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"Chance favors the prepared mind."
- Louis Pasteur, Chemist

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Investments | Insurance | Retirement | Planning | Advice

Financial Update

Ideas and Action Steps for Achievers

Simplified Employee Pension Plans (SEPs)

If you're a small business owner thinking about adopting a retirement plan, you should consider a SEP (simplified employee pension plan). A SEP allows you to make retirement contributions to traditional IRAs (SEP-IRAs) set up for yourself and each eligible employee. (If you don't have employees, you can adopt a SEP for yourself alone.) Your contributions are deductible from your business's income, and excluded from your employees' income. Virtually any business owner can establish a SEP.

What are some advantages of a SEP?

- Fairly high contribution limits. For 2012, you can contribute and deduct up to 25% of each employee's W-2 compensation (up to $250,000, $245,000 in 2011). If you're self-employed, the contribution to your IRA can't exceed 20% of your net earnings from self-employment. Contributions can't exceed $50,000 per participant ($49,000 in 2011).
- You don't have to make contributions to the SEP every year. However, if you do make a contribution, you must generally contribute a uniform percent of pay for yourself and each eligible employee.
- You have until the due date of your business's federal income tax return (including extensions) to set up a SEP and make contributions.
- SEPs are fairly easy to set up and inexpensive to operate. You can establish a SEP by using a simple two-page IRS document (Form 5305-SEP), or by adopting a prepackaged prototype SEP from a bank, insurance company, or financial institution.
- Reporting requirements are minimal.
- A SEP doesn't preclude you or your employees from establishing or contributing to a separate IRA. (However, participation in the SEP may impact whether or not annual traditional IRA contributions are deductible.)
- Employer contributions can be made after age 70½.
- Generally, you won't have fiduciary responsibility for your employees' investment decisions.

What are some disadvantages?

- All employees must be included in the SEP except employees who have not attained age 21, haven't worked for you in at least three of the last five years, or earn less than $550.
- Your contributions vest immediately. This can be costly if you have high employee turnover.
- Unlike a 401(k) plan, employees can't make pretax contributions or Roth contributions to a SEP (but a SEP can accept annual and rollover IRA contributions, like any other traditional IRA).
- Plan loans are not allowed.
- A SEP-IRA may provide less protection from creditors outside of bankruptcy than some other alternatives.

What are my options?

A number of other types of retirement plans are available to small business owners, including 401(k) plans, profit-sharing plans, defined benefit plans, and SIMPLE IRAs.

If you have no employees (other than your spouse) and don't anticipate having any in the near future, a solo 401(k) plan may be a better choice, as it may allow a higher deductible contribution than a SEP. For example, if you're incorporated, you can receive an employer contribution of up to 25% of your W-2 income (to $250,000 in 2012, $245,000 in 2011) (like a SEP) but in addition, you can make up to $17,000 ($16,500 in 2011) of pretax employee contributions (plus an additional $5,500 of catch-up contributions if you're age 50 or older). Total contributions (employer and employee) are limited to $50,000 in 2012 ($49,000 in 2011), plus any catch-up contributions (or, if less, 100% of your compensation).

Unlike a SEP, a solo 401(k) can allow plan loans and Roth contributions. And because a solo 401(k) doesn't cover any common law employees, it's simpler to administer than a regular 401(k) plan (because the Employee Retirement Income Security Act of 1974 (ERISA) does not apply).

Long-Term Care Planning Is Important for Women

Women are more likely than men to face the need for long-term care without the help of their spouse. According to the United States Administration on Aging, 42% of older women were widows in 2010 and half of the women over age 75 lived alone (www.aoa.gov). And the Centers for Disease Control reports that over 70% of nursing home residents are women (www.cdc.gov).

The prospect of needing long-term care is an important, yet sometimes overlooked, part of financial and retirement planning. Yet it may be especially vital for women to consider as they often face the need for long-term care as both a caregiver and recipient.

Women as caregivers

While you may think most long-term care is received in a nursing home setting, the National Clearinghouse for Long-Term Care Information (National Clearinghouse) estimates that about 80% of care is provided at home by informal (unpaid) family caregivers. Of those caregivers, about 60% are women (www.longtermcare.gov).

In many instances, the care provided for chronically disabled older adults is quite intensive and time-consuming. Women who act as family caregivers of older people with high levels of personal-care needs may face considerable financial, emotional, and physical strain. For instance, caregivers may face financial challenges due to lost wages from reduced work hours, time out of the workforce, extended family leave, or early retirement. Reduced work hours or extended time out of work may also affect the ability to contribute toward retirement savings, potentially resulting in a loss of retirement income.

Caregivers also may face emotional strains and poor health related to their caregiving responsibilities. This may be especially true for older women caregivers and younger women who may be caring for an older family member in addition to managing their own household.

