

FINANCIAL BRIEFS

Fulton Financial Planning, Inc.

Spring 2006

Helping You Chart a Brighter Financial Future



Deidra Fulton
CERTIFIED FINANCIAL PLANNER™

5068 W. Plano Pkwy, Suite 227
Plano, TX 75093

Phone: 972.248.3807
Fax: 972.248.3811
www.FultonFinancialPlanning.com
df@FultonFinancialPlanning.com

Providing

Hourly, As-Needed
Financial Planning and
Advice . . . The New
Choice for Smart
Consumers™

Member



The Garrett Planning Network, Inc.



All content Copyright © 2006
Fulton Financial Planning, Inc.

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.

401(k) Plans Even More Important

Dreaming of the day when we reach retirement conjures up plenty of pleasant images for most of us. We look forward to that time of leisure, with few schedules, fewer responsibilities and worries and plenty of time to pursue our favorite pastimes.

That's assuming, of course, that we will have adequate financial resources.

But current retirement reality suggests those who will fall into that category may well be in the distinct minority.

What's worse is that current trends suggest baby boomers will actually need to accumulate more than earlier generations in hopes of having some-

what comparable levels of income during retirement. That is because boomers must depend

more on defined contribution plans than employer-provided pension plans, the lower interest rates prevalent today will produce less retirement income, life expectancies are rising and health care costs are rising even faster.

Social Security has historically provided about two-thirds of overall retirement income. That's bound to be less in the



future though. The Normal Retirement Age (NRA) — the age at which the worker is entitled to full benefits — is

moving from 65 to 67. Those individuals who retire before their NRA will see reduced monthly benefits.

Medicare Part B premiums are slated to increase from 9.4% of the average Social Security benefit today to 11.8% in 2030. As those premiums are deducted before the checks are mailed, net Social Security benefits will decline.

(continued on page 4)

Part D Deadline Looms

It's doubtful that anyone has escaped hearing about Medicare's new Part D Prescription Drug Program.

Yet in spite of all the recent media emphasis and probable countless pieces of mail from providers, some seniors have been slow to evaluate options or sign up for the new

Part D — or perhaps even realize that a decision is needed.

Here's a key date: May 15, 2006. That's the deadline for the initial enrollment period by which seniors must enroll in Part D to be eligible for help with prescription drug costs this year.

Seniors age 65 and older who do not enroll in a PDP by May 15 must wait until the open enrollment period at the end of this year before they can enroll in a plan for 2007. (Those who presently have creditable coverage or who are otherwise eligible for government assistance with the prescriptions do not need to enroll in a PDP.)

(continued on page 3)

Tax Tips

Withholding Calculator

Hurray! Your taxes are done for another year!

Are you getting a large income tax refund or did you find, much to your dismay, that you did not have enough withheld from your paycheck in 2005?

Fresh from completing this annual task, you may realize that you need to adjust your withholding to more closely reflect projected tax liability for 2006.

If so, the IRS website offers a new tool to help you with that process, a Withholding Calculator. Access the IRS website, www.irs.gov, then type Withholding Calculator in the Search box. All information entered is anonymous.

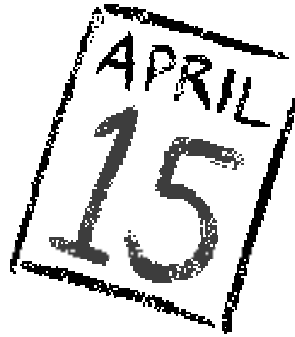
The Calculator is easy to use and requires only a few steps. Here are a few tips for using it:

- Have your most recent pay stubs handy.
- Have your most recent income tax return handy.
- Complete all information that applies to your situation.
- Estimate values, if necessary, while remembering that the results can be only as accurate as the data you input.
- Refer to the information links embedded in the program whenever you have a question.
- Print out the final screen that summarizes your input and the results, then use it to complete a new Form W-4 (if necessary) as well as keep for your records.

Once completed, give the updated W-4 to your employer.

Keep in mind that the online Calcula-

tor is not a replacement for Form W-4, but rather it is a tool that most people will find more accurate and easier to use than the worksheets that accompany paper versions of Form W-4.



As with the Withholding Calculator, the information you provide is anonymous and will be used only for purposes of determining any AMT liability.

The AMT Assistant is designed to provide a simple test for taxpayers who complete their tax

returns without using software to determine whether they may be subject to the AMT. Or it can be used as a stand-alone resource for mid-year updates.

