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KNOPINSKI & FAUVER
FINANCIAL ADVISORS

303.666.6292 www.kffainc.com

What Should You Spend First During Retirement?

Retirement day is a financial rite of passage, a transition from accumulating wealth to spending it. The leading edge of the massive baby boom generation is reaching age 59½. That's the age at which you may begin taking money from a traditional retirement account without incurring the dreaded 10% early withdrawal penalty. But distribution planning is complex, and just because you can take the money doesn't mean you necessarily should.

Which money should you spend first during retirement? The retirement plan? Personal accounts? What kind of holdings should you sell, and in what order? The answers depend on your circumstances. Key variables include:

- Expectations about future tax rates
- Your basis in taxable assets
- Whether your portfolio includes concentrated holdings
- Whether you hope to leave something to heirs
- Your charitable objectives
- Whether you'll pay estate tax

Still, many individuals—particularly if you won't owe estate tax—fare better spending non-retirement accounts first. Potential benefits of tapping personal accounts first include the following:

Lower current taxes. Cash in personal accounts has already been taxed, and appreciated assets may qualify for taxation at long-term capital gain rates, currently a maximum of 15%. Withdrawals from employer plans and traditional IRAs are taxable at ordinary rates as high as 35%.

Continued tax-deferred growth. Spending taxable accounts first allows your retirement account to keep growing free from current taxation.

More for heirs. Leaving an IRA to loved ones lets them continue the tax-deferred ride. With a "stretch" IRA, beneficiaries withdraw from the account over their life expectancies—especially attractive when their tax brackets are lower than the IRA owner's. Note that non-spouse beneficiaries are no longer required to empty company plan accounts, generating current taxes. Rolling plan assets to an IRA could allow your heirs to maximize your retirement money.

Which taxable assets should you sell first? Let annual rebalancing be your guide. By selling from portfolio positions that have grown larger than your target allocations, you get cash to live on while keeping your investments well diversified.

Estate tax liquidity. If your estate lacks the cash to pay estate taxes, heirs might have to raid your retirement account, triggering income tax. If estate taxes are likely, it may be wise to keep some taxable assets in reserve to cover the bill.

Highly appreciated assets.

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Couples Lack Team Spirit In Planning For Retirement

Though there is an "I" in retirement, it generally requires cooperation with your spouse to produce mutually satisfactory solutions. But it appears most couples are short on team spirit, a commodity that's especially crucial during these tough economic times.

According to a recent study from Fidelity Investments, more than 80% of the couples surveyed disagreed about a major component of their retirement planning. That includes such factors as retirement age, plans to work while retired, and, most significantly, expected future lifestyles. Also noteworthy was that only 15% said they would feel confident enough about their finances to assume full financial responsibilities on their own.

Many couples in the Fidelity study acknowledged they are struggling to share financial information and decision-making as they approach the last decade or two before retirement. Some aren't even sure which financial products they own or completely understand those investments. For instance, more than one in four survey respondents couldn't agree whether the couple owned an IRA. Only 38% jointly discussed investment decisions affecting retirement savings.

If you and your spouse are in this predicament, we can help you communicate more openly with each other about your finances and objectives. You're far more likely to secure a comfortable retirement—and will more easily overcome the financial bumps along the way—if you work together.

Colleen & Rob

A Welcome Spike In Personal Savings

Are you looking for something good that may have come out of the recession? As a result of the economic downturn, Americans have generally been spending less and saving more. The savings rate in U.S. households in 2009 reached a high point of 6.9% of after-tax personal income in May. Even though the savings rate has slipped slightly since then, the watershed mark was the highest rate since 1992, when savings peaked at 7.7%.

While it's not an exact measure of fiscal health, the savings rate is the percentage of household disposable income that is put into savings rather than consumed. Mortgage payments are not considered savings, but retirement plan allocations (not capital gains) are. Although a sub-7% savings rate isn't much to brag about in most parts of the world—the annual percentage in other countries routinely hits double digits—it marks a dramatic shift in our personal financial habits. During recent years, the percentage of savings actually dipped below 1%, bottoming out at 0.4% in both 2006 and 2007. In 2008, the saving rate was still only 1.8%.

What's behind the trend towards more savings? During the preceding two decades, rising stock market values and home prices had enticed consumers into thinking they had money to burn, and they became less and less inclined to save for retirement and other needs. Even retirees were encouraged to spend like there was no tomorrow.

But the recent precipitous decline in household wealth ended the wild spending spree. Real estate values around the country have dropped by an estimated 35%, and during the past two years, U.S. household wealth has been reduced by a whopping 140% of annual disposable income. That's a total of $14 trillion.

Faced with daunting economic news, people have been forced to rein in spending, while increasing their efforts to prepare for a secure retirement. For instance, instead of buying goods with their checks from the economic stimulus package or taking advantage of other tax incentives, many people have chosen to hold on to the money. And it doesn't look as if things will change radically anytime soon.

