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11 Tips For Managing Your Money Wisely In 2011

With some astute advance planning, you may be able to improve your financial fortunes in 2011. Here are, appropriately enough, 11 timely tips to consider.

1. Revise your estate plan. Under the 2010 Tax Relief Act, the federal estate tax has returned after a one-year repeal. For 2011 and 2012, an estate can benefit from a $5 million exemption and a top tax rate of 35%, among other changes. Meet with your estate planner to consider ways to maximize the benefits.

2**. Pay attention to other taxes, too.** Although favorable tax rates on income, dividends, and capital gains have also been preserved for 2011 and 2012, there's no reason to pay more tax than you have to. Look for strategies that might postpone income to years when you expect to be in a lower tax bracket or help in other ways. One possibility is to invest in stocks that pay no dividends but have the potential for long-term growth.

3. Consider (even now) converting your IRA to a Roth. Though you missed the one-time chance to put off and spread out taxes due on a conversion, a Roth IRA might still be a boon to your long-term prospects, delivering tax-free income during retirement.

4. Max out your 401(k) contributions. It's not new advice, but it continues to make sense to put as much as you can into your retirement plan at work. You'll shelter income from being taxed at the new, higher rates and put tax-deferred compounding to work. The maximum deferral for 2011 is $16,500, plus you can add a $5,500 "catch-up" contribution if you're age 50 or older.

5. Leverage low interest rates. Loan rates are plumbing historic depths, making inexpensive borrowing a viable financial strategy. You could refinance a car loan or mortgage or borrow to pay college costs. Just don't make the mistake of carrying more debt than you can afford.

6. Take advantage of low asset values. Your investment account balances may be a shadow of their former selves, and home values, too, have suffered. But you could benefit from those reduced assets if you're trying to shift value out of your taxable estate. With planning vehicles such as a grantor retained annuity trust, or GRAT, for example, you could now transfer more of your estate without taxes, and low interest rates only increase your advantage.

7. Protect against inflation. Although no one can be sure about future economic conditions, it's wise to take steps to guard against the threat of inflation. Inflation can steadily erode your savings and reduce your purchasing power. First and foremost, ensure that your portfolio is properly diversified and includes inflation-defensive components. Some possible additions are precious metals like gold, certain commodities and Treasury Inflation Protected Securities (TIPs). Caveat: Maintain an investment approach that suits your personal tolerance for risk.

8. Be ready for a rough ride. Though stock market volatility recently retreated to more normal levels, it could

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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.

Colleen & Rob

Student Loan Reform Buried In Health Law

What does 2010's landmark health care reform law have to do with student loans for your children about to enter college? Plenty. The Health Care Reconciliation and Education Act of 2010—signed in tandem with the massive Patient Protection and Affordable Care Act—overhauls the nation's student loan program. The new legislation could affect your family for years to come.

What's more, the changes aren't limited to low-income families, although bigger benefits will be available to some cash-strapped families. Many reforms apply to all students, whatever their families' financial situation.

The biggest change is in the way student loans are made and administered. Under the old rules, private banks did the lending, with loans guaranteed by the federal government. That meant you had to pick and choose among private lenders. Now, the government itself will originate student loans.

The loans will generally look the same to borrowers—with no differences in terms, fees, or interest rates—but the process should be simpler. Students can apply for loans by going directly to a college's financial aid office. Each school will work in conjunction with private companies approved by the government to disperse loan funds.

Even better, repayment terms for students will eventually improve. For loans obtained after July 1, 2014, monthly loan payments won't be allowed to exceed 10% of a borrower's monthly discretionary income. The current maximum is 15%. The U.S. predicts that more than 1.2 million borrowers will benefit from this change, which will mean a $110 payment reduction each month on a typical loan for a borrower who earns $30,000 a year and owes $20,000.

Moreover, remaining loan balances after 20 years will be forgiven, an improvement on the old rules' 25-year period. For students who are "public servants"—teachers, nurses, or member of the armed forces—the maximum repayment period is reduced to 10 years. But the new provisions aren't retroactive and don't apply to private bank loans.

Some changes under the new law are designed to alleviate economic hardship. For instance, the amount of financial aid available under the federal Pell grant program has been expanded. A student's eligibility for these grants, which aren't repaid, is determined by household income, and beginning in 2013, increases in the maximum Pell grant will be pegged to changes in the Consumer Price Index (CPI).

The new health care legislation, combined with education tax credits that are being expanded to a larger segment of the population, will provide much-needed relief to middle-income families facing the ever-increasing costs of higher education. ●

Donor-Advised Funds Gain In Recession

Though a private foundation can be a great, hands-on way to fulfill your philanthropic intentions, it can also be expensive and time-consuming, and the recession has left many foundations with diminished portfolios and burdensome costs. Moreover, if your business is struggling, you may have fewer hours to devote to running foundation operations. Under the pressure of today's financial realities, another charitable giving vehicle—the donor-advised fund—could be an appealing alternative.

