FINANCIAL BRIEFS

Fulton Financial Planning, Inc. Summer 2005

Helping You Chart a Brighter Financial Future

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Providing

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

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What Matters Most

A friend and her husband were leaving a ball game recently, when their car was struck by another vehicle whose driver had no insurance.

Both suffered major injuries, requiring several days hospitalization and weeks in physical therapy. And during a big part of this time they were unable to work.

Coping with illness and injury is not easy, especially when the victims are innocent.

Consider the costs on society when an innocent victim winds up facing large medical bills and related expenses.

How can this be possible when many states, including Texas, have mandatory auto liability requirements?

Without discussing specific ways used to get around such mandatory legislation, perhaps it's more useful to acknowledge the problem. An estimated 25% of all drivers on the road in Texas are uninsured.

Given these large numbers, what actions can you take to better protect yourself and your family?

An often overlooked coverage available under your automobile insurance policy is Uninsured Motorists—Bodily Injury (UMBI). This coverage provides protection for you, your family members or anyone else who may be a passenger in your vehicle should you sustain injuries caused by an uninsured driver.

Individuals sometimes opt not to purchase this coverage, as they view it as duplicate with their health

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College Costs Continue Rising

Like health care, college costs are rising at a fast rate. For the year 2004-2005, tuition and fees at four-year public colleges averaged $5132 a year, an increase of 9.3% from a year earlier according to the College Board.

Students attending a four-year private college can expect to pay an average $20,082, an increase of 6% from last year.

While these numbers may cause 'sticker shock', many costs may be more affordable than you think. About 50% of students attending four-year colleges pay less than $6000 for tuition and fees per year.

Tuition and fees at two-year public colleges average $2076 for the latest period. And an estimated 44% of all students attend two year colleges. Many receive grant aid that covers a large part, if not all, of the tuition amount.

Perhaps the costs seem more manageable when viewed as an investment

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Where Are Your IRA Beneficiary Forms?

Do you know where the beneficiary forms are for your individual retirement accounts? For that matter, do you know *who* are your IRA beneficiaries?

You may think you know, but when was the last time you checked? Has it been years? Did you even fill out the beneficiary form provided by the financial institution where you opened the IRA? This oversight could cost your heirs a lot of money and heartache.

Have you named your beneficiaries? Many IRA owners leave their beneficiary forms blank because they mistakenly assume the IRA custodian named the proper beneficiaries when the owner opened the account. Or perhaps they assumed their will would address distribution for the IRA.

While some IRA owners may have sound reasons for naming a trust or a charity as a beneficiary to an IRA, most will want to name a "designated beneficiary" — living persons such as a spouse, children, other relatives or friends. In most cases, they should avoid naming their estate as beneficiary, because this will require that the IRA pass through probate before ultimately going to the heirs designated in the will. That needlessly delays distribution of the IRA's funds, and the funds may not end up in the hands of the heirs you intended.

Many . . . mistakenly assume the IRA custodian named the proper beneficiary

This also undermines the IRA's inherent tax deferral advantages, potentially costing heirs thousands or even millions of dollars in tax-deferred growth. Depending on the age of the owner at death, the balance of the IRA passing to the estate must be distributed within either five years or what would have been the remaining life expectancy of the deceased owner. But designated beneficiaries receiving IRAs directly can "stretch" their required distributions out over the lifetime of the heirs, which can be especially beneficial to younger heirs.

Leaving the beneficiary form blank produces the same consequences as naming the estate as beneficiary, though some custodians name the spouse as beneficiary by default if the form is left blank.

Can you find your beneficiary forms? If your heirs can't find the proper beneficiary form following your death, the IRA will likely pass to your estate, and they will lose the ability to stretch the IRA. In theory, the financial institution should have the form, but paperwork gets lost as institutions change hands, move and so on.

Locate your forms (or fill out new ones should you be unable to locate them), and retain a documented copy. Be sure the IRA account holder, and perhaps the beneficiaries, have a copy.

