



FINANCIAL BRIEFS

Helping You Chart a Brighter Financial Future

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Fulton Financial Planning, Inc
Deidra Fulton, CFP
5068 W Plano Parkway, Ste 227
Plano, TX 75093
972.248.3807
df@FultonFinancialPlanning.com
www.FultonFinancialPlanning.com

Hi Everyone,

FINANCIAL BRIEFS takes on a new look with this issue. While the look may be new, the mission remains unchanged – bringing you timely tips and information for your financial life. We hope you find these useful!

Warm regards,

Deidra Fulton

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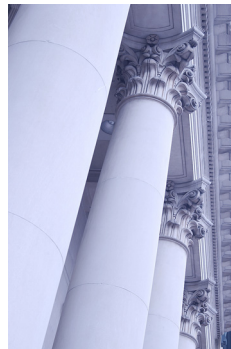
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Should You Be a Personal Representative?



"Personal representative" is a general term for someone who administers a deceased person's estate. A personal representative named in a will is called an executor. A personal representative appointed by a court when a decedent leaves no will or doesn't name an executor is called an administrator.

Think twice before agreeing

Think carefully before you agree to be a personal representative. The job can be difficult and time consuming, especially if the decedent leaves a large estate. Make sure you clearly understand the responsibilities involved, and are prepared to fully commit to the undertaking.

Personal representatives have a legal duty to quickly and efficiently settle and distribute the decedent's estate, and to act in the best interest of the estate's beneficiaries. Because of this "fiduciary" duty, you may be required to post a bond or other security. Furthermore, if you do not perform your duties properly, you could be held personally liable, and that could cost you money.

You can always just say no

You're not legally obligated to serve as a personal representative. You can decline immediately, or resign later--but be careful to follow the rules in your state for doing so. The court will appoint a replacement for you.

Getting help is OK and often prudent

Though you are fully responsible for your fiduciary duties, you can seek assistance. You can always ask a court officer for some guidance, but it may be wise to hire professional

help--an experienced probate or estate planning attorney, an accountant, and/or a tax professional.

Main duties of a personal representative

The duties of a personal representative are determined by the decedent's will and/or state law. Duties may include:

- Locating will, acquiring death certificate
- Opening probate (file certain forms with the court, get letters of authority to act)
- Giving actual notice to potential beneficiaries and unpaid creditors (also publish a general notice in the newspaper)
- Notifying Social Security, and the Civil Service and VA, if applicable
- Inventorying, appraising, and safeguarding (insuring, if necessary) the decedent's assets
- Opening an estate checking account
- Receiving payments due to the estate (e.g., unpaid salary, Social Security death benefit)
- Paying the decedent's final bills, valid creditor claims, and estate expenses
- Filing and paying income and estate taxes
- Distributing the remaining property to the beneficiaries or heirs
- Closing probate (file a final accounting with the court)

You're entitled to compensation

As a personal representative, you may choose to be compensated for your service. Your fee is subject to court approval and must be reasonable. Be sure to keep a record of the tasks you perform and the amount of time you spend on them.





Planning for uncertainty

New tools for financial forecasting use a methodology called a Monte Carlo simulation. By examining thousands of possible outcomes, a Monte Carlo simulation can give you a detailed picture of how likely it is that a given retirement planning and investing strategy will meet your needs. Facing up to uncertainty can help you see how adjusting your goals and your plan for achieving them might improve your chances of having the kind of retirement you want.

Retirement: Does Your Game Plan Need a Second Look?

Calculating what you'll need for retirement involves making an assumption about the return you'll earn on your portfolio. Typically, assumed rates of return are based on historical average returns for various types of investments. You'll also need to estimate how long you'll need income after you retire. Whether you are on track to meet your goals depends in part on the accuracy of those assumptions.

Question your assumptions

It might be time to revisit your retirement calculations. "Past performance is no guarantee of future results" has always been true, but many investment professionals have begun to question whether stocks will match the returns they have had in the past. It's not unusual to see forecasts for long-term stock returns that are 1 to 2 percentage points lower than the 7% to 9% inflation-adjusted figure often used to plan portfolios. That may not sound like much, but even a 1% difference can be costly over time. For example, getting a 4% real return on \$100,000 over 20 years would give you roughly \$50,000 less than a 5% return.

