Robert A. Hoey CFP®

Planning Your Financial Future

Spring 2009

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Welcome Spring!

It was a tough winter and I am looking forward to some outside activities, like golf and watching my daughter play softball.

Tax season is past us now, but we should always be mindful of taxes and how taxes can influence investment returns.

If you have not reviewed your accounts with me in the last 9 months please give Debbie or Michelle a call to set up an appointment.

If I do not see you have a great Memorial Day weekend, and remember to honor our veterans.

Rob

In this issue:

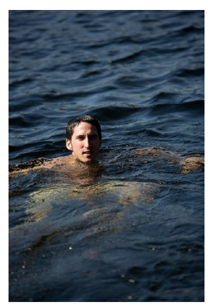
A Small Business Plan for Uncertain Times

It's official: these are hard financial times. Many small business owners are feeling the pinch, and you may be one of them. Here are some tips to help you swim against the tide and help you keep your head above water.

Review your business plan

Your business plan represents the roadmap your company is following. Consider reviewing it as if through the eyes of someone new to the area. Is it still the best possible route to where you want to go, or should you consider some change in direction? It may be valuable to create an advisory team from your circle of business contacts to help you with this task.

Keep current and vigilant



When the times are changing, you need current and accurate financial information on which to base your decisions. Keep a close eye on all your expenses. If you must cut your expenses, consider reducing expenditures only on goods or services that are no longer profitable. And try not to slash all of your advertising budget. If people don't know you're there, before long you may not be.

Be careful about the urge to cut your prices without exploring alternatives or without adequate justification. Doing so might lead to a temporary swell in your sales volume, but it will also undercut your margins, and may dilute your brand name. You might also want to continue spending money on development. The hard times will eventually pass, and when they do you'll want to have new items or services for your customers or clients to buy.

Examine your revenue stream, and think about ways to pursue any delinquent accounts receivable. Be careful of the credit terms you extend to your customers, especially new ones; if they can't meet their obligations, you might fall behind on your own. Try to maintain a healthy cash flow, and create a cash reserve to cover times when your accounts receivable may be slow.

Finally, meet with your banker. Try to keep a line of credit available to hedge against potentially declining revenues. Perhaps you're thinking you should defer making the capital improvements you were planning. However, while interest rates are low, consider if this would be a good time to lock in financing for them.

Work with me here

Your existing customer base may be your best prospects for new business, so remain in close contact with them. Determine their needs and seek to help them meet those needs. Consider offering them discounts in exchange for advance payment or long-term contracts with you. And always provide them with excellent customer service. In return, they may refer other potential customers or clients to you.

By the same token, work closely with your own suppliers. Agree to long-term contracts in exchange for a fixed price, if doing so would be beneficial to you. Consider seeking discounts if you pay in cash, or asking for longer payment terms if you are willing to pay full price. Be willing to contract for supplies at the regular price if they will give you great discounts on any of their own overstock that you might need. If you are open about your needs with each other, you might be able to create win-win situations for you both.

Value your employees

You no doubt have good people working for you, and they are a valuable part of what has made your business thrive. They have a stake in your business, too. Try to find ways (even if only simple gestures) to thank them for jobs well done. Look for ways to boost productivity, and reward those employees who meet the challenge of becoming even more productive.

Hard times

According to the U.S. Labor Bureau, 533,000 non-farm jobs were lost in November 2008. Employment has fallen by 2.7 million jobs since the recession first began in December 2007; almost half the decrease occurred in September, October, and November 2008.

Source: U.S. Bureau of Labor Statistics, December 5, 2008.

You've Just Lost Your Job. Now What?

Maybe you saw it coming, maybe you didn't, but there it is--the pink slip in your In box, the personnel officer shaking your hand as you're shown the door. So, what are you going to do now--I mean, right now?

Evaluate your exit package

If you haven't already done so, find out the exact terms of your termination. Are you being fired for cause? Laid off? Downsized? Will you lose your health insurance immediately (unless you pay to extend it through COBRA), or will it carry you through the end of the month? Are you being offered a severance package? (Do you have any leverage to negotiate it?) Will receiving it depend on signing a waiver? (If so, you might want to consult an attorney first.) Are you required to sign a noncompetition or a nondisclosure agreement? Will you receive any help searching for a new job (outplacement), or be allowed to use company equipment (copy machine, telephones, etc.) while you're doing so? Will your former employers write references for you? And what will they say about you when future potential employers call to verify your employment?