How long will the latest trend last? Most economists predict a slow, steady climb back to better times rather than a quick return to another financial boom. But cutbacks in domestic consumption will also slow down the economic recovery. In the meantime, the savings rate is expected to rise gradually until it hits the 10% mark at some point during the next 10 years. Other financial experts believe the recovery period could last even longer.

Of course, an increased savings rate is to be applauded, especially after it had plummeted dangerously close to zero. Americans will have to adjust to a lower standard of living compared with the heyday of 2007. But if forgoing a few luxuries is the price you have to pay for protecting your financial future, that's probably a trade-off you'd be willing to make. ●

Should You Advertise In The Yellow Pages?

In these days of instant Internet gratification, are the Yellow Pages, well, so 20th century? Do your business's prospective customers still let their fingers do the walking, or are they more likely to find you via a local Web search? Which medium offers a bigger bang for your advertising buck? There aren't simple answers. To make smart choices, you need to navigate a crowded, increasingly complex marketplace.

What you get in print. Consumers, long accustomed to browsing these categorized lists of local businesses, are able to quickly get the names of several companies selling the product or service they want, and having your business's name there can help current and prospective customers find you. Your telephone number and address are listed, and you can buy a display ad to make a bigger splash. However, all of your competitors will be right there with you, and if your area has multiple Yellow Pages offerings, you'll have to choose among them or advertise in all of them.

The Web alternative. If you're considering a Web listing or ad, there's an even larger universe to choose from. In addition to YellowPages.com and superpages.com, there's Google, and A9.com from Amazon, as well as Yellow Pages buttons on Yahoo! and AOL.

So where should you put your money? It may be tough to turn your back on the Yellow Pages—not least because phone companies have enormous sales staffs that will pester you for your ad—and many consumers still consider print directories a valuable resource. If your business is located in a major metropolitan area, you could be putting its name before millions of potential customers. Plus, old habits die hard. Most people are used to looking in the Yellow Pages when they need a product or service,and older customers, in particular, will probably continue to do so. So if your products or services appeal mainly to an older market, the

Avoid Becoming A Victim Of Identity Theft

How bad is the identity theft crisis? In recent studies by Gartner Research and Harris Interactive, seven million people said they'd been victimized. That's more than 19,000 a day, almost 800 per hour, and 13 every minute. And according to the Identity Theft Resource Center, the average identity theft victim spends 600 hours, $16,000 in lost wages, and $1,400 in out-of-pocket expenses trying to repair the damage.

Though there are ways to limit the harm if someone steals your personal information, prevention beats any cure. Here's how to reduce your vulnerability.

Don't give out personal information. Unless you know the person you're dealing with, limit the information you provide. If you get a call from a telemarketer or even a government agency, ask for a customer service number and check whether the caller is legitimate. If you are still in doubt, contact your Better Business Bureau. If it's a company you've dealt with before, make sure the caller's information matches what's written on past correspondence.

Guard your mail. Identity thieves may sort through trash or raid your mailbox to find bank numbers and other personal information. To protect yourself, shred discarded mail. If you're going to be away, ask the Postal Service (800-275-8777) to hold your mail until you return. And don't leave outgoing mail in your mailbox; use a secure collection box or take it to the Post Office.

Keep track of credit card receipts. Though most merchants limit the amount of personal information printed on receipts, they're still valuable to identity thieves. So ask store clerks to hand you your receipt rather than sticking it into a bag, where it's more likely to be misplaced.

Know what you have in your wallet. Keep an inventory of the credit cards you carry and make sure you have the numbers written in a safe place. Leave your Social Security card safely at home, and be very careful with health insurance cards, which may also list your Social Security number—the holy grail for identity thieves.

Clear your hard drive before you dispose of your computer. Make sure all personal information is non-retrievable before you give away an old computer. If in doubt, remove the hard drive and have it destroyed.

Lock up your personal items. At work or the gym, always secure your wallet or purse in a locked drawer or locker. Left unattended for even a minute, these items could give an alert thief all that's needed to make you the next victim.

Routinely check your credit bureau report. If an identity thief uses your credit card number, the transaction should show up on your credit report. So, at least once a year, request a report from each of the three credit reporting agencies: Equifax (800-525-6285 or www.equifax.com); Experian (888-397-3742) or www.experian.com); and TransUnion (800-680-7289) or www.transunion.com). Reviewing these reports regularly could help you catch a thief before the damage is too great.

Review all bank and credit card statements. Before you pay your bills and file your statements, check carefully to make sure you recognize all the charges. If you find a discrepancy, report it to your credit card company or bank right away. In most cases, they will work on your behalf to help resolve the problem.

Follow Internet safety rules. Your computer and your online transactions are great sources of information for identity thieves. These measures can limit your vulnerability.

- Purchase virus protection and "ad ware" software. Some viruses can send out information from your computer to a perpetrator.
- Don't download files from unknown sources. You might be opening up a window of opportunity for a thief to browse your computer.
- Use a firewall to block unknown Internet sites from getting access to your files. This may be especially important if your computer is always connected to the Internet.
- If others have easy access to your computer, avoid automatic log-on features that could enable an unauthorized user to exploit your personal information. Use password options that limit accessibility to personal files, especially those that hold financial information. And avoid passwords that are easy to guess—your mother's maiden name, for example.