Is the form up to date? Did you find the form but discover it is outdated? Read it carefully. The beneficiary, such as a spouse, may have died since being named. Or perhaps other changes in your life — a marriage, divorce, the birth or adoption of a child — call for a revision of the form.

IRA owners can make beneficiary changes up to the owner's death, even if the owner has already started distributions.

Are primary and contingent beneficiaries named? The form should indicate the primary beneficiary, along with the manner in which you want the account's assets distributed, such as equally or by specific percentages. This is especially important when there are multiple heirs.

The form should also clearly state your preferences for distribution in the event a designated heir dies before the account owner, such as whether you wish the proceeds to be distributed to the other heirs (per capital) or to the designated heir's descendents (per stirpes).

It's also important to name a contingent beneficiary to step forward, should a primary beneficiary die before the IRA owner dies or in the event the primary beneficiary decides to "disclaim" his or her inheritance so it passes directly to a contingent heir.

Are the forms in agreement? Verify that your up-to-date form matches the form held by the institution. You don't want confusion, or worse, a court fight over which form is the most recent.

Also a review of the beneficiary form may turn up custodial restrictions on how your IRA can pass. For example, some institutions may not allow a "per stirpes" designation, and a few custodians may not allow "stretch" IRAs. If so, you may wish to move your account elsewhere. •

Time for Mid-Year Financial Checkup

You did what you were supposed to do financially at the start of the year. You established or reviewed your financial plan to be sure its goals and strategies were still appropriate, re-balanced your investment portfolio, made sure your estate plan was in place, checked your insurance coverage and so on. Give yourself a round of applause.

You probably don't want to think about your financial plan until next January. But you might consider doing a mid-year mini-review just to make certain you're still on track and to tweak a few things. Here are some places to start.

Taxes. Did you either receive a sizable refund or owe a chunk of money in April? If either, now is a good time to correct that for 2005 by projecting your taxes for the year and changing the amount withheld from your paycheck or for estimated tax payments.

A substantial refund suggests you are overpaying taxes during the year. That's money you could have invested or saved. To reduce the size of the refund, increase the number of allowances you claim on your W-4 form at work (or pay a little less when estimated payments are due in September and January). Do the reverse if you owed money.

Budget. Review your household budget or spending plan. Are you on track? Do you have a good handle now on where you are spending your money? Do some categories need adjustment? Are you saving 10 to 15 % from each paycheck?

Fringe benefits. Many companies hold open enrollment in the fall for employee benefits, so this summer is a good time to start thinking about them — especially health care. Your employer may have changed health care plans, for example, or the existing plans may have new wrinkles, prompting you to switch plans. Perhaps your family circumstances have changed, such as the addition of a child, making a different plan more attractive.

Retirement accounts. Have you received a raise this year that might allow you to put more into your retirement plan at work? Or if a plan is not available at work, perhaps you could contribute more to your individual retirement account? For example, you can contribute up to $14,000 this year in a 401(k) or 403(b) plan, along with another $4000 if you are age 50 or older.

Flexible spending accounts for health care. These employer-sponsored accounts allow you to divert wages into an FSA account tax free and then withdraw money from them tax free to pay for qualified out-of-pocket medical expenses. They can be quite beneficial for employees. The catch is that you forfeit any balance not spent by the end of the year — a deadline the U.S. Treasury has just extended from December 31 to the following March 15th.

Now is a good time to monitor what's left in the account and project any remaining known expenses so you can use up the balance by the deadline and also estimate the appropriate amounts to be withheld for next year. Remember that you can use FSA money for such things as eyeglasses and many over-the-counter drugs.

Investments. You may not need to make major changes to your portfolio at this point, but you might want to make some tweaks.

One involves tax considerations. The decision to buy or sell an investment should generally be based on your needs and the economics of the investments themselves, not taxes. But let's say you have sold some winners this year. Consider offsetting some of those taxable gains by selling some investments that have losses. Or if you have sold some investments with losses, consider selling some investments that have produced current gains, which would offset any net tax liability owed.