Call your state unemployment office

Since your unemployment benefits may not start until two or three weeks after you file your claim, the faster you can initiate processing of your claim, the sooner you'll receive your first check. In general, your benefits will be a percentage of your earnings, up to your state's maximum claim amount. Depending on your state, your benefits may last up to 26 weeks, and may be extended during periods of high unemployment.

Tell your family, friends, and associates

Losing a job is one of life's hardest experiences, and you shouldn't try to "go it alone." Tell your family, friends, and business associates what has happened. Not only can they be emotionally supportive, but they also may be able to help you find your next job. During any transition between jobs, particularly one that takes a while, your lifestyle may be affected, and your family, particularly those you support, will need to understand the financial implications of this.

Review your financial situation

Obviously, your financial situation will be impacted by your loss of income, especially if your lack of employment lasts a while, so now's the time to rethink your budget, even if it turns out only to be for the short term. Determine your expected income from unemployment benefits and other sources (severance pay, part-time temporary employment, investment income, and perhaps spousal income). Then develop a bare-bones budget (one that pays the essentials and postpones the nonessentials) and compare it to your expected income.

If your expenses will exceed your income, schedule withdrawals from your cash reserve to cover the difference. (Your cash reserve? It's that "financial safety net" of 3 to 6 months income you've accumulated for a situation such as this.)

Also list any other possible sources of potential income, including investment accounts or other assets you could sell if you need to.

Update and reflect

If you haven't done so, update your resume to reflect your recent work history, experience, and references.

There's no better time than this to determine if you're going where you want to with your career. Are you happy with the type of work you do, or is now a good time to make a change? Whether you're making a change or not, would now be a good time to update your skills (or learn new ones) to make yourself more marketable?

If you will be changing careers, slant your resume to highlight the skills and experience relevant to your new direction. Write generic cover letters that will be appropriate introductions for what you seek.

Hit the floor running

Looking for work is, in itself, a full-time job, and you should treat it as such. Look for employment online, in newspapers, and in trade journals. Contact employment agencies and headhunters. Attend industry conferences or seminars, relevant community events, and networking meetings to make new contacts and disseminate your resume. Follow up any new employment leads in writing and/or with telephone calls.

Be positive, and be aggressive. Believe in yourself and your abilities, and don't wait for the world to come to you.

Is Your Insurance Company Safe?

The recent financial difficulties of some of the largest and oldest insurance companies may have you wondering about the financial strength of your insurer. Here are some sources of information that you can use to help you determine whether your insurance policy is safe.

It's in the ratings

There are several rating services that review, evaluate, and rank insurance companies based on their financial strength and claims-paying ability. The primary players in the ratings game are A.M. Best (www.ambest.com), Standard & Poor's (www.standardandpoors.com), Fitch (www.fitchratings.com), Moody's (www.moodys.com), and The Street.Com (formerly Weiss, www.thestreet.com).

The standards used by each ratings service differ, and the ratings ultimately reflect the service's opinion of the financial strength and claims-paying ability of the insurer--it is not a guarantee of future performance. So you should consider your insurer's ratings from at least two or more services to determine its financial strength.

State regulation

Insurance companies are heavily regulated by the states in which they are headquartered. Generally, each state requires that an insurer has sufficient reserves to pay all of its claims. In addition, states require that companies file updated financial reports that often are available to the public through the state's insurance department. Check with your state's department of insurance for information about the company maintaining your policy.

Important financial information

While financial ratings are important, there are other sources that provide financial information about your insurer. For instance, the National Association of Insurance Commissioners (NAIC) is an organization representing the insurance departments of all 50 states. You can access their information by going to www.naic.org. An important statistic contained in the NAIC's financial report of each company is the assets to liabilities ratio. This statistic compares the insurer's total assets to its total liabilities. For example, a favorable assets to liabilities ratio may be $108 of assets for each $100 of liabilities.

