Wealth Management

KANE COMPANY

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Certified Public Accountants and Financial Advisors

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Survey Shows Retirement Planning A Major Concern

It takes a clear plan of action to reach a goal—or so countless self-help books and motivational seminars have told us. Yet when it comes to reaching financial objectives, the message doesn't seem to be getting through.

In the 2009 National Consumer Survey, conducted by the Certified Financial Planner Board of Standards, 1,742 consumers were asked in May and June about their major financial concerns and the steps they've taken to address them. A majority of respondents, about half of whom have more than $1 million in investable assets, said they are worried about managing retirement income, keeping their health care insurance, handling debt, and building a retirement fund. Yet 64% have never had a written financial plan, 11% had one once but not now, and 8% have a plan that needs to be updated. Only 17% have a current, written plan.

Among those who have a financial plan and work with a financial advisor, 65% said they have benefited from the process. Among those with a written plan but no advisor, just under half said the plan has been helpful. "Clearly, consumers who have a financial plan are more confident that their finances are in order and that they can reach their financial goals," says Kevin R. Keller, CEO of the CFP Board.

Those without a written plan cited a number of reasons for not having one:

- 42% said their financial affairs weren't complicated
- 42% said it was too costly to hire a financial planner and develop a plan
- 41% said they do their own informal planning
- 40% said they get along fine without a plan
- 30% said it's hard to know who provides the best planning services
- 24% said they don't really know what is in a financial plan and how it benefits people
- 20% said they couldn't trust the recommendations of financial professionals

The survey notes that 36% of respondents who work with an advisor said they've turned to the advisor more often during the global economic crisis that began in October 2008.

The higher the respondents' income, education level, and asset level, the more likely they are to employ a financial advisor and follow a financial plan, the survey shows. For instance, about one in four with a high school

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How Valuable Is A Written Financial Plan?

Have you benefited from the development of a written plan?	Percentage	Percentage
Definitely yes	46	82%
Yes	19	
Probably yes	17	
Probably no	7	13%
No	4	
Definitely no	2	
Don't know	5	5%

Source: Table 6.10: *2009 Consumer Survey on Personal Finance*, Certified Financial Planner Board of Standards

Tax Credits To Hire And Retain Employees

Know these new stimulus-oriented tax benefits for employers:

Payroll Tax Exemption: Qualified employers are exempt from their 6.2% share of Social Security tax on all wages paid to employees hired through 12/31/10. Qualified hires must have been unemployed or not worked for more than 40 hours during the previous 60 days. Unemployed workers should complete IRS Form W-11 and provide it to potential employers to let them know they qualify.

New Hire Retention Credit: Employer credit in the amount of the lesser of $1,000 or 6.2% of wages paid for each qualified employee who remains employed at similar hours for 52 consecutive weeks.

Work Opportunity Credit: Employer credit of up to $2,400 for each new qualified hire (ex-felons, unemployed vets, etc.) that begins work before 9/1/11. IRS Form 8850 has a full list of qualified applicants and must be completed on the day a job offer is made.

Small Business Health Care Tax Credit: For 2010 - 2013, the maximum credit is 35% of premiums paid by small businesses and 25% of premiums paid by tax-exempt organizations. Eligible employers have less than 25 FTE employees and pay at least 50% of single health insurance for employees. Beginning 2011, employers must pay at least 50% of premiums for all policies (single or family).

Steven L. Kane, CPA/PFS, CFP®

Your 401(k) Choices After A Layoff

If you're one of the millions of people who have received pink slips from their employers during these troubled economic times, things may look bleak. But there's something you can take with you from your old job—your 401(k) account—that could hold the key to better times ahead. Though there's no penalty for leaving your retirement funds where they are, you may be understandably reluctant to entrust the money to your ex-company, continue to pay what may be unreasonably high administrative fees, retain limited investment choices, and risk having uncertain access to your account if you decide to make changes in your investment choices.

So what are the alternatives? Participants in 401(k)s and other employer-sponsored retirement plans can normally choose from among three main options: taking a lump-sum distribution, opting for annuity-type payments, or rolling the funds into an IRA or a 401(k) at your new job. There are pros and cons for each possibility.

