



## KNOPINSKI & FAUVER FINANCIAL ADVISORS

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# Give Yourself The Greatest Gift: Become Debt Free

If you are nearing retirement, the greatest gift you can give yourself is to become debt free. When you don't owe anything on your credit cards or a mortgage, there's no interest to pay and no monthly payments to drain away dollars that you'd much rather spend on things you really need or want. You'll be amazed at how much extra money this will put at your disposal.



But unless you win the lottery or get a big inheritance, becoming debt free requires careful financial planning, sound investment choices, determination, commitment—and, in most cases, several years to get the job done.

Where do you start? Begin by taking a look at the Big Three:

1. Credit card debt
2. Car payments
3. Home mortgage

Get rid of your plastic debt first. Credit cards tend to carry high interest rates, and using a card to pay for everything from groceries to online purchases can build up a large account balance almost before you know it. Paying down that debt probably will require a systematic plan—for example, budgeting for a particular monthly payment and making it religiously until your balance hits zero. But it also will help if you at least temporarily stop using your credit cards. You can start paying with plastic again once you've reached your goal, but even then, make sure you're able to pay all that you owe each month. Many accounts don't charge interest if you pay the

full balance, and you'll avoid rebuilding the debt that you've worked so hard to eliminate.

Next, turn to your car loans. You may not be paying as high an interest rate on these as on your credit card accounts, but the monthly payments still can be substantial. If you adjusted your budget to free up extra money to retire credit card balances, you could

now use that cash to accelerate paying off your vehicle loans. Keep your cars as long as the upkeep costs don't become prohibitive, and then consider using savings rather than another loan to buy replacements.

Once vehicle debt is eliminated, you're ready to tackle the big one: your monthly home mortgage payments. Expert opinions differ about whether it's wise to pay off a mortgage as quickly as possible. If inflation rises at a rapid pace, for example, it may be better to keep the mortgage, because you'll make future payments with dollars that have lost some of their value. Also, interest rates on home loans are extremely low now, and you could lock in a rock-bottom rate that will reduce your long-term interest expenses. But if you're planning to stay in your home indefinitely and you like the idea of a debt-free retirement, you could refinance for a shorter loan term or make extra principal payments to pay off the house more quickly.

If you don't plan to stay in your current home, the expense of refinancing may not be warranted, and

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## Look Out America, Here Come Millions Of Baby Boomers!

The first wave of the massive baby boom generation has reached retirement age at a time of great financial uncertainty. There were an estimated 79 million people born in the United States from 1946 through 1964, and in 2008, the oldest in that group turned 62, the earliest age of eligibility for Social Security retirement benefits. But 2008 also marked the height of the global economic crisis, and though conditions have improved since then, the economy has been growing fitfully, unemployment remains high, and home prices, which plunged during the crisis, have just begun to recover.

Against that backdrop, the question of when to begin receiving Social Security income has become more complicated—and more crucial. As recently as a decade ago, half of those who were eligible started at 62. But these days, more people are opting to delay their benefits. Waiting until full retirement age—66 for those born from 1943 through '54—means higher monthly payments, which can be increased further by waiting until as late as age 70 to claim benefits. Getting a bigger check can be particularly helpful for today's retirees, whose longer life expectancies increase the odds that they will outlive their assets.

Making the right decisions about Social Security and other retirement issues has never been more important. We can help you take stock of your situation.

*Colleen & Rob*

# “Ghost Story” Can Haunt Your IRA

**T**he rules for contributing to an IRA are relatively simple. You put in the money for each tax year by the required deadline—the tax return due date for the year of the contribution—and tell the account custodian how you want the funds invested. In addition, you might roll over funds to an IRA from a 401(k) or another kind of “qualified plan” at work when you change jobs or retire. That way, your money can continue to grow without being eroded by taxes until you make a withdrawal.

The rules for *distributions*, in contrast, are extremely complex. In particular, complications may arise as you approach the time for taking “required minimum distributions” (RMDs) from your IRA. Make the wrong moves and your heirs might be forced to receive payouts based on your “ghost life expectancy.”

