THE PERSONAL PLANNER

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

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This month's lead article may help you make some sense of the European debt crisis causing so much angst in world financial markets again. You'll also find an article on all the 2012 tax changes (unless Congress acts) that would probably cause your taxes to increase and a helpful, if brief, guide to the financial steps one should take upon the death of a spouse. They're all pretty good pieces. I hope you enjoy them.

Europe has indeed dominated the headlines again this month. I suspect that will continue for some time as the problems there will not be easily resolved. At this writing, almost every investment category has lost ground in May, with international equities (we're not invested) the worst, down over 10%. US stocks are nearing exit points and I am watching them closely.

Stay tuned. Life could be about to get really interesting.

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HELING ASSOCIATES
Bringing the Personal to Financial Planning

Market-Moving Indicators for Monitoring Europe

If you've struggled to make sense of the ongoing European debt debacle, you're not alone. It's difficult even to keep track of all the pieces of this financial Rube Goldberg puzzle, let alone understand how they can influence one another.

Though new aspects of the situation seem to crop up every month, here are some of the most common factors that either reflect or affect sentiment about what's happening in Europe. Knowing about them might help you understand why markets react to a seemingly obscure headline. After all, one of the few things that almost everyone seems to agree on is that the situation isn't likely to be solved overnight.

Take an interest in interest rates

Interest rates on sovereign debt are perhaps the most closely watched indicator. When demand for a country's bonds is low because investors are concerned about the possibility that they might not be repaid in full and on time, that country must offer a higher interest rate in order to borrow money to finance its day-to-day operations.

Interest rates become particularly worrisome when they reach or exceed 7%. That's the level that prompted Greece, Ireland, and Portugal to seek bailouts from their European peers, and it's widely seen as unsustainable. When a country must pay that much simply to service its debt, investors become concerned that high borrowing costs will make a country's financial situation even worse.

Watch credit ratings

Troubled European countries are struggling to deal with a devilish Catch-22. In many cases, unsustainable debt burdens have led to stringent austerity measures; however, such measures also can hamper economic growth, which reduces tax revenue and can potentially increase deficits. Higher deficits can lead to a lower credit rating that in turn can mean higher borrowing costs, bringing on the problems discussed above and potentially launching a new downward economic cycle. Thus, a downgrade to a country's credit rating tends to raise concerns.

However, investor reaction also can be unpredictable. For example, Standard & Poor's January downgrade of nine sovereign nations and the European Financial Stability Fund was largely met with a shrug by investors. There's been so much pessimism about Europe for so long that in some cases, markets may already have priced in much of the bad news.

Monitor credit default swap costs

A credit default swap (CDS) is a form of insurance against the possibility that a bond issuer might default or fail to make a payment on its obligations. Bondholders buy a CDS from a financial institution or insurance company that promises to reimburse the bondholder for any losses sustained in the event of a default. The cost of that insurance is seen as a proxy for the perceived risk involved in investing in a particular country's bonds. The higher the cost of a CDS on, say, Italian sovereign debt, the greater the anxiety about whether the bond issuer will default and the CDS issuer will have to pay.

Follow the money

To prevent credit markets from seizing up, the European Central Bank late last year provided almost €500 billion in three-year loans to European banks, making it easier for them to refinance their debt. The level of borrowing at the ECB is seen as one indicator of how banks are being affected by their holdings of sovereign debt. The greater the need to borrow from the ECB, the greater the banks' perceived level of vulnerability.

Bailouts: Nein nein nein?

U.S. voters aren't the only ones who are sensitive about bailouts; so are Germans. As Europe's most powerful economy and the one with the best credit rating, Germany is the tentpole upon which European financial stability hangs. However, by the end of 2011, the German economy had begun to slow. Any indications that economic pressure could threaten Germany's ability and willingness to remain strong in its support of the eurozone can spook anxious investors.

Of Taxes Past, Present, and Future

With the 2011 tax filing season behind us, much attention is being paid to the expiring "Bush tax cuts"--the reduced federal income tax rates, and benefits, that will expire at the end of 2012 unless additional legislation is passed. In fact, though, several important federal income tax provisions already expired at the end of 2011. Here's a quick rundown of where things stand today.

