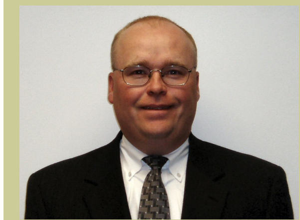

Robert A. Hoey CFP®

Planning Your Financial Future

Summer 2009

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Hi,

I hope you are enjoying your summer. As most of you know I coach football in the fall and need to leave the office most days by 2:30PM. Debbie and Michelle(my assistants) will be available for any service needs until 5PM every day. If needed I can meet for reviews all day until 2:30PM, after 5:30PM during the week and on certain Saturday mornings. I do appreciated your patience during the fall. I truly love being a financial adviser and I truly love coaching football.

If you have not been in for a review in the last year, please try to schedule one soon.

I hope to see you soon,

Rob

In this issue:

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

More Drops in the Higher Education Bucket

Income Annuities Can Help Fill the Retirement Income Gap

How can I diversify in a difficult market?

COMMONWEALTH *financial network*

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.

More Drops in the Higher Education Bucket

The world of higher education has received some attention in Washington this year. The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law by President Obama in February. This legislation, along with President Obama's proposed budget for FY 2010, contains several provisions related to higher education.

Hope credit

The Hope credit is a tax credit for college tuition and related expenses. ARRA changed the Hope credit significantly. For 2009 and 2010, the Hope credit is renamed the American Opportunity tax credit and can be worth $2,500 per student per year, up from $1,800. (President Obama's FY 2010 budget blueprint proposes making the credit permanent.) In addition, the credit now applies to the first four years of a student's post-secondary education, provided he or she attends at least half-time (previously, the credit applied only to the first two years of college). And the income limits for qualifying have been increased:

- A full credit is available to single filers with a modified adjusted gross income (MAGI) below $80,000 (previously $50,000) and joint filers with a MAGI below $160,000 (previously $100,000)
- A partial credit is available to single filers with a MAGI between $80,000 and $90,000 (previously $50,000 and $60,000) and joint filers with a MAGI between $160,000 and $180,000 (previously $100,000 and $120,000)

Other points to note about the new credit:

- The credit may be claimed against an individual's alternative minimum tax liability
- Up to 40% of an individual's allowable credit may be refundable
- For purposes of the credit, the definition of "qualified tuition and related expenses" is expanded to include course materials

By increasing both the amount of the credit and the income limits to qualify for it, and by expanding the availability of the credit to all four years of college, the federal government has put the focus on helping traditional college students pay for college. (Congress did not increase the amount of the Lifetime Learning credit, which is geared more toward occasional courses taken by students who are enrolled in school less than full-time.)

Qualified expenses and 529 plans

ARRA has expanded the definition of "qualified higher education expenses" for 529 plans to include expenses paid or incurred in 2009 or 2010 for computer technology, equipment, and Internet access, provided they are used by the 529 plan beneficiary and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution. This means you can take a tax-free withdrawal from your 529 plan to pay for these items. (Previously, a computer had to be required by the college in order to be considered a qualified education expense.)

This carve out for computer-related expenses is similar to the existing provision for K-12 computer expenses currently allowed by Coverdell education savings accounts.

Pell Grants

ARRA increased the maximum Pell Grant to $5,350 for 2009/2010 and to $5,550 for 2010/2011. President Obama's FY 2010 budget proposes making the Pell Grant program a mandatory spending program with automatic increases tied to the Consumer Price Index.

Federal Family Education Loan program

President Obama's 2010 proposed budget seeks to eliminate the Federal Family Education Loan program in 2010. If it passes, all student loans would be made through the federal government's Direct Loan program.

Financial aid

According to www.whitehouse.gov, President Obama wants to simplify the federal financial aid application process by eliminating the current FAFSA application and allowing families to apply by simply checking a box on their tax form, authorizing their tax information to be used. Stay tuned to see whether this major time-saving objective will happen in 2010.

By increasing both the amount of the credit and the income limits to qualify for it, and by expanding the availability of the credit to all four years of college, the federal government has put the focus on helping traditional college students pay for college.

Income Annuities Can Help Fill the Retirement Income Gap

If you're like many retirees, you may find that your sources of fixed retirement income, such as employer or military pensions and Social Security, aren't enough to meet all of your retirement income needs. To make up the difference, you can draw from your savings and investments, but how much can you safely withdraw without running out of money? One option is to create a stream of income for the rest of your life by investing some of your savings in an income annuity.

Income annuities (also known as immediate annuities) are purchased from insurance companies. In exchange for a lump sum of money, the issuer promises to make payments to you for a fixed period of time or for the rest of your life, or for the rest of your life and that of your spouse.

You can use almost any type of savings or investments to create a stream of income that can last for your lifetime. For example, you can purchase an income annuity with money from your personal savings accounts, matured CDs, or investments such as stocks, bonds, and mutual funds. You can even convert a portion of your retirement plan, such as an IRA or 401(k), to a lifetime stream of income by purchasing an income annuity within the retirement plan. However, some of these transactions may have income tax implications, so consult your tax advisor before you proceed.

You have options

You generally can choose how long your income annuity payments will last. For example, you can choose to receive payments for the rest of your life. This option allows you to supplement lifetime income from other sources, such as Social Security. However, payments end at your death, providing no benefits to your surviving spouse or heirs.

To ensure that your spouse continues to receive income after your death, you can select a joint and survivor payment option. The annuity will make payments to you, then at your death, to your surviving spouse until his or her death. Payments end at the death of the surviving spouse, with no benefits payable to your heirs.