The tool automates an AMT worksheet from form 1040 instructions. Simply enter your information using a draft form 1040 and generate a response in a few minutes.

Making these projections is a much easier process when aided by the AMT Assistant than facing the task armed only with pencil and paper!

Access it at the IRS website, www.irs.gov, then type AMT Assistant in the Search box. •

AMT Assistant

Effects from the Alternative Minimum Tax have become an unwelcome surprise to more and more people over the last few years.

This tax was originally enacted back in the '80s to make sure that the wealthy paid their fair share of federal income taxes. However it was never indexed for inflation. Consequently more and more middle-income earners are feeling AMT's bite.

The IRS website offers another new tool, the AMT Assistant, that helps consumers gauge whether they may be subject to the AMT this year.

401(k) Plans

(continued from p. 4)

- Re-balance. It just makes sense to shift allocations to take advantage of changing market conditions over time. And of equal importance is the need to reduce the portions of one's portfolio invested in equities as retirement age nears. Yet studies that follow people over time reveal few portfolio adjustments are actually made, either in response to increasing age or returns.
- Let it accumulate. When changing jobs, be sure to roll over your former employer's 401(k) to an IRA or to your new employer's 401(k) plan. One of the more

glaring missteps the survey found was the tendency that people cashed out their 401(k) when they changed jobs. Cashing out even small amounts can have a detrimental effect on ultimate accumulations — not to mention having to pay the 10% penalty imposed on those workers who withdraw money from their 401(k) prior to reaching age 59 1/2.

In short, you're in charge of your future retirement nest egg. Follow these suggestions to enhance your account's future growth and accumulation! •

Part D Deadline Looms

(continued from p. 1)

Consider these numbers:

- An estimated 91% of seniors rely on prescription drugs on a regular basis, with most taking several medications at the same time.
- Seniors spent 22% of their income on health care in 2003.
- The cost of prescription drugs has increased more than 3 times as much as the average annual rate of inflation — 8.3% versus 2.5% — since 1994.
- Cumulatively, the price drug makers charge for branded drugs has risen 40% since 1999 compared with a 17% rise in inflation during that same period, according to the AARP.

The Congressional Budget Office projects that, on average, participants in Medicare's new Part D will spend \$792 out of pocket annually on prescription drugs, excluding premiums. That's 37% less than the \$1257 they would have spent before the new plan was available.

Plan structures, coverage benefits and premiums vary widely among prescription drug plans. Some variations from the standard plan approved by Congress waive the Part D deductible entirely. Some

have minimal premiums. Some offer a more limited selection of covered drugs. Others combine the prescription drug coverage typically found under Part D with a managed benefits component, creating a package known as Advantage plans. Advantage plans may include some preventive and vision care and require lower out of pocket costs, but many restrict access to a network of doctors, hospitals and other providers. Plans that offer extra coverage generally have higher monthly premiums.

In the North Texas area alone there are an estimated 50-plus different plans offered, with monthly premiums ranging from a low of \$10.31 to \$85.00.

Even those seniors who may currently take no prescription medications may find it wise to sign up for one of the low cost, minimum benefit plans — just in case prescription needs change in the future.

Those who do not enroll by May 15th, 2006 or who do not have creditable coverage will face a penalty for every month they delay in signing up after the deadline. The penalty is projected to run 1% of the nationwide average plan premium (subject to a maximum cap of 60%) and will be added to their Part D

Additional Resources

www.medicare.gov

www.medicarerights.org

www.medicareRXeducation.org

www.kff.org

www.drugstore.com

premium for as long as they participate.

Once enrolled in a PDP, seniors may change their choice of individual drug plan generally once a year. So they are not locked into a specific plan should prescription needs change in the future.

Admittedly, many seniors were slow to take action during early weeks of enrollment. Accompanying confusion about available options and requirements, combined with some administrative glitches, were widely reported by the media.

That's probably to be expected with such a massive undertaking as the Part D rollout. However according to a recent survey by the Medicare Rx Education Network, once enrolled in a Medicare PDP, three quarters of beneficiaries say they are satisfied. Lawmakers also report an increase in positive comments overall from their constituents.

Time is of the essence in making sure that seniors take advantage of all opportunities available to them by making an informed decision on the new Part D.

If you are a senior, do not delay in evaluating what actions may be most appropriate for you.

