Robert A. Hoey CFP®

Planning Your Financial Future

Winter 2009

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Hi Everyone,

Our football season ended on a great note as the varsity won our Super Bowl. I have a picture of the trophy with my 2 boys, myself and a longtime Auburn coach on my desk. It makes me smile everytime I look at it. I do want to thank all of you for your patience during the football season. I make it a goal to get back to every client that calls within a 24 hour period; if Debbie or Michelle could not answer your questions.

It is a busy time of year, but as always I am here to answer your questions. Spring is just around the corner, and so is the better weather.

I hope to see you soon,

Rob

In this issue:

COMMONWEALTH *financial network*

The Higher Education Opportunity Act

One of the big pieces of legislation that passed in 2008 was the Higher Education Opportunity Act (the Act). Aside from reauthorizing the Higher Education Act of 1965 for another six years, the Act includes many other provisions intended to improve college affordability, access, and accountability. Here are some highlights of this new law.

A new federally run college pricing website

In an effort to make it easier for students and their families to compare the cost of colleges in an apples-to-apples format, the Act directs the Department of Education to create a new website that will list up-to-date cost information on individual colleges, including tuition and fees for the current year, average price of attendance after grant aid, recent price increases, and changes in per-student spending, among other items.

The website will also include calculators that families can use to estimate their expected college costs based on income and family data, as well as the annual and total cost of attending a particular college. The hope is that this information will help students and their families during the college selection process.

> ***Cost considerations***
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> *According to a study released by student-loan lender Sallie Mae, 40% of parents and students said they paid no attention to cost when searching for a college.*
>
> *Source: Sallie Mae, August 2008 study*

A simpler financial aid application

According to remarks by U.S. Secretary of Education Margaret Spellings in a speech at Harvard University in October, 40% of college students--roughly 8 million students--don't apply for federal aid because the process is too complicated. To address this problem, the Act directs the Department of Education to streamline the federal application, the FAFSA, over the next five years. To support this initiative, Spellings announced a revised form that has only 27 questions (down from 100), and stated that families will now learn how much aid they can expect to receive, as opposed to how much they are expected to contribute under the current system. The new FAFSA should be available for the 2009 application year.

Expanded Pell Grant and work-study

The Act increases the maximum Pell Grant, the federal government's largest financial aid program, from $5,800 to $9,000 per academic year. The Act also expands the community service opportunities available under the federal work-study program.

Graduate PLUS loans

The Act creates a six-month grace period for repayment of all graduate student PLUS loans disbursed after July 1, 2008. Under prior law, these borrowers had to begin repaying their loans as soon as they were no longer enrolled on at least a part-time basis.

Other provisions

The Act also includes many other provisions:

- A requirement that textbook publishers sell unbundled versions of textbooks that previously may have been bundled with expensive DVDs and CDs
- A new scholarship program for active duty military personnel and their families
- A requirement that private student loan lenders inform students of their less costly federal borrowing options
- An expansion of student loan forgiveness for individuals who work in certain public service jobs

Retirement Plan and IRA Limits for 2009

An increasing number of retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2009 are discussed below.

Elective deferrals

If you're lucky enough to be eligible to participate in a 401(k), 403(b), 457(b), or SAR-SEP plan, you can make elective deferrals of up to $16,500 in 2009, up from $15,500 in 2008. If you're age 50 or older, you also can make a catch-up contribution of up to $5,500 to these plans in 2009, up from $5,000 in 2008.

If your 401(k) or 403(b) plan allows Roth contributions, your total elective contributions, pretax and Roth, can't exceed $16,500 ($22,000 with catch-up contributions). You can split your contribution any way you wish. For example, you can make $9,500 of Roth contributions and $7,000 of pretax 401(k) contributions. It's up to you.

If you participate in a SIMPLE IRA or SIMPLE 401(k) plan, you can contribute up to $11,500 in 2009 (up from $10,500 in 2008). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2009 is $2,500, unchanged from 2008.

IRA limits remain the same for 2009

The amount you can contribute to a traditional or Roth IRA remains at $5,000 for 2009, and the maximum catch-up contribution for those age 50 or older remains at $1,000. You can contribute to an IRA in addition to an employer-sponsored retirement plan. But if you (or your spouse) participate in an employer-sponsored plan, your ability to deduct traditional IRA contributions may be limited, depending on your income. Roth contributions are also subject to income limits.