1. Lump-sum distribution. If you're in desperate need of cash, this may be what you have to do. But it has several drawbacks. If you request a lump sum from your company, it's required to withhold 20% for federal taxes (and sometimes additional state withholdings), and you could owe more than that if you don't deposit the money in an IRA or another 401(k) within 60 days. You'll owe income tax on the amount of the distribution (which might push you into a higher tax bracket), plus you'll likely have to pay a 10% penalty if you haven't reached age 59½, bringing the total tax you pay on the amount received to almost 50%. Finally, of course, you'll be depleting your retirement savings well ahead of schedule.

2. Annuity-type payments. With this option, you're still on the hook for tax payments and a possible early withdrawal penalty, but at least the tax liability will be spread out over the years you receive payments. Typically, the amount you get is calculated according to your life expectancy or the joint life expectancies of you and your spouse. If you choose, payments may continue until the death of the second spouse.

3. Rollover. This has obvious advantages. Not only will you have more investment choices, but the transfer—to a traditional IRA or to another employer plan at your new job—isn't taxed, and your money can continue to compound on a tax-deferred basis until you make withdrawals during retirement. Just be sure to complete the rollover within 60 days of taking the money from your old 401(k), and keep in mind that your former employer will still automatically withhold 20% of your balance. To avoid that levy, which you can't recoup until you file your tax return, arrange for a trustee-to-trustee transfer directly from your old account to the new one. Best of all, this option helps your money keep to its appointed task—saving for a secure retirement. ●

Do You Know Estate Planning Basics?

With the future of the estate tax up in the air, you may be tempted to neglect estate planning. The federal tax on inherited wealth is currently scheduled to be repealed in 2010, only to return in 2011 under less favorable terms. Congress will most assuredly resolve this issue before year-end, perhaps exempting all but the wealthiest families from estate tax liability. Yet whatever the fate of the law, having a thoughtful, effective estate plan will continue to be crucial.

At a minimum, you need a legally enforceable will that lays out how you want your assets to be distributed. An accompanying, non-binding letter of instruction could further spell out your wishes. You may also want to establish one or more trusts designed to minimize taxes, manage assets for minors, provide asset protection for heirs, implement philanthropic plans, or protect assets from creditors. And a living will (or health care proxy) could provide valuable direction on end-of-life health care.

Are you familiar with estate planning basics? Use this quiz to test your knowledge.

1. Which of the following is true?

a) A will is legally valid only if drafted by an attorney.
b) You can transfer jointly owned property through a will.
c) A will may appoint a guardian for minor children.
d) Your property must go through probate if you don't have a will.

2. When can a will be changed and remain legally enforceable?

a) Only if the changes are recorded by an attorney
b) Only when the heirs named in the will provide their consent
c) Any time before your death or mental incompetence
d) Never

3. In 2009, the federal estate tax exemption was:

a) $1 million c) $3.5 million
b) $2 million d) Zero

Five Financial Mistakes Doctors Make

From the pre-med grind in college through four years of medical school and the sleep-deprived days and nights of internship and residency, becoming a physician requires exceptional dedication and focus. Yet in all of that time there's little to prepare you for the non-medical side of working in a solo or group practice. Today, business issues dominate medicine, and no physician can afford to neglect potential legal and financial problems that could ruin a practice or a personal balance sheet. From being targeted by unscrupulous advisors to running afoul of government rules or losing a lawsuit, many dangers lurk, and it pays to do everything you can to prevent trouble. Avoiding these common mistakes could help.

1. Making billing and insurance errors. The administrative requirements of medical practice today are daunting. A typical office deals with several private health insurance companies and HMOs as well as the government programs Medicare and Medicaid, and each insurer has its own codes and rules. Make a mistake in billing or the required documentation and you could shortchange your receivables—or end up in hot water with regulators bent on uncovering fraud and abuse in medical practices. Employing or contracting with an expert billing assistant is crucial, and you may want to hire a consultant to make periodic reviews. If your attorney hires the consultant, any irregularities the consultant uncovers may be protected by attorney-client confidentiality.