Comparing companies

Many insurers subscribe to the Standard Analytical Service, Inc., an independent organization that compares insurance companies based on financial statements filed with state departments of insurance. Many insurers publish the Standard's reports on their websites.

The reports compare insurers based on a few important statistics. One such statistic compares the ratio of an insurer's bonds, stocks, cash, and short-term investments to liabilities. A higher ratio of liquid assets to liabilities may indicate the company's ability to cover unforeseen emergency cash requirements if they arise.

Another statistic compares an insurer's surplus assets to life insurance in force. A high ratio of surplus to life insurance in force provides evidence of a company's ability to meet its claims obligations.

If you claim benefits from your policy during a period of extraordinary claims activity, will your insurer be able to satisfy your claim? The chances are better if the insurer has a high ratio of assets, including capital, to policy reserve liabilities. A high surplus ratio may indicate a company's ability to meet its claims obligations even during a period of high volume.

If the worst happens ...

If your company experiences severe financial difficulties, it might be taken over by the state's insurance department. Generally, claims continue to be honored as long as premiums are current. If the company lacks sufficient assets and reserves to pay all claims, the state's guaranty association will either pay claims directly or transfer the policies to a financially stable insurance company that will honor the claims. The National Organization of Life and Health Insurance Guaranty Association (NOLHGA) provides information on state guaranty associations and insurance companies that have failed or are in danger of failing (www.nolhga.com).

The standards used by each ratings service differ, and the ratings ultimately reflect the service's opinion of the financial strength and claims-paying ability of the insurer--it is not a guarantee of future performance.

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COMMONWEALTH *financial network*

Ask the Experts

Can I open a 529 account in anticipation of my future grandchild?

No, not if you intend to name your future grandchild as beneficiary. A valid 529 beneficiary has to have a Social Security number, so it's not possible to name a child who hasn't been born. But there is a way to open a 529 account that eventually can be turned over to a future grandchild.

Your first step is to open a 529 account and name a beneficiary who is a "family member" of your future grandchild. Then, when your grandchild is born, you, as account owner, can change the beneficiary to your grandchild. All 529 plans have mechanisms in place for changing the beneficiary.

According to IRS Publication 970, Tax Benefits for Education, there are no income tax consequences if the beneficiary of a 529 plan account is changed to a "family member" of the original beneficiary. This includes the beneficiary's (1) spouse, (2) son, daughter, stepchild, foster child, adopted child or descendant of any of them, (3) sibling or step-sibling, (4) parent or ancestor of either, (5) step-parent, (6) niece or nephew, (7) aunt or uncle, (8) daughter-in-law, son-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law, (9) the spouse of any person listed, and (10) first cousin. Changing the beneficiary could have gift tax consequences, though.

However, carefully check the details of any 529 plan you're considering before you name the initial beneficiary. Some plans impose age restrictions on the beneficiary, such as requiring that the beneficiary be under age 21. Such a restriction could pose a problem if you intend to name your adult son or daughter as the initial beneficiary.

Other plans may have rules that indirectly impact who you can choose as your initial beneficiary, such as a requirement that the funds in the account be spent within 10 years of when the initial beneficiary would be expected to enter college. You don't want to be surprised by a technicality.

Can more than one 529 plan account be opened for the same beneficiary?

Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, provided you do so under different 529 plans.

For example, you could open three 529 college savings plan accounts for your daughter: one in State A, one in State B, and one in State C. Similarly, you could open accounts in States A and B for your daughter, and another relative could open an account for her in State C. Or, you could open a 529 college savings plan account and a 529 prepaid tuition plan account for your daughter in State A. But you can't open two college savings plan accounts (or two prepaid tuition plan accounts) in State A for the same beneficiary.

If you do open multiple 529 accounts for the same beneficiary, keep in mind that each plan has its own contribution limit, and contributions can't be made after the limit is reached. However, some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) can't exceed the current year's maximum contribution amount.

Also, keep in mind that each 529 plan will have its own investment options and flexibility, contribution rules, ownership and beneficiary designation rules, costs and fees, and ability to perform account management tasks online.

***Note:** Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.*