

# FINANCIAL BRIEFS

Fulton Financial Planning, Inc.

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*Helping You Chart a Brighter Financial Future*



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This newsletter strives to provide factual and up-to-date information on the topics discussed, but it should not be regarded as a complete discussion of these issues. The reader is advised to engage the services of a competent professional before taking action on any subject matter discussed.

## Preparing Financially for Disaster

Disasters — be it hurricanes, earthquakes or terrorist attacks — are sadly an inevitable fact of life. And just as you might protect in advance your house and personal belongings from disasters, so too you must prepare your personal and financial information.

What does that entail? What is the near equivalent of boarding up your windows for your personal and financial information? In short, it simply means that you need to backup, document and record all of your personal and financial information to go along with those records (photos, videos or otherwise) you keep for insurance claims substantiation purposes. These records could be photocopies, electronic images,

computer files burned onto a CD-ROM or an online backup service.

Individuals need to make copies of their personal and financial documents, including birth, death and marriage certificates; social security cards; passports; medical records; personal identification, including driver's license; recent bank and brokerage accounts; property deeds, mortgage and home equity notes; car title; insurance policies and contact numbers; credit and debit cards, including contact numbers; tax returns for the past 3 years; the location of wills, trusts and powers of at-



torney; names and contact numbers for executors, trustees and guardians; a list of financial advisers and contact information; and a list of user IDs and passwords for online accounts.

Individuals also need to create a household inventory; this might entail taking and storing photos or a

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## Year End Tax Planning Notes

Uncle Sam is giving many taxpayers a break.

Recognizing the soaring gasoline price increases, the IRS has announced an increase to the optional standard mileage rates for the final 4 months of 2005.

The increased rate will be 48.5 cents a mile for all

business miles driven between Sept. 1 and Dec. 31, 2005. The 40.5 cent rate remains in effect for the first 8 months of 2005.

The IRS has not yet set the comparable rate for 2006. Officials acknowledge that rate may decrease from the current 48.5 cent rate. They an-

ticipate announcing the new rate for 2006 closer to January.

In addition the new 4-month rate used for computing deductible medical or moving expenses will be 22 cents a mile, up from 15 cents for the first eight months of 2005.

And don't forget the sales

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# There's a New ROTH on the Horizon

There are plenty of ways to save for retirement. And come January 2006, many Americans will be faced with evaluating and deciding whether to use a new tax-sheltered way of investing for retirement — the Roth 401(k).

Starting next year, employers who sponsor 401(k) and 403(b) plans will be able to offer a new retirement account option, the Roth 401(k) or 403(b).

The new Roth is a hybrid between existing traditional 401(k) plans and Roth IRAs. Like traditional 401(k)s, participants can choose to set aside up to \$15,000, plus an additional \$5000 catch-up contribution for individuals who are age 50 or over, for 2006. The contributions grow on a tax-deferred basis. However unlike traditional 401(k)s, Roth 401(k) contributions are made with after-tax dollars.

Like Roth IRAs, withdrawals made from a Roth 401(k) can be made tax free after the individual reaches age 59 1/2 and as long as the contributions have been held in the account for at least 5 years.

An important distinction between Roth 401(k)s and Roth

IRAs is that the former requires mandatory distributions once the account owner reaches age 70 1/2. However Roth 401(k)s can be rolled over to Roth IRA accounts, thereby removing the mandatory withdrawal requirement as well as providing additional flexibility.

Unlike Roth IRAs, persons who contribute to Roth 401(k)s are subject to no income eligibility limitations. For instance, if your Adjusted Gross Income exceeds the eligibility threshold that applies to Roth IRAs,

Comparing the Plans			
	ROTH 401(k)	Traditional 401(k)	ROTH IRA
Maximum 2006 contribution	\$15,000	\$15,000	\$5000
Catch-Up amount - age 50 & over	\$5000	\$5000	\$1000
Employer Sponsored?	yes	yes	no
Earned Income Required?	yes	yes	yes
Income Eligibility Thresholds?	no	no	yes
Contributions Made	after-tax	pre-tax	after-tax
Earnings Growth	tax deferred	tax deferred	tax deferred
Future Withdrawals *	tax free	taxed as ordinary income	tax free
Rollovers Permitted To:	ROTH IRA	Traditional IRA	n/a

\* presuming no early withdrawals

you can still contribute to a Roth 401(k) — as long as your employer makes this type of retirement account available.