What's already expired?

A series of temporary legislative "patches" over the last several years has prevented a dramatic increase in the number of individuals subject to the alternative minimum tax (AMT)--essentially a parallel federal income tax system with its own rates and rules. The last such patch expired at the end of 2011. Unless new legislation is passed, your odds of being caught in the AMT net greatly increase in 2012, because AMT exemption amounts will be significantly lower, and you won't be able to offset the AMT with most nonrefundable personal tax credits.

Other provisions that have already expired:

- *Bonus depreciation and IRC Section 179 expense limits*-- If you're a small business owner or self-employed individual, you were allowed a first-year depreciation deduction of 100% of the cost of qualifying property acquired and placed in service during 2011; this "bonus" depreciation drops to 50% for property acquired and placed in service during 2012, and disappears altogether in 2013. For 2011, the maximum amount that you could expense under IRC Section 179 was $500,000; in 2012, the maximum is $139,000; and in 2013, the maximum will be $25,000.
- *State and local sales tax*-- If you itemize your deductions, 2011 was the last tax year for which you could elect to deduct state and local general sales tax in lieu of state and local income tax.
- *Education deductions*-- The above-the-line deduction (maximum $4,000 deduction) for qualified higher education expenses, and the above-the-line deduction for up to $250 of out-of-pocket classroom expenses paid by education professionals both expired at the end of 2011.

What's expiring at the end of 2012?

After December 31, 2012, we're scheduled to go from six federal tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) to five (15%, 28%, 31%, 36%, and 39.6%). The rates that apply to long-term capital gains and dividends will change as well. Currently, long-term capital gains are generally taxed at a maximum rate of 15%. And, if you're in the 10% or 15% marginal income tax bracket, a special 0% rate generally applies. Starting in 2013, however, the maximum rate on long-term capital gains will generally increase to 20%, with a 10% rate applying to those in the lowest (15%) tax bracket (though slightly lower rates might apply to qualifying property held for five or more years). And while the current lower long-term capital gain rates now apply to qualifying dividends, starting in 2013, dividends will be taxed at ordinary income tax rates.

Other provisions expiring at the end of the year:

- *2% payroll tax reduction*-- The recently extended 2% reduction in the Social Security portion of the Federal Insurance Contributions Act (FICA) payroll tax expires at the end of 2012.
- *Itemized deductions and personal exemptions*-- Beginning in 2013, itemized deductions and personal and dependency exemptions will once again be phased out for individuals with high adjusted gross incomes (AGIs).
- *Tax credits and deductions*-- The earned income tax credit, the child tax credit, and the American Opportunity (Hope) tax credit revert to old, lower limits and (less generous) rules of application. Also gone in 2013 is the ability to deduct interest on student loans after the first 60 months of repayment.

New Medicare taxes in 2013

New Medicare taxes created by the health-care reform legislation passed in 2010 take effect in just a few short months. Beginning in 2013, the hospital insurance (HI) portion of the payroll tax--commonly referred to as the Medicare portion--increases by 0.9% for high-wage individuals. Also beginning in 2013, a new 3.8% Medicare contribution tax is imposed on the unearned income of high-income individuals.

Who is affected? The 0.9% payroll tax increase affects those with wages exceeding $200,000 ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separately). The 3.8% contribution tax on unearned income generally applies to the net investment income of individuals with modified adjusted gross income that exceeds $200,000 ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separately).

Qualified charitable distributions

A popular provision allowing individuals age 70½ or older to make qualified charitable distributions of up to $100,000 from an IRA directly to a qualified charity expired at the end of 2011. These charitable distributions were excluded from income, and counted towards satisfying any required minimum distributions that you would have had to take from your IRA for the year.

Return of the "marriage penalty"?