Assess the cost of uncertainty

Whether or not those forecasts prove accurate, you may want to double-check your estimate of what it will take for you to retire. Let's say you were counting on a 10% average annual return on your stocks for the next 10 years. It might be a good idea to project what would happen if that figure turns out to be 5% to 6% a year. If you're counting on high returns to make up for insufficient savings, the impact of a lower figure could be eye-opening.

Realistic projections about your investment returns are especially important if you're recently retired. Why? Because if lower-than-expected returns in the early years of retirement force you to withdraw more to live on each month than you had planned, those withdrawals will reduce the benefits of compounding over time. That in turn would affect the future value of your nest egg for the rest of your retirement.

You already know that saving more can increase your chances of having an adequate nest egg. However, there are multiple ways you can rethink your retirement planning—just in case.

Review your asset allocation

If returns for each asset class in your portfolio

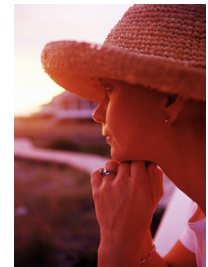
turn out to be lower than you've projected, you may need more in your retirement kitty to give you the income you've been planning on after retirement. To try to increase the nest egg available to you at retirement, you may want to reconsider your overall asset allocation.

If you want to try to get back to a targeted level of return for your overall portfolio, one way might be to increase the percentage that is devoted to asset classes that carry more risk but also have greater potential for higher returns. You also could consider investing in new asset classes that you previously haven't included in your strategy. Diversifying into investments whose performance may be very different from those you already own might change your overall return.

Diversification doesn't ensure a profit or guarantee against a loss; what it does do is give you more options for balancing risk and potential rewards.

Consider your income needs projections

People are living longer than they used to, which means your nest egg might also need to last longer. Postponing full retirement can help your money last longer, especially if returns aren't what you had hoped. Also, look at whether your spending estimates for retirement



are realistic. Reducing the annual percentage of your savings you plan to withdraw to use as income after you retire will increase your nest egg's longevity. (However, remember that if your savings are in a traditional IRA or employer-sponsored retirement plan, you'll be required to take minimum distributions each year once you turn 70½.)

Another way to address your projected income needs is to consider investments that can provide a lifetime income stream.

Pay attention to expenses and taxes

If investment returns sag, costs and taxes will have greater impact. Pay attention to the tax efficiency of your investments as well as their returns. If you actively trade stocks, be aware of trading costs. With mutual funds, understand the breakpoints that can help minimize sales charges the more you invest; also, check out a fund's expense ratios and fees.

Lifecycle Funds: Cruise Control for Your Investing Strategy

Matching your asset allocation to your time horizon is one of the most basic investing principles, but many investors either forget or neglect it. How you divide your assets among stocks, bonds, and cash based on your risk tolerance and time frame has an enormous impact on your investing results.

A lifecycle fund--sometimes called a target maturity fund--attempts to tailor your investing strategy to your time frame for a particular



goal, such as retirement. For example, if you plan to retire in 2020, you might choose a fund with a target maturity date of 2020. Between

now and then, the fund will gradually shift its asset allocation. The closer the target date, the more conservatively the fund would invest. A lifecycle fund with a target maturity date of 2040 would be likely to have a much higher percentage of its assets in stocks now than a fund targeted at 2010 would.

Advantages of the lifecycle approach ...

- If the idea of rebalancing your portfolio yourself periodically makes you yawn or if the thought of making investing decisions on your own is overwhelming, a lifecycle fund keeps the process simple.
- Asset allocation is critical to your long-term returns. The automatic asset allocation of a lifecycle fund may give you a better chance of achieving a long-term goal than if you tried to go it alone without investing experience or good financial advice. (However, remember that diversification alone doesn't guarantee a profit or insure against a loss.)

... and the disadvantages

- A lifecycle fund doesn't take into account your individual financial situation, including any tax concerns.
- If you have other investments outside a lifecycle fund, you may need help from a financial professional to achieve an appropriate overall asset allocation for your portfolio.

Don't be fooled by look-alikes

Just because a lifecycle fund targets a particular time frame doesn't mean your choice is a slam dunk. Even if they have the same target maturity date, lifecycle funds from various companies may have very different approaches to achieving their goals. Most take a "fund of funds" approach, investing in an assortment of stock or bond funds from the same fund family. However, the number of funds used can vary widely. One series of lifecycle funds may use only one or two stock funds, while another may include many more funds that invest in more narrowly defined categories of stocks. The selection may include index funds, actively managed funds, or some combination.

