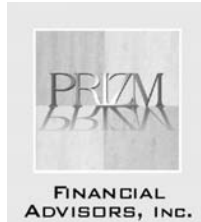
In This Issue:

The Benefits of Roths
Beneficiaries for Your 401(k) Plan
Will You Be Able to Work Longer?
Avoid These Estimating Mistakes
Regaining Your Investing Confidence
Claiming Social Security Benefits

Comprehensive Financial Solutions™



Dean Zayed
JD, LLM, CFP®
Sr. Financial Advisor

1751 S. Naperville Rd.
Suite 203
Wheaton, IL 60189

(630) 665-4848 x12 • dzayed@att.net • Fax: (630) 665-4343

Securities offered through Center Street Securities, Inc., a registered broker-dealer, Member FINRA/SIPC
26 Century Boulevard, Suite 301, Nashville, TN 37214, (888) 690-3580.
Investment Advisory Services offered through Brookstone Capital Management, a Registered Investment Advisor.
PRIZM Financial Advisors, Inc., Brookstone, and Center Street Securities are independent companies.

Financial Concepts **FALL 2009**

The Benefits of Roths

The Roth individual retirement account (IRA) has been an attractive retirement savings option since its inception in 1998. However, income eligibility restrictions have prevented many higher-income individuals from using this savings vehicle. Two recent developments are changing that — the removal of income limitations for Roth IRA conversions and tax laws making the Roth 401(k) permanent.

2010 Roth Conversions

Starting in 2010, all taxpayers, regardless of the amount of their adjusted gross income (AGI), can convert from a traditional IRA to a Roth IRA. Before 2010, your AGI cannot exceed $100,000 to convert, not including any income resulting from the conversion. Amounts converted must be included in income if taxable when withdrawn (i.e., contributions and earnings in deductible IRAs and earnings in nondeductible IRAs), but are exempt from the 10% early withdrawal penalty.

If you make a conversion in 2010, the tax can be paid in two installments in 2011 and 2012, with no tax due in 2010. However, if you prefer, you can elect to pay the tax in 2010, which may make sense if the current lower tax rates are not extended beyond 2010 or you expect much higher income in 2011 or 2012. Taxes on conversions made after 2010 must be paid in the year of conversion.

Permanent Roth 401(k)s

Originally, Roth 401(k)s were scheduled to expire in 2010, so many companies were not willing to start a plan that would expire after a few years. However, the Pension Protection Act of 2006 made Roth 401(k)s permanent, which should help spread their use.

The Roth 401(k) is patterned after the Roth IRA — contributions are made from after-tax earnings that grow tax free, and qualified distributions are withdrawn tax free. Employees eligible for their employer's 401(k) plan are also eligible for the Roth 401(k). There are no income limitations for contributions to a Roth 401(k), with contribution limits

Continued on page 2

Beneficiaries for Your 401(k) Plan

When you sign up for your 401(k) plan, you'll typically be asked to fill out a beneficiary designation form, listing who should receive your 401(k) plan assets if you die. Make these selections carefully, since they typically override any provisions in your will.

If you are married, federal law dictates that your spouse is automatically your 401(k) plan's beneficiary. Even if you list another person as the primary beneficiary, your spouse will receive the proceeds unless he/she signs a written waiver. Thus, even if you are separated but not divorced from your spouse, he/she will be entitled to your 401(k) proceeds after your death.

Similarly, if you remarry and want to keep your children from a previous marriage as the beneficiaries, you must have your current spouse sign a waiver. You should not rely on a prenuptial agreement or other documents.

When your beneficiaries are minor children, keep in mind that most 401(k) plans will not transfer money directly to minor children. Thus, you may want to set up a trust, so the trustee can take immediate control of the funds. Otherwise, a court-appointed trustee or guardian may need to be named before your children will have access to the funds.

If you are single and don't name a beneficiary, the proceeds will go to your estate and be distributed with the rest of your assets.

Periodically review your beneficiaries to determine if changes are needed. A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to beneficiaries. ❍❍❍

Benefits of Roths

Continued from page 1

of $16,500 in 2009 plus a $5,500 catch-up contribution for those age 50 and over, if permitted by the plan. Contributions can be split between a regular and Roth 401(k), as long as total contributions do not exceed the maximum. Funds contributed to each type must be held in separate accounts. Any matching contributions made by the employer must be held in the regular 401(k) account, so they will be taxable when withdrawn.

Unlike a Roth IRA, annual distributions must be taken after age 70 1/2. However, funds in the Roth 401(k) can be rolled over to a Roth IRA, which would not require distributions during the owner's lifetime. There is no provision to convert a regular 401(k) to a Roth 401(k).

If you expect your income tax bracket to be similar or higher during retirement, a Roth 401(k) will typically result in more retirement funds than a regular 401(k).