Tax changes that were originally made to address a perceived "marriage penalty" expire at the end of 2012. If you're married and file a joint return with your spouse, you'll see the effect in the form of a reduced 2013 standard deduction amount, as well as in lower 2013 tax bracket thresholds in the tax rate tables (i.e., couples move into higher rate brackets at lower levels of income).

Organizing Your Finances After Your Spouse Has Died

Duplicate copies of marriage and birth certificates are available at the county clerk's office where the marriage and births occurred. To get a duplicate copy of a military discharge, contact the National Personnel Record Center, 9700 Page Avenue, St. Louis, MO 63132.

If your spouse was a veteran, you may be eligible for burial and memorial benefits. Call 1-800-827-1000 to find the nearest VA regional office.

Do not be hasty when settling your spouse's estate. Important decisions need to be made regarding distributions, which must be made in compliance with the will and applicable laws. Seek an experienced estate planning attorney for advice.

Losing a spouse or partner is a stressful event. Yet, during this time, you must complete a variety of tasks and make important financial decisions. You may need to make final arrangements, notify various businesses and government agencies, settle your spouse's estate, and provide for your own financial security. Fortunately, there are steps you can take to make dealing with these matters less difficult.

Notify others and get advice

Dealing with both the death of your spouse and money matters at the same time can be overwhelming, especially if the death was unexpected. But there are resources available to help. First, call on close family members, friends, and clergy--you'll need their emotional support. Notify your employer and your spouse's employer. Then contact the professionals who will help you cope with the paperwork and financial matters. These may include your funeral director, attorney, insurance professional, financial advisor, and accountant. Keep their phone numbers handy.

Get organized and keep your finances current

You will need a number of documents to finalize your spouse's financial affairs. First, obtain certified copies of the death certificate. Your family doctor or the medical examiner should provide you with the death certificate within 24 hours of the death. The funeral home should complete the form and file it with the state. Get several certified copies (photocopies may not be accepted). Then, gather any estate planning documents, such as a will and trusts, and other relevant documents, such as deeds and titles. Also locate any marriage certificate, birth or adoption certificates of children, and military discharge papers, which you may need to apply for benefits. If you don't know where these documents are, they may be found in a safe-deposit box, or your attorney may have copies. You may want to set up folders so you can keep track of everything. And, although it may be difficult under the circumstances, pay your bills and keep your finances current, especially mortgage and insurance payments.

Settle your spouse's estate

Settling your spouse's estate is the duty of the executor, who is named in the will. Spouses generally name each other as executor of the other's estate. If this is so, your attorney can help you to wind up your spouse's financial affairs. If that is not the case, contact the executor and assist him or her when you can.

Here is a rundown of some of the most important tasks that must be completed.

- Report the death to Social Security by calling 1-800-772-1213. If your spouse was receiving benefits via direct deposit, request that the bank return funds received for the month of death and thereafter to Social Security. Do not cash any Social Security checks received by mail. Return all checks to Social Security as soon as possible. Surviving spouses and other family members may be eligible for a $255 lump-sum death benefit and survivor's benefits. Go to www.ssa.gov for more information.
- Contact all insurance companies to file claims. The policies could include individual and group life, mortgage insurance, auto credit life insurance, accidental death and dismemberment insurance, credit card insurance, and annuities.
- Arrange to retrieve your spouse's belongings from his or her workplace. Collect any salary, vacation, or sick pay owed to your spouse, and be sure to ask about continuing health insurance coverage and potential survivor's benefits for a spouse or children.
- Contact past employers regarding pension plans, and contact any IRA custodians or trustees. Review designated beneficiaries and post-death distribution options.
- Contact all credit card companies and let them know of the death. Cancel all cards unless you're named on the account and wish to retain the card.
- File the will with the appropriate probate court. If real estate was owned out of state, file ancillary probate in that state also. If there is no will, contact the probate court for instructions, or contact a probate attorney for assistance.
- Retitle jointly held assets, such as bank accounts, automobiles, stocks and bonds, and real estate.
- A federal estate tax return may need to be filed within nine months of death. State laws vary, but state estate tax and/or inheritance tax returns may also need to be filed, and may have a different filing date. Federal and state income taxes are due for the year of death on the normal filing date, unless an extension is requested. If there are trusts, separate income tax returns may need to be filed.
- Reevaluate your budget, short-term and long-term finances, insurance needs, and investment options. Update insurance policies, and your own estate and investment plans as needed.