Also, the asset allocations used to target a particular date vary widely. An aggressive allocation for one portfolio with a 2040 target date may have a significantly greater percentage of stocks than another. Another important difference among funds is the way asset allocations are shifted over time, particularly after the target date has been reached. Some reach their most conservative allocation at the target date and then keep those percentages static. Others continue to become more conservative after the target date is reached.

Hang in there

With lifecycle funds, it's particularly important not to jump in and out of your choice in response to market changes. The fund's objective is a long-term one, and short-term moves undercut its overall strategy.

Check your assumptions

Just because a lifecycle fund has a certain target date doesn't mean it's necessarily the right choice for you. People are living longer, and you may need a more aggressive allocation to provide a sufficient nest egg. Your financial professional can help you estimate your needs and gauge what strategy is most likely to meet them.

Lifecycle vs. balanced funds: what's the difference?

- *A lifecycle fund becomes more conservative over time; a balanced fund's asset allocation typically remains within a given range*
- *Unlike a balanced fund, a lifecycle fund has a target date*
- *A lifecycle fund is often a "fund of funds"; a balanced fund typically invests in securities directly*



Employers may offer new options

Recent legislation has made it easier for companies to enroll employees automatically in their 401(k) plan. A lifecycle fund is likely to become a popular default investment choice, so it's useful to understand the concept, especially if you might change employers.



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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.

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Ask the Experts



Is it too late to make an IRA contribution for 2006?

You can make an IRA contribution for 2006 at any time up until the due date for filing your federal income tax return for the year. For most people, this will be April 17, 2007. This deadline isn't affected by any extension you may receive to file your return. So, if you obtain an automatic six-month extension, you'll have additional time to file your tax return, but you won't have any additional time to make an IRA contribution.

If you do make a contribution in 2007 for 2006, make sure you tell your IRA trustee (or custodian) that the contribution is being made for the prior year. Otherwise, the trustee may assume that the contribution is for 2007 (the year in which it's received) and report it as such.

Also, before you make a contribution, be sure you're eligible. Remember that if you're covered by an employer retirement plan, you may not be able to deduct your contributions to a

traditional IRA unless your income is within certain limits. And you can't contribute to a traditional IRA at all after you reach age 70½. You can contribute to a Roth IRA at any age, but again only if your income falls within certain limits.

If you are eligible to make a deductible contribution to a traditional IRA, keep in mind that you can file your 2006 tax return claiming the deduction before you actually make your contribution. Just be sure you meet the April 17 contribution deadline.

You can contribute up to \$4,000 to an IRA (traditional, Roth, or combination of the two) for 2006 (\$5,000 if you were age 50 or older by the end of 2006). You may also be able to contribute up to \$4,000 to an IRA for 2006 in your spouse's name (\$5,000 if your spouse is age 50 or older), even if he or she had little or no taxable compensation for the year.

If you haven't yet made your IRA contribution for 2006, why not do it now?

How do I undo my 2006 Roth IRA conversion?

So you converted your traditional IRA to a Roth IRA in 2006, and now you've determined that the conversion no longer makes good tax sense, or that you were ineligible to make the conversion in the first place. What do you do? You may be able to reverse ("recharacterize") your conversion. When you recharacterize a Roth conversion, it's as though the conversion never occurred, and the funds are treated as having never left your traditional IRA.

Generally, to undo a Roth IRA conversion, you'll need to take the following steps:

1. Identify the traditional IRA that will "take back" the recharacterized contribution (plus any earnings allocated to the contribution) in a trustee-to-trustee transfer. This can be the same traditional IRA you converted from, or a new IRA.
2. Notify the financial institution that you intend to recharacterize your contribution. Your financial institution should have a specific form for this that contains all the information required by the IRS. If more

than one financial institution is involved, you must notify both financial institutions--the one servicing your present Roth IRA and the one that will accept the recharacterized funds. You must provide the notice on or before the date the assets are transferred back to the traditional IRA.

3. Meet all applicable deadlines. The deadline for recharacterizing a Roth IRA conversion is the due date for your 2006 federal income tax return, *including* extensions. So, if you file for an automatic extension to October 15, 2007, you also have until then to recharacterize your 2006 conversion. (A special procedure applies if you file your tax return by April 17, and then later decide to recharacterize.)
4. Report the recharacterization by attaching Form 8606 to your 2006 tax return.

Failure to comply with all the technical requirements for a recharacterization can have serious tax consequences, so be sure to ask your financial professional for assistance.