Invest In Your Future

SEILER & ASSOCIATES

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The Benefits Of 401(k)s Far Outweigh The Negatives

To paraphrase Mark Twain, the news of the death of the 401(k) plan has been greatly exaggerated. If you halted contributions to your company's retirement plan after the stock market plummeted late in 2008, it may be time to resuscitate your account.

No one could blame you for feeling the heat. The Standard & Poor's 500 stock index declined by a whopping 56% from its peak in October 2007 to its trough in March 2009, resulting in comparable losses for numerous 401(k) plan participants whose portfolios weren't well diversified. About 6% of 401(k) participants had to withdraw funds from retirement accounts in 2008 to meet pressing financial needs, and almost 5% stopped contributing to their 401(k) account altogether. Still, in bad times and good, the benefits of using a 401(k) to save for retirement far outweigh the perceived negatives.

There are risks, of course. The value of your investments will fall from time to time, and the performance of your retirement portfolio depends not only on the investment choices you make but also on market movements beyond your control. There are no guarantees you'll make money or even escape with your principal intact. And, unlike defined-benefit pension plans, 401(k)s aren't insured by the Pension Benefit Guaranty Corporation. Furthermore, while your employer may contribute to your account, you could lose that money if you change jobs or retire before you're "vested." But since employer contributions are essentially free money for your account, that's hardly a negative.

Finally, distributions from your plan during retirement will be taxed at ordinary income rates—and if you take withdrawals early, before age 59½, you'll probably owe a 10% penalty as well.

However, the list of 401(k) pros is much longer than the list of cons.

1. Over long periods of investing for retirement, your account is likely—though not certain—to gain value. Even when markets fall, it can be a blessing if you have a long-term time horizon because your continued regular investments let you accumulate shares at low prices, setting yourself up for big profits when the market rebounds.

2. Your 401(k) offers several investment options, and you're usually the one calling the shots, not your company. Many plans include prepackaged portfolios with broadly diversified investments, and professional advice about investments is often available.

3. Contribution limits are generous. For 2010, you can put as much as \$16,500 in your account, or \$22,000 if you're age 50 or over. In contrast, the annual limit for IRA contributions is only \$5,000 (\$6,000 if you're age 50 or over).

4. Contributions to a traditional

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Despite Concerns, Most Don't Have A Financial Plan

Even after one of the worst economic downturns in U.S. history, only 17% of Americans have a written and updated financial plan, according to a survey by Certified Financial Planner Board of Standards.

With the value of retirement assets slashed and incomes stalled, it would make sense for people to take steps to rebuild their financial futures. Yet the survey, taken eight months after the economic collapse of October 2008, shows most people don't have a blueprint for getting back on track.

According to the CFP Board survey, a majority of Americans of all incomes and asset levels are worried about managing retirement income, keeping health care insurance, managing debt, and building a retirement fund. Meanwhile, 65% of respondents who employ a financial advisor to help them establish and maintain a financial plan feel they are benefiting from the relationship. Only 46% of those who have a written plan but don't work with an advisor are satisfied.

When it comes to reaching financial goals and life dreams, it doesn't make sense to leave things to chance. A financial plan not only gives you a concrete direction, it helps you stay on course and change direction when necessary.

If you have yet to set up a financial plan, or if your plan is falling short, call our office today so that we can help you chart a solid path to a secure financial future.

Make Use Of Home-Buying Opportunity

There's good news about the federal tax credit for buying a home: It's not just for "first-time" homebuyers any more. The credit has been revamped so that it's now available to a much wider range of taxpayers, including retirees and others with sizeable annual incomes. The changes were included in the new "Worker, Homeownership, and Business Assistance Act of 2009."

Prior to the law change, only qualified first-time homebuyers who purchased a home before December 1, 2009 could claim the maximum credit of $8,000. A first-time homebuyer was defined as someone who had not owned a principal residence during the three years prior to a purchase. Also, the credit was phased out, beginning at $75,000 of modified adjusted gross income (MAGI) for single filers and $150,000 for joint filers. The phase-out was complete at $95,000 of MAGI for single filers and $170,000 for joint filers.

Under the new law, the credit has been extended to purchases made before May 1, 2010 (or July 1, 2010, if there's a binding contract in place before May 1, 2010). To accelerate the tax benefits, you may elect to claim the credit on your 2009 return, even if you purchase the home in 2010.

What's more, income limits are higher. The revised credit phases out between $125,000 and $145,000 of MAGI for single filers and from $225,000 to $245,000 for joint filers. This opens the door for a larger group of homebuyers.

Finally, the new law contains a surprise. For purchases made after November 6, 2009, you don't have to be a first-time homebuyer in order to qualify the credit. You're eligible for a maximum credit of $6,500 as long as you've owned and used your prior home as your principal residence for any five consecutive years during the previous eight years.

So, if you are retired or about to retire and are looking to downsize to a smaller home, you can effectively cut $6,500 off the purchase price. Similarly, you may be eligible for the credit if you're relocating to another home due to a job change. And the credit is still available to young family members who are buying starter homes or moving to a larger house.