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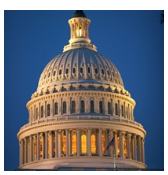
What happens to my retirement benefits if my employer goes out of business?

If your employer goes out of business, any retirement plan your employer sponsored will be terminated. If the plan is a 401(k) or other defined contribution plan, your benefits are held in trust, apart from your employer's assets, and you'll generally be entitled to receive your full account balance in a lump sum. (You can take the cash, or roll your payout into an IRA or another employer's plan.)

But if your employer sponsors a defined benefit plan, it gets a little more complicated. A defined benefit plan promises to pay you a specific monthly benefit at retirement. While defined benefit plan assets are also held in trust (or insurance contracts), apart from your employer's assets, whether a particular plan has enough cash to pay promised benefits depends on your employer's contributions and the plan's investment earnings and actuarial experience.

When a defined benefit plan is about to terminate, the Pension Benefit Guaranty Corporation (PBGC), a federal agency created specifically to protect employees covered by these plans, is notified. If the plan has enough money to cover all benefits that participants have accrued up to the plan termination date, then the PBGC will permit a "standard termination," and your employer will either purchase an annuity from an insurance company (which will provide lifetime benefits when you retire) or, if your plan permits, let you choose a lump-sum equivalent.

However, if the plan doesn't have enough money to pay all promised benefits earned up until plan termination (that is, the plan is "underfunded"), the PBGC will take over the plan as trustee in a "distress termination," and assume the obligation to pay basic plan benefits up to legal limits. For plans ending in 2012, the maximum annual benefit (payable as a single life annuity) is $55,840 for a worker who retires at age 65. If you begin receiving payments before age 65, or if your pension includes benefits for a survivor or other beneficiary, or if your plan was adopted (or amended to increase benefits) within five years of the termination, the maximum amount is lower. According to the PBGC, only 16% of retirees in recent years have seen their benefit reduced because of the annual dollar limits.



What is the Pension Benefit Guaranty Corporation?

The Pension Benefit Guaranty Corporation (PBGC) is a federal agency created by the Employee Retirement Income Security Act of 1974 (ERISA) to help protect pension plan benefits. When a pension plan ends (a "plan termination") without enough money to pay all benefits owed to participants, the PBGC takes over and assumes the obligation to pay those benefits.

The PBGC only protects defined benefit plans--that is, qualified employer pension plans that promise to pay a specific monthly benefit at retirement, based on your pay and years of service with your employer. The PBGC doesn't protect 401(k) or other defined contribution plans, plans not covered by ERISA (for example, governmental plans and certain church plans), or plans offered by professional service employers (such as doctors and lawyers) with fewer than 26 employees.

The PBGC guarantees that you'll receive basic pension benefits up to a specified dollar amount. Basic benefits include normal and early retirement benefits, survivor annuities, and disability benefits. The maximum pension benefit is set by law and adjusted yearly. For plans ending in 2012, the maximum annual amount (based on a single life annuity) is $55,840.92 (or $4,653.41 per month) for a worker who retires at age 65. According to the PBGC, most people receive the full benefit they had earned before the plan terminated. However, this amount may be lower than the benefit you had counted on from your plan at retirement.

The PBGC maintains two insurance programs: the single-employer program protects about 33.6 million workers and retirees in about 27,600 pension plans, and the multiemployer program protects 10.4 million workers and retirees in about 1,500 pension plans. (Multiemployer plans are set up by collectively bargained agreements involving more than one unrelated employer, generally in one industry, such as trucking or construction.)

The PBGC isn't funded by general tax revenues. Rather, the PBGC collects insurance premiums from employers that sponsor insured pension plans, receives funds from the pension plans it takes over, and earns money on its investments. Employers are required by ERISA to pay insurance premiums to the PBGC.