

Wealth Builder

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Objective Advice On The Road Of Life

First Quarter 2008



The calendar plays some evil tricks on us – specifically, it leads us right out of the holidays, full of fun and celebration, and right into tax time. That’s almost heartless. In any event, that’s where we are. Welcome to tax season.



how much. Is this notion of the rich not paying taxes fact or fiction? (With our apologies to the folks at Ripley’s).

A recent report released by the Internal Revenue Service provided us with our answers. The report was based on 2005 tax data, the most current available, and a year in which the economy was healthy and growing. The results may surprise you:

We discovered that the top 1% of taxpayers paid in the same amount of taxes as the bottom 95% combined. So much for this myth.

	Adjusted Gross Income	Share of Income earned	Share of taxes paid
To Qualify			
Top 1%	\$364,657	21.2%	39.4%
Top 5%	\$145,283	35.8%	59.7%
Top 10%	\$103,912	46.4%	70.3%
Top 25%	\$62,068	67.5%	86.0%
Top 50%	\$30,881	87.2%	96.9%
Bottom 50%	<\$30,881	12.8%	3.1%

We often hear the question – “Why is that rich people don’t pay taxes, and I owe so much?” – or words to that effect. We thought we’d do a little digging to see what the reality is behind who pays taxes and

The average effective tax rate ranged from 2.98% of income for those with incomes below \$30,881 to a high of 23.13% for people with incomes above \$364,657.

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A word of thanks...

We want to take this opportunity to thank our clients who have made recent referrals to us.



Nearly 100% of our new business comes to us by referral. We often are asked whether we are taking on new business and our answer is a qualified *yes!* We say “qualified” because although we are poised for growth, we are interested in growing at a reasonable pace without compromising the trust and confidence you have placed in us. We will value others like you, who seek to maximize their net worth (and that of their business) and provide financial security for themselves and their families. A referral from you and your continued business with us are the highest compliments we could ever receive. Thank you and have a great 2008! ●

Let's talk about the Stock Market

2007 was a very volatile year to say the least. The primary culprit – subprime mortgages.

No other concept so dominated Wall Street — not by a long shot.

modest gains was testament to the resiliency of the U.S. economy. **The Dow rose 6.4 percent in 2007, the Nasdaq 9.8 percent, and the S&P 500 3.5 percent.**

up the balance sheets of these companies. It will take some time, but proper steps are being taken to fix their problems and move on. And move on we will, eventually.

A series of Fed rate cuts still left investors dissatisfied. The central bank also capped off its activity in December with bond auctions aimed at getting money into the marketplace, but investors generally shrugged off the move, and many criticized the Fed and its chairman, Ben Bernanke, for indecision in the wake of the credit crunch.

It all adds up to uneasy feelings as to whether the U.S. economy is heading into a recession, and investors are still looking for the Fed to do its part to stave one off. From our vantage point, it appears that the Fed is being proactive enough to stave off a recession, though we don't anticipate significant growth in our economy until the remnants of this subprime mess make their way through the markets. We expect the Fed will lower rates again in early 2008 in an effort to keep the economy growing – but we can all expect a fair amount of volatility to continue into the New Year.

For long-term investors, we see no need to panic during this time. If you are still contributing to your retirement accounts, keep doing so and dollar-cost average your way to greater wealth. In other words, take advantage of these stock market bargains. If you're already retired, you should maintain two-to-three years of cash needs in bond funds in order to allow you to avoid having to sell any equities during any down periods we may have.

For what its worth, a review of market performance in the fourth year of a presidential term uncovers that the average stock market return during such periods has been 13.8% from 1928 – 2004. There have been 17 up years and only 3 down years. So to paraphrase Bill Murray in *Caddy Shack*...” So we got that going for us, which is good.” ●



The subprime mortgage collapse, in which hundreds of thousands of Americans lost their homes after signing on to adjustable-rate mortgages with low teaser rates, permeated through the markets.



The nation's top investment banks are expecting to take \$100 billion or more in write-downs because of subprime losses, while consumers hamstrung by resetting Adjustable Rate Mortgages (ARMs) were delinquent in credit cards and spent less money at retail outlets.

That the major indexes managed to make it through the year with



There is some spillover effect going into the New Year as the subprime effects continue to ripple through the economy. Real estate has continued to languish, and there are worries about whether the market would be overwhelmed by excess inventory as banks tighten lending standards.

Financial institutions were the hardest hit by this debacle. Many of the largest financial institutions have fired their CEOs and others over this mess. New management teams will be coming in and working to clean

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. 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. 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.

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 and Later	67	30.00

Happy New Year!

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Compare these numbers to those found in some other countries. In Sweden, the tax burden is about 50%, Germany about 36%. Similar rates can be found in most other European countries too.

Some other tax facts you may find interesting, if not disturbing:

- ◆ There are more than 66,498 pages of Federal tax rules in the commonly used Standard Federal Tax Reporter. In 1913, when the income tax was first introduced, there were 400 pages.
- ◆ There are about 1.2 million professional tax preparers during

tax season; that's roughly the number of people that reside in the State of Hawaii. It is also comparable to the number of people that live in Vermont and Washington, D.C., combined. This is a bit crazy!

- ◆ The highest taxed people in the country (as a percentage of income) live in Vermont, Maine, New York, Rhode Island and Hawaii in that order. The people that pay the least (as a percentage of income) live in Alaska, New Hampshire, Tennessee, Alabama and Delaware.
- ◆ While April 15th is the filing deadline it is also: Leonardo DaVinci's birthday, the day the Titanic sunk, the day Abraham Lincoln died.

So while we all hear that the rich don't pay any taxes, the fact is - they do. The countless tax law changes over the last 27 years have eliminated many of the tax breaks previously afforded to "the rich" – like the virtual elimination of tax shelters, the imposition of the Alternative Minimum Tax, and the curtailing of many deductions to name a few.

Rather than the "rich" not paying their share of taxes, perhaps the real issue is that so much of our economy is underground and escapes taxes all together. That little-discussed reality is very unfair to all of us tax-paying folks, but that's an article for another day. ●