For IRA owners, the “required beginning date” (RBD) for RMDs is April 1st of the year after the year in which they turn age 70½. For instance, if someone reaches that age on June 1, 2013, the RBD is April 15, 2014. The amount of the RMD is based on the value of your accounts on December

31st of the tax year of the RMD—in this example, 2013—and is calculated according to an IRS-approved life expectancy table. And here’s where things get complicated.



If you die *before* the RBD and have designated a “qualified beneficiary” such as a child or spouse, the RMDs are generally based on the beneficiary’s life expectancy. (Surviving spouses also have the option of rolling over the funds into their own IRAs.) However, if you haven’t designated a beneficiary or you named a “non-qualified beneficiary” such as your estate, the IRA must be emptied out in five years. Conversely, if an IRA owner dies *after* the RBD,

payments to a beneficiary are still based on the beneficiary’s life expectancy, but payments to a non-qualified beneficiary must use the owner’s ghost life expectancy.

A ghost life expectancy isn’t as scary as it sounds. It’s how long the IRA owner would be expected to live—if he or she hadn’t already died. But using an older owner’s life expectancy table will still drain the IRA faster than usual.

Suppose that Walter Mason, age 80 and single, has \$750,000 in his IRA. Walter named his estate as the beneficiary of his IRA. He dies on July 1, 2013 without taking an RMD for the 2013 tax year.

Because Walter designated a non-qualified beneficiary, RMDs for 2013 and future years will be based on his ghost life expectancy. The payment for 2013 under the single-life expectancy table is \$40,107. Under this method, payments will be greater than the amounts that would have been required if Walter had designated a qualified beneficiary.

Good planning can minimize the impact of RMDs and help preserve your retirement nest egg. ●

## The Benefits Of Working With An Advisor

**P**eople who work with a financial advisor are far more likely to understand the situation they will face after they retire, according to a recent survey by Franklin Templeton Investments.

Two out of three people who work with a financial advisor know the amount of retirement funds they will withdraw each year after they retire. That’s almost twice the proportion of those who’ve never worked with an advisor who have that knowledge, according to the Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey, taken in September 2011.

Volatile world markets and changes

in the way people build retirement assets make it more important than ever for pre-retirees to understand their retirement picture, says Michael Doshier, vice president of retirement marketing for Franklin Templeton.

“Sixty-seven percent of respondents were more concerned about investment volatility than they were prior to the recession that began in 2008,” Doshier said. “People’s worries varied by age, gender, and income level, but from a general standpoint, some of their specific worries related to health expenses, Social Security, and simply running out of money.

“Our survey also showed, however,

that working with a financial advisor can make a clear difference in how Americans think about retirement planning. By sitting down with a financial advisor, identifying and prioritizing one’s retirement goals and concerns, and writing down a simple plan to address them, people can take meaningful steps toward confident action.”

The RISE survey was conducted online among 1,020 men and 1,026 women. Here are other findings:

- 38% of respondents who never have worked with a financial advisor said Social Security will provide the most income during their retirement,

# 7 Major Tax Changes In The Fiscal Cliff Law

**F**rom the edge of the “fiscal cliff,” Congress took a step back and approved the American Taxpayer Relief Act (ATRA), a hodgepodge of tax extensions and modifications. But the agreement postponed decisions on spending cuts and failed to continue a 2% “payroll tax holiday” for employees. Moreover, upper-income taxpayers will have to shoulder a greater burden going forward. Here are seven noteworthy changes for individuals.

**1. Individual Tax Rates.** Across-the-board tax hikes are averted and the “marriage penalty” is eased. Nevertheless, ATRA creates an “extra” top tax rate of 39.6% for single-filers with income above \$400,000 and joint-filers with income above \$450,000. When you add in the new 3.8% Medicare surtax for certain upper-income investors, which begins in 2013, your effective top tax rate can reach 43.4%!

