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Hi Everyone,

Happy birthday, America!

We celebrate our nation's heritage and our freedom with the July 4th holiday.

As with our nation's founding, change is all around. The articles in this issue discuss potential changes that may affect your financial lives.

We hope you find the information timely and helpful.

Warm regards,

Deidra

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Financial Briefs

Helping You Chart a Brighter Financial Future

Summer 2009

Changing Jobs? Take Your 401(k) and ... Roll It!

If you've lost your job, or are changing jobs, you may be wondering what to do with your 401(k) plan account. It's important to understand your options.

What will I be entitled to?

If you leave your job (voluntarily or involuntarily), you'll be entitled to a distribution of your



vested balance. Your vested balance always includes your own contributions (pretax, after-tax, and Roth), and any investment earnings on those amounts. It also includes employer contributions and earnings that have satisfied your plan's vesting schedule. In general, you

must be 100% vested in employer contributions after 3 years of service ("cliff vesting"), or you must gradually vest 20% per year until you're fully vested after 6 years ("graded vesting"). Some plans have 100% immediate vesting. You'll also be 100% vested if you've reached your plan's normal retirement age.

Special vesting rules apply to certain plans, so make sure you understand how your particular plan's vesting schedule works. This is important, because you'll forfeit any employer contributions that haven't vested by the time you leave your job. If you're on the cusp of vesting, it may make sense to wait a bit before leaving, if you have that option.

Don't spend it, roll it!

While this pool of dollars may look attractive, don't spend it unless you absolutely need to. If you take a full distribution you'll be taxed, at ordinary income tax rates, on the entire value of your account except for any after-tax or Roth 401(k) contributions you've made. And, if you're not yet age 55, an additional 10% penalty may also apply to the taxable portion of your payout. (Because of the 5-year holding period requirement, there won't be any tax-

free qualified distributions from Roth 401(k) accounts until 2011 at the earliest. And special rules may apply if you receive a lump-sum distribution and you were born before 1936, or if the lump sum includes employer stock.)

If your vested balance is more than \$5,000, you can leave your money in your employer's plan until you reach normal retirement age. In many cases, however, your best bet will be to roll the funds over to an IRA. Your investment alternatives will be almost limitless, and you'll have better control over when and how to take distributions from your account.

Your employer must allow you to make a direct rollover to an IRA. As the name suggests, in a direct rollover the money passes directly from your 401(k) plan account to your IRA. This is preferable to a "60-day rollover"--where you get the funds and then roll them over to an IRA yourself--because your employer has to withhold 20% of the taxable portion of a 60-day rollover. You can still roll over the entire amount of your distribution, but you'll need to come up with the 20% that's been withheld from other funds until you recapture that amount when you file your income tax return.

If you really do need to use some of the money, and you have nontaxable after-tax or Roth contributions in your account, keep in mind that you may be able to roll over the taxable portion of your distribution to an IRA, and take a distribution of just the nontaxable portion of your account.

What if I have an outstanding plan loan?

In general, if you have an outstanding plan loan, you'll need to pay it back, or the outstanding balance will be taxed as if it had been distributed to you in cash. If you can't pay the loan back before you leave, you'll still have 60 days to roll over the amount that's been treated as a distribution to your IRA. Of course, you'll need to come up with the dollars from other sources.



Refinancing Your Mortgage: Is It Worthwhile?

The Home Affordable Refinance program allows the refinancing of certain Fannie Mae or Freddie Mac mortgages so long as the new mortgage doesn't exceed 105% of your home's current market value. Additionally, if your existing mortgage payment doesn't include private mortgage insurance (PMI), you won't be required to buy it when refinancing.



Other considerations:

- The interest you pay on a no-cash-out mortgage refinancing is tax deductible only to the extent as was the interest on your original mortgage.
- Refinancing may allow you to switch to a different type of mortgage (e.g., from an ARM to a fixed-rate mortgage) and/or a shorter mortgage term.

Mortgage rates on 15- and 30-year fixed mortgages are at all-time lows. So, is now a good time to refinance your existing mortgage? That depends on several factors.

The first, of course, will be your loan-to-value ratio. In no-cash-out refinancing (where the amount of your new loan doesn't exceed the balance of your existing loan, plus points and closing costs, if applicable), you may be able to borrow as much as 95% of your home's value. However, if the value of your home has fallen below the amount of your existing mortgage balance, you may be unable to refinance at all, except through the American Recovery and Reinvestment Act of 2009's Home Affordable Refinance program (see sidebar). But let's assume your loan-to-value ratio is still "above water"—that is, the value of your home is still greater than your mortgage balance.

