our best wishes for the year ahead.

Bruce Heling

January 2012

Heling Associates
Bringing the Personal to Financial Planning

Making Financial Resolutions? Look Back at Last Year

Each new year brings the chance for a fresh start, and the opportunity to improve your financial picture. As you make financial resolutions for 2012, looking back at what happened last year can help you make some positive changes this year.

Automate your retirement savings

In 2011: The economic slowdown took its toll on retirement savings.

In 2012: While the economy--and its impact on financial markets--may be out of your hands, you can still look for ways to increase your retirement savings. First, determine whether you're leaving any money on the table. If you participate in an employer-sponsored retirement plan such as a 401(k) or a 403(b), contribute the maximum amount you can--particularly if your employer matches some or all of your contributions.

Contributing to an employer-sponsored retirement plan can help you save more consistently. Because your contributions are deducted automatically from your salary each pay period, you won't be tempted to skip one now and then. And this year, why not resolve to steadily increase your retirement contributions? Your employer may allow you to sign up for automatic contribution increases based on a certain schedule or triggering event (e.g., annually or whenever your pay increases).

If you're self-employed or contributing to a traditional or Roth IRA on your own, you can still automate your contributions by having money sent directly from a savings or checking account to your retirement account.

Plan ahead for a cash crunch

In 2011: According to the Federal Reserve, use of consumer credit rose in 2011 after falling for two straight years.

In 2012: If you've reigned in your spending but are still burdened by debt (especially credit card debt), your lack of emergency savings may be partly to blame. For example, even if you pay much more than your monthly minimum credit card payment, you'll be caught in an endless cycle of debt unless you can avoid using your credit card for new expenses. Resolve to have at least three to six months of your living expenses set aside in a liquid account such as a savings or money market account so that you have cash on hand to pay for unexpected expenses (e.g., costly car or home repairs, large medical bills) instead of racking up new credit card debt and interest charges.

Review your investments

In 2011: Market volatility was the norm.

In 2012: You can't control the market, but you can control your response to market volatility. Is your asset allocation still in line with your investment goals, time horizon, and risk tolerance? Is it time to rebalance your allocation in light of changing market conditions and/or your changing needs? Are you taking appropriate advantage of available investment products or offerings? Reviewing your portfolio periodically can help you stay on track.

Check your insurance coverage

In 2011: Floods, hurricanes, tornadoes, earthquakes, and wildfires were widespread.

In 2012: The federal government issued more disaster declarations in 2011 than in any other year on record, serving as a reminder that it's important to review your property and casualty coverage to make sure you're adequately protected. Is there coverage you really should have (e.g., personal umbrella liability, renters insurance, or flood protection), but don't?

Update your estate plan

In 2011: New estate and gift tax laws took effect.

In 2012: Your estate plan should be reviewed in light of the changes made last year to estate and gift tax laws. Certain life events, such as changes in employment, family circumstances (marriages, divorces, births, illness or incapacity, and deaths), or even the valuation of your estate, may also affect your estate plan.

The Problem with Do-It-Yourself Estate Planning

The one-size-fits-all fill-in-the-blank forms that do-it-yourself estate planning sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk and potentially high cost of doing things incorrectly?

As the number of Internet websites and software packages have quickly multiplied, along with the many books and stationery store kits that have always been available, do-it-yourself (DIY) estate planning is on the rise. The one-size-fits-all fill-in-the-blank forms that these sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk and potentially high cost of doing things incorrectly?

Cheap, easy, and better than nothing?

Proponents of DIY estate planning typically have two arguments:

1. It's cheap and easy: A will, for instance, can be completed online in about 15 minutes for about $69. In comparison, working with an experienced attorney to create common estate planning documents (wills, trusts, health-care directives, and powers of attorney) may cost you anywhere from $800 to $3,000 or more, depending on the complexity of your estate.
2. It's better than nothing: The consequences of dying without estate planning documents are that the state will make important decisions for you, such as how your property will be distributed, who will care for your minor children, and what medical care you'll receive if you are unable to make your wishes known.

These points are valid; for those who cannot afford to pay an attorney, DIY may be the only economical alternative available. For others, a poorly drafted will is better than no will at all, especially where the naming of a guardian for minor children is involved. But the chances that DIY estate planning will effectively accomplish exactly what you intend is slim. Here's why.

It's too easy to make mistakes

DIY sources typically only handle simple estates, and can't deal with even the most common complexities such as children from a prior marriage, children with special needs, property that has appreciated in value resulting in capital gains, or estates that are large enough to be subject to estate taxes. And, DIY sources generally fail altogether to take advantage of sophisticated estate planning strategies because they typically can't account for an individual's unique circumstances.