**2. Capital Gains And Dividends.** The “Bush tax cuts” for capital gains and dividends are generally preserved. The maximum tax rate remains 15% for net long-term capital gain and qualified dividends (0% for investors in the lowest tax bracket). Otherwise, the tax rate for capital gains would have soared to 20% (10% for investors in the lowest tax bracket). Even worse, dividends would have been taxed at ordinary income rates. But the upper crust still pays a steep price: a maximum 20% tax applies to single-filers with income above \$400,000 and joint-filers with income of more than \$450,000.

**3. Alternative Minimum Tax.** The onerous alternative minimum tax (AMT), which has steadily been casting a wider net each year, is overhauled. Under ATRA, exemption amounts have been increased and nonrefundable personal credits can be used to offset AMT liability in full. In addition, the exemption amounts will be indexed for inflation in the future. Because the changes are retroactive to the 2012 tax year, it’s been estimated they will save as many as 60 million taxpayers from the clutches of the AMT.

**4. Itemized Deductions And Personal Exemptions.** Two other “back-door” tax increases may affect taxes of wealthier individuals. Due to the revival of the “Pease rule,” most itemized deductions are reduced by 3% of the amount of adjusted gross income (AGI) above a specified threshold, beginning in 2013 (but the overall reduction can’t exceed 80%). At least ATRA establishes higher thresholds of \$250,000 for single-filers and \$300,000 for joint-filers. A comparable provision begins to phase out the tax benefits of personal exemptions at the same thresholds.

**5. Education Tax Breaks.** ATRA generally extends several valuable tax incentives relating to higher education. Significantly, it allows parents to claim the maximum \$2,500 American Opportunity Tax Credit (AOTC) for another five years, subject to a phaseout based on modified adjusted gross income (MAGI). It also extends the

above-the-line deduction for tuition and fees, also phased out based on MAGI, through 2013. This deduction may be claimed in lieu of a higher education credit. The tuition deduction extension is retroactive to 2012. Finally, ATRA permanently extends enhancements for Coverdell Education Savings Accounts (CESAs), the tax exclusion for employer-provided education assistance and the student loan interest deduction.

**6. Extensions Of Other Rules.** Besides those already mentioned, ATRA extends a host of other tax provisions for individuals, many of them retroactive to the beginning of 2012 (i.e., for provisions that technically expired). Most of the extended tax breaks are limited by dollar amounts. This includes:

- Optional state sales tax deduction (in lieu of state income tax)
- Enhanced child tax credit, dependent care credit and adoption credit (and tax exclusion for adoption program assistance)
- Credit for energy-saving at home
- Monthly tax exclusion for certain commuting benefits
- Deduction for mortgage insurance premiums
- Deduction for classroom expenses of educators
- Tax exclusion for mortgage debt forgiveness
- Tax benefits for donating real estate for conservation purposes
- Tax-free distributions of IRA funds to charity by those age 70 ½ or over

**7. Estate And Gift Taxes.** At long last, there’s greater certainty in estate planning. Beginning in 2013, the unified estate and gift tax system permanently retains a \$5 million exemption and will be indexed annually for inflation (\$5.25 million in 2013), instead of plummeting from \$5.12 million in 2012 to \$1 million. The top estate tax rate, which was scheduled to jump from 35% in 2012 to 55% in 2013, is bumped up to 40%. ATRA also retains the provision allowing “portability” of estate tax exemptions between spouses and coordinates various other aspects, including implementation of the generation-skipping tax.

These are just some of the highlights of the fiscal cliff law. We will be offering further guidance on the tax law changes, but please don’t hesitate to call us about how the changes affect you personally. ●

compared with 19% of people who work with an advisor.

- Just 4% of people who never have worked with a financial advisor said IRA funds will provide the most income during their retirement, compared with 13% of people who work with an advisor.



- 35% of people who never have worked with an advisor said they do not think about how they will approach different sources of retirement income.
- Running out of money in retirement is the top concern of 35% of people who never have worked with an advisor,

while 24% of those who work with an advisor cited it as their top concern.