2. Not safeguarding the practice's money. Large sums pass through medical practices, and without adequate checks and balances, theft by employees is all too easy. Having the same person physically handle payments from patients and insurers and operate your accounting and billing software is asking for trouble, and if your practice is too small to employ multiple assistants, consider using an outside billing service. Large groups can have their accounting firm do unannounced annual financial audits.

3. Having inadequate malpractice insurance. Almost all doctors are required to buy professional liability insurance to protect themselves from patient lawsuits alleging negligence or other errors. Such coverage is expensive, ranging from an average of $12,500 a year for family practitioners and pediatricians to $55,000 annually for obstetrician/gynecologists, according to a 2008 survey by *Medical Economics* magazine. Yet purchasing only the minimum amount required by your state or hospital may be a false economy. A doctor's risk and potential losses can vary widely because of differing state rules, and the same survey found sharp regional differences in coverage amounts, with doctors in Texas insured for only $200,000 to $600,000 while Chicago physicians paid up for protection against damage awards of as much as $6 million. Make sure your coverage is sufficient for your region, specialty, and personal financial situation.

4. Failing to have a succession plan and a buy-sell agreement. Most physicians practice by themselves or in small groups, and many operate informally, depending on a handshake or long-ago-drafted documents regarding what happens if a partner dies, becomes disabled, or decides to leave the practice. But your interest in the practice may be one of your most valuable personal assets, and you need to protect it with an up-to-date buy-sell agreement that specifies procedures for establishing the worth of each partner's share and spells out how buyouts will be funded, normally with life insurance purchased by the practice.

5. Depending on incompetent or untrustworthy advisors. Physicians have a reputation for being easy marks, and even if you avoid being swindled by Bernie Madoff wannabes, failing to work with reputable, experienced legal and financial advisors could do serious harm to your long-term financial and professional prospects. At a minimum, you need: an accountant who has experience working with medical practices and can advise you about practice management issues as well as your accounts and taxes; an attorney who can draft buy-sell agreements, provide advice about malpractice issues, and help with other legal matters, making referrals to specialists as needed; and financial advisors who can handle wide-ranging practice and personal needs. We specialize in helping physicians achieve their goals and could work with you to review your financial and retirement plans, evaluate potential business deals, and do whatever else is needed to ensure that you're successful financially as you are professionally. ●

4. In 2010, the annual gift tax exclusion shelters gifts to individuals of up to:

a) $10,000 c) $1 million
b) $13,000 d) Zero

5. For estate tax purposes, the value of assets is based on:

a) Their fair market value on the date of the owner's death (or six months from that date)
b) The amount received from the sale of those assets
c) The assets' original cost
d) The value stated in the owner's will

6. A "power of attorney" is best described as:

a) A bequest in a legally validated will
b) A document authorizing an agent to act on your behalf
c) A document allowing life support systems to be shut down
d) The use of a lawyer in estate planning matters

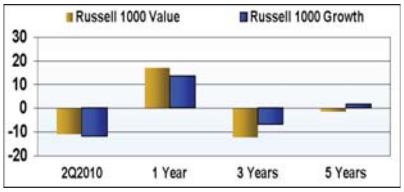
7. Which of the following is not true?

a) The value of your principal residence is excluded from your estate.
b) The value of property transferred to your spouse is exempt from estate tax at your death.
c) A testamentary trust takes effect when you die.
d) A will normally determines who will care for minor children.

If you have questions about estate planning or need to refine your plan, please give us a call. We can work with you and your attorney to make sure all of your needs are met.●

Answers: 1-c; 2-c; 3-c; 4-b; 5-a; 6-b; 7-a

Market Data Bank: 2nd Quarter 2010

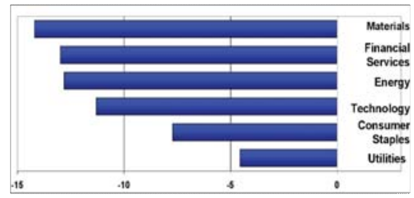


LARGE VALUE VS. LARGE GROWTH

Equity prices corrected in the second quarter as the yearlong rally gave way to renewed fears about the sustainability of the economic recovery. Both large growth and large value shares fell by about 11%.