If you are not a senior, encourage family and friends to initiate action by researching their options.

Please give us a call if we may assist in that process. •

Part D Quick Notes

- No decision is a decision. It means seniors will not be a part of Part D this first year.
- Participation is voluntary. Seniors must enroll to receive benefits.
- Costs will vary depending on the geographic locale and specific drug plan that's chosen.
- The specific drugs covered also vary by plan. Choose the plan carefully, as restrictions apply on the frequency for making changes.
- Participating in a plan will still require that seniors pay for some out-of-pocket costs. An annual deductible and co-pays for each prescription apply for many plans.

401(k) Plans

(continued from p. 1)

And more Social Security benefits will likely be subject to income tax liability, since the thresholds above which benefits are taxable are not presently indexed for inflation.

Of course that's presuming that Social Security is still around. Though this entitlement program has been the subject of much debate recently, to date no legislation has been enacted that addresses its projected funding shortfalls.

There's been a significant reduction in employer-provided pension plans over the past 20 years. The percentage of workers who were covered only by an employer pension has decreased from 61% in 1983 to 19% at the end of 2004. This reduction has dramatically shifted the burden for saving toward one's retirement to the employee.

Defined contribution plans, such as a 401(k), which were once viewed as only a supplement to employer pensions, are now the primary employee retirement savings vehicle. The percentage of workers who were covered only by defined contribution plans has increased from

14% in 1983 to 63% at the end of 2004. In 1983 24% of workers were covered by both an employer pension and a defined contribution plan, while that number stood at 18% at year-end 2004.

Since workers now have a greater responsibility for providing for their own retirement savings, it only makes sense to follow the most successful strategies possible. The Federal Reserve's recently released Survey of Consumer Finances (SCF) provides some meaningful insights into those strategies:

- **Participate.** According to the SCF, fully 21% of eligible workers failed to participate at all in a 401(k) plan. Yes, participation tends to increase as workers age. But each year that participation is postponed increases future contribution amounts needed to accumulate an adequate nest egg.
- **Contribute more.** The typical contribution rate for all 401(k) participants is only 6%. To see how far that might provide, let's assume that a worker's average salary is \$50,000 annually and

that he contributes 6% to his 401(k), with no employer match. That's only \$3000 per year — well below the \$15,000 maximum permitted for workers younger than age 50. Assume that our worker diligently makes \$3000 (\$250 monthly) contributions each year for 30 years. Let's presume that he earns an 8% average annual rate of return (pre-inflation) on his contributions. After 30 years the nest egg will have grown to \$375,074. Not accounting for inflation and assuming a 30-year retirement period, he will be able to withdraw \$12,502 annually from the nest egg. That will be a nice supplement to any Social Security payments or other personal savings he may have accumulated. But will it be enough to live on?

- **Diversify.** A diversified portfolio reduces the risk that retirement income will be inadequate. Investing in multiple asset categories offers the potential for achieving better returns, while at the same time lowers volatility that may come with having substantially all of one's portfolio invested in the same type of investment. Yet the SCF survey found that nearly one-third of all participants held no equity investments in their 401(k), while 21% invested 80% or more of their balances solely in equities.
- **Go light on company stock.** Sure, it's great to believe in the company we work for and its future. But concentrating a large amount of 401(k) balances in company stock means that employees hold a large portion of their portfolio in a single stock, making it more risky than a diversified portfolio. Further, the financial bets on that stock are directly correlated with their own human capital and earnings. Should the company perform poorly, both current earnings and future retirement income will be affected negatively.

By the Number\$. . .

36 . . .

Average percentage increase in account balances in 401(k)s open from 1999 to 2004 (Employee Benefit Research Institute/Investment Company Institute)

67 . . .

Average percentage of 401(k) participants' assets invested in equities at year-end 2004 (Employee Benefit Research Institute/ICI)

40 . . .

Percentage of U. S. labor force that will reach traditional retirement age by 2010 (Conference Board)

79 . . .

Percentage of large companies that will provide retiree drug benefits in 2006 at least as generous as the new Medicare Part D drug plan (Kaiser Family Foundation/Hewitt Associates)

345 . . .

Dollars, in billions, the IRS estimates Americans underpaid in taxes due to errors or intentional avoidance (IRS)

1200 . . .

Number of mutual funds that merged or were liquidated in 2005 (MarketWatch)

(continued on page 2)