

WealthBuilder

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Objective Advice On The Road Of Life

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Now's The Time To Start Year-End Tax Planning

Care to reduce your family's 2007 IRS bill? Some opportunities expire on December 31, while others, though likely to be extended, won't continue unless both sides of the congressional aisle can agree on legislation this fall. Of course, taking these deductions or credits this year could make sense whether or not they continue to be available in the future.

Giving IRA distributions to charity.

Suppose you own an individual retirement account and are at least age 70½—and thus are required to take annual distributions from the account. This year only (and this may not be extended), you could instead instruct your IRA trustee to transfer up to \$100,000 from the account directly to a charity. This counts toward your required minimum withdrawal for 2007, and though you won't receive a charitable deduction, you'll avoid taking a taxable distribution. The money must go to a public charity—not to a donor-advised fund, for instance—and you need an acknowledgment from the charity. Spouses may contribute an additional \$100,000, assuming they meet the other requirements.

Deducting sales tax. Perhaps you expect to itemize deductions for 2007 and deduct state and local sales tax instead of state income tax. This year, you can choose one or the other, but the sales tax option won't be available in 2008 unless Washington acts this fall. So if you're thinking about buying a big-ticket item such as a car or boat or spending on building materials for a major home



renovation, you may need to buy by New Year's Eve.

Taking credit for energy efficiency.

The same approach—buy in '07, not '08—might also be wise if you are looking at a furnace, heat pump, water heater, air conditioner, or other energy-efficient home improvement that qualifies for a residential energy credit. The credits may disappear after 2007. This is a credit

that reduces your tax bill dollar for dollar, though the most you can claim during your lifetime is \$500.

Depreciating sooner, not later. Yet another expiring provision affects business and restaurant

owners. You must put leasehold improvements into service before January 1 in order to depreciate the cost over 15 years instead of a lethargic 39.

Preparing for the AMT. Other year-end tax planning involves the alternative minimum tax, or AMT. At issue this year is the amount of income that's exempt from the AMT. Unless Congress acts, the exemption for 2007 will be smaller than in 2006, and that could subject nearly 20 million more taxpayers to the AMT. But managing your AMT exposure can be difficult, and sometimes it's advantageous to do things differently when you fall under the AMT rules than when you don't. Consider the question of whether to pay fourth-quarter estimated state taxes this year or wait until January. While it normally makes sense to pay early and boost current-year deductions, that may not be true if you're subject to the AMT, because you'll lose the

Longevity: The Impact Of Stress And Financial Peace Of Mind

When you consider the best ways to extend your life, you probably think of good physical health habits—diet, exercise, and proper health care. But moves that keep you financially healthy also help, relieving stress that can lead to disease and a premature death. And good financial planning puts you in position to enjoy all those extra years.

Getting older is inherently stressful. Major lifestyle changes such as retiring, watching kids leave the nest, and downsizing to a smaller residence inevitably generate anxiety. If you're also taking financial responsibility for aging parents or for adult children who need help getting started, it only adds to the psychological toll.

Getting your financial house in order can help lighten the load. Knowing your retirement account is well funded, say, or that you have established a trust to take care of children from your first marriage, can help ease your mind. But if others around you are concerned about the future, their anxiety will inevitably affect you, too. So sit down now with your spouse, your children, and your parents to discuss what's ahead.

And talk with us. It's our job to help you achieve financial peace of mind, and the more we know about your goals and your stress, the better we can work with you to relieve your anxiety. Getting comfortable with your financial future just might give you more of it to enjoy.

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Should You Delay Taking Social Security Benefits?

When should you start collecting your hard-earned Social Security? Conventional wisdom says the longer you delay, the better off you are. Yet maximizing your payment through waiting is just one way to get the most out of this key retirement income source.