Women as long-term care recipients

According to the Centers for Disease Control and Prevention (CDC), women outlive men by an average of 6 years (www.cdc.gov). Because they tend to live longer, women are at a higher risk than men of needing long-term care (source: National Clearinghouse). And the National Clearinghouse reports that women, on average, need care over a longer time than men (3.7 years vs. 2.2 years). With a longer life expectancy and a greater likelihood of needing long-term care, women often must confront their long-term care needs without the help of their spouse or other family members.

Paying for long-term care

Long-term care can be expensive. An important part of planning is deciding how to pay for these services.

Buying long-term care (LTC) insurance is an option. Many LTC insurance policies pay for the cost of care provided in a nursing home, assisted-living facility, or at home, but the premium paid generally depends on the age of the insured and the policy benefits and options purchased. And premiums can increase if the insurer raises its overall rates. Even with LTC insurance, you still may have some out-of-pocket contributions in addition to premium payments. For example:

- Not all policies provide coverage for care in your home, even though that's where most care is provided. While the cost of in-home care may be less than the cost of care provided in a nursing home, it can still be quite expensive.
- Most policies allow for the selection of an elimination period of between 10 days and 1 year, during which time the insured is responsible for payment of care.
- The LTC insurance benefit is often paid based on a daily or monthly maximum amount, which may not be enough to cover all of the costs of care.
- While lifetime coverage may be selected, it can increase the premium cost significantly, and some policies may not offer that option. Most common LTC insurance benefit periods last from 1 year to 5 years, after which time the insurance coverage generally ends regardless of whether care is still being provided.

Government benefits provided primarily through a state's Medicaid program may be used to pay for long-term care. To qualify for Medicaid, however, assets and income must fall below certain limits, which vary from state to state. Often, this requires spending down assets, which may mean using savings to pay for care before qualifying for Medicaid.

Women may have to confront particular challenges when planning for long-term care. A financial professional can help with some of the complex issues you may face when preparing for the possibility of long-term care, both as a caregiver and a receiver of care.

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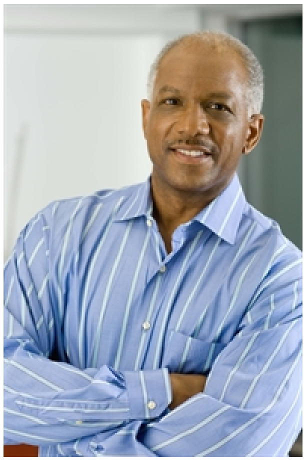
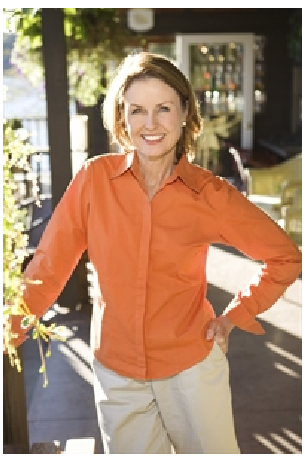
How Much Do You Know about Social Security?



For more information, visit the Social Security website at www.socialsecurity.gov or call 800-772-1213.



Social Security is in the news more and more, as the first wave of baby boomers retire and economic pressures on the program increase. More than 90% of Americans are covered by Social Security,* but how much do you know about this important program?

How is Social Security funded?

Unlike many government programs, Social Security is funded primarily through the collection of payroll taxes. In 2010, 81.9% of funding came from this source, with the rest derived from interest earned on government bonds held by Social Security trust funds and income taxes paid on benefits.* That's why Social Security is known as a "pay-as-you-go" system. However, someone working and paying Social Security taxes today is not funding his or her own benefits, but is funding the benefits of someone who is receiving them now or in the near future--one of the reasons why Social Security is facing a potential funding shortfall. According to the Social Security Administration (SSA), the number of retired workers will double in less than 30 years, but there will be fewer workers paying into the system. And with life expectancies increasing, benefits will be paid for a longer period.*

How are earnings reported to the SSA?

If you work for an employer, your employer will send a copy of your W-2 form annually to the SSA. If you're self-employed, the IRS will report your earnings to the SSA annually after your federal income tax return has been processed.

What benefits are available?

Although Social Security is known as a retirement program, benefits are paid to people of all ages, including surviving family members and disabled individuals. In 2010, 5.7 million people were awarded Social Security benefits. Of those, 46% were retired workers, 36% were survivors or spouses/children of retired or disabled workers, and 18% were disabled workers.*

How do you qualify for benefits?

As you work and pay payroll taxes, you earn Social Security credits. Generally, you need to work 10 years to earn enough credits to qualify for retirement benefits--other benefits have different requirements. Contact the SSA if you have any questions about your benefit entitlement.

Do most people apply for early retirement benefits?

Yes. According to a report by the Government Accounting Office (GAO), 43% of people take early retirement benefits at age 62, while almost 73% of people apply for benefits before they reach full retirement age.**

How much more will you receive if you delay applying for benefits?

For each year past your full retirement age you delay receiving benefits, your Social Security benefit will increase by a certain percentage (8% for anyone who was born in 1943 or later). For example, if your full retirement age is 66 and you delay receiving benefits until age 70, your annual benefit will be 32% higher.