Contribution limits: 2009 tax year*
(2008 limits in parentheses)

Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), and 457(b) plans**	$16,500 ($15,500)	$5,500 ($5,000)
SIMPLE plans	$11,500 ($10,500)	$2,500 ($2,500)
Traditional and Roth IRAs	$5,000 ($5,000)	$1,000 ($1,000)

*Contributions can't exceed 100% of your pay. If you participate in a 403(b) or 457(b) plan, special rules may allow an even greater catch-up contribution.
**$5,500 catch-up applies only to governmental 457(b) plans.

Some other key numbers for 2009

For 2009, the maximum amount of compensation your employer can take into account when calculating SEP and qualified plan contributions and benefits is $245,000 (up from $230,000 in 2008).

The maximum annual benefit you can receive from a defined benefit pension plan is limited to $195,000 in 2009 (up from $185,000 in 2008).

And the maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit sharing plan) in 2009 is $49,000 (up from $46,000 in 2008), plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Income phaseout range for determining deductibility of traditional IRA contributions in 2009	
1. Covered by an employer plan	
Single/Head of household	$55,000 - $65,000 ($53,000 - $63,000 in 2008)
Married filing jointly	$89,000 - $109,000 ($85,000 - $105,000 in 2008)
Married filing separately	$0 - $10,000 (same for 2008)
2. Not covered by an employer plan, but filing joint return with a spouse who is covered	$166,000 - $176,000 ($159,000 - $169,000 in 2008)
Income phaseout range for determining ability to fund Roth IRA in 2009	
Single/Head of household	$105,000 - $120,000 ($101,000 - $116,000 in 2008)
Married filing jointly	$166,000 - $176,000 ($159,000 - $169,000 in 2008)
Married filing separately	$0 - $10,000 (same in 2008)

Rethinking Your Retirement Game Plan

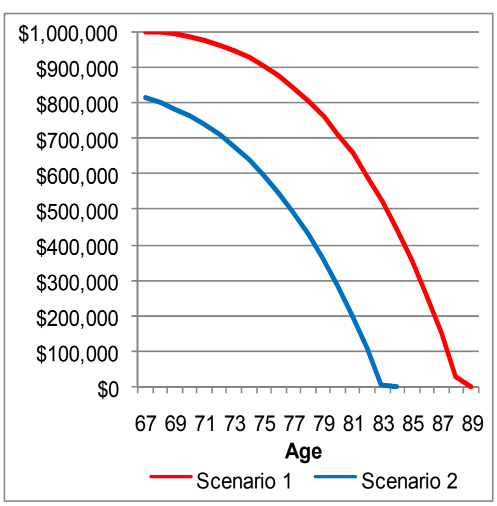
Periodic market downturns may result in significant investment losses, particularly within retirement accounts. If you are faced with this situation, you may have to reconsider when, or even if, you can retire.

The effects of a decline

Historically, the stock market has had its ups and downs. How any substantial market change impacts your retirement outlook may depend on how close you are to retirement. If you plan on working and contributing to your retirement savings for many more years, you may have time to recoup losses to your accounts due to poor investment performance. But if you're closing in on retirement or you're already there, a dip in your savings may affect how much you can safely withdraw and how long your savings can last.

To demonstrate, assume you and your spouse have $1 million in retirement savings, expect an annual average rate of return of 7%, and estimate that you presently need $100,000 annual retirement income for both of you to live comfortably, of which $30,000 will come from Social Security. Presuming withdrawals increase by 3% each year to offset the effects of inflation, your savings will last about 22 years, as shown in the chart below (scenario 1).

However, a decrease of 14% in the value of your savings in one year shortens the duration of your savings by over 4 years (scenario 2). (This example is hypothetical and does not reflect a specific investment or strategy.)



What are your options?

If you're fortunate, even a significant decrease in savings may not impact your retirement income dramatically. You may have other sources of fixed income such as company-sponsored pensions, so you won't need to rely on your savings to provide much of your income. Or you may be able to offset the effect of diminished savings by spending less -- forgoing that planned cruise, putting off buying that new car, or making smaller gifts to children and grandchildren, for example. But if you rely on your savings for most of your retirement income, considerable investment losses of the magnitude recently experienced can require major lifestyle changes. Here are a few ideas to help you cope with the erosion of your retirement savings.