- Of those respondents who never have worked with an advisor, 41% said they don’t think they have enough money to need one, and 30% said they prefer to handle their finances on their own.
- 79% of Americans currently do not work with a financial advisor, but 47% of respondents said they would consider going to a financial advisor or switching their current advisor if the advisor prepared a written retirement income plan. ●

# Dig Deep Into “Treasure Assets”

**H**ave you ever dreamed of owning a 1965 Aston Martin like the one driven by James Bond in the movies? Or a 17th century Stradivarius? A piece of your favorite sports team? It may not be as far-fetched as it once seemed. Increasingly, well-heeled investors are diversifying by adding a special kind of alternative investment—known as “treasure assets”—to their holdings.

Although you probably can't afford the top items on your wish list, you may still be able to indulge your inner fantasies. In fact, some private funds allow investors to pool their money to buy treasure assets. A firm will typically charge a 2% administrative fee in addition to taking a healthy cut of any profits, but the cost may be well worth it to aficionados.

Realize, however, that these undertakings are highly speculative and not for the faint-hearted. Frequently, items are illiquid and have no real intrinsic value. And commissions and other fees can eat into any gains you might eventually realize.

Still, for some investors, pride and

joy trumps other factors. In any event, treasure assets should represent only a small part of your overall portfolio. Keeping that in mind, here are three hot buttons.

**1. Classic cars.** It's well-known that most cars lose value as soon as you drive them off the lot. But vintage automobiles can be an exception to that rule. According to the Historic Automobile Group International (HAGI), vintage Ferraris rose 28% in price during the first 10 months of 2012, while Porsches climbed 15% in value. The HAGI index of the top 50 classic cars shows prices increasing almost 64% since 2008.

**2. String instruments.** An auction house sold a 1721 Stradivarius violin for almost \$16 million in 2011. Maybe you will have to lower your sights, but investments in other string instruments, including vintage electric guitars, are available. A 2011 study tracking violin sales showed an average annual return

of about 3.5% between 1850 and 2008 after inflation adjustments, and concluded that the instruments have a slight negative correlation with stocks and bonds (in other words, violin prices tend to rise when the value of those other assets falls).

**3. Wine.** This category is attracting attention as an inflation hedge with potential for growth. But investing in wine is risky enough to drive you to drink. The Liv-ex 100 Fine Wine Index, which tracks prices of 100 top wines worldwide, says it has produced an annualized return of 10% since 2002. However, the index is down nearly 10% for the first 10 months of 2012.

Other treasure assets, such as interests in major and minor league sports franchises, may strike your fancy. But be aware that glamorous investments are more likely to produce personal enjoyment than a steady return. View these offerings with your eyes wide open. ●



## Give Yourself Greatest Gift

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depending on how much equity you've built up, you may be able to eliminate your mortgage by downsizing to a less expensive home. Moving away from an area with high housing costs could make a big difference, and you might realize enough on the sale of your current home to retire the mortgage and pay cash for your next property. And though depressed values in many areas mean you may not get top dollar for your current home, you'll likely pay less for the new one than you would during boom times for real estate.

If you take this approach, and if you've lived in your home for quite a while, it could make sense to make targeted renovations to prepare for a

sale. You'll almost certainly want to do some exterior and interior painting and make other cosmetic improvements that will show off the house to its best advantage.

Undertaking larger improvements—putting in a new kitchen or bathrooms, for example—may be less likely to pay off immediately, though that can depend on your local market.

In any case, you'll need to choose your contractors and designers with great care. That's especially true in retirement-heavy states such as Florida, Texas, Arizona, Nevada, and California, where homeowners sometimes have had to contend with

fly-by-night outfits that do substandard work or leave projects undone.

To avoid problems, get multiple estimates for the work you're doing and interview each candidate carefully. Talk with other homeowners who've used the contractors' services and take a look at the finished projects if you can. All of this takes time, but it will be well worth it

if you find someone who does good work at a competitive price.

Eliminating all of your debt could take several years, so the sooner you get started, the more likely you'll achieve your goal before you retire. Good luck! ●