In essence, the government pays you to wait for Social Security, and docks you for taking benefits early. You're allowed to begin collecting at age 62, but your monthly payment will be lower than your "full benefit," and it will stay that way (see "The Cost Of Starting Early"). To get more, you must wait until you reach the Social Security Administration's "full retirement age," which used to be 65—and still is, if you were born in 1937 or earlier—but is now inching upward, depending on your birth year. If you delay taking benefits beyond your specified retirement age, your payment will increase an extra 8% for each year you postpone benefits until age 70.

If you opt to start Social Security payments at 62, you'll lose up to 30% of the benefit you'd get by waiting until retirement age. Still, delaying payments may not always be possible or even desirable. You could need the money—if, say, you've been downsized at work, or your health has forced you to retire early. In such

cases, starting Social Security at age 62 may be better than draining your savings while you wait several years.

If you have plenty of other income, starting benefits early could pay off if you invest the money. But there's no guarantee you'd come out ahead with this strategy. Your success depends not only on your return, but also on how long you live. Receiving several extra years of payments undeniably puts money in your pocket, and if you start benefits at age 70 rather than at 62, for example, you'll need to live a number of years before the higher monthly payments make up for the cash you gave

up by waiting. On the other hand, investing your early benefits in anything but the most conservative assets could put some of your otherwise guaranteed retirement income at risk.

The lower your portfolio's returns, the better off you may be spending down your savings while you wait for benefits to kick in at age 70, suggests John Marotta of MoneyNews.com. If your savings only keep pace with inflation—and if you live past the age of 83.4—waiting for the age 70 payout will be a better deal. But if you earn 2.5% a year above inflation, the "break-even" age is 87.25 years, according to Marotta.

These days, of course, achieving those milestones isn't unusual. According to the American Society of Actuaries, a 65-year-old male now has a 50% chance of surviving until age 85, while the average 65-year-old woman has 50-50 odds of being alive at 88. For a couple in which both spouses are 65, there's a 50% chance one will make it to age 92.

Ultimately, your decision about when to begin Social Security benefits may hinge on how that income affects your financial plan. If you're nearing 62 and would like to discuss your options, please give us a call. ●

The Cost of Starting Early

Year of birth	Age When You Can Begin Full Benefit	Percent Of Full Benefit Lost By Retiring At 62
1937	65	20.00
1938	65 and 2 months	20.83
1939	65 and 4 months	21.67
1940	65 and 6 months	22.50
1941	65 and 8 months	23.33
1942	65 and 10 months	24.17
1943 - 1954	66	25.00
1955	66 and 2 months	25.84
1956	66 and 4 months	26.66
1957	66 and 6 months	27.50
1958	66 and 8 months	28.33
1959	66 and 10 months	29.17
1960 & later	67	30.00

Source: Social Security Administration

Harvard-MIT Study Questions Web Security Tactic In Banking

You're logging on to your bank account, and you have to navigate a new layer of security designed to ensure you're really on your bank's site. You've been told that if an image you've chosen—a drawing of a muffin, say, or a toy drum—doesn't appear, you shouldn't enter your password and proceed to your account. But you're in a hurry, you need to check your balance and pay a bill, so you go ahead and log in.

That's exactly what people almost always do, according to a study by Harvard and MIT researchers. And that pretty much defeats the purpose

of this latest antifraud measure.

The image system, adopted by several major banks and other financial institutions, is supposed to be a convenient way to make sure you're not on a fraudulent site that only looks like your bank's site. But the system requires you to decide whether to proceed if the image is absent, and in the Harvard/MIT study, almost all online banking customers went ahead and logged on to their accounts.

The study actually tested three levels of security. The first involved the padlock icon that appears on the lower right corner of your browser screen when you have a secure

connection. The second was the image system, and the third was a screen warning saying there was a problem with a site's security certificate. Not a single user in the test was deterred by a missing padlock, and 58 of 60 users entered their passwords even though they didn't see the security image they'd chosen. Only the strongly worded warning page was somewhat effective, and even then, more than half of the study participants proceeded to their accounts.