Don't Forget about the Roth IRA

One advantage of the change in the Roth conversion rules is that it effectively removes the income limitations for contributions to a Roth IRA starting in 2010. In 2009, single taxpayers with modified AGI less than $105,000 and married taxpayers filing jointly with modified AGI less than $166,000 can make contributions, regardless of their participation in a qualified retirement plan. Contributions are phased out for single taxpayers with modified AGI between $105,000 and $120,000 and for married taxpayers filing jointly with modified AGI between $166,000 and $176,000 in 2009.

Starting in 2010, individuals with income over the limit can make contributions to a nondeductible traditional IRA and then immediately convert the balance to a Roth IRA. For 2009, you can contribute to a nondeductible IRA and convert the balance in 2010. In 2009, you can contribute a maximum of $5,000 with an additional $1,000 catch-up contribution if you are age 50 or older.

Since there are no required minimum distributions during your lifetime, the Roth IRA is a particularly effective way to transfer assets to family members. You can allow the Roth IRA to continue compounding on a tax-free basis during your life, with no withdrawals. If you leave the Roth IRA to your spouse after your death, he/she can roll the balance over to his/her own IRA, so no withdrawals would be required during his/her lifetime. When your spouse dies, his/her beneficiaries would then have to take distributions over their life expectancies, but qualified distributions would be taken free of federal income taxes. By using this strategy and only taking minimum distributions when required, the balance can continue to grow on a tax-free basis for years or even decades.

Please call to discuss Roth IRAs and 401(k)s in more detail, including how they can help address your retirement savings goals. ❍❍❍

Will You Be Able to Work Longer?

Retiring at age 65 without working for the rest of your life is starting to look like a difficult proposition. It was already challenging due to longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings. Then, most people's retirement savings decreased significantly over the past couple of years due to declining investment values and lower home prices. The prospect of funding a retirement that could span 30 years is looking very tough. The most common solution to the problem is to work longer than the current average retirement age of 63.

Today's workers are typically healthier and working at less physically demanding jobs than workers in prior generations, which makes working longer seem like an easy solution. But there are a number of factors that might not make that possible. First, approximately 15% to 20% of workers will not be healthy enough to remain in the work force longer (Source: Center for Retirement Research, September 2008). Second, since reduced Social Security benefits are available at age 62, a majority of workers claim benefits as soon as they are available. Finally, a significant portion of older workers no longer work for the same employer from middle age to retirement age.

A recent study looked at the percentage of men between the ages of 58 and 62 who were working for the same employer they had at age 50. In 1983, 75% of full-time male workers worked at the same employer, compared to only 50% in 2006 (Source: Center for Retirement Research, September 2008). These results were consistent across all educational levels. If workers are leaving voluntarily, they are probably moving to better jobs with better pay, which should mean they will stay employed longer. If workers are laid off or forced out of their jobs in their 50s or 60s, they are likely to take inferior jobs at lower pay, which may mean they are less likely to stay employed into their late 60s.

While it is difficult to determine why workers changed jobs, the wages of workers who switched jobs were approximately 75% of the wages of those with the same employer (Source: Center for Retirement Research, September 2008). Another study found that workers who left their jobs between the ages of 51 and 65 with at least 10 years of tenure did so due to retirement, layoffs, and voluntary and involuntary quits, with each factor accounting for one-third of the total (Source: Center for Retirement Research, September 2008). ❍❍❍

Avoid These Estimating Mistakes

When determining how much to save by retirement age, several variables must be considered, some requiring estimates that will span decades. Err significantly on those estimates and you can end up with little or no money left during the later years of your life. Three of the most significant estimating mistakes to avoid are:

- **Underestimating how much income you need in retirement.** The entire point of your retirement savings is to ensure you have sufficient income to spend your retirement doing the things you plan, so make sure you have a good estimate of how much that will cost. Various rules of thumb indicate you'll need anywhere from 70% to over 100% of preretirement income. At first glance, it seems like you'll need less than 100%, because work-related expenses, such as lunches out, expensive clothes, and commuting costs will be gone. But look carefully at your current expenses and how you plan to spend your retirement years before deciding how much you'll need.
- **Underestimating how long you'll live.** Today, the average life expectancy is 82 years for a 65-year-old man and 85 years for a 65-year-old woman (Source: *Journal of Financial Planning*, August 2008). But don't just use those figures without further analysis. Average life expectancy means the woman has a 50% chance of dying before age 85 and a 50% chance of dying after age 85. Since you can't be sure which will apply to you, you should probably assume you'll live at least a few years beyond your life expectancy.
- **Overestimating how much you can withdraw annually from your retirement savings.** With a retirement that could span decades, it's important to withdraw a reasonable amount so you don't deplete those savings too soon. A number of factors can make that a difficult number to calculate. First, as noted above, you can't be sure how long you'll be making withdrawals. Second, inflation over such a long period means you'll have to withdraw large sums just to maintain the same purchasing power. Third, your rate of return on your investments will significantly affect how much you can withdraw annually. When withdrawals are being made, down markets can have a devastating effect on your savings. Especially if a major market downturn occurs early in your retirement, withdrawing an amount that may have been reasonable during an up market may quickly deplete your assets. Thus, it's generally prudent to keep your withdrawal percentage as low as possible, perhaps 3% to 5% of your balance.