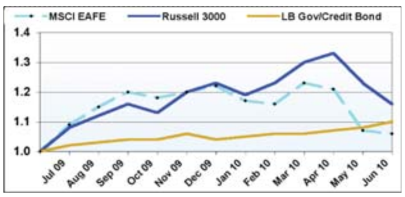
SMALL VALUE VS. SMALL GROWTH

The retreat applied to small-cap shares as well. Still, while small value lost 10.60% and small growth shed 9.22%, both strategies have still delivered substantial returns on a year-over-year basis.



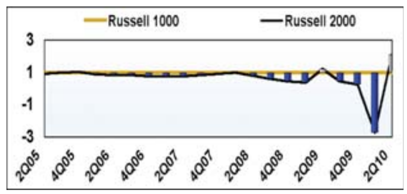
THREE BEST AND WORST SECTORS

All major industrial groups ended the quarter with losses. Relatively defensive utilities and consumer staples companies held up best, while economically sensitive commodity producers fared worst.



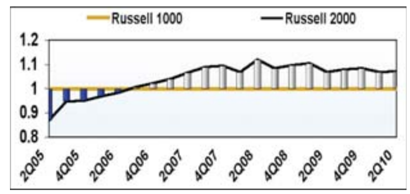
FOREIGN, US STOCKS & US BONDS

While Wall Street suffered, the carnage in foreign markets was sometimes truly harrowing. Global risk aversion pushed fresh money into the Treasury market, giving bond investors added upside.



LARGE VS. SMALL STOCK EARNINGS

Small, relatively nimble companies expanded their profits 8.7% in 2Q10, outstripping their larger counterparts' real (but relatively tepid) fundamental growth for the first time since late 2005.



PRICE-TO-EARNINGS RATIO

Investors remained willing to pay a slight premium for small-cap shares. By quarter's end, small stocks traded at $16.80 per dollar of earnings, versus a valuation of $15.70 for their larger peers.

Small-cap stocks represented by Russell 2000 index, large-cap stocks represented by Russell 1000 index. Foreign stocks represented by the Morgan Stanley Capital International's Europe, Australia, Far East Index, and US bonds by the Lehman Bros. Government/Corporate Bond Index. P/E ratios exclude negative earnings. Small-cap stocks tend to be more volatile than large-caps. Bonds offer a fixed rate of return while stocks will fluctuate. Indices are unmanaged and do nott represent any specific investment. Foreign investing involves special risks, including political unrest, economic instability, and currency fluctuation. Past performance does not indicate future results.

Source: Russell/Mellon

Retirement Planning Survey

(Continued from page 1)

education has a written and updated plan in place, compared with 49% of college graduates. Just 26% of those with household income below $50,000 a year have an updated plan, compared with 53% of those with income exceeding $150,000 a year. In terms of asset levels, a quarter of those with assets of less than $100,000 have an updated plan, compared with 53% of those who have from $100,000 to $1 million in assets, and 67% of those with $1 million or more.

"Americans of every type of background and income level think carefully about their assets and how to improve their financial state," says Eleanor Blayney, a consumer advocate for the CFP Board. "Yet many don't realize that anyone, regardless of wealth or social status, can benefit from having a financial plan."

Among all respondents, 59% listed generating current income as a top financial concern. Other top concerns included:

• Providing health insurance coverage (55%)

• Managing or reducing current debt (53%)

• Building a retirement fund (51%)

• Building an emergency fund (47%)

• Preparing for future family medical needs (42%)

• Managing retirement income (40%)

• Providing life insurance coverage (35%)

These answers varied widely according to respondents' levels of education, income, and assets. For instance, 56% of those with a high school education cited "managing or reducing current debt" as a major concern, compared with 48% of college graduates. That worry was also cited by 58% of those earning $50,000 or less and 41% of those earning $100,000 or more, and by 61% of those with assets of less than $100,000 and 45% of those with assets between $100,000 and $1 million.

Creating and maintaining a financial plan can be an effective way to get and stay on track to reach your life goals. If you don't have a written, updated, and comprehensive plan to guide you to financial success, we can help you in this vital area.

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