With a donor-advised fund, you contribute cash or property to a special account managed by a sponsoring charitable organization or an investment company. Then you make recommendations about how and when to distribute the funds in your account. Although you can't legally require distributions to be made to the charities you designate, the money will normally go to your suggested recipients unless there's a legal reason it can't.

A donor-advised fund may require a minimum contribution to set up an account, and you'll likely pay an annual administrative fee based on a percentage of the assets in your account. Still, compared with a private foundation, a donor-advised fund may deliver more of your charitable dollars to your intended recipients at a lower cost, as private foundations have higher annual filing and tax preparation expenses. And whereas private foundations must publicly disclose some information about the foundation and its grant recipients, gifts through a donor-advised fund can be made anonymously.

There may also be tax advantages. You get an immediate write-off for contributing to a donor-advised fund, even if your money is distributed to charitable recipients in later tax years, and the maximum deductible donation

Are Your Workers Independent Contractors?

If you own a small business, making a new hire could seem almost patriotic—your contribution to nudging down a persistently high unemployment rate. Yet it may not make financial sense. As you know all too well, the cost of an employee goes well beyond salary. Any benefits you provide—health insurance, retirement plan contributions—have to be added in, and there are also employment taxes for Social Security and Medicare that add almost 8% to the cost. You might save money and hassles with a different approach, engaging independent contractors when you need more help. But staying on the right side of employment law can be tricky when you use non-payroll workers.

Because independent contractors don't officially work for your company, they don't draw a regular salary, and you can use them as little or as much as you need them. And whatever you pay them, whether on an hourly or a project basis, your obligation ends there—you're not also on the hook for payroll taxes or fringe benefits. Given all of those pluses, you might even be tempted to switch some employees to independent contractor status. But there's one large potential drawback. If you don't follow government rules to the letter, the IRS may refuse to accept workers as independent contractors and "reclassify" them as employees. That could result in your business being liable for tens of thousands of dollars in back taxes, penalties, and interest.

What distinguishes independent contractors from regular employees? Traditionally, the IRS has used a list of 20 factors to determine how a worker should be classified, but it recently consolidated the main points of that list into three categories.

1. Behavioral control. Evidence showing that your business has the right to direct and control how the worker performs services for the company is a sign that the worker should be classified as an employee. If you set hours for a contractor to be in your office, provide a desk or tools, and require, for example, that work be done in a particular order, it's probable the IRS would consider that worker an employee. The more detailed your instructions, the more likely someone should be classified as an employee. On the other hand, if you simply tell someone what needs to be done—but without specifying how to do it—it may be fine to consider that person an independent contractor. It's really the difference between focusing on process (with an employee) and results (for an independent contractor).

2. Financial control. Do you determine the business aspects of a job? If you provide tools (so the worker won't have to invest in them), reimburse expenses, and just generally limit the worker's risk of losing money on the arrangement, that argues for employee status. But if the worker is responsible for most of those things, he may be considered a contractor.

3. Type of relationship. The legal and contractual relationship between your company and a worker can also help determine the worker's status. But merely having a contract calling someone an independent contractor or not offering the worker benefits that your employees receive won't automatically mean that person is really a contractor in the eyes of the IRS. Other factors, such as whether a job is open-ended, whether it's similar to work done by employees, and whether it's crucial to your business also factor in.

Beyond paying attention to these considerations, few of which are cut-and-dry, you may be able to avoid IRS trouble under Section 530 of the 1978 Revenue Act, which says an employer is exempt from employment tax liability if it meets these requirements:

- The company hasn't treated the worker as an employee for any period and doesn't treat workers in similar positions as employees.
- All federal returns the company files (including information returns) consistently treat the worker as an independent contractor.
- The company has a "reasonable basis" for not treating the worker as an employee. For example, your claim may be based on past cases or rulings, an IRS audit, or the established practices of your industry. Relying on the expert opinion of a tax professional may also bolster your position for obtaining Section 530 relief.

With significant tax dollars at stake, designating your workers correctly is crucial, and mistakenly calling someone an independent contractor could end up costing you much more than you saved by not treating him as an employee. If you have questions about your situation, get help from a specialist in employment taxes. ●

may be higher with a donor-advised fund than if it were made through a foundation. Contributed real estate is deductible at its fair market value through a donor-advised fund, whereas you can deduct only the property's cost basis if you donate it through your foundation. Finally, there are no mandatory distributions with a donor-advised fund. A foundation must distribute at least 5% of its net assets every year.