You also can choose to receive income payments for a fixed period of time, such as 5 or 10 years, by setting up an income annuity. If you die during the payment period, your beneficiary will receive the remainder of the payments, either systematically or in a lump sum.

Another choice combines lifetime payments with the fixed period option. Payments are made for life or for a fixed period of time, whichever is longer. This alternative makes certain that payments will last for a minimum number of years.

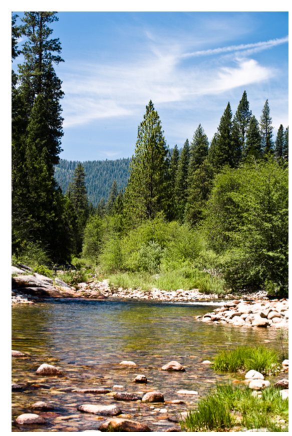
Other factors to consider

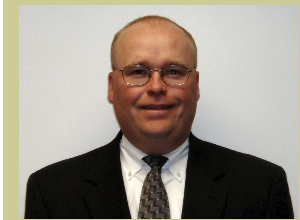
- Payments from income annuities funded with pretax dollars, such as 401(k)s and IRAs, may be subject to income tax. Income annuities purchased with after-tax funds are taxed only on the earnings part of each payment. The remaining portion is considered a return of your investment and is not subject to taxation.
- Usually, once you select a payment option, you can't change it. This means you may not have access to any of the funds you used to purchase the income annuity aside from the income payments you receive.
- Since some payment choices, such as the life or the joint and survivor life options, end at death, it's possible you won't live long enough to receive at least the return of your investment in the income annuity.
- Fixed income annuity payments don't change, even if your income requirements do. You may find that the income from the annuity isn't enough to meet increased income needs.
- Choose a financially strong company. Annuity guarantees are entirely dependent on the insurance company's financial ability to meet its obligations. Check the financial ratings of the company offering the income annuity before making your purchase.

Is an income annuity right for you?

Consider an income annuity if you want a guaranteed income to fill the gap between your retirement income needs and your fixed retirement income. Also be sure you can buy the income annuity and still have enough savings for other expenses.

Annuity guarantees are subject to the claims-paying ability of the annuity issuer.





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Ask the Experts

How can I diversify in a difficult market?

For a while, it seemed as though there was no refuge from the stock market's problems. International stocks, real estate, commodities, bonds, and precious metals all got hit simultaneously. The phrase "diversification can't guarantee a profit or ensure against the possibility of a loss in a declining market" never seemed more true.

And yet heightened uncertainty underscores the importance of hedging your bets. The more uncertainty, the more important it becomes to be able to take advantage of whatever investments are working best. Even if all asset classes are struggling, some may struggle less than others. Also, some investments and strategies can be used specifically to offset potential problems with other investments. Owning a variety of investments can improve your ability to navigate rapidly changing conditions. Here are some balancing acts to consider when analyzing whether your portfolio might benefit from additional diversification.

- *Deflation vs. inflation:* Many economists--including those at the Federal Reserve Board--are concerned about the potential impact of prolonged drops in stock or housing values. However, efforts to combat deflation also raise the specter of potential inflation. Your portfolio should take both possibilities into account.
- *Currency fluctuations vs. stability:* Risk aversion last year boosted the U.S. dollar. However, that trend could reverse at some point if investors tire of Treasuries' low returns or become more concerned about rising U.S. deficits. Balance that possibility against potential instability in overseas currencies and markets.
- *Income vs. growth:* A company's ability to provide stable dividends may assume greater importance. Balance the benefits of ongoing income against the fact that smaller, growth-oriented companies have led the market out of every recession since 1971.

What are some alternatives to just waiting for a market bottom?

Are you waiting to invest until you're positive the market has hit bottom? You may be increasing your odds of missing much of the upturn when it comes. Though past performance is no guarantee of future results, a sizeable portion of the returns made during a bull market often occurs in its early days, usually before it's clear whether the upturn will last.

In a way, bear markets are tailor-made for dollar cost averaging--investing the same amount of money at regular intervals over time. Even though it's difficult to watch your portfolio balance decline, a bear market also can help cut your average cost per share. With dollar cost averaging, your money buys you more of a given asset when prices are lower. While this strategy can't protect you against loss in a declining market or guarantee that your investment will gain, it eliminates the need to time the market. However, you also need to consider your financial and emotional ability to continue to invest in a down market. If you stop buying when prices are low, you're not reducing your overall cost basis by as much as if you had stayed the course until prices improved.

Dollar cost averaging isn't the only avenue for investing in the face of uncertainty. Using a core and satellite approach, you could set a strategic course with core holdings that you plan to hold for the long term. You could then take smaller positions in opportunistic investments that seem likely to make the most of short-term conditions or that hedge your other holdings.

Still another approach is value averaging. Rather than investing a fixed amount at each interval, value averaging involves setting a target amount by which you want your portfolio to grow, and then buying or selling the amount needed to maintain that figure. For example, let's say you wanted your portfolio to grow by $1,000 a month. If the portfolio has increased in value by $850 at the end of the month, you would invest an additional $150. If it has dropped, you would invest enough to bring it back to the original amount plus $1,000. And when it exceeds your target--let's say it's grown by $1,250--you might even take profits by selling $250 worth of shares. Those proceeds also could be reinvested later. (This example is for illustrative purposes only, and does not represent any particular investment.)