How many employers will offer Roth 401(k)s? An early survey by Hewitt Associates, a major human resources services firm, shows that about 30% of employers will likely offer such accounts beginning in January. A Vanguard survey of its retirement plan clients indicates a similar level of interest. Some of the plan details for Roth 401(k)s were finalized

only in the past few months. So it's possible that more employers may offer this option in the future, after they have time to assess specific administrative changes needed.

What if you can't decide between the 2 types of Roths? Then you can contribute to both traditional and Roth 401(k)s, as long as the total contribution does not exceed the \$15,000 maximum (plus any applicable catch-up amount) for 2006.

Which is better for you? Unlike a

popular marketing adage, one size does not fit all, and that appears true for 401(k)s as well.

Generally, younger employees and those earning a low to middle income (taxed at 10 or 15%) may benefit more from participating in a Roth 401(k). These are probably individuals who expect their tax rates to be higher during retirement, such as if they take a distribution from a retirement plan or receive a regular pension or annuity income.

Older employees who may be in the peak earning years and those who expect to be in a lower tax bracket during retirement might consider using the traditional 401(k), which allows them to lower taxes due now.

Admittedly, it's difficult to gauge projected tax rates during retirement, especially if individuals are more than a few years away from that point. For comparison purposes, perhaps it's helpful to note that today's income tax rates are among the lowest in years.

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**ROTH 401(k)s  
may be rolled over to a  
ROTH IRA**

# Medicare's New Drug Benefit

Medicare's long-awaited new drug benefit is slated to become effective January 1, 2006. Eligible individuals will soon begin receiving specific information about the program.

Participants may begin enrolling in mid-November and continue to May 15 of next year with no penalty, although delaying participation may reduce the amount of assistance currently available.

In the interim, here are a few important points to keep in mind as you assess the program.

- Participation is voluntary. It's available to anyone who is on Medicare. But you have to enroll in one of the private insurance plans that Medicare has approved if you want the coverage.
- Costs will vary depending on your geographic locale and the drug plan that you choose. The number of Medicare approved drug plans varies by area as well.
- The specific drugs covered also vary by plan. So find a plan that covers all or most of your prescriptions. Choose carefully, as restrictions apply on the frequency that you can make changes in plans.
- Multiple Medicare participants in the same household may choose different plans. Certain drugs may not be covered under all plans; hence, there may be advantages for household members enrolling in differing plans.
- Participating in the plan will still require that you pay for some out-of-pocket costs. An annual deductible applies, and then each participant will be responsible for

a portion of the costs beyond the deductible.

- If you delay enrolling in the program until after the initial enrollment period ends on May 15, 2006, you will pay a penalty of approximately 1% in premiums for each month that you delay. This is a permanent penalty, which will apply to all future months' applicable premiums, unless you presently have 'creditable' drug coverage. This is generally coverage that is deemed at least as good as that provided by the Medicare benefit.

## Additional Resources

www.medicare.gov  
 www.medicarerights.org  
 www.medicareRXeducation.org  
 www.kff.org

Begin comparing plans by making a list of the current prescriptions that you take. Identify which drug plans include your prescription on their plan. Also identify which pharmacies in your area each drug plan will work with. You can access this specific information from the Medicare website at www.medicare.gov (information should be posted around mid-October) or by calling Medicare at 1-800-633-4227.

## Tax Planning

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tax deduction. Individuals who live in states which have no personal income tax and who itemize may deduct the larger of actual sales tax paid during 2005 or the average amount determined by IRS regulations.

This provision is presently slated to end after 2005.



Finding the right Medicare drug plan for you will require some time and research. But the potential payback is very high. Begin your research and evaluation process now, so you have plenty of time to evaluate the information.