Assuming that your portfolio had the right mix of assets at the beginning of the year, you may not need to make adjustments until next year. But if a portion of your portfolio has done extremely well or poorly, you may want to re-balance the portfolio to bring the proper mix back in line.

Charitable donations. Yes, you can wait until the end of the year to make planned donations. But consider avoiding the rush, which may lead to mistakes, and make some charitable donations now. Appreciated securities can make an especially attractive charitable donation.•

College Costs

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for the student's future. According to the U. S. Census Bureau, individuals with a bachelor's degree earn over 70% more on average than those with only a high school diploma. Over a lifetime, this gap in earning potential is more than $1,000,000. This clearly suggests than any sacrifices made in the short term are more than re-paid over a lifetime. •

Identity Theft: Fighting Back

Recent news stories continue reporting unparalleled incidents of identity theft — or the potential for it. It's not enough that we guard our own information any longer.

We must be proactive in our steps to help guard against and prevent our own identity theft.

If you've managed to escape becoming a victim so far, congratulations. For the rest of us, here are some additional measures that we can all take to hopefully avoid becoming a victim:

- Shred anything that has personal information on it. This cannot be overemphasized.
- Use direct deposit for your paycheck.
- Change your PIN numbers frequently.
- Shred all credit card offers.
- Better yet, reduce or eliminate altogether the number of free credit card offers that you receive by making a request at 888-5-OPT-OUT or www.optoutprescreen.com.
- Obtain copies of your credit report from each of the 3 major reporting agencies at least once a year. Review all of the information for accuracy, and follow-up on any discrepancies. You may request a free annual credit report each year at www.annualcreditreport.com.
- Don't store your credit card information online, even at supposedly secure sites.
- Avoid carrying your social security card or health care card in your wallet as a standard practice, unless going to the doctor. (Currently many health care providers use the social security number as an individual's health-care identifying information.)
- Photocopy everything in your wallet, both front and back sides, and store the information in a secure place. This will prove invaluable should your wallet be lost or stolen or in the event you otherwise need to contact various organizations.
- Avoid placing outgoing mail in an unsecured mail box.
- Consider obtaining a locked/secured mailbox.

Additional useful information about guarding against identity theft can be found at www.fightidentitytheft.com, www.moneycentral.msn.com and www.ftc.gov. •

Identity Theft Facts

- 4 of 10 consumer fraud complaints involve identity theft
- Requires an average 175 hours and \$800 to repair one's credit history
- Nearly 50 million consumers were victims in 2003
- The fastest growing consumer issue

Source: Federal Trade Commission

By the Number$ . . .

146 . . .

Percentage increase since 1985 in number of American workers age 75 or older (Bureau of Labor Statistics)

23 . . .

Percentage of taxpayers who believe 401(k) distributions are tax free (CCH Tax and Accounting)

45 . . .

Number of households, in millions, that own IRAs (Wall Street Journal)

33 . . .

Number of households, in millions, that own traditional IRAs (WSJ)

14 . . .

Number of households, in millions, that own ROTH IRAs (WSJ)

24 . . .

Median value, in thousands, of the average household's traditional IRAs (WSJ)

8.6 . . .

Median value, in thousands, of the average household's ROTH IRAs (WSJ)

What Matters Most

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insurance or other auto coverages, such as medical payments or personal injury protection.

That can be the case in some situations. On the other hand, UMBI coverage offers several distinct advantages. First, no deductible applies, so you do not have to pay for expenses out of pocket until you reach a stated threshold. UMBI coverage is typically written with much higher limits than available under either the medical payments or personal injury protection coverages. And UMBI payments require no coordination of benefits with any applicable health insurance.

Making the decision to include UMBI coverage on your automobile policy is one action within your control to help adequately protect your family. It's the type of peace of mind that cannot easily be measured in dollars. Think about your priorities. •