Continue working

You may have to delay the retirement party a little longer. Postponing retirement lets you continue to add to your retirement savings, which can offset losses caused by poor investment performance. Also, working allows you to delay withdrawing from your savings. That could allow more time for your retirement accounts to recover from investment-related losses.

Delay taking Social Security

Social Security may be the only source of fixed income you'll have in retirement. If you delay applying for benefits until your full retirement age, you can get as much as 30% more in monthly payments compared to taking benefits early. And, for each year you defer benefits past your full retirement age (between 65 and 67, depending on when you were born) to age 70, your benefit is increased by 8%. That could mean an additional $500 or more in your benefit check each month--and that doesn't include annual cost of living increases.

Consider fixed income investments

Investments such as single premium immediate annuities (SPIAs) provide an income for the rest of your life, or for the combined lives of you and your spouse. However, while the income is dependable (subject to the claims-paying ability of the annuity issuer), you generally don't have access to the money you paid for the SPIA and you may not be able to change the amount of income payments or their duration once you've started.

By 2016, the number of working people over age 65 is expected to increase by 80%.

Source: U.S. Bureau of Labor Statistics

If you delay your Social Security benefit, don't forget to sign up for Medicare at age 65.

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Ask the Experts

Can I get an estimate of my child's financial aid eligibility before we officially apply for aid?

Yes. Last year, the U.S. Department of Education launched an online financial aid tool to help families better prepare for the cost of college. Called the FAFSA4caster, it's modeled on the government's official aid application, the FAFSA (Free Application for Federal Student Aid). The tool examines a family's financial data and estimates how much aid a student might expect to get. To use the tool, visit www.fafsa4caster.ed.gov.

To complete the FAFSA4caster, gather the following information for you and your child:

- Social Security numbers
- Federal tax information or tax returns, including W-2 information
- Information on savings, investments, and business and farm assets
- Records of any untaxed income (such as Social Security or welfare benefits)

To get as accurate an estimate as possible, you should answer all the questions on the tool, even if you have to estimate or guess.

Using the FAFSA4caster isn't exactly a quick process, but when you're ready to apply officially for federal aid, the FAFSA4caster will automatically transfer all of your data (that's password protected and saved securely) to your online FAFSA application, saving you the hassle of keying in all your information again. And, if your financial circumstances change, you'll get the opportunity to update any answers on the FAFSA that you originally submitted on the FAFSA4caster.

By providing an advance estimate of federal aid eligibility, the FAFSA4caster can help you forecast how much money you and/or your child may need to come up with to meet college costs--information that can also come in handy in the college selection process. By having an idea of the numbers ahead of time, you can help minimize unwelcome surprises.

When does my child need to submit financial aid applications?

The FAFSA is the federal government's financial aid application. It should be submitted as soon as possible after January 1 of your child's senior year in high school (and after every January 1 in any year your child is seeking aid). Several financial aid programs operate on a first-come, first-served basis, so getting your child's application in early increases his or her chances of securing aid.

Your FAFSA relies on the previous year's tax information. For example, a FAFSA filed in early 2009 would rely on information from your 2008 tax return. Because most parents have not yet completed their federal income tax return in January, one option is to complete an estimated tax return, which can then be used to complete the FAFSA, a practice the federal government considers acceptable.

You can fill out the FAFSA on paper or online at www.fafsa.ed.gov. A paper version takes about four to six weeks to process; the online version takes only one week. The better route is the online application. Not only is the processing faster, but the form notifies you of inputting errors and does the math as you go along. Plus, if you've previously filled out the FAFSA4caster, the government's online financial aid tool, the online FAFSA will be automatically populated with your data.

Along with the FAFSA, some colleges require you to submit one or more additional financial aid forms to determine your child's eligibility for the college's own grants, loans, and scholarships. These colleges may have their own forms, or, more commonly, they require you to complete the College Board's PROFILE application. The PROFILE application can be submitted in the fall, before the FAFSA, but it's a good idea to check with individual colleges regarding their submission rules. Go to profileonline.collegeboard.com to file the PROFILE online.