Additional resources that you may find helpful include:

- Medicare (www.medicare.gov) for a general description of the program and specific information on plans and pharmacies participating in your area;
- Medicare Rights Center (www.medicarerights.org) which contains an in-depth review of the new drug coverage. On the Home page, click on the Medicare Prescription Drug Benefit link and from there review the article "Medicare Drug Coverage 101: Everything You Need to Know About the New Medicare Prescription Drug Benefit"; and
- Kaiser Family Foundation (www.kff.org), click on the Medicare link located on the left side of the Home page, and then click on the Prescription Drugs link. Scroll down to "Resources: On the Medicare Prescription Drug Benefit". •

Employees with Section 125 health care accounts have an extended window for seeking reimbursement for eligible expenses. Treasury Department regulations now set March 15, 2006 as the deadline for requesting reimbursement, although services for eligible expenses must be incurred by year end 2005. •

## Preparing Financially for Disaster

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video of personal belongings, jewelry and furniture. Regardless of the method used to document personal belongings, the compilation should include a brief description of each item, including the cost, age, manufacturer and model or serial number, if applicable. Copies of receipts or appraisals are highly recommended for any expensive items, especially jewelry, art and collectibles.

And don't forget updates. As you purchase new items, be sure to make revisions to your inventory on a regular basis.

Why is a copy needed? Simply stated, individuals/property owners, heirs and professional advisers may need this information to rebuild a financial life in the wake of a disaster.

In some cases, individuals might consider storing originals of such information in one place, such as a safe deposit box or fireproof safe in the home. It's also a good idea to consider sharing a copy of records with a trusted friend or relative who lives in another part of the

country.

The devastation caused by Hurricane Katrina and the extended period during which homes were inaccessible clearly demonstrates the value in being able to access financial documents through another trusted source.

Perhaps a belt-and-suspender approach to backing up personal and financial data makes sense. For example, in addition to making photocopies of important information, you may wish to also take advantage of digital resources. This might involve sharing a copy of the software file which contains such information with a trusted individual. Or perhaps another option would be using secure online backup services that store personal information for a fee. Two firms that offer such services include iBackup and Xdrive.

Why use an online backup service? Easy access is the big attraction. Individuals can access their files from anywhere in the world. Documents can also be shared (on a password protected basis) with indi-

viduals in different regions of the country. In addition it's easy to update the information without having to worry about which version contains the most recent data.

It's also important to backup other aspects of one's financial life. For instance, many individuals select an executor, trustee and guardian who live in the same state or area. However those same individuals might be affected by a disaster. That's why it's wise to have contingent plans in place for executors, trustees and guardians as well, should the primary person named be unable to serve in that capacity.

The same considerations may apply to individuals who you have named to act via a power of attorney or on your behalf in making medical decisions.

Dealing with the aftermath of any disaster is never pleasant. But a little planning can help avoid many potential future problems. •

### By the Number\$ . . .

91 . . .

Percentage of Medicare beneficiaries who took at least 1 medication to manage acute or chronic health conditions in 2002 (Kaiser Family Foundation)

43.1 . . .

Number of Medicare beneficiaries, in millions, in 2006 (Dept. of Health and Human Services)

23 . . .

Number of years sooner that Medicare will become insolvent than Social Security (Employee Benefit Research Institute)

27 . . .

Percentage that pension underfunding at major U.S. companies rose from 2003 to 2004 (Pension Benefit Guaranty Corp.)

10 . . .

First time in ten years that employer-paid health care costs have exceeded paid leave as most expensive employer benefit outside of wages (Employment Policy Foundation)

63 . . .

Percentage of Americans under age 65 covered by job-based health care plans in 2003, vs 67 % in 2001 (Center for Studying Health System Change)

## ROTH 401(k)

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As taxpayers, our first natural inclination is probably to do whatever we can to avoid or lower our potential tax liability currently. But in the long run, perhaps biting the bullet and paying tax at the prevailing lower rates today may prove more advantageous for some folks than postponing that bite to some future date.

Sorting out the pros and cons of the various retirement plans and deciding which may be more beneficial for you can quickly become complicated. A visit with a financial planner who can help assess your own likely situation can be money well spent. Give us a call if we may assist you. •