June 2008 Newsletter

Don't Make These Retirement Planning Mistakes

It really doesn't take much to derail a retirement plan. Most of the errors in planning for retirement are those of neglect, omission or panic. If you don't know exactly where your retirement plan stands, get some advice – a Certified Financial Planner™ (CFP®) professional is a good start – to review your overall retirement options and give you some ideas where to start.

Here are some common mistakes people make:

Failing to start: It is amazing how many people find so many excuses never to start retirement savings. But no matter how daunting debt or other spending priorities seem, you have to save for retirement on a regular basis, even if it's only a cursory amount. Over time, those small assets will grow to something considerably larger.

Failing to link planning for your at-work and personal retirement portfolios: One of the critical problems in retirement planning comes from failing to treat the investments you make at work versus the ones you make independently as a unified whole. Working with a financial planner can help you look at every place you're putting your money and find out if you're implementing those assets in the right way.

Failing to evaluate a prospective employer's retirement options: Benefits can be worth as much as a nice paycheck. It's possible you might be working for a company that still offers a traditional defined pension benefit plan in addition to a 401(k) plan. If you think you're going to get an offer, it's wise to interview prospective employers on the benefits side of what they're offering you – particularly the timeframes on when those various benefits kick in. Above all, company matching of any assets you place in your retirement funds is key as well as the vesting period for making those assets your own.

Failing to consider both kinds of IRAs: The biggest difference between a traditional IRA and a Roth IRA is the way Uncle Sam treats taxes on both types of IRA investments. If you put money in a traditional IRA, you'll be able to deduct that contribution on your income taxes. In a Roth, you don't receive the tax deduction for those contributions, but when it's time to take the money out, you won't have to pay taxes on it. If you and your spouse are not covered in workplace plans, you may be able to fund fully deductible IRAs. Talk to a tax professional or a financial planner about which options are best for you.

Failing to update your beneficiaries: Starting in 2007, a direct transfer from a deceased employee's IRA, qualified pension, profit-sharing or stock bonus plan, annuity plan, tax-sheltered annuity, 403(b) plan or a governmental deferred compensation plan to any qualified IRA can be treated as an eligible rollover distribution if the beneficiary is not the deceased's spouse. That means your kids or any other designated recipient can inherit your IRAs without negative tax consequences at that time. Non-spouse beneficiaries need to check with a tax expert when they must begin distributions from an inherited IRA. Of course, no matter what the investment, make sure your beneficiaries are always current.

Failing to reinvest your tax refunds: Did you know you could deposit your tax refund directly into your IRA? It works for a health or education savings account as well. While many people use their tax refund as a bonus to buy a treat or pay off bills, consider filing your taxes a bit early and arrange to e-file a direct deposit to your IRA so you can note that deposit for the 2007 tax year by next April 15.

Withdrawing money early from an IRA or blowing a rollover: Money taken out of an IRA is subject to income taxes and a penalty if you are under 59 ½ years of age and do not put it back into an IRA within 60 days. When moving assets, most of the time a trustee-to-trustee transfer can be more efficient and with less margin for error. If the IRA distribution check is made payable to you, there is a greater chance you'll miss the 60-day deadline and you'll face taxes and penalties.

Failing to contribute the maximum. Not every employee can afford to contribute the maximum allowed by their respective work retirement plans or individual retirement investments, but it should be a goal.

Consider Making an Estate Check-Up a Multi-Generational Family Matter

Questionable estate planning has gotten some recent attention with the sudden death of actor Heath Ledger. The 27-year-old actor died suddenly this year with an older will that provided only for his parents and other immediate family – he never revised those documents to accommodate his young daughter or the child's mother.

Though Ledger's parents told the media that the daughter and mother would be fairly provided for, that's not the same thing as a solid estate plan that leaves nothing to chance. And if Ledger's death offers a lesson, estate planning should be done at the earliest point in your life that you start to gather assets and responsibility for others.

In estate matters, it's a good rule of thumb to review your plans every three years or whenever there's a material change in your family's lifestyle – a marriage, a divorce, a remarriage, the birth of children, the loss of an immediate family member or a major rise or fall in assets. Those are the biggies.

For individuals and couples with elderly parents and/or young kids starting out on their own, it might be smart to do a multi-generational estate checkup at the same time. Why? Because in families with significant assets or other pressing financial issues involving businesses or dependents, each generation's wishes for the dispersal of shared or personal assets should be documented legally and shared with all the relevant parties.

Q: What are some of the multigenerational issues in estate planning?
A: In some families, this may mean the future of a multigenerational family business, perhaps one of the most complex estate issues any family will face. In others, the assets may consist mainly of cash, property and other investments, but similar problems can occur when all the parties aren't on the same page about who will get what.

Q: What kind of problems can be prevented by multigenerational estate planning?
A: It's important to realize that estate planning isn't just about splitting up money – it's also about disaster planning. If a family hasn't planned for business succession, it's possible that other damaging secrets may emerge like problems in the business or significant debt the family might be liable for. Also, the sudden death or lengthy incapacitation of the head of a family may turn chaotic without proper health care or financial directives to manage the person's illness or the money and business issues that follow.
Multi-generational estate planning may not be the easiest thing in the world to accomplish given how families communicate – or don't communicate – about money. But such dialogue might be the smartest thing any family does together.