However, there are two potential drawbacks to consider:

1. The new law sets a ceiling on a home's purchase price. For houses bought after November 6, 2009, no credit is allowed if the purchase price exceeds $800,000.

2. As under the earlier law, you'll have to pay back the credit if you stop using the home as your principal residence during the three years following your purchase.

If you're planning to buy a home anyway, don't miss out on this opportunity. Cash in while you can. ●

Should Business Owners Use Twitter?

When it comes to Twitter, the social networking tool that's growing like Topsy on steroids, some business owners think it's just the coolest thing, and spend much of their time concocting business-building, 140-character "tweets" to send to growing lists of followers. And while some consider it an over-hyped time-waster that has nothing to offer their companies, Twitter really can help most businesses—but only if you understand Twitter basics and how a few simple tools and strategies can build awareness and loyalty among current and prospective customers.

Once you've joined Twitter, at http://twitter.com, you can sign up to "follow" other members. That means whenever one of those people sends a short text message known as a tweet, you'll get it. Those members, in turn, may decide to follow you—they'll read your tweets—and you can also invite current contacts to become your followers. Clicking on "Find some friends" gives you options for importing contacts and sending invitations, while the "Settings" page (http://twitter.com/account/settings) lets you customize your twitter home screen with your bio, picture, and keywords that can help your audience find you. And new applications with Twitter tools are springing up every day. Check out http://twitter.com/downloads or use Google to find lists of favorites—including a great one at http://www.squidoo.com/twitterapps. You'll find things you never knew you needed—such as a tool that lets you shorten the URLs of reading recommendations in your tweets (http://bitly.com).

But why should you care about anyone's answer to Twitter's basic question—what are you doing?—or expect anyone to care about your answer? In some businesses, your tweets may provide information your

Finding An Advisory Firm You Can Trust

These are perilous times for investors looking for a trustworthy financial advisor. Clients of even the best advisors have suffered setbacks as the stock market lost half its value, and those who work with representatives of big investment banks and brokerages have been left to wonder why they're taking advice from firms that erred so badly with their own investments. But the worst blow to the very concept of a trusted financial advisor may have come from the Bernard Madoff scandal. Madoff stole almost $65 billion from 4,800 clients, many of whom had assumed their money was safe largely because of who Madoff was—a pillar of the Jewish community of which so many of those clients are also a part. In a world in which he could betray them so spectacularly, is there really anyone you can trust to handle your money?

That's a question our firm takes very seriously. We have always tried to operate openly and transparently, but in today's uncertain world, no one should take a firm's integrity solely on faith. Just as it's our responsibility to practice "due diligence" before recommending any outside investment manager or custodial firm, it's your job to look closely at any advisory firm you're considering. We will gladly talk with you about our policies and processes and provide any documentation you might require. Here are several criteria to use in evaluating our firm or any other advisor.

Is the firm a fiduciary? A financial advisor who is legally and ethically required to put your interests first is known as a fiduciary. Registered Investment Advisors, or RIAs, operate as fiduciaries, and must disclose to you how they're compensated and any potential conflicts of interest that might arise during your relationship. Other advisors who are not RIAs may also embrace fiduciary responsibilities. But under a recently enacted Securities and Exchange Commission (SEC) rule, non-fiduciaries must now make this disclosure: "Our account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits, and our salespersons' compensation, may vary by product and over time."

Is it independent? The biggest names in financial services have been tarnished by the global financial crisis. Investment banks and brokerages have collapsed under the weight of their own investments in collateralized mortgage obligations and other debt securities. Though the firms' personal financial advisors weren't responsible for the companies' dire miscalculations, they operate in the same corporate culture and often are encouraged to recommend the firms' proprietary investment products. Independent financial advisors, in contrast, aren't subject to a larger firm's foibles. Those who are fiduciaries have only one goal—to help clients achieve their objectives.

Where does it hold your assets? Madoff and other schemers tend to minimize their involvement with outside firms that might notice irregularities in their operations. Madoff's firm, despite its large size, self-custodied assets, which should have been a red flag for investors. Responsible advisors, in contrast, work with custodial firms such as Charles Schwab, Fidelity, Pershing, or TD Ameritrade that hold client assets and provide regular account statements and constant access to account information. Those companies' participation adds an extra layer of security for your holdings.

What kind of relationships does it have with clients? Particularly during these turbulent times, you're bound to have questions about the economy, investment markets, your financial plan, and the safety of your assets. Your advisor should be there to provide answers, to meet with you when you have concerns or problems, and to provide regular communications through a newsletter, email updates, or the firm's website.

Our firm is a fiduciary and we safeguard client assets by holding them at a respected custodial firm. We operate independently and are free to recommend any investments we believe will serve your financial goals. We communicate frequently with all of our clients and are always available to answer questions or concerns. We strive to offer outstanding financial guidance and to relieve any worries you might have about how we invest your money. If you would like to discuss how our firm operates and what it can do to earn your trust, please give us a call. ●

customers can immediately use—about special promotions or a product introduction, for example—but they're more likely to help in other ways, letting you network with other business people, exposing you to new ideas, and raising your profile as a thought leader in your industry. If you can define and cultivate your Twitter audience, you can establish yourself as a reliable source of insights, articles, and opportunities that can benefit your followers and win you new business in the process.