In the Harvard/MIT study, participants were divided into three groups. Those in one group used their own accounts to perform

Smart Moves Five Years From Retirement

The notion of outliving your retirement income is not a happy one, and now, with tens of millions of baby boomers about to embark on decades of life after work, anxiety is running high. But with some wise preparation, you can create a retirement strategy that keeps you comfortable and financially secure.

Here are five critical moves to consider five years in advance of your retirement deadline.

1. Visualize your retirement. Steven Covey, author of *The Seven Habits of Highly Effective People*, famously

suggested: “Begin with the end in mind.” So before you crunch the first number, dig deep and imagine what you want from retirement. You might begin by making sure you want to retire at all. These days, more and more people are deciding to continue working, at least part time. And if you will leave work behind, how will you spend your time? Pursuing adventure travel? Kicking back at your lake cottage? Downsizing and moving to a new community?

If you’re married, talk to your spouse about what she or he envisions. It’s important that you get on the same page about your plans and goals. Once

you’ve identified your objectives, determine what they’ll cost and consider where your income will come from—Social Security, a company pension, distributions from your 401(k), rental property income, interest and dividends on other savings, perhaps an inheritance.

2. Examine your footprint. Most people underestimate what retirement

will cost, but a simple cash-flow planning exercise can help set the record straight. Start with your core living expenses, and project those out for the next five years, adding in other goals that will require funding: helping a child with wedding expenses, for example, or a house renovation.

Next, consider what your expenses will be in retirement. It’s likely the early years will be more active—and more expensive. A big cost that many pre-retirees don’t see coming is health insurance, which can easily run \$16,000 a year for a married couple until age 65, when Medicare kicks in.

Thanks to health care costs and other rapidly increasing expenses, many financial experts now suggest retirees have as much income during retirement as when they were working.

3. Address your liabilities.

There’s good debt and bad debt. As you approach retirement, it’s critical to get rid of anything on which you’re paying double-digit interest rates.

That likely includes credit cards and possibly even car loans.

For longer-term obligations, if you’re paying between 5% and 7%, that’s probably all right, particularly if it’s on a mortgage or home equity loan for which some of the interest may be tax deductible.

4. Max out your savings. You’re in your peak earning years, and now is the time to push hard to save all that you can. Many experts recommend saving 20% of your income as a rule of thumb. At the very least, make the maximum allowable contributions to your retirement plan and, if eligible, to an IRA as well. This is your last, best chance to increase the size of your nest egg and your income during retirement.

5. Fine-tune your investment portfolio. One factor to consider during this crucial period is whether stock options, restricted stock, or company stock you own outright in taxable or tax-deferred accounts leaves you dangerously overexposed to the fortunes of your company. You may do well to diversify, to the extent you can, even if it generates taxable capital gains. But now is also the time to revisit your overall asset allocation. The risk of major losses on the eve of retirement argues for a more conservative approach, yet it’s important for your portfolio to continue growing, now and during retirement.

We would be happy to review with you your current retirement plan and asset allocation in view of your goals for your years after work. Please give us a call.●



Saying It Gives False Sense Of Security

specified online banking tasks, while participants in two other groups were assigned roles to play. One role-playing group also got a warning about security. But those who were warned turned out to be even more cavalier than the others about ignoring security red flags. Only the participants using their own accounts were slightly more cautious.

The study authors worry that the site-authentication images give online banking customers a false sense of security. One bank assures its customers that providing their chosen images means they’ll “know immediately that it’s safe to enter

your Login PIN.” Another says, “when you see your image, you can be confident that you’re on [our site] and not an impostor site.”

The site authentication images are only one security measure banks employ. Most, for example, also send “cookies” to the computer you normally use and require you to answer security questions if you log in from another computer. But the new image systems are supposed to provide an additional layer of security—and if you’re like the participants in the Harvard/MIT study, that’s not likely to happen. ●

Eight Ways To Save On Life Insurance

The price you pay for life insurance largely depends on things you can't or don't want to change: your age, health, habits, and other lifestyle choices, such as smoking and skydiving. Still, there are ways to save when buying a policy.