Can you receive benefits based on an ex-spouse's record?

You may qualify for divorced spousal benefits if you were married for at least 10 years, you haven't remarried, you are age 62 or older, and you don't qualify for a higher benefit based on your own work record.

Do workers with lower earnings receive more from Social Security?

A worker who has lower earnings will receive a lower monthly benefit than someone with higher earnings because benefits are based on average lifetime earnings (the highest 35 years of earnings are used in the calculation). However, the Social Security benefit formula is designed to ensure that workers with lower earnings receive a greater percentage of their preretirement earnings. For example, a worker with relatively low earnings may receive a benefit that is approximately 55% of his or her preretirement earnings, while a worker with relatively high earnings may receive a benefit that is approximately 25% of his or her earnings.***

Do you have to stop working to receive Social Security retirement benefits?

No. As long as you've reached early retirement age and meet eligibility requirements, you can apply for Social Security benefits even if you decide to continue working. However, if you're younger than full retirement age and earn more than a certain amount, your benefits will be temporarily reduced (once you reach full retirement age, your benefits will be increased to account for the money that was withheld).

Source: *Fast Facts & Figures About Social Security, 2011*

****Source:*** *GAO-11-400, Retirement Income, June 2011, based on data compiled by the SSA Office of the Chief Actuary*

*****Source:*** *SSA Publication No. 05-10045, 2011*

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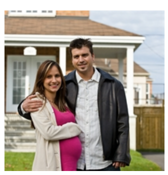
What is private mortgage insurance?

Private mortgage insurance (PMI) protects the lender against the risk of the borrower defaulting on the mortgage. Lenders generally require you to purchase PMI if your loan is more than 80% of the value of your home. Without PMI, you may be unable to qualify for a mortgage. Typically, once you reach 20% or more in home equity and you have a good payment history, your lender should remove the requirement for PMI. And lenders must automatically cancel PMI when your loan-to-value reaches 78%, although certain exceptions may apply.

***Caution:** PMI does not protect you against losing your house in the event you're unable to pay your mortgage. Moreover, the insurance company may be able to seek recourse against you for any claims it pays to the lender as a result of your default.*

Typically, PMI premiums are paid monthly, usually as part of your mortgage payment, although the premium may be annualized and paid in a lump sum at closing. The cost of PMI varies depending on the insurer, and is based on several factors, including the amount of your down payment, the type of mortgage, and whether you pay premiums on a monthly basis or in a lump sum. Also, for 2007 through 2012, you may be able to treat certain mortgage insurance premiums you pay as deductible mortgage interest. However, the amount of the deduction is phased out if your AGI exceeds $100,000 ($50,000 if married filing separately).

If you don't have at least 20% for a down payment, you still have a couple of ways to avoid paying PMI premiums. Certain types of mortgages, such as FHA loans and VA loans for qualified veterans, do not require PMI. Your lender may waive the requirement for PMI in exchange for increasing your mortgage interest rate by roughly the same amount as your PMI premium. Another alternative is using the 80-10-10 loan, where your first mortgage is equal to 80% of the property value, and you take a second mortgage for 10% of the balance, while you come up with the remaining 10% out-of-pocket. You may save a few dollars each month with this approach if the combined mortgage payments are less than a single mortgage payment plus the PMI premium.



What is title insurance and do I need it?

Title insurance protects the policyholder (typically the property owner and/or the mortgage lender) against losses that arise from title defects that affect the right to use or own the property. Generally, the title insurer will defend the policyholder and pay monetary damages according to the provisions of the policy. The premium is typically paid in a lump sum, often after title to the property has been examined. But most title insurance policies contain coverage exceptions and exclusions, so it's important to understand exactly what is covered by the policy.

Title is the measure of your rights in property. You can acquire property many different ways, such as through gift, inheritance, or purchase, but you generally obtain only the rights or title the conveyor had in the property. That's why, before acquiring property, it's wise to have the title examined by an attorney or title company. Typically you'll receive a written report from the title examiner describing the property, the breadth of the examination, and any title defects or liens discovered.

Most mortgage lenders require you to take out lenders title insurance, which protects the lender's interest in the property. Lenders coverage is limited to the amount of the loan and gradually decreases as the loan is paid off, so it doesn't protect your equity interest in the property. As a result, you should consider purchasing a separate owner's policy. However, you are not required to use the title insurance carrier offered by the lender. The Real Estate Settlement Procedures Act entitles a homeowner to use the title insurance company of his or her choice.

There are several different situations that can affect a property's title, from unpaid liens and mortgages to violation of zoning laws, to defective or improperly drafted deeds. Recently, with the proliferation of mortgage foreclosures, some lenders have faced legal challenges to foreclosure proceedings. Imagine if title to the home you bought from the bank was not properly foreclosed on and the prior owners claim they still own the property? Title insurance may help protect you in this nightmarish situation.

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