There are tons of ideas about what to tweet, including how to generate automatic content, and again, you can Google or use the Twitter search function, http://search.twitter.com, for specific suggestions. Most Twitter veterans warn against excessive self-promotion, and there are rules of Twitter etiquette. But if you're new to Twitter the most important thing is to start slowly, experiment, and find what works for you. You'll never lack for ideas, applications, and content—or people eager to feed you their best Twitter notions and tools. ●

Is Medicare A Mystery? Test Your Knowledge

Talk about a historic first: 2008 marked the year the oldest of baby boomers turned age 62 and became eligible to claim Social Security benefits. Yet despite their reputation as the best-educated generation in U.S. history, a recent survey suggests that most boomers are woefully uninformed about their retirement health insurance picture, particularly Medicare eligibility.

According to the survey by the National Association of Insurance Commissioners, only 36% of baby boomers knew the age at which they would become eligible for Medicare benefits. And while 84% of boomers said access to health insurance was an important consideration in choosing when to retire, only 43% cited Medicare eligibility as important. Given that most retirees depend on Medicare to pick up much of their health-care tab, the implied gap in understanding could signal trouble ahead for many boomers.

Also two-thirds of those who responded weren't familiar with options such as Medicare Advantage, a managed care program that offers lower costs and broader coverage in return for restrictions on the choice of doctors and hospitals. And while most boomers didn't know much about the Medicare system, more than eight in 10 expressed concern about its long-term financial viability.

How savvy are you about Medicare? Use this quiz to test your knowledge.

1) Medicare is:
a) The largest health insurance program in the nation
b) Partly funded by the federal government
c) Both of the above
d) Neither of the above

2) You are eligible to receive Medicare coverage at:
a) Age 59½ c) Age 65
b) Age 62 d) Age 67

3) You may qualify at a younger age if:
a) You pay extra.
b) You are disabled or suffer from end-stage renal disease.
c) Your household income is below the poverty level.
d) None of the above

4) Medicare now includes how many coverage options?
a) Two c) Five
b) Four d) Six

5) The newest addition to Medicare coverage is:
a) Preventive care
b) Fitness programs
c) Prescription drugs
d) None of the above

6) Which of the following is true?
a) No Medicare recipients pay premiums.
b) Some Medicare recipients pay premiums.
c) No Medicare recipients pay deductibles.
c) No Medicare recipients pay coinsurance charges.

7) Which of the following is false?
a) Medicare will pay for long-term health-care services.
b) You have to apply for Medicare coverage.
c) You can purchase supplemental insurance.
d) Health discount cards are not insurance products.

If you're confused about Medicare or long-term-care, please give us a call. We'll be glad to help.

Answers: 1-c; 2-c; 3-b; 4-b; 5-c; 6-b; 7-a.

The Benefits Of 401(k)s

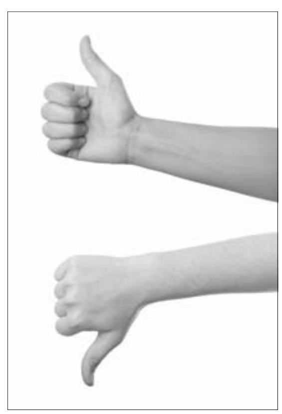
(Continued from page 1)

401(k) may be made as pre-tax salary deferrals, which reduce your taxable income and the amount you owe the IRS. Nor are you taxed on investment earnings until you withdraw funds from your account.

5. Employers often match a portion of employee contributions with company-paid contributions based on a percentage of your salary. And once you meet the 401(k)'s vesting requirements, that money is yours to keep.

6. The impact of long-term, tax-deferred compounding can magnify annual contributions into a sizeable nest egg. For example, if you put $20,000 in your account each year and average a 7% return, your account will be worth about $1.3 million after 25 years.

7. When you retire or change jobs, you can roll over the assets in your 401(k) tax-free to an IRA or the qualified plan of your new employer. That preserves the tax advantages of your retirement plan. For some, it will also make sense to roll over the assets to a Roth IRA.



8. Because you pay into Social Security only until you reach a specified income ceiling—$106,800 in 2010—once you've crossed that threshold, you could use payroll savings to increase your 401(k) contribution without reducing your paycheck.

9. Because your company's 401(k) plan is protected by the Employee Retirement Income Security Act (ERISA), it cannot be garnished by creditors or assigned to others (except in domestic court cases involving a divorce decree or a child support order).

A 401(k) plan continues to be one of the easiest ways to save for retirement, and its advantages far outstrip its drawbacks. If you bailed out during the financial crisis, you may have already missed substantial gains during the market recovery. But getting back in now and sticking with your financial plan going forward could help you resume building for a comfortable life after work. ●

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