Buy the type of insurance you need.

Though there are dozens of variations, life insurance basically comes in two flavors: term or permanent. With a term policy, you pay an annual premium and, assuming you die during the term of the policy, the insurer guarantees it will pay your beneficiaries the face amount of the policy upon your death. A permanent policy does the same thing, but premiums are higher, because you build up cash value that you can borrow against or withdraw if you cancel the policy. The right type of insurance for you depends on several factors, including your age, family situation, and financial goals. Often a term policy can save you money.

Don't be loyal to one company. You may receive free or discounted life insurance through a current or former employer. But you'll probably need to supplement that coverage, and buying additional insurance from that insurer may

not get you the best deal. Keep in mind, though, that you'll likely have to qualify medically for a policy you buy on the open market, which may not be required if you buy through an employer.

Negotiate. Smoke one cigar a month? You'll probably be lumped into the same category as someone who smokes two packs of cigarettes a day. And a dangerous activity, such as skydiving, that you tried just once could also ratchet up your premium, even if you

have no intention of doing it again. Your premium may be negotiable, if you write to the insurer explaining why you think you should qualify for a better rate.

Find a specialist if you have health problems. Some insurers specialize in covering people with heart disease, cancer, or diabetes. These companies employ underwriters trained to differentiate, for example, between people with high



blood pressure who are addressing the problem and those whose hypertension is uncontrolled.

Buy in bulk. If you're planning to buy \$950,000 of coverage, a \$1,000,000 policy may actually cost less. Insurance is priced in multiples of \$250,000, and an insurer may charge disproportionately more for an in-between amount.

Avoid hidden fees. Before you sign up for any convenience, find out how much it costs. For example, some insurers charge for deducting monthly payments automatically from your checking account.

Choose riders carefully. An insurer may pad your policy with extras called riders. For example, the accidental-death rider, more commonly known as double indemnity, pays twice the normal death benefit if you perish in an accident. But the chance of that happening is quite small and may not be worth the extra cost. Be sure you understand what riders you are buying.

Review. It's wise to review your policies every two or three years, especially permanent policies, to see if they can be leveraged or exchanged into a new lower-cost policy. ●

Start Year-End Tax Planning

(Continued from page 1)

deduction for state income taxes.

Cashing in AMT credits. One thing that no longer hinges on AMT status is the ability to utilize tax credits you may have received when paying alternative tax (because you exercised incentive stock options, for example). Thanks to a new rule, in effect for tax years 2007 through 2012, individuals with \$25,000-plus of AMT tax credits that were generated more than three years earlier can generally take 20% of the overall credit each year. Old credits of up to \$5,000 may be fully refundable this year. But your refund starts phasing out once adjusted gross income exceeds \$234,600 if married filing jointly, or \$156,400 if single.

Considering the kiddie tax. The so-called kiddie tax, which taxes a child's investment income above \$1,700 at the parent's rate, currently applies only to children under age 18. Beginning in 2008, however, an obscure provision of the Small Business and Work Opportunity Act, signed into law in May, will extend the same rule to 18-year-olds, as well as to most full-time students ages 19 through 23 who do not earn more than half their support. As a result, many college students who are not subject to the kiddie tax this year will be in 2008, and the implications could be surprising. Suppose you gave appreciated stock to your daughter, intending that she would sell it in 2008, 2009, or 2010, when lower-income



taxpayers owe nothing for their capital gains. That strategy may not work now. In fact, it could make sense to have your daughter sell the asset this year, when she may qualify for a 5% capital gains rate, rather than wait until later, when she might be subject to a tax three times that amount.

Seeing the big picture. Of course, taxes alone should never drive any investment decision. Still, with the kiddie tax now extending its reach—and other tax provisions in flux—it's more important than ever to take the long view of moves that could affect the tax liability of you or your children. We can work with you to make sure that you minimize tax payments while moving toward your larger financial goals. ●