If you already have a private foundation, you could convert it to a donor-advised fund. There are strict IRS rules you must follow if you're dismantling a private foundation, however, and you'll also need to comply with state laws. If you're establishing your donor-advised fund through a charity or a financial company, that entity may be able to provide guidance for making the transition. But you'll also need to consult an experienced attorney. We can work with you and your other advisors to oversee the change, file the necessary paperwork, and handle other issues. ●

5 Tips For Vacation Home Buyers

Buying or renting a vacation home has clear advantages over staying in a hotel. You get more space, more privacy, and more amenities. And now the economy is cooperating, too, with home prices at many popular vacation destinations falling during the nation's real estate slump.

If you're looking to buy or rent a vacation home, consider these suggestions.

Define your goals. Are you interested only in leisure, or are you looking for an investment property? If your goal is a place to get away from it all, start by looking in regions that offer the amenities you want. But if you're planning to rent out your property, think of what others might want.

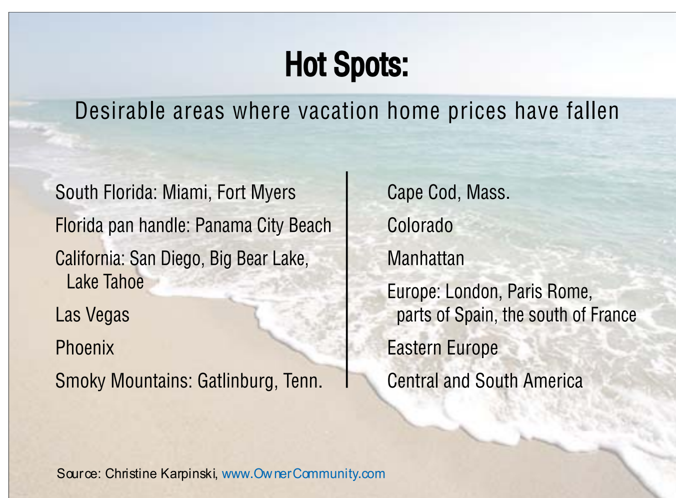
Ensure a safety net. Even if you are buying just for personal vacations, it's still important to consider the investment aspects, says vacation home expert Christine Karpinski, director of OwnerCommunity.com. "What if something changes with the market or with your personal situation?" Karpinski asks. "You want to have a safety net, and that's your ability to rent."

To evaluate an area's potential, find out who visits and why, Karpinski says. South Florida and Las Vegas, for instance, are primarily couples markets, so it's fine to buy a one-bedroom condo there, because it should be easy to rent out. On the other hand, North Carolina, New Jersey, and Cape Cod, Mass., are family markets, so you'd be better off buying a two- or three-bedroom condo that bigger groups would want.

Check the amenities. If you're renting, just make sure the property has the features that are important to you. But if you're buying, make sure it has what prospective guests in the region are likely to crave. You may not like hot tubs, but anyone trying to rent out a property in Colorado had better have one, Karpinski says.

Consider proximity to attractions. You may prefer to stay in a remote spot, isolated from other people. But rental potential may depend on whether the property is on a shuttle route to a nearby ski resort, for instance.

Look at your overall financial picture. How will you finance a vacation home purchase? And can you really afford it? "Real estate is a long-term investment, and it's always best to look at it in the context of your larger portfolio," Karpinski says. If you're considering a second home, we can help you explore all of the financial considerations before you make any commitment. ●



Managing Money In 2011

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pick up again later this year, and a well-diversified portfolio can help you ride out market ups and downs by including a broad range of assets, some of which may gain value while others fall. (Diversification, of course, can't guarantee against losses in a declining market.)

9. Don't let a weakening dollar sap your investments. Big federal budget deficits and slow economic growth could make the U.S. dollar less popular, and if its value declines, so will your purchasing power (particularly when you're buying imported goods). But when the dollar falls, other currencies rise, and you could invest in multinational corporations (that generate some of their income outside the "dollar zone") or in foreign stocks that pay dividends in euros or yen, for example. You might even commit a small portion of your portfolio to gold as a hedge.

10. Insure your future. Having adequate insurance—with policies for health, life, cars, your home, and long-term care—can protect you and your loved ones from unforeseen events, and early in a new year is a great time to review your coverage and make needed adjustments.

11. Make sure credit cards are your financial allies, not enemies. Plastic is almost a necessity these days, and there's nothing wrong with using a credit card for online purchases or to keep tabs on your expenses. But unless you pay off balances every month, you could spend a small fortune on interest charges—even now, when most rates are low. And if you have old credit card debt, why not come up with a plan for retiring it as soon as possible? We could help—with this or with any other smart financial moves you're considering this year.●

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