If you'd like help making these estimates, please call. ❍❍❍

Regaining Your Investing Confidence

The recent market declines have caused many investors to lose their confidence in their ability to devise an appropriate strategy for investing. No one seems to know what will work in this environment. With that loss in confidence, it's difficult to find an investing system you believe in — one you're willing to stick with for the long term. Yet, to weather this difficult period, that is exactly what you need to do.

An important part of your methodology is to develop realistic return expectations for your portfolio. Forget about the past and the impressive returns earned in the late 1990s. Be conservative with your expected returns. Historical long-term average returns might not even be realistic for the near future. If your investment methodology incorporates modest return expectations, you are more likely to stick with the plan and to achieve your financial goals.

The recent market declines will take time to overcome. Don't try to figure out when you'll get back to previous values. Instead, start with where your portfolio is now. Reexamine your financial goals, realizing you're likely to revise those goals. Maybe you won't be able to retire until a later age, or you might not be able to travel as much. You might have to consider working at least part-time after retirement. Determine how much you need to save annually to reach those goals, based on modest return expectations.

After a period of such large market declines, it's not unusual to lose confidence in your investing ability. But to reach your financial goals, you need to adopt an investment methodology that you'll stick with over the long term. Please call if you'd like help developing such a methodology. ❍❍❍

Copyright © 2009. Some information provided in this newsletter was prepared by Integrated Concepts. This newsletter intends to offer factual and up-to-date information on the subjects discussed, but should not be regarded as a complete analysis of these subjects. The appropriate professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

FR2009-0526-0252

Claiming Social Security Benefits

Social Security benefits are a significant component of most people's retirement income. There are three basic retirement benefit types for workers and/or their spouses:

- ❍ A worker benefit, payable to the worker based on length of employment and earnings.
- ❍ A spousal benefit, payable to the worker's spouse based on the worker's record.
- ❍ A survivor's benefit, payable to the worker's spouse once the worker dies.

While full retirement age for Social Security benefits is gradually increasing from the current age of 66 to 67, you can still start benefits at age 62. However, by doing so, your benefits will be permanently reduced by 20.8% to 30%, depending on when you were born. Waiting until you are older than full retirement age to claim benefits will increase your benefits by 3.5% to 8% annually, again depending on when you were born. The maximum benefits are reached at age 70.

While most individuals simply apply for Social Security benefits when they want to retire and draw those benefits for life, there are three strategies for claiming benefits that can increase lifetime benefits in certain circumstances:

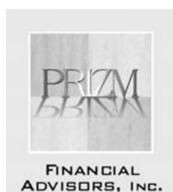
Withdraw your application. You can undo your decision to claim Social Security benefits by filing form 521, "Request for Withdrawal of Application," with the Social Security Administration. You must pay back benefits received, but you do not have to pay interest or inflation adjustments. When does it make sense to do this? Suppose you retire at age 62 and decide by age 63 that you really don't enjoy retired life. You can pay back your benefits for that one year, work for seven more years, and then reapply at age 70, receiving substantially higher benefits.

Or suppose you retire at age 62 with reduced benefits. You didn't realize that when you die, your spouse will receive 100% of your benefits provided he/she is over full retirement age. You wish you had waited until your benefits were higher, so your spouse would receive more income after your death. You can file form 521, repay all benefits received, and immediately reapply for Social Security benefits, receiving the higher benefits amount.

Claim benefits and immediately suspend them. Once you reach full retirement age, you can claim Social Security benefits and immediately suspend them, which allows your spouse to claim spousal benefits. Your spouse's benefits equal half of your benefits. Spousal benefits are reduced when taken between the ages of 62 and full retirement age, but do not continue to grow after full retirement age. By delaying your benefits, you increase those benefits as well as any survivor's benefits.

Claim spousal benefits now and worker benefits later. A married individual can claim spousal benefits at full retirement age and then claim worker benefits at a later date. This allows you to collect benefits while still increasing the value of your worker benefits. For instance, assume a husband is already claiming benefits, and his wife reaches full retirement age of 66 this year. She can claim spousal benefits and continue working. Once she reaches age 70, she can stop the spousal benefits and claim her own benefits, which will have reached maximum value. To use this strategy, the spouse must have reached full retirement age when applying for the spousal benefits. ❍❍❍

FR2009-0526-0252



Comprehensive Financial Solutions™
1751 S. Naperville Rd., Suite 203
Wheaton, IL 60189