Further, you may make an error by failing to understand the instructions or by following the instructions incorrectly.

The result is that the documents you create could be invalid, ineffective, or contain legal language having consequences you never intended. You might not know if that is the case during your lifetime, but at your death your loved ones will find out and may suffer the lasting consequences of your mistakes.

You're not getting legal advice

DIY sources provide forms but not legal advice. In fact, these sources clearly state that they are not a substitute for an attorney, and that they are prohibited from providing any kind of legal advice.

Estate planning involves a lot more than producing documents. It's impossible to know, without a legal education and years of experience, what the right legal solution is to your particular situation and what planning opportunities are available. The actual documents produced are simply tools to put into effect a plan that should be specifically tailored to your circumstances and goals.

Estate planning laws change

Laws are not static. They constantly change because of new case law and legislation, especially when it comes to estate taxes. Attorneys keep up with these changes. DIY websites, makers of software, and other sources may not do as good a job at keeping current and up-to-date.

Fixing mistakes can be costly

As previously stated, estate planning documents can be obtained from a lawyer for $800 to $3,000 or more, depending on the complexity of your estate. But these costs are minor in comparison to the costs that your loved ones may incur if there are serious errors in your DIY estate planning. Many more thousands of dollars may have to be spent by your loved ones to undo what was done wrong.

The bottom line

There are obvious savings in legal fees by using form wills and trusts, but there are also risks involved. One of them is that problems such as defective forms, violations of state law, or improper witnessing will not be apparent to you when the documents are signed. It may be only after death occurs many years later when the problems are discovered, and at that point it may be very costly, or even worse, too late to revise the documents.

HELING ASSOCIATES
Bringing the Personal to Financial Planning

Tax-Advantaged College Savings Strategies

The right savings vehicle

There are many college savings options, but you should generally opt for tax-advantaged strategies whenever possible. Why? Because taxes can eat away at the money you might earn.

You're ready to start saving for college, but where should you put your money? There are many college savings options, but you should generally opt for tax-advantaged strategies whenever possible.

Why is it so important to consider strategies that offer tax benefits? Because taxes can eat away at any money you might earn.

Following are some tax-advantaged savings options to consider.

529 plans

A 529 plan, sometimes called a qualified tuition program, offers federal, and often state, tax advantages if used to save for college. There are two types of 529 plans--a college savings plan, which is an individual investment-type account, and a prepaid tuition plan, which is a pooled account that typically promises it will cover a certain percentage of college costs in the future.

With either type of 529 plan, contributions accumulate tax deferred at the federal level and earnings are completely tax free if used to pay the beneficiary's qualified education expenses. In addition, many states offer their own tax benefits, such as income tax deductions for contributions and tax-free withdrawals. If a withdrawal is used for a noneducational expense, the earnings portion of the withdrawal will be subject to federal income tax and a 10% federal penalty.

Note: *Investors should consider the investment objectives, risks, charges, expenses, and prerequisites for state tax benefits associated with each 529 plan before investing. More information is available in each 529 plan issuer's official statement, which should be read carefully before investing.*

Coverdell education savings accounts

A Coverdell education savings account (ESA) lets you contribute up to $2,000 per year per child for a child's elementary, secondary, and/or college expenses. Like a 529 plan, contributions accumulate tax deferred at the federal level and earnings are tax free when used to pay the beneficiary's qualified education expenses. Similar to a 529 plan, if a withdrawal is for a noneducational expense, the earnings portion of the withdrawal will be subject to federal income tax and a 10% federal penalty.

However, only married couples with a modified adjusted gross income of $190,000 or less and individuals with an income of $95,000 or less can contribute the full $2,000 per year.

Note: *The Economic Growth and Tax Relief Reconciliation Act of 2001 increased the annual contribution limit for Coverdell ESAs to $2,000 from $500 and expanded the use of funds to K-12. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended these provisions through 2012.*

U.S. savings bonds

Series EE and Series I savings bonds offer a special tax benefit for college savers--the interest earned by the bonds is exempt from federal income tax if the bonds are used to pay college expenses. However, this benefit is restricted by income level. For 2011, to exclude all of the bond interest, married couples must have a modified adjusted gross income of $106,650 or less ($109,250 or less in 2012) at the time the bonds are redeemed (cashed in) and individuals must have an income of $71,100 or less ($72,850 or less in 2012). A partial exemption of interest is allowed for people with incomes slightly above these levels. Income levels are indexed for inflation each year.