Make sure any Internet purchases or financial downloads happen via a secure server. And always take the time to review vendor privacy policies to check whether personal information could be sold or distributed to other parties. ●

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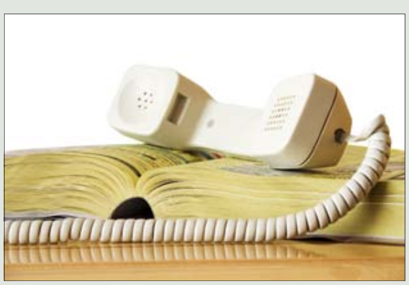
print Yellow Pages could continue to provide good value for your advertising dollar.

However, market research has begun to suggest that online Yellow Pages bring more business than the print variety. Especially if your customers tend to be young and computer-savvy, you can hardly afford not to be listed in the online directories, and you definitely need to invest in an attractive, easy-to-navigate Website that accurately describes what you do. Many online Yellow Pages offer pay-per-click programs that can help you gauge how many customers are being sent in your direction. Just keep in mind that your ad costs may vary each month, depending on how many people click on your company's name.



As the Web continues to become more commonplace, it's likely that the vast majority of would-be customers will get in the habit of finding products and services exclusively on the Web. Then, even more than now, you're going to need to have your business online, and the print versions of the Yellow Pages may well disappear. ●

Estate Planning For A Non-Citizen Spouse

With estate laws in flux, planning is especially difficult right now. But it is even more complex if you or your spouse isn't a U.S. citizen. Special measures may be needed to avoid a large estate tax bill.

Under the rules of the landmark 2001 tax cut, the top tax rate on inheritances has been gradually reduced from 55% to 45%, while the maximum amount that can be passed along exempt from estate taxes has risen, to $3.5 million in 2009. The estate tax expired in 2010 but will be revived in 2011, with a top rate of 55% and an exemption of $1 million.

Although Congress is expected to take action on a permanent fix for estate rules, no one knows exactly what will happen. The only thing that's reasonably certain is that there will continue to be an unlimited marital deduction. That has been a constant of estate law—that a spouse may inherit unlimited wealth without any estate tax liability.

But that rule doesn't apply if your spouse is not a U.S. citizen. Even permanent U.S. residents don't qualify for the unlimited marital deduction; instead, they may owe estate tax on inherited assets that exceed the normal exemption for bequests to non-spouses. There are, however, a couple of ways for non-citizens to sidestep problems.

Reduce a taxable estate through lifetime gifts to a spouse. If the citizen spouse has substantially more wealth than the non-citizen, a series of gifts could shift the balance. Tax rules allowtax-free gifts to a non-citizen spouse of up to $134,000 in 2010. (The amount is indexed for inflation.) This is a strategy you'll need to establish early, and it may work best as a complement to the second approach.

Establish a qualified domestic trust (QDOT). This trust lets a non-citizen spouse take advantage of the deceased spouse's assets without paying estate tax. All trust income must be paid to the surviving spouse, and no estate tax is owed until the second spouse dies and the remaining trust principal is distributed to heirs (usually the couple's children).

To qualify for these advantages, the QDOT must meet these requirements.

- At least one trustee must be a U.S. citizen or a domestic corporation.
- The trust must be established no later than nine months after the first spouse's death.
- The executor must make an election for the QDOT on the deceased spouse's estate tax return.
- If QDOT assets exceed $2 million, the U.S. trustee must be a bank, or an individual trustee must furnish a bond or letter of credit equal to 65% of the value of trust assets.

If you or your spouse isn't a citizen, timely estate planning could be crucial. We can work with you and your attorney to make sure your estate plan takes that special circumstance into account and helps you avoid unnecessary taxes. ●

Should You Spend

(Continued from page 1)

Currently, when you leave taxable assets to heirs, their basis in the property is normally its value on the date of your death. This increase—or step-up—in basis to the current value effectively eliminates capital gains tax liability for investment appreciation during your lifetime. So it could pay to leave such assets to heirs and live off other taxable assets and your retirement account instead. However, highly appreciated assets also make good charitable gifts, because you can deduct their fair market value when they're donated. It takes detailed analysis to determine the best approach.

Concentrated holdings. If you are retired or nearing retirement and much of your net worth is tied up in the stock of your company, trimming that exposure should be a priority. If the shares are in a retirement plan at work—and if you've participated in the plan for the past five years—you may benefit by taking the actual shares out of the plan when you leave the firm.

You'll pay income tax on the shares' cost basis, but all of their prior appreciation will be taxed at lower, long-term capital gains rates. To benefit, however, the distribution must follow very specific rules. Don't make a move until you have received professional advice.

Changing tax rates. Higher tax rates for top earners are likely over the next few years, so it could make sense to begin withdrawing from tax-deferred retirement accounts. Depending on such variables as your age, health, financial needs, and current and future tax brackets, taking withdrawals and paying income tax at lower rates could be more valuable than tax-deferred growth. ●