Q: How does an estate plan support a family legacy?
A: Proper discussion, documentation and review of a family's assets – with the participation of the right legal, tax and financial planning advisers – can keep more of those assets in the family and working to the family's wishes. In the case of a family business, generations of family members have built careers there or might otherwise be depending on that income to live. Yet a business might not even be at the heart of an issue – families may also have foundations or other charitable activities they've supported for years with a certain mission that those in charge don't want changed. More than a few families have imploded in ugly legal squabbles over these situations and more. The results can be lengthy legal battles with damaging tax consequences, a potentially unfair split of assets among relatives or simple mismanagement of those assets going forward.

Q: How can estate planning fail?
A: Bad estate planning can happen in the wealthiest of families. It's not unheard of in the richest of families for the matriarchs and patriarchs to die or become incapacitated without proper wills or directives for their heirs. Every adult family member – young or old -- should commit to the creation of such documents and as appropriate have them written in a way that doesn't shipwreck the family fortune or mission, no matter how big or small it is.

Q: What should be done about non-married family?
A: The Ledger situation is a good illustration of the potential for estate problems when couples are not legally married. That's why multi-generational planning should also address estate and child custody arrangements for unmarried heterosexual or gay couples who might or might not have done the appropriate legal planning necessary to secure the estates of their current or past partners and their heirs. At the very least, all family members should understand the need for such planning to avoid conflict later. As non-traditional families become more common, families need to be open to that discussion.

Foreclosure Investing May be On the Upswing, But it isn't for the Squeamish

In May, RealtyTrac, a leading online market for foreclosure properties, reported that foreclosure rates were up 4 percent in April from March levels, but up a whopping 65 percent from April 2007.

There's that old saying that one person's misfortune is another person's happiness. But in these troubled times for the mortgage industry, those who consider investing in foreclosure properties should not only understand foreclosure and the importance of cash in the process, but the emotional element unique to this kind of investment. After all, each foreclosure represents someone who has lost a home.

With the rise in foreclosures, you'll definitely hear more about how "easy" it is to invest and make a killing. But in reality, those who deal regularly in foreclosures know that making a profit can be tough, and that's true even for individuals with close ties to lenders and public officials and lots of experience. Here's a look at the foreclosure process and how it works.

What is foreclosure? A foreclosure happens when a buyer defaults on their payments and the lender takes formal legal action to seize the property. Foreclosures have accelerated not only due to a downturn in the economy that's affected home sales, but because many homeowners were tripped up by adjustable-rate mortgages that moved to higher payment levels that they could not afford. State rules govern this process, but generally, when a lender decides to foreclose on a property it files a notice of default or a *lis pendens* (Latin for "lawsuit pending"). This document is a public record, and for buyers – including other lenders -- it's the first step in locating a property in foreclosure. A buyer looking for foreclosures can look online for lists of properties in default, but it's particularly important to double-check these listings.

Do all troubled properties have to be in foreclosure to be sold? Actually, no. You will hear about "pre-foreclosure" or "short sale" properties put up for sale by lenders who have entered into agreements with troubled homeowners who elect to give up the property to avoid a foreclosure on their credit report. You will also hear about such sales being done by intermediary companies who claim to deal in these transactions. Some are legitimate, some are not. Check them out.

How do people invest in foreclosure properties? There are three primary ways this happens. First, you will see buyers coming in at the "pre-foreclosure" stage. Second, you will see buyers going after "REO" (real estate owned) properties – literally foreclosed real estate still on the books of a lender. Third, you'll see foreclosures auctioned off at the public courthouse or in private auctions, depending on how the lender wants to market such properties to get them off their hands. Each process has its own conventions for inspecting the properties – sometimes prospective buyers get time to inspect what they might buy, other times little or none.

Can I borrow to buy foreclosures? If you have to borrow money to buy foreclosed or other troubled properties, you might not want to get involved at all. While the typical purchase of a home involves mortgage financing that takes weeks to secure due to credit checks and other factors, the sale of foreclosure properties is typically a fast-moving process that requires no-strings financing. Bottom line, lenders like cash. There's another good reason to enter this process with cash instead of debt. Even sophisticated foreclosure investors often discover ugly surprises when buying – property with greater damage than they anticipated, for example – and they may not have the flexibility to borrow to fix those unexpected problems after they borrowed to buy in the first place.

So, how do I educate myself? Start with some solid advice about your personal finances and your tax situation. Seek out a qualified professional who can help review your circumstances and help determine how prepared you are for this risky investment. Beyond that, it's a process of learning how various lenders in your community deal with pre-foreclosure and foreclosure property and how public officials and private auction houses in your area handle the auction process for such property. Generally, this is knowledge that will take time to obtain since all the parties involved in this process are busy and besieged by many like you who want to learn. Be patient, take the proper time to study the process and don't spend a dime until you do.