If you refinance your mortgage to a lower interest rate, you may save a substantial amount on your monthly mortgage payment—which will give you more money to put toward your savings goals or reducing your other expenses. This is one of the main reasons people consider refinancing their mortgages. But what other factors do you need to consider?

How much will it cost?

The cost of refinancing can include both points you pay and other expenses (called "closing costs") related to refinancing.

One point equals 1% of the amount to be financed. So, if the refinancing costs will include an up-front charge of 0.5 points and you're refinancing \$200,000, you will incur a charge of \$1,000 (special tax treatment applies to points).

Closing costs typically include an application fee, attorney's fee, appraisal fee, credit report fee, loan origination fee (which can be 1% or more of the amount you refinance), title search fee, and title insurance. These costs can vary from state to state. Get a "good faith estimate" from each potential lender and compare both closing costs and interest rates.

Be careful about lenders that advertise "no points, no closing costs" refinancing deals. Often these plans simply roll the closing costs into the amount to be refinanced, or come at a higher interest rate.

How long will it take to recoup the costs?

To determine your break-even point (the point at which you'll begin to save money after

paying fees and closing costs), divide the amount of your monthly mortgage payment savings due to refinancing into the cost of refinancing; the result is your break-even point, expressed in months.

Example: *If you're saving \$100 per month on your refinanced monthly mortgage payment, and your refinancing costs totaled \$3,700, your break-even point is in 37 months.*

It makes sense to refinance if you're certain that you'll be able to recoup your refinancing costs while you're still living in your home. Ideally, you should recover your costs in one year or less.

A matter of term

In many cases, refinancing may mean taking out a mortgage with a new term equal to the *original* term of your refinanced mortgage, not equal to the *remainder* of the term on that mortgage. Depending on when you refinance, this can make a significant difference in the amount of interest you'll pay overall.

Example: *You have a \$200,000 30-year fixed mortgage at 6%, with a monthly payment of \$1,199. After 6 years, you have paid \$69,131 in interest on that mortgage. At that point, you refinance your remaining principal balance of \$182,796 for a new 30-year fixed mortgage at 5% with a monthly payment of \$981. Over the life of that new mortgage, you will pay \$170,468 in interest. So, your total interest payment will be \$239,599 (\$69,131 + \$170,468). If you had stayed with your old mortgage at 6%, you would have paid a total of \$231,676 in interest. Instead, by refinancing when you did, you'll pay an extra \$7,923 (\$239,599 - \$231,676) in total mortgage interest.*

Because of this, you may want to consider applying the monthly mortgage payment savings after refinancing toward additional principal payments. By doing so, you can reduce both the term of your mortgage and the total interest you'll pay.

Crunch the numbers first

In many cases, refinancing looks attractive in the short term because your monthly mortgage payment will be lower—and that can be important to your monthly budget. But will it really save you money to refinance, both in the short run and in the long run? That depends on many factors. Look at them all before you make your decision.

Retiring Early? Don't Forget about Health Insurance

Thinking about retiring early? As part of the decision, you've got to calculate whether you'll have enough retirement income to meet your needs. While adding up the costs of customary living expenses, utilities, and an occasional vacation, don't forget to include another important retirement expense: health insurance.

We're living longer and health-care costs are surging. Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance. And, unless you're lucky, you probably can't rely on your former employer for coverage, since few companies offer retiree health-care benefits. Underestimating the impact of medical costs could significantly hamper your plans for a comfortable retirement.

What are some of your options?

Check out your working spouse's insurance to see if you can be added to his or her policy. But adding you as an insured likely will increase the premium cost to your spouse.

Ask your employer if it's possible to remain covered under its group plan. Usually, plans don't extend coverage beyond active employees and their dependents. But, it's sometimes possible to remain covered, though you'll probably have to reimburse your employer for the cost to keep you on the plan.

COBRA may be another option allowing you to remain covered under your employer's group health plan. If your retirement causes you to lose your health insurance, you can remain on your employer's plan for a maximum of 18 months (with some exceptions). You'll have to pay the entire premium amount, plus a possible 2% administrative fee. And keep in mind that employers with fewer than 20 employees don't have to offer COBRA, so it might not be available.

Shop for individual coverage

If you're going to buy an individual health insurance policy, you may find the premium cost to be quite steep, especially if you're also insuring your spouse and dependents. And there's no guarantee you'll even receive coverage. In most states, insurance companies can examine your health history

and medical records (called underwriting) in order to determine whether you qualify for insurance and at what cost. However, a few states do not allow underwriting for health insurance plans.