Tip: *The interest earned on U.S. savings bonds is always exempt from state income tax, no matter what your income level, even if the bonds aren't used to pay for college.*

UTMA/UGMA custodial accounts

A custodial account allows you to hold assets in your child's name without having to set up a trust; these assets must then be used for the benefit of the child. A custodial account doesn't offer federal tax-deferred and tax-free earnings like a 529 plan or a Coverdell account, but it does provide some opportunity for tax savings due to the way earnings generated by the account are taxed.

Specifically, earnings are taxed to the child each year pursuant to the "kiddie tax" rules, and under these rules the first $950 of earnings is tax exempt and the next $950 is taxed at the child's rate (any earnings over $1,900 are taxed at the parent's rate). So, you'll have an opportunity for tax savings if the earnings in the account are $1,900 or less for the year.

A word about IRAs

Money you withdraw from a traditional IRA or Roth IRA to pay your child's qualified education expenses is not subject to the 10% premature distribution penalty tax that normally applies to taxable IRA distributions made before age 59½. However, some or all of the IRA money you withdraw may still be subject to regular federal and possibly state income tax.

HELING ASSOCIATES
Bringing the Personal to Financial Planning

Ask the Experts

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

HELING ASSOCIATES
Bringing the Personal to Financial Planning

Is a stop limit the same as a stop order?

A stop limit is typically used when you're trading during a volatile market and want to target a specific price as closely as possible. When placing a market order, the price you pay is the best price available in the market at the time the order is executed. With a market order you can't be sure of the price you'll get, especially for more thinly traded securities or larger orders that may need to be handled in multiple transactions.

A stop order instructs your broker to buy a stock only when it is selling at or below a specified price (or if you're selling, when it is at or above a certain price). Once the stop is triggered--in other words, once your specified price is reached--your order becomes a market order and is executed at the market price. However, if markets are volatile or the security is illiquid, the market price can change between the time the stop is triggered and when the order is fully executed. If you're buying a stock and that price is lower, you benefit, but if the execution price is higher, you may pay more than you expected. For example, if you're buying a thinly traded security and your order isn't fully executed before the end of the trading day, you could run the risk of the market opening up strongly the next day--a phenomenon sometimes known as "gapping up"--potentially taking the price of your targeted stock with it. Conversely, if you're selling a stock and the price moves lower before the trade is fully executed, you might make less from the sale than you intended.

A stop-limit order puts a limit on the price you're willing to pay for your purchase (or accept if you're selling). It mandates that a purchase be executed at a specific price or better; that price can be different from the stop level that triggers a trade, and increases the odds of the transaction meeting your expectations. If you're selling, a stop-limit order also can be used to set a minimum price for the sale. Stop limits are typically good for a specific time frame, such as a day, a week, or a month.

Why wouldn't everyone use a stop-limit order with every trade? Because they typically cost more to use than market orders. As a result, a stop limit probably makes the most sense for large orders in volatile markets, when a difference of even a penny or two per share can mount up.

Can a stop-loss order really protect me from losses?

As the name implies, stop-loss orders are a way to help you manage the amount of loss you can suffer on a single holding. Also known as a stop order or stop-market order, a stop-loss order sets a level at which your broker is instructed to sell all or part of a particular position once the stop-loss point is reached.

With a stop-loss, you can specify a share price below which you do not want to hold a stock. Once the bid price hits that level, the position would be sold automatically at the market price. You also can employ what's known as a trailing stop-loss to adjust the stop upward if a security's price rises. The stop might be calculated as a percentage or a dollar amount relative to the bid price (for example, a loss of 10% or a $2 per share drop). If the stock's price moves higher, your stop level also rises. That can help protect a portion of your paper profits while potentially allowing you to participate in any further upward appreciation. If the price falls, the holding simply moves closer to the level at which it will be sold.

In addition to helping you minimize losses you can't handle, stop-loss orders are one way to remove emotion from your investment decision-making. They also can be especially useful if you're anxious about volatile markets at a time when you know you'll be traveling in remote areas and unable to monitor your accounts easily.

However, under certain circumstances, stop-loss orders can be a mixed blessing. Just because you've specified a certain stop-loss level doesn't mean your trade will be executed at that exact price; once your specified level is triggered, the trade will be executed at a market price. If markets are extremely volatile or if a security is thinly traded, you might lose more than the amount you expected.

For example, during the 2010 "flash crash," when prices plummeted and markets were temporarily illiquid, some stock positions were sold at prices well below the stop loss. Some of those trades were subsequently voided, but it's still a good idea not to take the protection of stop-loss orders for granted, and to know that there can be a gap between expectations and execution.