Saving a few premium pennies

Here are a few suggestions that might help you lower the cost of individual health insurance. Group rates are usually less expensive, so look for health insurance plans offered by trade associations or churches. Be aware that while coverage might cost less, you may have to pay a membership or association fee to the group offering the coverage. Also, the plan may have high deductibles and co-payments, and the benefits and options, including your choice of physicians and medical facilities, may be limited.

To lower premium costs, consider increasing your deductibles. By shouldering the cost of any treatment you might need, you'll decrease your premium expense.

Also, in states that allow underwriting, the cost of an individual policy of health insurance is based, in part, on your age and health. A preexisting medical condition could affect your premium or even cause you to be denied coverage. So before applying for new health insurance, consider getting in better shape, especially if you think you're a little overweight. Smoking is also a ticket to a higher premium, so quit if you can. Since the insurance company will examine your medical records, review them first with your doctor to remove any inaccuracies, and to clarify the reasons for examinations or treatments.

Finally, if you're denied coverage because of poor health, don't despair; you may still be able to get insurance if your state sponsors a high risk pool. If your state does, you can't be denied coverage, so long as you can show you aren't able to get insurance elsewhere. Be aware, however, that coverage might not be as comprehensive as other options, you may have a six-month or longer waiting period, and not all states offer this type of health insurance.

Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance.



Retiree health benefits

In 2008, only 31% of large employers (200 or more employees) offered retiree health benefits, while a mere 4% of small employers (3 to 199 employees) offered retiree health benefits.

Source: Employer Health Benefits 2008 Annual Survey. Kaiser Family Foundation.





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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



What tax credits are available for making homes more energy efficient?

To encourage energy savings, the American Recovery and Reinvestment Act of 2009 expanded the tax credits related to energy-efficient home improvements.

For 2009 and 2010, you may be able to claim a tax credit equal to 30% of the cost of energy-efficient property that you install in your principal residence. Qualified products can include new windows, doors (exterior and storm), insulation, roofing, HVAC systems, nonsolar water heaters, and biomass stoves (e.g., those that use plant-derived fuels, including wood and wood pellets) for your existing principal residence. (Note that installation costs are covered for HVAC, biomass stoves, and nonsolar water heaters, but not for the other products listed here.) A total combined credit cap of \$1,500 applies to all 2009 and 2010 improvements.

For property placed in service in 2009 through 2016, you may be able to claim a separate tax credit for 30% of the cost of buying and

installing qualified geothermal heat pumps, solar panels, solar water heaters (pool or hot tub heaters do not qualify), small wind energy systems, and fuel cell power systems (limited to \$500 per 0.5kW of power capacity); generally, no cap applies to these improvements. This tax credit is available for products installed in both new and existing homes. With the exception of fuel cell systems (which, to qualify, must be used in a home that is or will be your principal residence), these products may be used in a second or vacation home as well.

Only products that meet very high energy-efficiency standards qualify, so you'll need to carefully check the manufacturer's certification. It will tell you whether or not the product qualifies for a tax credit. Keep a copy of the statement, and receipts, for your tax records. A tax professional can give you more information about these tax credits. You can also visit the Energy Star website, www.energystar.gov, to find out more about energy-efficiency standards and products.

I'm buying my first home, but I already own an investment property. Will I qualify for the first-time homebuyer's tax credit?

Even though you already own an investment property, you may be able to qualify for the first-time homebuyer's credit that was included in the American Recovery and Reinvestment Act of 2009. For the purposes of qualifying for the credit, a first-time homebuyer is defined as someone who has not owned a principal residence during the three-year period prior to the home's purchase. Your investment property is not considered to be your principal residence, so you may still be eligible for the first-time homebuyer's credit, assuming you meet other requirements.

One requirement is that you must purchase a home on or after January 1 and before December 1, 2009. You must also meet certain income limits. To qualify for the full credit, which is equal to 10% of the home's purchase price (up to a maximum credit of \$8,000), your modified adjusted gross income must be no greater than \$75,000 if you're single, or \$150,000 if you're married. The credit is

reduced if your income exceeds these amounts, and is eliminated if your modified adjusted gross income exceeds \$95,000 (\$170,000 if you're married filing jointly).

If you're married, and your spouse has owned a principal residence within the past three years even if you have not, neither of you will qualify for the credit. But if you're single, and are buying a home with someone else who has owned a principal residence within the last three years, you may still qualify, even though the other buyer will not.



Note that if the home you're buying ceases to be the principal residence of you and your spouse within 36 months of the purchase date, you'll have to pay back the credit. For more details, visit the IRS website, www.irs.gov.